



Annual Report 2014

Our services



Surface Protection

Protect your assets under most severe conditions



Insulation

Professional solutions for heat and cold insulation



Scaffolding

Engineered solutions to fit your purpose

2.600+ Employees

30+ Subsidiaries

5 Business segments

3 Continents



Specialty Access

Special requirements need
special solutions



Steel Construction

Competence and quality
first time right



Passive Fire Protection

Experienced specialist for
all kind of projects

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.

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 2,600 employees at over 30 locations worldwide, we generated €218 million of sales revenues in 2014.

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		2014	2013
Result			
Sales		218,001	207,817
EBITDA ¹		11,869	13,440
EBIT ²		6,028	5,151
EBT ³		3,675	3,227
Earnings per share	in EUR	0.08	0.10
Consolidated earnings after non-controlling interests		1,560	1,804
Cash flow		11,563	12,556
Investments for fixed assets		13,673	6,562
Depreciation		5,841	8,289
Balance sheet			
Balance sheet total		118,517	112,744
Current assets		67,643	70,153
Fixed assets ⁴		47,567	39,748
Equity		61,268	58,303
Employees			
Annual average headcount people	number	2,675	2,390

¹ EBITDA: Profit from operations and depreciation

² EBIT: Profit from operations

³ EBT: Earnings before taxes

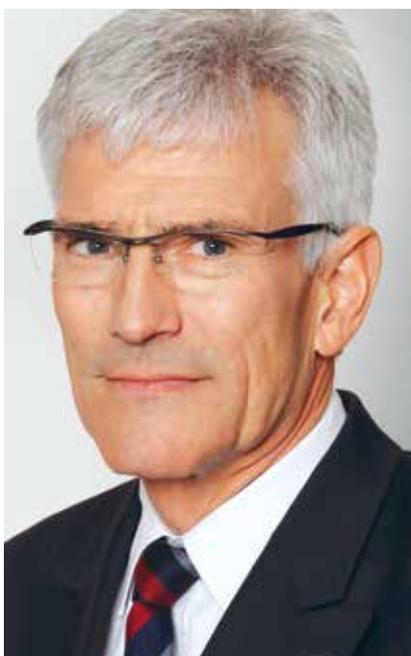
⁴ Fixed assets: Total of non-current assets less deferred tax assets

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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.

James West

Member of the Executive Board
Aberdeenshire, Great Britain

James West is an engineer. Prior to joining Muehlhan Surface Protection Ltd., Aberdeen, as Managing Director, he worked in various positions in the oil and gas industry, most recently as Managing Director. On 1 July 2014 he was appointed to the Executive Board, being responsible for the Oil & Gas business segment.

*Dear shareholders,
esteemed business partners, friends and employees!*

In the past, we have compared the process of change at Muehlhan to a hike through unfamiliar terrain. That image continues to apply. Since the Group returned to profitability in 2012, we have systematically managed to keep the positive trend going. During the year under review, Muehlhan continued to make progress. Again in 2014, we had to take strategic decisions in response to our changing environment, including on how to deal with various setbacks.

Despite this mixed review, our Group continues to be on the right track. In 2014, our results again improved compared to the previous year. As measured by EBIT, the Group reported €6.0 million of profits for the year under review. This amount again included substantial non-recurring expenses. These one-time costs are related to the unprofitable business in Singapore. At €218 million, sales revenues reached a record-high level, exceeding the prior-year amount by 5%.

We continue to systematically pursue the switch from our traditional core business, Shipping, to the Oil & Gas and Industry markets. Although the Oil & Gas business in the North Sea was negatively affected by external factors in 2013, this important core business segment again experienced a strong upturn during the year under review. On the negative side, we must mention the last remaining business in the Far East. After breaking even for several years, the subsidiary in Singapore incurred losses in 2014 after the business failed to recover; no recovery is expected in the near future. As a result, we are currently in the process of withdrawing completely from this part of the world.

In 2015, 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 some time to complete, success is increasingly evident, especially regarding the systematic pruning 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 support our strategy. As part of this process, we again looked at several companies during the year under review, but did not reach an agreement during that period. Analyzing potential acquisitions is a regular part of our management responsibilities, but we will make an acquisition only if the price is reasonable. Here, in particular, it is important to keep in mind that our business is heavily dependent on people and much less on investment. The refinancing completed in August 2014 will make it easier for us to grow externally through acquisitions. Not only did the Group refinance at significantly better terms and conditions; we also gained access to financing for growth initiatives.

We would like to thank our almost 2,700 employees for their loyalty and commitment in this very complex environment. 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 accompany and support us going forward.

Hamburg, March 2015

Your Executive Board

Stefan Müller-Arends

Dr. Andreas C. Krüger

James West



Supervisory Board

Philip Percival
London, Great Britain

Chairman of the Supervisory Board
(since 16 December 2014)
Managing Director of
Syntegra Capital Limited, London

Dr Wulf-Dieter H. Greverath
Hamburg, Germany

Chairman of the Supervisory Board
(until 9 December 2014)
Managing Partner and chairman of the
Muehlhan Group holding company's
management board
(from 1981 to 2005)



Dr Gottfried Neuhaus
Hamburg, Germany

Deputy Chairman of the Supervisory Board
(since 16 December 2014)
Managing Partner of
Neuhaus Partners GmbH, Hamburg

Andrea Greverath
Hamburg, Germany

Member of the Supervisory Board
(since 9 December 2014)
Managing Partner of
GIVE Capital GmbH, Hamburg

In its core business segment Surface Protection in the Maritime Sector, the Muehlhan Group has for years faced the need to adapt to fundamental changes in its core markets. These changes do not only include the relocation of the Ship Newbuilding segment from Europe and America to markets in Asia, but also the development of new markets such as offshore wind energy. In this volatile and challenging environment, Muehlhan has consistently pursued a strategy of reducing its dependence on the maritime sector, managing risks in a professional manner and as proactively as possible and transforming itself into a broad-based supplier of industrial services. Even if progress is not always made at the speed the Executive and Supervisory Boards would like, the steady upward trend over the last few years reinforces our conviction that the company's management is on the right track.

During the past year, management once again worked to improve operations. At the same time, important new strategic measures were adopted in consultation with the Supervisory Board. As a result, 2014 earnings figures improved further— even if they still have not 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

In December 2014, a change in the Supervisory Board was necessary because of illness. Pursuant to a decision by the registration court on 9 December 2014, Ms Andrea Greverath assumed the Supervisory Board position of her father, Dr Wulf-Dieter Greverath. Then, at the Supervisory Board meeting on 16 December 2014, Mr Philip Percival was appointed as the new Chairman and Dr Gottfried Neuhaus as the Deputy Chairman of the Supervisory Board. We expect Dr Greverath to resume his old functions on the Supervisory Board once he has recovered. As in previous years, the Supervisory Board strongly supported the work of the corporate management team during fiscal year 2014. In so doing, it fully satisfied 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 2014, the focus of the cooperation between the two management bodies was the Executive Board's regular written and oral reports to the Supervisory Board concerning business developments within the Muehlhan Group and at Muehlhan AG. 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.

In 2014, the Supervisory Board held a total of four meetings, attended by the Executive Board, at which the Supervisory Board and the Executive Board discussed personnel and business policy issues. In addition, the 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 2014 meetings

In addition to the regular issues, the following topics, in particular, were discussed in detail at the 2014 sessions of the Supervisory Board:

- Company acquisitions that will support the Group's growth strategy
At each meeting, the Supervisory Board and the Executive Board discussed potential acquisitions and how to prioritize them.
- Termination of the company's presence in China:
After the July 2013 decision in principle to shut down the business, the company reached an agreement with the manager of the subsidiary Muehlhan Surface Protection (Shanghai) Co. Ltd. in 2014 regarding the takeover of all the company's shares. The Supervisory Board approved this sale.
- Situation in Singapore
The Supervisory Board received extensive briefings on the situation and coordinated further measures to be taken with the Executive Board.

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 20 May 2014. BDO audited the consolidated financial statements for the period ending on 31 December 2014 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, paragraph 1 of the German Commercial Code (HGB = Handelsgesetzbuch) and the Group management report for the fiscal year beginning on 1 January 2014 and ending on 31 December 2014 and the annual report of Muehlhan AG for the period ending on 31 December 2014 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 2014 and ending on 31 December 2014 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. 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 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, paragraph 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 2014. The annual financial statements are therefore adopted. The Supervisory Board agrees with the proposal by the Executive Board regarding the appropriation of net income:

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.

