Muehlhan

Annual Report 2011

Worldwide, the **Muehlhan Group** is a reliable partner in industrial services and high-quality surface protection. As one of the few full-service providers, we offer our customers a broad range of services designed to meet the exacting quality standards expected in professional industrial services. Our customers benefit from our exceptional organizational skills, the technical expertise that differentiates us from our competitors and our more than 130 years of experience.

Our operations are divided into five business fields: Ship Newbuilding, Ship Repair, Energy, Industry and Other Services. With our workforce of more than 2,100 employees at around 40 locations worldwide, we generated sales revenues of EUR 172 million in 2011.

We intend to use this stable foundation to further expand our business in the coming years and to continue moving our company forward through proximity to our customers in the global market.

Group Key Figures

in kEUR		2011	2010
Result			
Sales		172,285	165,004
EBITDA[1]		6,436	7,003
EBIT[2]		- 1,297	- 2,481
EBT[3]		- 3,355	- 3,885
Earnings per share	in EUR	- 0.21	-0.23
Consolidated earnings after non-controlling interests		- 3,939	- 4,368
Cash flow		6,104	5,923
Investments for fixed assets		- 6,849	- 4,841
Depreciation		- 7,733	- 9,485
Balance sheet			
Balance sheet total		112,243	108,328
Current assets		63,549	59,715
Fixed assets[4]		44,908	45,916
Equity		57,062	61,258
Employees			
Annual average headcount people	number	2,131	2,281

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

Contents

Coating robot, Muehlhan Canada

Cover: Coating works, Muehlhan Denmark

01 Management

Stefan Müller-Arends, CEO

Dr Andreas C. Krüger, CSO

Dear shareholders,
esteemed business partners, friends and employees!

When the foundations for the company we now know as Muehlhan were laid more than 130 years ago, surface protection – at least in the maritime steel construction segment – was still a new field. A lot has happened since then. As markets and demands have changed over the decades, Muehlhan has also continued to evolve. Today, the Hamburg-based company is a global group of companies with worldwide operations offering more than just maritime surface protection. But despite all the changes, we have always kept one goal in mind: standing by our customers as a reliable partner and providing them with the highest quality, even during turbulent times.

We again succeeded in doing that in 2011. Muehlhan's sales revenues of nearly EUR 173 million came in at the upper end of the range projected at the beginning of the year. Although some of our markets – such as shipbuilding in Europe – have declined permanently due to long-term structural changes, Muehlhan was able to offset this trend and reported higher sales than the year before.

Even more importantly, in 2011 we succeeded in better managing project risks and, unlike in recent years, we managed to avoid big project losses. Although external factors always play a role, our progress in this area is also closely related to our constant work on internal processes for monitoring project risks.

It would have been wrong to make compromises here. Consequently, the Executive Board once again placed a high priority on ensuring that adequate provisions were made for contingencies in 2011. In this regard, impairment losses to goodwill and bad debt losses were recognized and some legal disputes from previous years were reassessed. It was primarily such non-cash items that again impacted earnings in 2011. Without such adjustments, Muehlhan would have reported net income for 2011.

By recognizing these items in 2011, the Group is able to make a clean start in fiscal year 2012. Our balanced portfolio of markets and services will serve as a strategic platform for our future development, enabling us to look ahead with optimism despite the continuation of a difficult market environment.

As partners, shareholders and friends of the Muehlhan Group, you know that you can always count on the Annual Report to give you a comprehensive overview of our business activities. We continue this tradition with our 2011 Annual Report. We would like to take this opportunity to thank you for the confidence you have shown Muehlhan in the past and we look forward to your continued support this year.

Hamburg, March 2012

Your Executive Board

Stefan Müller-Arends

Dr Andreas C. Krüger

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. In May 2011 he joined Muehlhan Executive Board as CEO.

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 is responsible for the sector Marketing / Sales since May 2011.

Supervisory Board: Dr Gottfried Neuhaus, Dr Wulf-Dieter H. Greverath and Philip Percival (l. to r.)

Supervisory Board

Dr Wulf-Dieter H. Greverath
Hamburg, Germany
Chairman of the Supervisory Board

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

Philip Percival
London, Great Britain
Deputy Chairman of the Supervisory Board
Managing Director of the Syntegra Capital Limited, London

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

In 2011, global markets continued to be dominated by a high level of uncertainty. At the same time, Muehlhan's overall business environment was also difficult. Business activities in the Euro zone were overshadowed by the debt crisis in many member states, especially Greece. European companies also faced tough business conditions in America: the increase in the U.S. debt ceiling was accompanied by offsetting measures to rein in public budget deficits which dampened economic activity considerably.

Muehlhan successfully overcame these challenges, as demonstrated by the fact that its operating business was profitable in 2011 despite the tough environment. Clearly, the restructuring measures adopted in the past (diversification into different regions and expansion into new markets) are beginning to bear fruit.

These measures initiated a process that will culminate in the transformation of Muehlhan from a company focused primarily on providing surface-protection services to the maritime sector into a broad-based provider of services to an extremely diverse customer base. The company will do this without neglecting its existing core businesses.

Within the Supervisory Board, we continued to provide intensive support for the work of the corporate management team during fiscal year 2011, to the extent specified by law and by the Articles of Incorporation.

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

In 2011, the Executive Board's regular written and oral reports to the Supervisory Board concerning the business developments within the Muehlhan Group and at Muehlhan AG, once again formed the core of the joint work performed by the two management bodies. Here, special attention was paid to adapting Muehlhan to changing market conditions. The Executive Board also provided the Supervisory Board with comprehensive reports regarding the financial position of the corporation and of the subsidiary companies, their earnings performance and medium-term corporate planning. 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 three members of the Supervisory Board held several in-house teleconferences to discuss the Group's situation.

All of the meetings focused on the strategic orientation of the Muehlhan Group, operational implementation and the financial situation. 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. Even between meetings, the Executive Board regularly consulted with the Supervisory Board so that specific questions about important developments and business transactions at Muehlhan could be discussed and decided on without delay.

Highlights of the 2011 meetings

The 2011 Supervisory Board meetings included in-depth discussions on strategic positioning, including the composition of the Executive Board, aimed at safeguarding the long-term interests of the Muehlhan Group. The goal here was to create an efficient management team capable of successfully meeting the challenges posed by the crisis while simultaneously positioning the company to take advantage of new opportunities so that it can also be successful in going forward. Based on these detailed discussions, the participants concluded that the best way to achieve these objectives is under the leadership of the two Executive Board members, Stefan Müller-Arends and Dr Andreas C. Krüger. In accordance with this fundamental decision, Carsten Ennemann retired from the Executive Board effective 31 December 2011. The Supervisory Board thanks Mr Ennemann for his collaboration and commitment in previous years.

Another focus of the meetings was the corporate bond and, in particular, the related failure, once again, to satisfy some of the bond covenants. The Executive Board provided the Supervisory Board with regular updates on the company's situation and the associated effects on the covenants and the bond position. The Supervisory Board likewise provided advice on the negotiations with the bond creditor. The Supervisory Board and the Executive Board also discussed alternative solutions to securing long-term corporate financing.

The Supervisory Board´s review of operations focused primarily on the earnings situation in the Middle East. The Supervisory Board and the Executive Board went together to the region to learn about the situation firsthand. The Supervisory Board held in-depth discussions on the start-up problems in the Middle East, but also on the prospects with a new shipyard customer. Several meetings also dealt with the outlook for the U.S. business, with discussions focusing mainly on the pending litigation and the subsidiary's situation in the Gulf of Mexico (this company operates in the repair sector). The Supervisory Board supported the Executive Board's decision to seek an out-of-court settlement to end the lawsuit involving the Golden Gate Bridge.

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's Annual General Meeting on 17 May 2011. BDO has audited the consolidated financial statements for the period ending on 31 December 2011 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 315 a, paragraph 1 of the German Commercial Code (HGB = Handelsgesetzbuch) and the Group management report for the fiscal year beginning on 1 January 2011 and ending on 31 December 2011 and the annual report of Muehlhan AG for the period ending on 31 December 2011 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 2011 and ending on 31 December 2011 and has given them an unqualified audit opinion.

Muehlhan AG's annual report and the consolidated financial statements, the management report for Muehlhan AG's annual report and the management report for the consolidated financial statements, the proposal for the use of the unappropriated retained earnings and the associated audit reports were sent to each member of the Supervisory Board for their independent review. At the meeting on 27 March 2012, the Supervisory Board once again thoroughly discussed and reviewed the documents in the presence of the auditors.

Based on the audits and reviews, the Supervisory Board has concluded that the representations in the consolidated financial statements and the Group management report of Muehlhan AG are in compliance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, 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 2011. The annual financial statements are therefore adopted. The Supervisory Board agrees with the proposal by the Executive Board regarding the use of the unappropriated retained earnings.

Despite the very tangible effects of the global economic and financial crisis, from an operating standpoint, fiscal year 2011 was a successful one for the Muehlhan Group. Charges against earnings resulting from additional goodwill impairment losses and bad debt losses partially offset the good performance but ultimately had no impact on the Group's healthy liquidity position. Consequently, Muehlhan is well placed to meet the challenges that lie ahead.

The Supervisory Board likewise intends to continue to work closely with the Executive Board and to support its efforts to ensure the sustainability of the Group going forward! 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 2012

Dr Wulf-Dieter H. Greverath

2011 Corporate Governance Report – The corporate activities of Executive Board members and Supervisory Board members of listed German joint-stock corporations (Aktiengesellschaften) are to a very large extent guided by corporate governance principles. By focusing on these principles, companies can ensure that the AG follows management and monitoring practices that are targeted at increasing transparency while recognizing and fulfilling the company's corporate responsibilities.

As a joint-stock company listed in the Entry Standard subsegment, our company is not subject to the provisions of Section 161 of the German Stock Corporation Act (AktG). Nevertheless, we follow the provisions of the German Corporate Governance Code as amended on 26 May 2010, taking into account Muehlhan AG's size and structure.

Shareholders and the Annual General Meeting

Our shareholders have acquired shares in Muehlhan AG either through share placements, the initial public offering or share transactions. As investors, they bear a portion of Muehlhan AG's entrepreneurial risk. The Executive Board feels particularly obligated to its shareholders and therefore provides for detailed and transparent communications, systematic risk management, compliance with the regulations of the German Stock Exchange (Deutsche Börse) and consideration of shareholder rights.

While strictly observing the requirement of equal treatment for all shareholders, the company keeps the interested public informed by making all company information that is relevant to the capital markets available on its website or by publishing it with the assistance of independent news services. This information is provided in German and English. In particular, such information includes relevant ad-hoc announcements, press releases and semi-annual and annual reports. In addition, Muehlhan publishes all voting rights changes and notifications from government bodies regarding transactions in Muehlhan shares – to the extent the company becomes aware of such information. The same applies to share buybacks. Shareholders are notified about all important dates through the website and in the financial calendars published in the annual and semi-annual reports.