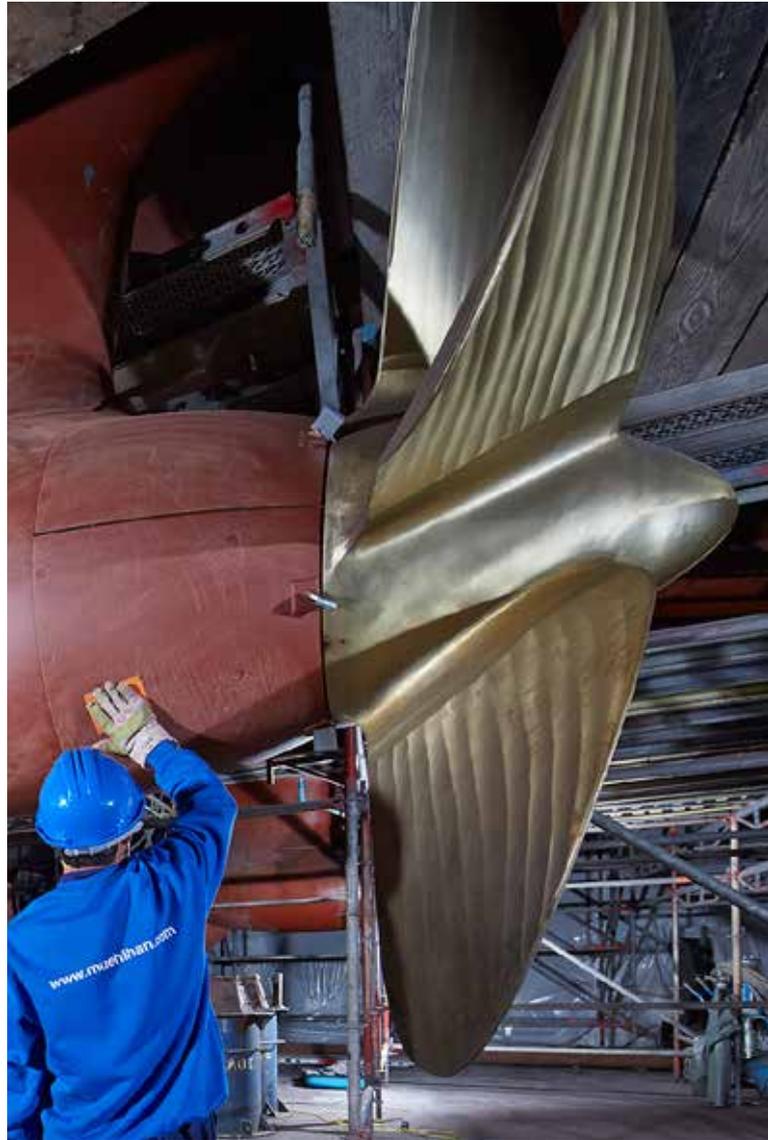
Although market conditions continued to be difficult, fiscal year 2014 was a successful one for the Muehlhan Group from an operating point of view, inasmuch as it achieved its internal targets and the extraordinary expenses incurred during the past year did not prevent the company from reaching its targets. 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 2015



Philip Percival
Chairman of the Supervisory Board of Muehlhan AG



02 Our Share

2014 was a positive year on the stock market for Muehlhan's share.

For the year as a whole, the share price rose by 67%.

After ending 2013 at €1.586, Muehlhan AG's share price was trading slightly lower at the beginning of 2014 and reached its low for the year of €1.502 on 6 January. With the support of the 200-day moving average and the overall market, the share price then increased significantly. Despite strong corrections to the overall market, the share reached €1.67 at the end of the month.

In February, the share price initially rose to €1.88 at mid-month before massive selling pressure during very heavy trading resulted in a price correction of almost 5% on 19 February. When the company announced it was resuming the share buyback program at the end of the month, the share price recovered around 4.8% and ended trading at €1.93. The share price therefore increased by 13.5% in February.

In March, Muehlhan's share price continued its positive trend and in mid-March it exceeded €2.00 for the first time since July 2011. The share price ended the month at €2.149, representing an 11.4% increase in March.

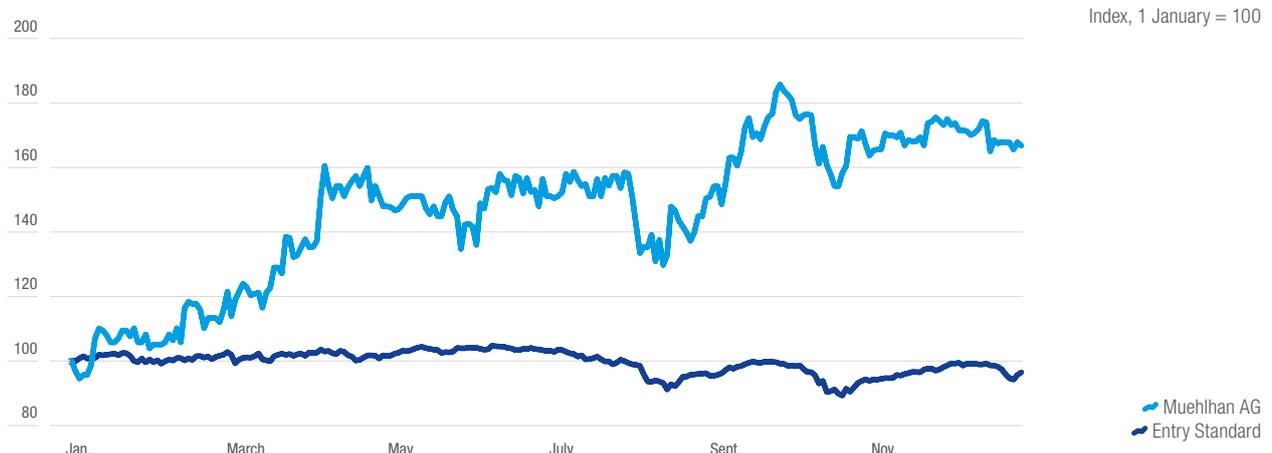
Following publication of the financial figures for 2013, the intraday share price on 3 April increased above €2.60 before closing at €2.40. The share price level was maintained for the rest of the month, ending April trading at €2.35.

In May, the share initially traded within a price range of €2.30 to €2.40. The publication of financial figures for the first quarter of 2014 on 12 May failed to boost the share price. Despite positive overall market performance, the share suffered heavy selling pressure on 28 May and declined 7% to €2.14. By month-end, the share price recovered to €2.265, but closed 3.6% lower than in the previous month.

After a subdued start in June, the Muehlhan share again climbed above the 38-day moving average in heavy trading and on 12 June rose to €2.51. With significantly lower trading at month-end, the share ended the first half at €2.40, representing a 51.3% increase in the share price, while the Entry Standard rose only 3.0% during the same period.

During July, the price trend was unspectacular, with Muehlhan's share closing price for the month equal to its opening price of €2.40. Only at the beginning of the month and shortly before the end of the month did the share price experience brief upswings as high as €2.52. The market environment in Europe was weak, with the DAX declining by more than 4% in response to the tensions in Russia, which worsened by the shooting down of a Malaysian commercial airliner.

Share performance 2014



By contrast, Muehlhan AG's share price went through a turbulent period in August. For example, following heavy losses in the overall market and with more than 70,000 shares traded, the share price initially slid below the 38-day moving average (€2.34). As the month wore on, the negative signs increased and the share price briefly fell below €2.00 on 11 August, reaching the low for the month of €1.955. Soon afterwards, the market environment improved and the share price recovered, mostly trading above €2.20 during the second half of the month. Toward month-end, the share price recovered further following the press release about a major order in the USA, closing the month virtually unchanged at €2.448.

Muehlhan AG's share performance was positive in September. Beginning on 3 September, intensified interest in buying the share was obvious and the share increased to €2.59. Continuing the positive trend, the share price reached €2.988 on 23 September – the highest level in four years – thereafter consolidating at this high level. On 25 September, Warburg's analysts confirmed their buy recommendation, simultaneously raising the upside target from €2.75 to €3.30. Muehlhan AG's share ended September trading at €2.80.

Muehlhan AG's October share performance was volatile. After beginning quietly in a weak market environment, the share price dropped below the 100-day moving average of €2.465 at mid-month before recovering by moving above the 38-day moving average (€2.67) by 21 October. Trading was particularly volatile on 27 October, with the share trading between €2.421 and €2.797 before finally ending the day at €2.656. The share closed the month at €2.63.

Muehlhan AG's share performance was positive in November. The closing price at month-end was €2.759, representing an increase of 4.90% for the month. The performance took place in an overwhelmingly positive market environment that was influenced by the publication of the nine-month figures and analysts' confirmation of their upside target of €3.30.