Collaboration between the Supervisory Board and the Executive Board

Muehlhan AG has a management and control structure that is typical of joint-stock companies (Aktiengesellschaften) in Germany; it consists of an Executive Board and a Supervisory Board. Muehlhan AG's Supervisory Board is comprised of three members. It supervises and provides business administration advice to the Executive Board.

The Executive Board has two members. As the body responsible for leading the Group, the Executive Board is obliged to safeguard the company's interests and to pursue a sustainable increase in shareholder value. The members of the Executive Board are collectively responsible for overall corporate governance and they make decisions regarding general aspects of business policy, corporate strategy and annual and long-term planning.

The Executive Board and the Supervisory Board have a close relationship built on trust. Management keeps the Supervisory Board informed on a regular, timely and comprehensive basis of business developments in the individual regions and business segments, the company's strategy and planning and its risk exposure.

The Executive Board and the Supervisory Board regularly consult one another on transactions that are relevant to the company and verify that risk and compliance guidelines are followed. Detailed information on the key aspects of the Supervisory Board's work during fiscal year 2011 is provided in its report on pages 5 and 6.

The Executive Board and the Supervisory Board will jointly pursue a fundamental goal in 2012: Muehlhan must continue its transition toward becoming a company that specializes in providing professional industrial services covering all aspects of surface protection. This focus will help to reinforce Muehlhan's already solid economic foundation even in this difficult market environment while successfully moving the company forward and enhancing its operating performance.

Compensation structure of the Executive Board and the Supervisory Board

The Executive Board's compensation is based on the extent to which shared objectives are achieved. Every member receives compensation with a fixed component and a recurring variable annual component; the latter is based on the Group's earnings before taxes. There is no provision for non-recurring variable compensation components. In addition, along with the bonus plan described, the Supervisory Board can also issue virtual stock options under the Phantom Share Program as an incentive for the Executive Board. The Supervisory Board issued such options last time in fiscal year 2006, both to the Executive Board and to executive management personnel in the Muehlhan Group. Under the option program, beneficiaries are granted a claim against the company for a cash payment if particular performance targets are met; financially, the effect for beneficiaries is the same as if they had acquired a share of the company at the issue price and resold the share at the market price on the exercise date. The current Phantom Shares Program will expire on 31 December 2012. To date, no options have been exercised, as the necessary requirements have not been met.

In accordance with the usual provisions, the members of the Supervisory Board receive a combination of fixed supervisory board compensation and a variable portion that is based on *earnings per share*.

Declaration of Conformity

Muehlhan AG's Management and the Supervisory Board deal regularly with issues concerning good corporate governance. Therefore, it is only logical for the company to follow the recommendations of the "Government Commission on the German Corporate Governance Code", referred to as DCGK below, to the extent that doing so is reasonable regarding the size and structure of the company.

Muehlhan has already complied with the Code and its main recommendations in the past. The company is also currently in compliance with the requirements of the Code, as updated on 26 May 2010.

To the extent that individual recommendations from the current version of the DCGK were not followed, or were followed only to a limited extent, or if the company deviated from them in another manner, or will deviate from them in the future, the Executive Board and the Supervisory Board provide justification as follows:

Section 2 of the Code: Invitation to the Annual General Meeting; voting by mail; electronic notification

Under Section 2.3.1, the DCGK recommends that shareholders should have the option of voting by mail to exercise their rights. Section 2.3.3 states that the company should support the exercise of shareholder rights by mail.

The current version of Muehlhan AG's Articles of Incorporation makes no provision for voting by mail. Furthermore, the company offers its shareholders the option of authorizing a proxy designated by the company to exercise their voting rights. This means that shareholders can now vote even before the date of the Annual General Meeting. As a result, providing the additional option of voting by mail would provide no discernible added value.

In Section 2.3.2, the DCGK recommends that the invitation documents for the Annual General Meeting should be sent electronically, provided that the consent requirement necessary for doing so has been met.

For economic and organizational reasons, Muehlhan limits itself to the manner prescribed by statute for convening the Annual General Meeting. The reports and documents required by law for the Annual General Meeting are normally made available for inspection by the shareholders beginning on the date the Annual General Meeting is announced and may be sent to a shareholder upon request, but not electronically, because the consent requirement stipulated in Section 30b, paragraph 3 of the Securities Trading Act (WpHG) has not been met. In addition, the documents will be published on the company's website along with the agenda, provided that doing so is not contrary to the legitimate interests of the company, its shareholders or third parties. All documents can be accessed by the shareholders on the website.

Section 4 of the Code: Executive Board

In Section 4.2.2, Clause 1, the DCGK recommends that the full Supervisory Board, at the recommendation of the executive committee that deals with Executive Board contracts, decide on and regularly review the structure of the compensation system for the Executive Board, including the major components of the contracts and the total compensation of individual Executive Board members.

Muehlhan AG's Supervisory Board is comprised of three members. The formation of executive committees is therefore not necessary. At Muehlhan, it is the responsibility of all Supervisory Board members to deal with Executive Board contracts. All members of the Supervisory Board decide on and regularly review the Executive Board's compensation system, including the major components of the contracts and the total compensation of individual Executive Board members.

Derogating from Section 4.2.5 of the DCGK, Muehlhan does not include a separate compensation report as part of the Corporate Governance report. The total compensation for the Executive Board is included in the figures shown in the annual financial statements. A detailed discussion of these amounts in the form of a report would not provide any additional relevant information and would therefore not add any value for the reader. In the company's opinion, the compilation of a separate compensation report is therefore unnecessary.

Section 5 of the Code: Supervisory Board and Executive Board

Based on the aforementioned composition of the Supervisory Board, the formation of the committees stipulated in Section 5.3.1 is deemed unnecessary. This also applies to the formation of an audit committee as recommended in Section 5.3.2, as well as the formation of a nomination committee as provided for in Section 5.3.3.