Muehlhan's share ended the year modestly. Although it managed to keep up with the 38-day moving average (€2.699) for the first half of the month, the share came under selling pressure at mid-month, dropping to its low for the month of €2.552. Recovering slightly by year-end, Muehlhan's share ended the year trading at €2.649 – thereby achieving an impressive 67.02% increase for the year as a whole. Compared with the previous year, market capitalization increased €20.7 million to €51.7 million.

As of the editorial deadline, Muehlhan AG's market capitalization amounted to €51.9 million (Xetra closing price on 26 March 2015: €2.661).

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 2014	EUR 2.988
Lowest price (Xetra) in 2014	EUR 1.502
Designated Sponsor Coverage	equinet Bank AG, Frankfurt M.M. Warburg Research, Hamburg; Hauck & Aufhäuser, Hamburg
Share buyback handled by	equinet Bank AG, Frankfurt
Market capitalization as of 31 December 2014 (Xetra: EUR 2.649)	EUR 51,655,500

No significant changes in shareholder structure

In addition to the major shareholdings around 27% of our shares are in free float, held primarily by institutional investors.

Shareholder structure as of 31 December 2014

	Number of shares held	Shareholdings 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	2,713,000	13.91
GIVE Capital GmbH	520,000	2.67
Management and Supervisory Board		
Stefan Müller-Arends	313,592	1.61
Dr Andreas C. Krüger	221,653	1.14
James West	24,605	0.13
Dr Wulf-Dieter H. Greverath	936,718	4.80
Dr Gottfried Neuhaus	74,000	0.38
Andrea Greverath	4,150	0.02
Muehlhan AG Treasury shares	600,601	3.08
Free Float	5,330,834	27.34
	19,500,000	100.00

03 Group Management Report



Overview

The Muehlhan Group continued its upward trend in 2014 in a maritime market environment that continues to be challenging. Despite a mixed sales performance, the Group posted €2.3 million of net income. The Group's EBIT rose by €0.9 million to €6.0 million based on consolidated sales of €218 million (+ 4.9%).

The Group's earnings figures improved in 2014 despite the crisis in the maritime markets that has persisted for six years. This underlines the necessity of the strategy adopted by the Executive Board and the Supervisory Board to compensate for the decline in this segment by pivoting toward the Oil & Gas and Industry segments. In particular, the prolonged positive earnings trend is the result of management's indefatigable, if unglamorous, efforts in many critical operating areas.

The Executive Board is convinced that the Group's upward trend will continue and accelerate through acquisitions in the strategically defined growth areas of Oil & Gas and Industry. However, the drop in the price of oil since mid-2014 and numerous economic and political uncertainties mean that the Executive Board's outlook for 2015 is conservative. After the Group has steadily

expanded its sales in this area, a conservative investment and maintenance policy by oil and gas customers could have a negative impact on business in 2015.

Group Fundamentals

The Group's business model

High-quality provider of surface protection, scaffolding, steel construction and industrial services

Muehlhan AG (MYAG), Hamburg, is the holding company for a total of 35 directly and indirectly held companies in Europe, North America, Asia and Australia. Of this number, 33 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 that operates internationally. 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 workshops run by traditional niche craftsmen. The spectrum of business we engage in ranges from work on ships and

offshore and onshore oil and gas installations through industrial sites and wind towers 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 from the Group's Hamburg headquarters on the basis of traditional key financial, asset and earnings figures. The Group is managed by a three-member Executive Board. The Supervisory Board also 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 four business segments

The company's operations management is handled primarily by region. The Muehlhan Group currently has operations on three continents, mainly along the great shipping routes in Europe, Asia and North America. The Group has 16 subsidiaries in Europe. Its business in Asia is handled by six companies. In North America, the company currently has one active company in California and one in Canada. The joint venture in Australia set up in 2013 was unsuccessful and was in liquidation at the end of the year.

For strategic management purposes, the Group is divided into business segments. Due to the growing importance of the strategic priority areas Oil & Gas and Wind Energy and the simultaneously decreasing importance of the maritime segment, the Group is redefining its business segments beginning in 2015. The previously separate Ship Newbuilding and Ship Repair segments have been combined into the Ship segment. To date, the Energy segment has included the oil and gas, wind energy and refinery markets. In the future, the entire business with onshore and offshore oil and gas industry customers will be combined into the Oil & Gas business segment; work on wind towers will be reported in a separate Wind segment and work in the Industry and Infrastructure segment will be reported in the Industry business segment. The former Other Services segment contained sales revenues from scaffolding and steel construction. These will continue to be reported; however, in the future, they will be reported as services under the respective business segments.

Business segments

Ship: In a declining ship newbuilding market, which at the same time is fiercely competitive, Muehlhan is consolidating its position as a coating specialist for the highly demanding specialty shipbuilding sector. In the equally competitive ship-repair market, Muehlhan provides a wide range 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.

Oil & Gas: Muehlhan works as a partner for big companies in the offshore oil and gas and petrochemical industries. The Group is continuously expanding the high level of expertise in surface protection that it has acquired in these areas.

Wind: Muehlhan provides surface-protection services to the growing renewable energy market, especially for wind towers. In recent years, the Group has become a specialist in wind-tower coatings, making it a sought-after partner for the leading European wind-turbine manufacturers.

Industry: Muehlhan's onshore Industry segment provides long-lasting coating solutions to industrial customers and for new bridge construction and renovation projects, water gates, water utility projects, transportation infrastructure projects and specialty machinery. One service we offer, passive fire protection, has developed into an attractive niche market that is becoming more and more important to the Group.

Services

Surface protection: Muehlhan provides maritime and industrial surface protection services and protection for complex steel structures worldwide.

Scaffolding: Scaffolding is one of the Group's biggest growth areas, because it is closely linked to the expansion of the Oil & Gas and Industry business segments. Accordingly, Muehlhan provides both onshore and offshore scaffolding services. Muehlhan is an important partner for construction companies and benefits from a consistently high level of construction demand, especially in Germany. At the same time, Muehlhan is one of the few companies capable of satisfying the high technical demands placed on the construction of offshore transformer stations and foundations for offshore wind farms.

Steel construction: The company provides steel construction services for both shipyard and industrial customers. Scaffolding and steel construction are included under the category **Other Services**.

Objectives and strategy

Dealing with competitive pressure by shifting to other services and developing new business areas

In the past, tougher competition and shrinking maritime markets have prompted Muehlhan to actively develop new markets, including attractive niche markets. This has caused the company to shift its business focus to industry-oriented areas and to the oil and gas industry. The goal of our strategic realignment is to achieve a market leadership position in every segment within five to seven years. In what is still overwhelmingly a fragmented competitive environment, Muehlhan compensates for the structural cost advantages enjoyed by some smaller competitors by continually investing in employee training and continuing education, a highly trained workforce, technical innovations, higher quality and higher productivity.

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 Muehlhan 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. By refinancing in 2014, Muehlhan significantly expanded its financial flexibility while simultaneously replacing the high interest burden of the old bond with customary market conditions. An acquisition facility of around €20 million will now allow the company to restructure the business segments not only through organic growth, but also through mergers and acquisitions.

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, 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. Scaffolding will play a major role in these efforts.
- Although the Group will continue to work on building a global presence, its global commitments are evaluated strictly in terms of criteria such as sufficient profitability, sustainability and minimum size. If these criteria cannot be met in a sustainable way, a site will be shut down, as with Australia in 2014 and China in 2013.
- The company will pursue both organic growth and growth through acquisitions.
- Muehlhan is working to develop new niche markets, such as passive fire protection or insulation work, provided that they complement our core businesses.

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 (e.g. for μ -jet, μ -arc and other devices and products for sustainable and environmentally friendly surface and corrosion protection), Muehlhan is determined to single-mindedly pursue additional developments. Within the Group, two 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 trends are mixed, but the familiar trends continue

As in previous years, the global economy continued to be subdued in 2014 and the trends seen in previous years persisted: Euro zone member countries are still suffering from high levels of government debt and structural reforms are overdue; the USA's growth rates continued to outpace those in Europe and China is finding it increasingly difficult to deliver the growth rates required for the country's development. Currently, the global economy is expected to grow by around 3%, the USA by 2.2% and the Euro zone – which is important to Muehlhan – by 0.8%.

In addition to the aforementioned trends, 2015 economic performance will also be affected by geopolitical crises such as those in Ukraine and the Middle East and the drastic decline in the price of oil.

In the **Ship** segment, 2014 again showed no significant improvement over the weakness seen in previous years. This market is 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.

Companies operating in the **wind-energy** industry continue to suffer from delays in the expansion of offshore wind farms due to the lack of cable infrastructure, the lack of policy frameworks and, therefore, unsecured financing. The result is a high level of risk for everyone involved in this value chain. Despite this, the construction of foundations for offshore wind towers and the transformer platforms required for offshore wind farms is increasingly turning into a source of employment for deserted former shipyard sites along the German coast. 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 **oil and gas** industry is experiencing a dramatic drop in the price of oil. This is mainly attributable to the sharp increase in the production of shale

oil through "fracking" methods in the USA. When the OPEC countries failed to cut back their production accordingly, the glut of oil led to the current price decline. In Europe, new oil and gas fields continue to be developed; at the same time, many rigs have reached the end of their life cycle and are either being dismantled, replaced or revitalized. Nevertheless, we assume that oil companies will react to the price pressure by postponing or delaying maintenance work.

Business trend/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, 2014 was a satisfactory year. Although the EBIT of €6.0 million was still significantly below the return expected by shareholders, Executive Board and Supervisory Board, the previous year's positive trend continued - evidence that the operating and strategic measures implemented are delivering success. 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 Industry segment.

During the year under review, sales increased by 4.9%, from €207.8 million to €218.0 million. The increase in sales revenues came from the core market of Europe, while sales in Asia and America declined slightly. Consolidated after-tax income improved from €1.5 million to €2.3 million. The Group generated an EBIT of €6.0 million - a €0.9 million improvement over the prior-year figure of €5.2 million. The production costs relevant to Muehlhan (materials, use of subcontractors and wages) decreased slightly in percentage terms, causing the gross margin to increase by 1% to 31%. Because of higher sales, the gross margin also increased by €4.4 million in absolute terms. This was partially offset by higher overhead expenses (+ €6.0 million) and lower depreciation and amortization (- €2.4 million), resulting in a €0.9 million improvement in EBIT.

Europe continues to be the main driver of profits

A regional breakdown shows that sales again rose significantly in **Europe**, increasing 7.8% from €167.7 million to €180.7 million. The Group's EBIT remained at a high level of €10.2 million (2013: €9.8 million). In Europe, the main driver of growth was the offshore business in the UK. In 2013, that business was very negatively affected by a helicopter flight ban that made it impossible to supply the platforms. The scaffolding-services business launched in 2013 also performed well and contributed to the improved earnings. However, because of the recent drop in the oil price, it is possible that 2015 sales and earnings figures will not match those of 2014.

The Dutch subsidiary was negatively affected by the weak business climate in its domestic market and the figures for the surface protection business lagged behind the previous year's figures. However, the scaffolding business started at the end of 2013 performed well. This was part of the strategy to place the range of services offered by Muehlhan on a broader footing in every market. The Dutch scaffolding business is reporting strong, profitable growth, which helped to compensate for the weak earnings in the surface protection segment.

Stabilization of the U.S. business

After completing a major project on the New Oakland Bay Bridge in the summer of 2014, the company won another big order to renovate the Richmond Bridge across San Francisco Bay that will take several years to complete. Sales by the refinery business in the USA were slightly lower than expected, but otherwise the business performed according to plan. Overall, the business in **America**, with €18.2 million of sales revenues, delivered sales that were €1.0 million lower than in 2013. EBIT dropped from €2.9 million to €0.7 million.

Performance was disappointing in Far East; satisfactory in Middle East

The withdrawal from China was implemented in 2014 with the sale of the company. During the reporting year, the impact on earnings totaled €0.3 million and consisted of an operating loss of €0.4 million, proceeds from the sale of €0.1 million and a deconsolidation gain of €0.6 million.

In recent years, the Group company in Singapore had suffered from the absence of major ship conversions, nevertheless managing to break even. The primary customer had raised the prospect of an improved order situation in 2014; however, this did not materialize. To the contrary, the situation worsened, eventually resulting in a loss of €1.5 million. Discussions held to date with this main customer, a shipyard, revealed disappointing expectations regarding a sustainable future for the Singaporean market. Consequently, the Executive Board intends to withdraw from Singapore in 2015 if there is no improvement in the workload and the margin over the next few months. The last few years have demonstrated that it was difficult or impossible for Muehlhan,

as a medium-sized service provider from Europe, to develop the necessary critical mass in every single Asian market in terms of the customer portfolio, service portfolio and markets in order to survive over the long term.

After Muehlhan withdrew from the big shipyard in Qatar, the business benefited mainly from fire protection work on a major project during the year under review. After years of heavy losses, the Group company was finally able to again report positive earnings of €0.8 million from this project.

Fire protection also continued to perform well in the United Arab Emirates thanks to the new boom in construction.

All business segments except Ship Repair contributed to operating income

Thanks to several major orders at the Group company Muehlhan Deutschland GmbH, the **Ship Newbuilding** business segment managed to significantly increase sales revenues for the second consecutive year. This positive development can be explained by the increase in Muehlhan's market share and is not attributable to a general positive trend in the newbuilding market. Overall, the segment reported a profit of €0.5 million on sales of €35.5 million.

The **Ship Repair** segment again posted lower sales and earnings. Ship Newbuilding and Ship Repair together now comprise only 30% of consolidated sales and contributed €0.0 million to earnings.

The **Energy** business segment benefited from the increase in earnings in the offshore segment. Earnings remained high at €2.6 million, almost the same as in the previous year (2013: €2.7 million).

In the **Industry business**, sales increased to €52.5 million. Earnings improved substantially from €0.6 million in 2013 to €3.4 million in 2014.

Both of the businesses included in the **Other Services** segment, Scaffolding and Steel Construction, reported stable sales and earnings, contributing €40.1 million to consolidated sales and €4.5 million to EBIT. During 2014, the company once again focused on investments in the scaffolding segment to ensure that it can offer a package of services including both surface-protection and scaffolding.

Orders on hand

On the reporting date, the order book of more than €125 million was 25% higher than in the previous year, representing almost 60% of total sales. Thanks to long-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.

Employees

Mainly because of the increased use of company employees instead of subcontractors in Europe, the headcount increased by 11.9% to 2,675 employees. Personnel expenses rose by 20.7% to €91.3 million.

Net assets and financial position

Currently, the Muehlhan Group is financed mainly through its strong equity base. As of the balance-sheet date, the Group's equity had increased slightly to €61.3 million (previous year: €58.3 million). Dividing this by total assets (the balance-sheet total) of €118.5 million (previous year: €112.7 million) yields the equity ratio, which remained unchanged at 51.7% (previous year: 51.7%). Trade and other payables totaled €30.5 million (25.8% of the balance-sheet total; previous year: €32.1 million; 28.5% of the balance-sheet total). Financial liabilities amounted to €24.4 million (20.6% of the balance-sheet total; previous year: €20.3 million; 18.0% of the balance-sheet total). The main component of financial liabilities was the €19.0 million of new financing. The previous bond issued was redeemed prematurely. The non-current portion of financial liabilities totaled €15.7 million.

The company was in compliance with the new financing terms at all times during the past year. 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 decreased to €11.6 million (previous year: €12.6 million).

During the fiscal year, Muehlhan invested a total of €13.7 million in property, plant and equipment (previous year: €6.6 million). Largely because of the refinancing, cash used in financing activities totaled €4.0 million. On the balance-sheet date, cash and cash equivalents stood at €9.0 million, €0.3 million higher than in the previous year (€8.7 million). Unutilized overdraft and guarantee facilities totaled €58.9 million on the balance-sheet date (previous year: €39.5 million). Thus, in 2014 the Muehlhan Group was at all times in a position to satisfy its payment obligations.

On the reporting date, fixed assets totaled €47.6 million, compared to €39.7 million the previous year. The fixed-assets-to-total-assets ratio stood at 40.1% (previous year: 35.3%) and the equity-to-fixed-assets

ratio was 128.8% (previous year: 146.7%). On the balance-sheet date, trade receivables stood at €46.0 million (38.8% of total assets) and were therefore €4.7 million lower than in the previous year (€50.8 million; 45.0% of total assets).

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 2014, the company managed to maintain the high score achieved 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 to at least be on a par with the past year. The lower price of oil may cause the oil and gas industry to be more reluctant to invest and/or to delay maintenance projects. In **North America**, 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 addition, Muehlhan plans to resume work in **Canada**, now that customer inquiries have indicated demand for skilled services of the type we offer. In the **Middle East**, we expect earnings to be flat. Business expectations in the United Arab Emirates continue to be strong; however, the Qatar subsidiary is starting 2015 without a major project. Construction work for the 2022 FIFA World Cup in Qatar should ensure additional orders, but not before 2016. In Asia, our focus will be on withdrawing from Singapore.