All members of the Supervisory Board have the necessary knowledge of and experience in the application of accounting principles and internal audit procedures and they jointly perform the tasks intended for the audit committee and the nomination committee. The Chairman of the Supervisory Board issues the audit mandate pursuant to the resolution by the Supervisory Board and, after a detailed discussion at a prior meeting, agrees on the areas of focus for the audit in consultation with the other members and signs the fee agreement with the auditor.

In line with the remarks above, Section 5.2, Clause 2 likewise shall not apply when dealing with Executive Board contracts.

In addition, Section 5.4.1 of the DCGK recommends that age limits be set for members of the Supervisory Board. Muehlhan AG views age limits as a limitation on the shareholders' right to select the members of the Supervisory Board as they see fit and on the basis of the knowledge, abilities and technical skills required. Muehlhan AG's Articles of Incorporation therefore include no such age limit.

Derogating from the corresponding recommendation in Section 5.1.2 of the DCGK, Muehlhan sets no age limit for members of the Executive Board because this would place a general restriction on the Supervisory Board's ability to select suitable Executive Board members.

Hamburg, 27 March 2012

Signing for the Supervisory Board
Dr Wulf-Dieter H. Greverath

Signing for the Executive Board
Stefan Müller-Arends

02 Our Share

The unsatisfactory overall performance of Muehlhan's share price was mixed: on the one hand, it remained below closing prices that sometimes reached EUR 3.00 and above the previous year. On the other hand, the share price was stable and on occasion even exceeded the Entry Standard Index significantly. Then, at year-end, the share price once again declined considerably.

Modest start to 2011

After performing well into the late fall of 2010, Muehlhan's shares on occasion traded considerably above the EUR 3.00 mark. However, after the nine-month figures were published, the share came under sustained pressure. At year-end, the share price declined significantly and the shares started 2011 trading at between EUR 1.80 and EUR 1.90.

It moved sideways until the publication of the preliminary overall results for 2010 and then dropped briefly to around EUR 1.38. During the second quarter, the share recovered markedly, ending the first half at around EUR 2.00. Increased media interest, in particular, added significant momentum to trading in Muehlhan shares during the first half. Heavier selling

Price Development 2011

pressure caused by the publication of company figures to a large extent was absorbed by an increase in demand, so overall the share price remained stable.

During the second half of 2011, the capital markets in both Europe and the USA experienced extreme volatility. The increase in the U.S. debt ceiling approved in August – which was tied to offsetting spending cuts – was not enough to calm the markets, especially as the U.S. also published weak economic data during the second half. Not only there, but worldwide, the situation was dominated by low confidence in politicians' handling of the crisis. This had consequences: investors gave up Euro- and U.S. Dollar-denominated shares and cash positions in favor of German and U.S. bonds, gold and Swiss Francs.

The volatile markets also affected Muehlhan AG's share. Although the share did remain stable in comparison to the main German indices, price spikes mostly stalled at chart resistance points. Muehlhan ended 2011 with a Xetra closing price of EUR 1.22, amid low trading.

As a result, Muehlhan's market capitalization once again declined considerably in comparison to the previous year. Over the course of the year, market capitalization dropped from just under EUR 35.8 million (Xetra closing price on 3 Jan. 2011: EUR 1.84) to around EUR 23.8 million (Xetra closing price on 31 Dec. 2011: EUR 1.22). As of the editorial deadline, Muehlhan AG's market capitalization stood at EUR 26.1 million (Xetra closing price on 27 March 2012: EUR 1.34).

Key figures for the share

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 2011	EUR 2.35
Lowest price (Xetra) in 2011	EUR 1.22
Designated Sponsor	equinet Bank AG, Frankfurt
Coverage	M.M. Warburg Research, Hamburg; Hauck & Aufhäuser, Hamburg
Share buyback handled by	equinet Bank AG, Frankfurt
Market capitalization as of 31 December 2011(Xetra: EUR 1.22)	EUR 23,790,000

No significant changes in shareholder structure

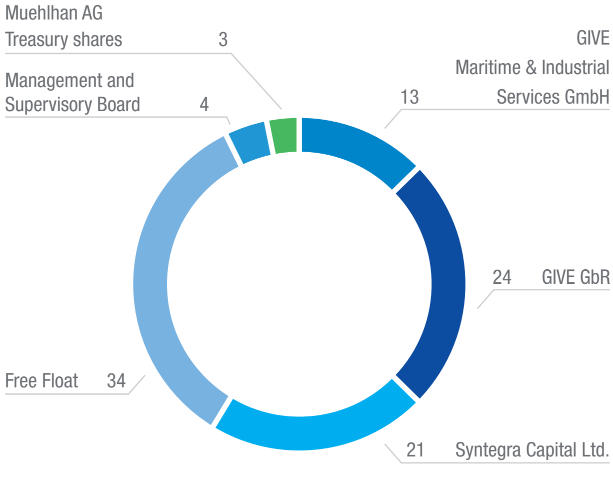
In addition to the major shareholdings (see chart), a big portion (34%) of our shares are in free float, held primarily by institutional investors.

Shareholder Structure as of 31 December 2011

	Number of shares held	Sharehol-ding in %
GIVE Maritime and Industrial Services GmbH	2,573,242	13.20
Greverath Investment Verwaltungs- und Erhaltungs-GbR	4,650,000	23.85
Syntegra Capital Ltd.	4,110,847	21.08
Management and Supervisory Board		
Dr Andreas C. Krüger	425,153	2.18
Dr Wulf-Dieter H. Greverath	381,329	1.96
Dr Gottfried Neuhaus	40,000	0.21
Free Float	6,664,695	34.18
Muehlhan AG Treasury shares	654,734	3.36
	19,500,000	100.00

Shareholder Structure as of 31 December 2011

in %



03 Group Management Report

Manual paint application, Muehlhan Denmark

Financial Position and Results of Operations

Sales revenues increased by around 4%; bad debt losses and goodwill impairment losses negatively impacted overall earnings

In fiscal year 2011, the Group had total revenues of EUR 172.3 million. This represented an increase of EUR 7.3 million, or 4.4%, over the prior-year figure (EUR 165.0 million). The EBIT of EUR -1.3 million was around EUR 1.2 million higher than in the previous year (EUR -2.5 million). The consolidated net loss after non-controlling interests was EUR 3.9 million, compared to a consolidated net loss of EUR 4.4 million the previous year.

The comprehensive recognition of various non-recurring, mainly non-cash, items was largely responsible for the fact that the Group's earnings were not better despite higher sales. For example, goodwill and real estate asset impairment losses plus bad debt losses in the USA led to around EUR 4.9 million of charges against income. Earnings were further impacted by EUR 0.7 in write-downs of long overdue receivables in the Middle East. From an operating perspective, by contrast, fiscal year 2011 was significantly better than 2010.

Financial position and net assets continued to be stable in 2011 with a high equity ratio

As of the balance sheet date, the Group's equity totaled EUR 57.1 million (previous year: EUR 61.3 million). Dividing shareholders' equity by total liabilities and shareholders' equity (balance sheet total) of EUR 112.2 million (previous year: EUR 108.3 million) therefore yields an equity ratio of 50.8% (previous year: 56.5%). On the balance sheet date, fixed assets totaled EUR 44.9 million, compared to EUR 45.9 million the previous year. The fixed-assets-to-total-assets ratio stood at 40.0% (previous year: 42.4%) and the equity-to-fixed-assets ratio was 127.1% (previous year: 133.4%).

Despite the tighter earnings situation brought about by the impairment losses and write-downs, capital expenditures rose nearly EUR 2.0 million to EUR 6.9 million (2010: EUR 5.0 million). The bulk of this amount was invested in additional scaffolding materials, in expanding our facilities at a major customer's site in Qatar and in building a new wind-energy site in Canada.

Bond covenants not met

Because of the Group's inadequate earnings performance, we were once again unable to satisfy the bond covenants at the end of 2011. The same applied to the agreements relating to the working capital facility from our primary bank.

As a result, we entered into negotiations with our bond creditor, the U.S. insurance company Pricoa, immediately after the publication of our nine-month report in mid-November. The same applies to Commerzbank, which had granted us a EUR 7.5 million overdraft facility, only a small portion of which was used for guarantees. Both lenders agreed to grant us temporary waivers, initially valid until the end of March 2012, of their rights to enforce claims for noncompliance with the covenants. The primary purpose of the subsequent renegotiation process was to reach agreements on the covenants that would meet the requirements of our project business while guaranteeing that the company would be able to continue to operate its businesses unimpeded as it has in the past. On 23 March 2012, the parties reached definitive agreements to continue the bond and the working capital loan based on amended performance indicators.

Cash and cash equivalents at the end of the fiscal year totaled EUR 10.9 million (previous year: EUR 12.2 million). The improved earnings trend was reflected in cash flow, which rose slightly from EUR 5.9 million in 2010 to EUR 6.1 million in 2011. Net debt increased slightly as of 31 December 2011 to EUR 12.4 million (previous year: EUR 10.0 million).

Personnel: number of employees declines; changes to the Executive Board

The Muehlhan Group had an average of 2,131 employees during the year, around 6.6% below the prior-year level (2010: 2,281 employees).

On 31 December 2011, Mr Carsten Ennemann retired from Muehlhan AG's Executive Board. He had served as the Chief Financial Officer and Board member since June 2006.

Despite the decrease in the number of employees, personnel expenses totaled EUR 66.3 million in 2011 (2010: EUR 62.4 million). The reason for this increase was that the company recruited and made greater use of highly qualified personnel in high-wage countries while simultaneously reducing personnel in low-wage countries significantly. Other factors included the expansion of the Executive Board in April and the departure of the CFO, Carsten Ennemann, at year-end. The costs related to the termination of Carsten Ennemann's contract are included under personnel expenses.

Business and Sales Trend

Company manages to expand sales, as projected

Muehlhan's sales revenues of more than EUR 172 million came in at the upper end of the expected range (EUR 150 to 175 million) published at the beginning of the year. At the same time, they were significantly higher than the prior-year level (EUR 165.0 million). Renewed weakness across much of the global economy prevented a more substantial increase. Virtually all of Muehlhan's business divisions and regions were affected.

EBIT rose by EUR 1.2 million, from EUR -2.5 million (2010) to a still negative EUR -1.3 million. Muehlhan therefore posted another net loss attributable to equity investors in 2011, but at EUR -3.9 million it was a slight improvement over the prior-year loss (2010: EUR -4.4 million).

Most significant increase in sales came from the European business

The Muehlhan Group, headquartered in Hamburg, has operations in Germany, elsewhere in Europe, in North America and in Asia.

In 2011, the European businesses continued to be the main drivers of sales. With sales revenues of EUR 135.7, they accounted for around 80% of total Group revenues. At the same time, sales were around 8% higher than the year before (2010: EUR 125.6 million). The best earnings performance also came from Europe, where EBIT of EUR 9.5 million was 63% higher than 2010 EBIT, which stood at just under EUR 6.0 million.