Wind, Industry and Scaffolding segments are becoming even more important; lower price of oil is expected to result in weakness in the Oil & Gas business

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 2015. By contrast, we expect an upswing in the **Repair** business. Nevertheless, it must be noted that this expectation is not new and to date this upturn has not materialized.

Meanwhile, the strategic reorganization of the Group means that the other business segments – **Oil & Gas, Wind and Industry** – are now capable of counterbalancing the decline in the maritime sector. These segments will become increasingly important going forward. Despite the temporary subdued trend in the **Oil & Gas segment**, this business segment will probably drive the Group's growth over the medium term. The **Wind** business segment will also continue to grow, since Muehlhan was awarded a major contract in Denmark in 2014. 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.

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 both operating and 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 did not respond 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. Emblematic of this are the trends in the Asian shipyard market, which in recent years required major corrective actions and now require us to further prune our portfolio. 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 on goodwill, are impending. However, one should keep in mind that the company may need to make further adjustments if the economic environment in specific markets should deteriorate.

For 2015, the Executive Board and the Supervisory Board are forecasting earnings before interest and taxes (EBIT) between €4.0 million and €6.0 million, following last year's accurate earnings forecast of €3.5 million to €6.5 million for 2014.

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

General assessment and risk management system

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

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

By increasing reliability, further improvements in coating materials will lead to longer surface maintenance intervals, giving rise to the basic risk of a declining demand for surface protection work. On the other hand, due to ship size, the number of ships and the safety equipment installed (e.g., double-hulled ships), there is an opportunity in the fact that the volume of steel surfaces in the maritime 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 an increase in the price of this processing material – but 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 repeatedly. If the international financial and economic crisis persists, the risk of customer bankruptcies and bad debts will remain quite high. 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 and short-term utilizations of overdraft facilities are subject to the normal risk of interest-rate fluctuations. Following

redemption of the bond, financing within the Muehlhan Group generally is subject to variable interest. In order to largely avoid the risk of a change in the interest rate, at the start of 2015 Muehlhan AG took advantage of the low-interest-rate environment and hedged the longer-term portion of the syndicated loan. Loans to and from subsidiaries outside of the Euro zone are subject to a basic exchange-rate risk which, where possible, is countered by corporate 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 authorities 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. In addition, the tax authorities denied a German subsidiary's €1.2 million input-tax deduction for invoices. In our opinion, which is supported by several advisors, this likewise will not result in a claim against the company.

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 much more quickly and in a more personalized manner to the respective customer's needs than would have been the case with external support.

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.

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- und Erhaltungs-GbR or their subsidiaries that could have been to the detriment of Muehlhan AG or its subsidiaries."

Hamburg, 26 March 2015
The Executive Board



Stefan Müller-Arends



Dr Andreas C. Krüger



James West

04 Group Consolidated Financial Statement

for the fiscal year from 1 January 2014 to 31 December 2014

CONSOLIDATED BALANCE SHEET

ASSETS in kEUR	Notes	31.12.2014	31.12.2013
NON-CURRENT ASSETS			
Intangible assets	1	18,815	19,736
Property, plant and equipment	2	28,722	19,982
Financial assets	3	30	30
Deferred tax assets	4	3,307	2,842
Total non-current assets		50,874	42,591
CURRENT ASSETS			
Inventories	5	4,691	4,353
Trade receivables	6	46,021	50,765
Cash and cash equivalents	7	9,041	8,658
Assets for current income tax		1,521	485
Other current assets	8	6,369	5,893
Total current assets		67,643	70,153
BALANCE SHEET TOTAL		118,517	112,744

Rounding differences may occur.

EQUITY & LIABILITIES in kEUR	Notes	31.12.2014	31.12.2013
EQUITY	9		
Subscribed capital		19,500	19,500
Capital reserves		14,174	28,395
Treasury shares		-1,731	-1,294
Other reserves		10,122	8,544
Retained earnings		17,190	1,658
Non-controlling interests		2,013	1,500
Total equity		61,268	58,303
NON-CURRENT LIABILITIES			
Pension accruals	10	797	776
Non-current financial liabilities	11	15,661	9,380
Deferred tax liabilities	14	138	150
Total non-current liabilities		16,596	10,307
CURRENT LIABILITIES			
Provisions	15	441	410
Current financial liabilities	11	8,694	10,939
Trade payables	16	15,329	17,791
Liabilities for current income tax	12	990	659
Other current liabilities	13	15,199	14,335
Total current liabilities		40,653	44,134
BALANCE SHEET TOTAL		118,517	112,744

Rounding differences may occur.

CONSOLIDATED INCOME STATEMENT

in kEUR	Notes	2014	2013
Sales		218,001	207,817
Other operating income	21	2,606	5,459
Cost of materials and purchased services	18	-84,040	-92,462
Personnel expenses	19	-91,274	-75,638
Depreciation and amortization		-5,841	-8,289
Other operating expenses	21	-33,424	-31,736
Profit from operations		6,028	5,151
Income from investments		0	0
Interest income		22	24
Financing costs	20	-2,375	-1,948
Financial result		-2,353	-1,924
Earnings before taxes		3,675	3,227
Income tax expense	22	-1,352	-1,724
Consolidated profit		2,324	1,503
Thereof attributable to non-controlling interests		764	-301
equity holders of Muehlhan AG		1,560	1,804
NET EARNINGS PER SHARE	23		
Shares	number	18,855,779	18,891,317
basic	in EUR	0.08	0.10
diluted	in EUR	0.08	0.10

Rounding differences may occur.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in kEUR	Notes	2014	2013
Consolidated profit		2,324	1,503
Recyclable items			
Currency translation differences (legally independent entities abroad)		1,213	-1,084
Non-recyclable items			
Remeasurement of defined-benefit plans		-87	-142
Other result	24	1,126	-1,226
Income taxes on other results		25	41
Other result after tax		1,151	-1,186
Total result		3,475	317
Thereof attributable to non-controlling interests		728	-425
equity holders of Muehlhan AG		2,747	742

Rounding differences may occur.

CONSOLIDATED CASH FLOW STATEMENT

in kEUR	2014	2013
Profit from operations	6,028	5,151
Depreciation/amortization (+) on non-current assets	5,841	8,289
Gain (-) on disposal of fixed assets	-4	-204
Unrealized currency gains, losses	-353	-537
Increase (+)/decrease (-) in provisions	51	-143
Cash flow	11,563	12,556
Decrease (+)/increase (-) in inventories, trade receivables and other assets	3,782	-3,977
Decrease (-)/increase (+) in trade payables and other liabilities	-698	3,728
Cash generated by operating activities	14,648	12,308
Payments of income taxes	-2,534	-1,360
Payments of interest	-2,402	-1,938
Net cash inflow from operating activities	9,712	9,009
Receipts of interest	22	24
Proceeds from disposals of non-current assets (+) in respect of		
intangible assets	0	6
tangible assets	86	1,188
Proceeds from sale of consolidated companies (+)	121	0
Capital expenditures (-) in respect of		
intangible assets	-107	-365
tangible assets	-13,673	-6,562
Cash used (-) in investing activities	-13,550	-5,709
Capital expenditures (-) for bond redemption	-12,000	-4,000
Capital expenditures for purchase of treasury shares	-688	0
Capital expenditures to company owners and to non-controlling shareholders (dividends)	-215	0
Proceeds (+) from payments received in respect of		
current bank liabilities	2,139	368
Proceeds (+) from payments received / capital expenditures (-) for redemption in respect of		
non-current bank liabilities	14,736	-703
Cash inflow (+)/outflow (-) from financing activities	3,973	-4,335
Effect of exchange rate related fluctuations of cash and cash equivalents*	338	-297
Effect of consolidated group related fluctuations of cash and cash equivalents*	-90	0
Total changes in cash and cash equivalents*	383	-1,332
Cash and cash equivalents* at the beginning of the period	8,658	9,990
Cash and cash equivalents* at the end of the period	9,041	8,658

* 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 2013	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
Changes in treasury shares					
Contribution share-based payment		-41			
Withdrawal from capital reserve		-14,181			
Acquisition of non-controlling interests			183		
Contribution to retained earnings			176		
Dividends paid					
Other changes					33
Total result			-62		1,249
On 31 December 2014	19,500	14,174	9,888	589	-355

Rounding differences may occur.