In North America, sales of nearly EUR 20.0 million were virtually unchanged as against the year before (2010: EUR 19.8 million), but EBIT increased significantly. Nevertheless, due to the aforementioned impairment losses, Muehlhan still had to report a loss of EUR -3.1 million in 2011 (2010: EUR -5.2 million).

The same applied to its businesses in the Middle East and Southeast Asia, where Muehlhan's EBIT worsened from EUR -0.8 million in 2010 to EUR -2.5 million in 2011. In contrast to the other regions, sales experienced an even sharper decline there, dropping around 20% from EUR 19.8 million to EUR 16.0 million.

Sales by Region

for 2011 in kEUR	Europe	America	Asia	Holding company	Recon-ciliation	Group
External revenues	135,231	19,684	15,983	1,506	-120	172,285
Intersegment sales	423	300	56	3,723	-4,502	0
SALES	**135,655**	**19,985**	**16,040**	**5,229**	**-4,622**	**172,285**
EBITDA	12,938	-636	-1,026	-3,921	-919	6,436
Depreciation and amortization	-3,430	-1,452	-1,484	-574	234	-6,706
Goodwill impairment loss	0	-1,027	0	0	0	-1,027
EBIT	**9,508**	**-3,115**	**-2,510**	**-4,494**	**-686**	**-1,297**

for 2010 in kEUR	Europe	America	Asia	Holding company	Recon-ciliation	Group
External revenues	125,151	19,784	19,822	128	120	165,004
Intersegment sales	447	0	2	4,013	-4,461	0
SALES	**125,597**	**19,784**	**19,823**	**4,141**	**-4,341**	**165,004**
EBITDA	9,593	-1,775	1,189	-2,258	254	7,003
Depreciation and amortization	-3,619	-1,070	-1,348	-641	204	-6,475
Goodwill impairment loss	0	-2.333	-677	0	0	-3,010
EBIT	**5,975**	**-5,178**	**-836**	**-2,899**	**457**	**-2,481**

Sales in various business divisions influenced by regional shifts

The operations of Muehlhan AG's subsidiaries are divided into five business divisions: Ship Newbuilding, Ship Repair, Energy, Industry and Other Services. The maritime sectors, in particular, have been affected in recent years by the global economic and financial crisis and the industry's shift to Asia.

After governments worldwide attempted to counter the economic crisis in 2008-2010 with expansionary monetary and financial policies, in many countries the crisis is now focused on the resulting high levels of government debt. This, along with banks' unresolved problems and risks, has resulted in new problems. Because there is no apparent underlying solution to the uncertainties facing the financial markets, the crisis in the capital markets increasingly threatens to spread to the real economy

Breakdown of sales by business divisions

	External revenues		EBIT	
in kEUR	**2011**	**2010**	**2011**	**2010**
Ship Newbuilding	36,218	55,930	- 3,592	1,933
Ship Repair	33,680	29,019	560	985
Energy	39,694	31,641	680	- 6,103
Industry	26,897	26,652	1,378	- 1,242
Other Services	34,411	21,514	4,857	4,387
Central divisions/ Consolidation	1,386	248	- 5,180	- 2,442
TOTAL	**172,285**	**165,004**	**- 1,297**	**- 2,481**

Over the course of the year, the IMF and other organizations regularly revised their growth forecasts downward. In the **Shipping industry,** lower growth, combined with continued sharp expansion of the commercial fleet, led to overcapacity, thereby depressing charter rates and reducing the creditworthiness of shipping companies due to lower ship values.

Shipping companies' earnings have deteriorated due to low rates, high fuel costs and the overhang of fleet tonnage, leading to a substantial increase in their reluctance to invest in ship newbuilding. Overall, order books for new ships were at the lowest level in five years at the end of 2011. Above all, lower demand for cargo ships once again pushed the number of new orders worldwide significantly below the prior-year figure. On the other hand, the turnaround in container ships was noteworthy, with almost 200 orders (7.9 million CGT), which alone accounted for around 33% of all new orders (in CGT), following extremely low order volumes in each of the previous two years.

All in all, European shipyards had to resign themselves to around 6% fewer orders in **Ship Newbuilding** than in 2010. In Asia, although China won around 25% of all new orders, it was not able to gain any additional market share, despite increasing capacity in each of the last two years. Instead, more than half of all new ship orders in 2011 went to the big shipyards in South Korea, which has successfully coped with the price war China has been waging in large-scale shipbuilding. At the same time, Korea has increasingly turned its attention to specialty shipbuilding and above all has benefited from the strong demand for LNG and LPG tankers.

Because of higher unit labor costs, Europe and the USA were no longer able to compete in large-scale shipbuilding. Even when global trade returns to the pre-crisis level, they probably will not regain their former strength in this area. In the ship newbuilding sector, the remaining German shipyards are concentrating on specialty ships. However, they continued to be successful at servicing the niche markets for naval and cruise ships and the megayacht business. Nevertheless, follow-up orders for 2012 are still lacking in many areas.

In fiscal year 2011, this business field once again ended the year with a drastic drop in sales revenues. Whereas coatings for newly launched ships brought in around EUR 55.9 million in 2010, this figure dropped to around EUR 36.2 million in 2011. This is equivalent to a decline of more than 35%. In particular, in light of the persistently precarious situation at U.S. shipyards and the continued poor outlook in this area, the annual impairment test required recognition of a EUR 1.0 million impairment of goodwill for the Sipco/Muehlhan Marine subsidiary, which operates in the marine sector, as well as a EUR 0.8 million write-down of an owner-occupied property. For this reason, and as a consequence of the long start-up phase for our shipbuilding businesses in the Persian Gulf, EBIT dropped from EUR 1.9 million in 2010 to EUR -3.6 million in 2011.