			Non-controlling interests	Group equity
Retained earnings	Treasury shares	Equity		
-144	-1,480	55,956	1,805	57,761
	186	186		186
		102		102
		-183	183	
			-63	-63
-2				
1,804		742	-425	317
1,658	-1,294	56,803	1,500	58,303
	-437	-437		-437
		-41		-41
14,181		183		183
-176				
			-215	-215
-33				
1,560		2,747	728	3,475
17,190	-1,731	59,255	2,013	61,268

FIXED ASSETS MOVEMENTS SCHEDULE 2014

in KEUR	Acquisition and production costs						Balance 31.12.2014
	Balance 01.01.2014	Additions	Disposals initial consolidation	Translation differences	Disposals	Reclas- sifications	
I. Intangible assets							
1. Concessions, industrial and similar rights and assets	2,918	107	45	3	21	0	2,962
2. Goodwill	34,741	0	0	0	0	0	34,741
	37,659	107	45	3	21	0	37,703
II. Property, plant and equipment							
1. Land, land rights and buildings including buildings on third-party land	7,464	1,641	0	21	82	5	9,050
2. Technical equipment and machinery	60,618	9,456	3,425	1,222	2,829	89	65,131
3. Other equipment, operating and office equipment	10,744	1,226	127	143	644	57	11,399
4. Prepayments and assets under construction	162	1,350	0	-3	2	-151	1,356
	78,988	13,673	3,552	1,384	3,558	0	86,935
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
	116,677	13,780	3,597	1,387	3,578	0	124,668

Rounding differences may occur.

Accumulated depreciation / amortization					Net book values		
Balance 01.01.2014	Additions	Disposals initial consolidation	Translation differences	Disposals	Balance 31.12.2014	Balance 31.12.2014	Previous year
2,051	266	45	-1	21	2,253	709	867
15,872	764	0	0	0	16,635	18,106	18,869
17,923	1,030	45	-1	21	18,888	18,815	19,736
4,333	374	0	-3	52	4,659	4,391	3,131
46,553	3,316	3,124	-859	2,729	44,876	20,255	14,065
8,120	1,121	104	-105	563	8,678	2,721	2,624
0	0	0	0	0	0	1,356	162
59,006	4,811	3,228	-967	3,344	58,213	28,722	19,982
0	0	0	0	0	0	29	29
0	0	0	0	0	0	1	1
0	0	0	0	0	0	30	30
76,929	5,841	3,273	-969	3,364	77,100	47,568	39,749

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

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 2014 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 2014 and/or 1 July 2013, the following new mandatory standards went into effect:

- 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"

IFRS 10 redefines the principle of control and, thereby, which companies must be included in the consolidated financial statements. IFRS 11 outlines the accounting for joint arrangements based on the type of rights and obligations under such agreements. IFRS 12 covers a wide range of disclosure requirements for all types of interests in other entities. IFRS 13 defines the

concept of fair value and standardizes the associated disclosure requirements. The application of these new standards and the amendments to the standards had no material impact on the consolidated financial statements.

Application of IFRIC 21, "Levies", is mandatory for fiscal years beginning on or after 1 July 2014.

For fiscal years beginning on 1 January 2015, application of the 2011-2013 Annual Improvements Cycle, with amendments to IFRS 3, "Business Combinations", IFRS 13, "Fair Value Measurement" and IAS 40, "Investment Property", is mandatory.

For fiscal years beginning on 1 February 2015, application of the 2010-2012 Annual Improvements Cycle, with amendments to IFRS 2, "Share-based Payment", IFRS 3, "Business Combinations", IFRS 8, "Operating Segments", IFRS 13, "Fair Value Measurement", IAS 16, "Property, Plant and Equipment", IAS 38, "Intangible Assets" and IAS 24, "Related Party Disclosures", is mandatory.

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 interim 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 33 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 2013.

Muehlhan Surface Protection (Shanghai) Co. Ltd., in Shanghai, China – a wholly owned subsidiary of MYAG - was sold under a purchase agreement dated 11 August 2014 for a purchase price (converted into EUR) of €121 thousand in cash. The disposal reduced non-current assets by €0.3 million, current assets by €0.7 million and current liabilities by €1.1 million. This will not limit comparability with the previous year's financial statements. On 24 October 2014, Muehlhan Scaffolding Ltd., in Aberdeen, Great Britain (MSC),

a wholly owned subsidiary of Muehlhan Industrial Services Ltd. (formerly: Muehlhan Surface Protection. Ltd), in Aberdeen (MGB), and Allround Scaffolding Ltd., in Aberdeen, Great Britain, a wholly owned subsidiary of MSC, were dissolved. In November 2014, Muehlhan S.R.L, headquartered in Galati, Romania, was established. Muehlhan AG holds 51% of the company's shares. The first time consolidation and/or deconsolidation of these companies will not limit comparability with the prior-year financial statements.

Muehlhan Grand Bahama Ltd. and AIS-Allround-Industrie-Service GmbH, Hamburg, 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, the Muehlhan Equipment Services GmbH and the Muehlhan Renewables GmbH, both in Hamburg, and Gerüstbau Muehlhan GmbH, also 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 2014:

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 Industrial Services Ltd., Aberdeen, Scotland, Great Britain	100	MYAG
MGR	Muehlhan Hellas S.A., Athens, Greece	51	MYAG
MCL	Muehlhan Cyprus Limited, Limassol, Cyprus	51	MYAG
MRO	Muehlhan S.R.L., Galati, Romania	51	MYAG
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, NSW, Australia	100	MYAG
MEP	Muehlhan Eptec Pty Ltd., Parramatta, NSW, 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

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

Symbol	Company	Shareholding in %	Equity on 31.12.2014 in kEUR	Profit 2014 in kEUR
MFP	Muehlhan Grand Bahama Ltd., Nassau, Bahamas	100	0.1	0.0
AIS	AIS-Allround Industrie-Service GmbH, Hamburg, Germany	51	34.1	18.9

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	
	31.12.2014	31.12.2013	2014	2013
AED	4.47	5.07	4.85	4.89
DKK	7.44	7.46	7.45	7.46
GBP	0.78	0.84	0.80	0.85
PLN	4.30	4.15	4.19	4.21
QAR	4.44	5.02	4.81	4.84
RUB	67.00	45.35	51.46	42.49
SGD	1.61	1.75	1.68	1.67
USD	1.22	1.38	1.32	1.33

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.

Construction contracts

If the result 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 result 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

Intangible assets acquired 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. Finance 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 costs

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	31.12.2014	31.12.2013
Concessions, industrial property rights and similar rights and assets	709	867
Goodwill	18,106	18,869
TOTAL	18,815	19,736

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 a total of fourteen cash-generating units at the company level. The following table provides a breakdown of changes in goodwill by region:

in EUR million	31.12.2013	Impairment loss	31.12.2014
Europe	17.4	0.0	17.4
Asia	1.4	0.8	0.6
TOTAL	18.9	0.8	18.1

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 74.5% of total goodwill as of 31 December 2014.

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 also 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 four-year business plans for the units in question (Level III valuation). The business plans were drawn up in the fourth quarter of 2014 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 2014, the EBIT margins for the CGUs before write-downs were: Europe: 5.6% and Asia: 2.1%. 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 HSG CGU. The sustained deterioration in the economic environment has caused future prospects to dim, resulting in the need to recognize an impairment loss of €0.8 million equivalent to writing down the value of the goodwill in its entirety. 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: 12.4%–14.4% (previous year: 13.2%–13.7%); Germany: 5.5% (previous year: 6.5%); Poland: 7.1% (previous year: 8.7%); the rest of Europe: 5.6%–6.7% (previous year: 6.1% - 6.6%); and Asia: 8.2%–11.1% (previous year: 10.0%–13.4%). 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 was a higher growth rate of 2.5% assumed (previous year: 2.5%). The growth rates are based on the nominal growth rates used and reflect long-term, market-specific inflation rates that were adjusted to reflect the specific business segments’ expected trends.

Sensitivity of assumptions used

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 €99 thousand impairment loss for the MMF CGU.

Changes in fiscal years 2014 and 2013 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	31.12.2014	31.12.2013
Land, land rights and buildings including buildings on third-party land	4,391	3,131
Technical equipment and machinery	20,255	14,065
Other equipment, operating and office equipment	2,721	2,624
Prepayments and assets under construction	1,356	162
TOTAL	28,722	19,982

Net book values of tangible fixed assets are determined from their purchase costs. Accumulated depreciation of fixed assets totaled €58.2 million (previous year: €59.0 million).

Tangible fixed assets included €1.4 million of leased assets (previous year: €1.5 million) relating to technical equipment.

Capital expenditures amounted to €13.7 million in 2014 (previous year: €6.6 million).

Changes in fiscal years 2014 and 2013 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	31.12.2014	31.12.2013
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 2014 and 2013 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	31.12.2014	31.12.2013
Accumulated tax-loss carryforwards	3,895	2,868
Non-current assets	445	240
Current assets	217	233
Provisions and other liabilities	170	157
Settlement through netting by fiscal jurisdiction	-1,419	-647
TOTAL	3,307	2,842

In Germany, there were trade-tax loss carryforwards of €13.2 million and corporate income tax loss carryforwards of €11.1 million as of the balance-sheet date. There were tax-loss carryforwards of €16.0 million abroad.

According to the medium-term forecasts of the companies involved, a tax benefit in the amount of €3,895 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 €2,371 thousand relate to tax jurisdictions in which losses were posted in 2014 or 2013. 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, €2.9 million of tax benefits (basis: €18.9 million) were not capitalized for unutilized loss carryforwards. Up to €0.1 million of the used loss carryforwards can still be utilized for at least fifteen years. On 31 December 2014, €66 thousand of deferred tax assets (previous year: €41 thousand) were recognized in other comprehensive income, with no effect on the income statement.

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

in kEUR	2014	2013
Balance on 1 January	2,842	3,560
Currency translation differences	121	-87
Allocation to other comprehensive income	25	41
Allocation affecting net income in the Group consolidated income statement	1,091	-563
Settlement through netting by fiscal jurisdiction	-772	-109
Balance on 31 December	3,307	2,842

5. Inventories

Inventories may be broken down as follows:

in kEUR	31.12.2014	31.12.2013
Raw materials, consumables and supplies	4,674	4,334
Prepayments	16	19
TOTAL	4,691	4,353

6. Trade receivables

Trade receivables include the following items:

in kEUR	31.12.2014	31.12.2013
Accounts receivable from services rendered	36,470	40,920
Accounts receivable from work in progress	34,591	26,456
Prepayments received on account of work in progress	-25,040	-16,612
TOTAL	46,021	50,765

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 2016, meaning that a maturity of up to one year can be assumed in such instances, as well. Sales amounting to €218,001 thousand (previous year: €207,817 thousand) include contract revenues from long-term make-to-order production (additions to work in progress during the fiscal year) amounting to €29,072 thousand (previous year: €23,962 thousand). The accumulated costs pertaining to construction contracts in progress on the balance sheet date amounted to €30,735 thousand (previous year: €24,574 thousand) and the accumulated profits/losses amounted to €4.096 thousand (previous year: €2,123 thousand).

7. Cash and cash equivalents

Cash and cash equivalents amounted to €9.0 million at 31 December 2014 (previous year: €8.7 million) and aside from available cash and sight balances also included call money. On average, overnight money carried interest at 0.05% on the balance-sheet date. As of the balance-sheet date, there were no drawing restrictions. Due to the change in the consolidated group, the sale of MCN caused a €90 thousand decrease in cash and cash equivalents.

8. Other receivables

Other receivables consist of the following:

in kEUR	31.12.2014	31.12.2013
Other tax receivables	1,981	2,088
Prepaid expenses	1,116	619
Other	3,272	3,186
TOTAL	6,369	5,893

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

9. Shareholders' 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.

During the fiscal year, the amount of €14,181 was transferred from capital reserves to retained earnings to offset losses on the parent company's separate financial statements.

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. In 2014, 295,407 shares worth a total of €687,617 were acquired. No shares were acquired the previous year. In 2014, 181,675 shares were disposed of (previous year: 131,965 shares) under the Employee Program (see Note 19 as well). The treasury shares were shown separately as deduction items totaling €1,731,081 (previous year: €1,294,331) in the equity section. As of the balance sheet date, there were 600,601 treasury shares, corresponding to 3.1% of MYAG's share capital.

Other reserves

Other reserves include the following items:

in kEUR	31.12.2014	31.12.2013
Revenue reserves	10,051	9,876
Currency translation reserve	-355	-1,637
Reserve in connection with the acquisition of non-controlling interests	0	-183
Reserve in connection with the remeasurement of defined-benefit plans	-163	-101
Reserve in connection with the first-time application of IFRS	589	589
TOTAL	10,122	8,544

The reserve in connection with the acquisition of non-controlling interests was dissolved through the liquidation of 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 2014, as in the previous year, no dividends were paid.

Non-controlling Interests

MGR, MMF, MEP, MCL and MRO had non-controlling interests as of the balance-sheet date. MYAG has a 70% stake in MMF, 51% of each stakes in MGR, MCL and MRO and a 50% stake in MEP, which is in liquidation. In the 2014 reporting year, results totaling €764 thousand (including €444 thousand for MCL, €199 thousand for MGR and €97 thousand for MMF) (previous year: € -301 thousand, of which € -81 thousand for MGR and € -141 thousand for MMF) were allocated to other shareholders.

10. Pension accruals

Pension accruals totaled €797 thousand (previous year: €776 thousand). There are no plan assets.

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 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 1.60% (previous year: 3.48%), 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	2014	2013
Balance on 1 January	776	882
Interest with respect to earned pension entitlements	16	15
Benefits paid	-40	-40
Actuarial gains and losses	87	142
Change in accruals – defined-contribution plans	-42	-223
Balance at 31 December	797	776

It is expected that pension payments in 2015 will be at the same level as in the previous year.

11. Financial liabilities

Financial liabilities include the following items, shown by maturity:

in kEUR	Total	Time to maturity		
	2014	0-1 year	1-5 years	> 5 years
Bond	0	0	0	0
Liabilities to banks	24,051	8,390	15,233	427
Lease liabilities	304	304	0	0
TOTAL	24,355	8,694	15,233	427

in kEUR	Total	Time to maturity		
	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

On 21 August 2014, Muehlhan AG rearranged the Group's financing by concluding a syndicated loan agreement for €42.5 million with Commerzbank AG as the lead bank. The loan is divided into 3 tranches. Tranche A (term loan for €10 million maturing in 2019) was used to redeem the existing bond, plus incidental expenses. Tranche B (term loan for €17.5 million maturing in 2019) can be used for growth projects such as company acquisitions. Tranche C (€15 million) is a revolving loan that is available until 2017 to finance working capital, with the option of renewing until 2019. All tranches bear interest at EURIBOR plus a margin of between 3.0% and 4.0% that depends on the financial ratios. The main subsidiaries have provided guarantees to the banking syndicate as collateral for the loan. No tangible collateral was provided. Muehlhan AG has committed to comply with terms and conditions for the financing. In addition to obligations to notify the banking syndicate, these primarily include compliance with an equity ratio, a net-debt ratio and an interest-coverage ratio. The financing terms and conditions were satisfied during the fiscal year. The loans were recorded at amortized cost after allowing for the transaction costs (€1.1 million). The loans totaled €19.0 million on the balance-sheet date.

As part of the refinancing, the bond originally issued in the amount of €35 million in 2006 was repaid prematurely on 21 August 2014. The residual amount totaled €8 million and most recently carried interest at the rate of 8.77% p.a. The transaction resulted in a €514 thousand prepayment penalty which reduced the financial result. The €7.5 million credit line from Commerzbank AG was incorporated into the new syndicated loan agreement.

The term loans will result in cash outflows of €2,472 thousand in 2015, €3,039 thousand in 2016 and €10,375 thousand thereafter. To the best of our knowledge, there is no active market for the loans, so as far as we know, the fair value is most likely equivalent to its carrying amount (book value).

Liabilities under finance leases totaled €304 thousand on the balance-sheet date (previous year: €871 thousand). The scope of the Group's finance leases is insignificant.

The MYAG Group has at its disposal credit lines totaling €54.0 million (previous year: €12.6 million), which can be used as cash loans and, in some cases, as loan guarantees. In addition, it has guarantee facilities totaling €53.4 million (previous year: €49.1 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 €24.1 million (previous year: €7.3 million), guarantee credits totaled €26.5 million (previous year: €14.2 million) as of 31 December 2014. On 31 December 2014, aside from cash and cash equivalents, the company had at its disposal unutilized loan, overdraft and guarantee facilities in the amount of €58.9 million (previous year: €39.5 million). The effective interest rate on financial liabilities averaged 6.4% during the fiscal year.