Offshore wind farm, North Sea

For the **Ship Repair** division as a whole, 2011 did not bring any improvements. Doubts about whether the global economy would recover over the short term and, above all, over the long term, increased in 2011. At the same time, overcapacity in the freight market and the resulting decline in revenues overshadowed earnings expectations at many shipping companies. While there were isolated cases of rate increases for certain routes in the Far East, these were still considerably lower than the pre-crisis level. The price increase was primarily supported not by an increase in real demand, but rather by a reduction in ship speed of up to 50% (so-called "slow-steaming") and by the scrapping of some ships that were still operational, which in turn reduced available freight capacity. China, which itself helped to saturate freight capacity with its high completion numbers and massive price pressure in favor of Chinese shipyards, is now ordering its shipyards to slow the pace of ship newbuilding and to delay deliveries. Nevertheless, the huge volume of new ships under construction, especially large container ships, will cause freight capacity to increase significantly in coming years, leading to additional overcapacity. Any profits reported by large shipping companies in 2011 were attributable primarily to strict cost-cutting measures, which also, and especially, involved ship maintenance and repairs. The big shipping lines believe that 2009 and 2010 proved that they can operate their business for a limited period of time without carrying out regular or extensive maintenance and repairs.

Therefore, it is all the more gratifying that, despite the fundamental weakness of the market, Muehlhan's subsidiaries managed to convince their customers of the need to undertake certain repairs, thereby significantly expanding their business. At EUR 33.7 million, sales revenues were EUR 4.7 million, or 16%, higher than in the previous year (2010: EUR 29.0 million). By contrast, earnings showed a downward trend: 2011 EBIT stood at EUR 0.6 million, below the prior-year figure (EUR 1.0 million).

Impact of the crisis on industrial markets was mixed

Results were again quite mixed for the **Industry** and **Other Services** submarkets in 2011. Starting from an already high level, the demand for scaffolding services in northern Germany once again increased. The Hamburg-based scaffolding business continued to benefit from high demand in the structural engineering sector. Major construction projects such as Hamburg's HafenCity, as well as the overall stability of the construction industry in northern Germany, contributed to the trend. At the same time, the scaffolding business benefited from relatively constant demand in the specialty shipbuilding sector. In the offshore wind-turbine foundation construction business, Muehlhan further established itself as a provider of innovative scaffolding and housing designs.

The steel construction business headquartered in Sczcecin, Poland – which had seen much more modest development in the past year – picked up in 2011. It posted good sales revenues, not only in Poland but elsewhere in Europe, as well, and by 2010 had recovered the demand lost during 2008-2009. It continued to enjoy great success in 2011, with sales revenues doubling. All in all, its business in the Other Services segment posted very positive sales revenues of EUR 34.4 million in 2011 (2010: EUR 21.5 million). The 60% growth rate here was the highest increase of any business activity. With income of EUR 4.9 million around 11% higher than in 2010, the earnings trend was also positive.

In the two Industry sectors, bridge coatings and fire-proofing coatings, 2011 brought mixed results. The U.S. subsidiary MCC, where project losses were responsible for red ink in 2010, reported positive numbers in 2011. The construction of the New Oakland Bay Bridge in California ensured that the company had considerably more business in 2011 than the year before.

In the United Arab Emirates, demand for services from our U.A.E.-based fire-proofing business has decreased markedly. However, this development was expected, due to the high debt burden in Dubai.

Muehlhan also managed to increase sales revenues in this business from EUR 26.7 million in 2010 to EUR 26.9 million in 2011. However, growth here was significantly lower than in the other segments. The earnings picture was different: with EBIT of EUR 1.4 million, the company far exceeded the prior-year figure, which was impacted by losses (2010: EUR -1.2 million).

Oil and gas business further improved; upward trend for wind energy

Oil companies operating in the North Sea took advantage of the higher oil price to step up required maintenance and repair work – a development from which our Scottish business benefited. Demand remained constant in Denmark and Germany. This was offset by a sharp downturn in the refinery business in Qatar, which failed to meet expectations because of project delays.

In the wind-energy sector, which had already experienced moderate demand in 2010 and suffered a substantial decline in earnings at year-end due to a bad debt loss, the volume of business picked up slightly. As a result of the nuclear power plant disaster in Fukushima, Japan, renewable energies finally came to be accepted as the energy of the future. Now, the task for the European market is to expand the network infrastructure so that the decentralized power grid can be further expanded. Globally, the North American and Chinese markets offer great potential. However, it remains to be seen how strongly and quickly these countries will push forward with future expansion.

In the Middle East, the surface protection market performed mostly in line with our expectations. Nevertheless, even here, the economic crisis led to project delays. This was particularly true of the gas-processing facilities in Qatar, individual stages of which were postponed due to the decline in gas demand; this had a negative impact on overall sales revenues for the **Energy** business field.

Nevertheless, all in all, this sector also experienced positive growth. Sales revenues increased by EUR 8.1 million, or more than 25%, to EUR 31.6 million in 2011. This business also reported the biggest increase in earnings compared to the previous year. After a loss of more than EUR 6.1 million in 2010, Muehlhan's subsidiaries generated EBIT of almost EUR 0.7 million during the year under review.

Supplementary statement: Subsequent events of material significance after the balance sheet date

On 23 March 2012, Muehlhan reached an agreement with the bond creditor and the primary bank concerning continued financing. The bond coupon was raised from 8.02% to 8.77% effective 23 March 2012.