12. Income tax liabilities

Income tax liabilities totaling €990 thousand (previous year: €659 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:

in kEUR	Total	Time to maturity		
		0-1 year	1-5 years	> 5 years
Liabilities for other taxes	2,240	2,240	0	0
Liabilities relating to social security	2,064	2,064	0	0
Liabilities to personnel	7,467	7,467	0	0
Deferred income	1,643	1,643	0	0
Other liabilities	1,784	1,784	0	0
Other liabilities	15,199	15,199	0	0

in kEUR	Total	Time to maturity		
		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

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	31.12.2014	31.12.2013
Non-current assets	81	146
Current assets	1,119	523
Provisions and other liabilities	357	128
Settlement through netting by fiscal jurisdiction	-1,419	-647
TOTAL	138	150

Changes in deferred tax liabilities are shown in the following table:

in kEUR	2014	2013
Balance on 1 January	150	188
Currency translation differences	-1	-1
Allocation affecting net income in the Group consolidated income statement	760	72
Settlement through netting by fiscal jurisdiction	-772	-109
Balance at 31 December	138	150

There are taxable temporary differences relating to investments in subsidiaries (outside basis differences) totaling €33 thousand (previous year: €28 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 1.1.2014	Utili- zation	Addi- tion	Balance on 31.12.2014
Warranties	410	202	233	441

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.

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 regions of Europe, America and Asia. Central functions and consolidation 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. The business segments were reorganized at the beginning of 2015. For a more in-depth discussion, please see page 2 of the Consolidated Management Report where reporting is broken down by external revenues and EBIT (Earnings before interest and taxes).

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 €67.4 million, Poland with €22.7 million, Great Britain with €23.7 million and Denmark with €28.0 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 2014

in KEUR	Europe	America	Asia	Holding company	Recon- ciliation	Group
External revenues	180,702	18,239	19,022	38	0	218,001
Intersegment sales	1,235	0	69	3,484	-4,788	0
SALES	181,937	18,239	19,090	3,523	-4,788	218,001
EBITDA	13,957	1,128	1,114	-4,551	221	11,869
Depreciation and amortization	-3,786	-411	-713	-518	351	-5,077
Goodwill impairment loss	0	0	-764	0	0	-764
EBIT	10,171	717	-363	-5,069	572	6,028
Capital expenditures	10,349	2,742	256	433	0	13,780

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 business segment

in kEUR	External revenues		EBIT	
	2014	2013	2014	2013
Ship Newbuilding	35,529	28,857	458	-771
Ship Repair	29,670	38,065	-466	238
Energy	60,152	50,157	2,602	2,702
Industry	52,463	49,658	3,411	575
Other Services	40,148	40,634	4,521	5,289
Central divisions/Consolidation	38	445	-4,497	-2,882
TOTAL	218,001	207,817	6,028	5,151

V. Notes to the income statement

18. Cost of materials and purchased services

This item may be broken down as follows:

in kEUR	2014	2013
Costs of raw materials, consumables and supplies	38,208	38,710
Cost of purchased services	45,832	53,752
TOTAL	84,040	92,462

19. Personnel expenses

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

Number	2014	2013
Europe (incl. central divisions)	1,932	1,628
America	97	83
Asia	646	678
TOTAL	2,675	2,390

Personnel expenses include:

in kEUR	2014	2013
Wages and salaries	76,475	62,974
Social security and post-employment benefit costs	14,799	12,664
TOTAL	91,274	75,638

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". In 2014, a tranche of 181,675 shares (previous year: 131,965 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 2014, the Group recognized an associated expense of €210 thousand (previous year: €288 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, 2014 financing costs also included €199 thousand of expenses related to the valuation of the bond and the new financing at amortized cost (previous year: €98 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 (2014: €2,606 thousand; previous year: €5,459 thousand) primarily includes proceeds from the settlement of two lawsuits (2014: €0 thousand; previous year: €2,251 thousand), exchange gains (2014: €532 thousand; previous year: €625 thousand) and gains from the disposal of fixed assets (2014: €98 thousand; previous year: €354 thousand).

Other operating expenses (2014: €33,424 thousand; previous year: €31,736 thousand) primarily include travel expenses (€6,617 thousand; previous year: €5,723 thousand), rentals and incidental expenses (€4,259 thousand; previous year: €3,767 thousand), write-downs and losses of receivables (€1,251 thousand; previous year: €730 thousand), legal and consulting expenses (€2,419 thousand; previous year: €2,042 thousand), repairs (€3,266 thousand; previous year: €3,747 thousand), motor vehicle expenses (€3,367 thousand; previous year: €3,303 thousand), exchange losses (€746 thousand; previous year: €810 thousand), insurance premiums (€1,542 thousand; previous year: €1,342 thousand) and staff training and other personnel costs (€1,682 thousand; previous year: €1,488 thousand). Minimum lease payments under operating lease agreements totaled €1,704 thousand (previous year: €1,968 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	2014	2013
Current tax expense	1,683	1,089
Deferred taxes	-331	635
TOTAL	1,352	1,724

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	2014	2013
Earnings before taxes	3,675	3,227
Theoretical tax expense at the tax rate of MYAG: 31.5%	-1,158	-1,017
Differing foreign tax rates	262	-44
Tax-free income and non-deductible expenses	-52	-48
Change in valuation allowance for deferred tax assets	-310	-170
Effects of impairment to goodwill	-128	-376
Effects of changes in tax rate	0	-72
Adjustments as a result of prior-period tax refunds and tax expenses	44	16
Others	-10	-13
Actual tax expenses	-1,352	-1,724
Effective tax rate	36.8 %	53.4 %

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 18,855,779 shares for 2014 (previous year: 18,891,317). 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. As of 31 December 2014, the Group had a consolidated equity ratio of 51.7% (previous year: 51.7%).

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 syndicated loan agreement concluded in 2014 has improved the Group's long-term liquidity situation and provides flexibility for financing growth projects.

Currency risk

More than 56% of the Group's sales revenues are generated in Euros or in 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. As in the previous year, the Group posted a net currency loss of €0.2 million for 2014.

26. Transactions with related parties

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 former 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 2014, the Group's expenses relating to the Greverath Property totaled €360 thousand (previous year: €359 thousand) and consisted of rent, real-estate taxes and Supervisory Board compensation.

On the balance sheet date, the company owed the Greverath Property €21 thousand in trade payables (previous year: €41 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 loans taken out as part of the refinancing are 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 2014. In 2014, total fees for financial statement auditing services within the Group amounted to €122 thousand (previous year: €120 thousand); for tax advisory services, €40 thousand (previous year: €27 thousand) and for other services, €3 thousand (previous year: €10 thousand), bringing the total amount charged for all services to €165 thousand (previous year: €157 thousand). The fee for auditing MYAG's separate financial statements totaled €24 thousand (previous year: €30 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 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 €5,338 thousand, of which €2,600 thousand is due in 2015, €1,412 thousand in 2016 and €1,327 thousand in future years.

30. Executive Board

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

Mr Stefan Müller-Arends, Businessman, St Augustin (Chairman)
 Dr Andreas C. Krüger, Engineer, Hamburg
 Mr James West, Engineer, Aberdeenshire (from 1 July 2014)

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 €1,319 thousand for the fiscal year, including €839 thousand of ongoing fixed compensation, €285 thousand of ongoing variable compensation and €195 thousand of expenses for the bonus program (previous year: €971 thousand, including €683 thousand of fixed compensation, €268 thousand of variable compensation and €20 thousand of expenses for the bonus program).

31. Supervisory Board

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

Dr Wulf-Dieter H. Greverath (Chairman), Businessman, Hamburg
(until 9 December 2014)

Dipl.-Ing. Dr Gottfried Neuhaus, Businessman, Hamburg

Mr Philip Percival, Businessman, London
(Chairman since 16 December 2014)

Ms Andrea Greverath, Businesswoman, Hamburg
(since 9 December 2014)

The Supervisory Board was paid €54 thousand for reimbursement of expenses for the fiscal year (previous year: €55 thousand), of which the fixed component accounted for €50 thousand and the variable component accounted for €4 thousand (previous year: €5 thousand).

32. Events after the balance-sheet date

There were no significant events after the balance-sheet date.

Hamburg, 26 March 2015

The Executive Board



Stefan Müller-Arends



Dr Andreas C. Krüger



James West

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 2014 to 31 December 2014. 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, 27 March 2015
BDO AG Wirtschaftsprüfungsgesellschaft

zu Inn- u. Knyphausen
Wirtschaftsprüfer

Rüdiger
Wirtschaftsprüfer

* Translation of the German Auditors' Report

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FINANCIAL CALENDAR

7 May 2015	Publication of 1st quarter figures 2015
19 May 2015	General Meeting Muehlhan AG
28 July 2015	Publication of half-yearly report 2015
10 November 2015	Publication of nine-month figures 2015

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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.