Positioning and Strategy

Positioning and business model: High-quality surface protection and industrial services worldwide

Muehlhan AG (MYAG), Hamburg, is the holding company for a total of 29 directly and indirectly held companies in Europe, North America and Asia. Of this number, 26 companies are currently included in the consolidated financial statements. Worldwide, the Group is one of the few providers of surface protection services for complex steel structures, combining very strong organizational skills with a high degree of technical expertise and a professional industrial approach. The spectrum of businesses we engage in ranges from work on ships, offshore and industrial sites to work on construction and infrastructure projects.

Further adjustment to market changes

The Muehlhan Group is subject to the same rules as are markets: the only ones who survive structural change are those who can adapt and who recognize customers' needs. For decades, our focus was on the maritime markets and our European core business. Those were the Group's strengths. Recent years have demonstrated that Muehlhan must successfully cope with geographical and technical changes to its markets, but also with changes in customer needs and the services demanded. We have responded to these structural changes by developing a global presence while simultaneously expanding our regional focus. In addition, we place a special priority on intensifying the development and deployment of innovative technologies that enable us to meet the exacting demands of our customers and to set new technical standards with our services.

Expanding our geographic presence

Early on, the Muehlhan Group set up its own subsidiaries on all the important maritime trading and transportation routes. Early on, it also entered markets that have turned out to be boom regions in emerging industries. Today, Muehlhan is one of the few surface protection providers that can guarantee a uniform level of standards and quality in the services it provides to its customers virtually anywhere in the world.

We will continue to follow this successful model. In those areas where we are already firmly established, we will use our core regions to establish bridgeheads in contiguous markets, as well. Before venturing into promising, but unknown terrain, we will first perform a comprehensive analysis of opportunities and risks. Once we have completed our operations homework, and relying for support on our existing local sites as stable and reliable partners, we will then proceed to systematically expand across a region.

New Oakland Bay Bridge, Muehlhan Certified Coatings

Over the coming years, we intend to expand our business from the Persian Gulf to the entire Arabian peninsula. Using Singapore as a base, we have already successfully expanded into Malaysia and Indonesia.

We will also monitor regions in which Muehlhan to date has no operations, screening them for potential.

Creating flexible, demand-oriented business divisions

In recent decades, Muehlhan has transformed itself from a shipbuilding partner into a comprehensive provider of all aspects of surface protection services for its maritime and industrial customers. The broader range of our service portfolio is now reflected in the structure of our business, which is divided into the five core areas of Ship Newbuilding, Ship Repair, Energy, Industry and Other Services.

In particular, the proportion of total sales revenues derived from maritime projects has declined continuously as a result of the economic and financial crisis. Accordingly, Muehlhan will reduce its dependence on the marine sector over the next few years and will focus on expanding the other business fields.

Increasing innovativeness

Muehlhan has an excellent reputation in many countries around the world – not only among existing customers, but also among market players with which the Group has not yet worked. We are known for our superior technical skills, for using state-of-the-art equipment and for our innovative approach to problem-solving.

Muehlhan is already recognized as a technology leader. The development and use of innovative technologies will play an increasingly important role in our competitiveness in the future. For that reason, we devote considerable resources to this issue by employing our own scientists, who constantly exchange knowledge and expertise with technicians and project managers, and by regularly collaborating on international research and development projects.

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.

Risk and Opportunity Management

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.

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.

Further improvements to the risk management system

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

Discussion of individual risks

Market risks and competitor risks

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.

Strategic company risks

In recent years, the permanent shift to Asia of large-scale shipbuilding and the bulk of the ship repair market have 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 and proactively asserting a newly enhanced claim to technical leadership. Muehlhan combines very strong organizational skills with a high degree of technical expertise and a professional industrial approach.

The way the Muehlhan Group dealt with the challenges it faced in 2011 thus can serve as a roadmap for how the Group will maintain its edge over the competition going forward.

Economic performance risks

Further improvements in paint resistance 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), the volume of steel surfaces in the maritime markets will increase. The same applies to the industrial sectors. Above all, when the moratorium on maintenance and renovation work ends in the years to come – especially in steel bridge construction – this market will enjoy huge growth.

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

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

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

Personnel risks

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 recruiting 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, the company intends to take advantage of its employees' already high level of identification with our company and its services and to systematically prepare suitable employees from within its 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. This raises the risk of customer bankruptcy, as well as the credit risk, primarily in the case of larger contracts. Between 2008 and 2010, these risks materialized again and again, and the risk of customer bankruptcy and bad debt losses will remain significantly higher for the duration of the financial and economic crisis. Further hedging the risk with bad debt loss insurance would only be of limited value. In those cases where receivables are insurable, the default risk is generally small. At the same time, the cost of premiums is generally higher than the cost incurred from a statistically probable bad debt loss.

All accounts with credit balances invested in the money market are subject to the normal risk of interest-rate fluctuations. Loans to subsidiaries located outside of the Euro zone always entail an exchange-rate risk.

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 a case involving our Greek subsidiary, Muehlhan Hellas S.A., Athens (MGR), dating from 1998 and 1999. The Greek tax authorities question several million Euros of expenses that MGR paid for the services of a Greek subcontractor involving work at a German shipyard. According to the tax authorities, the Greek subcontractor failed to keep adequately detailed records. MGR's management has already been absolved of any guilt in a related criminal case, so we assume that the case before the Tax Court will likewise be decided in our favor.

Company-specific risks

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 for preparing the final contract documents.

At the same time, the local project managers can count on capable support from the Group's holding company. Technical, commercial and legal specialists again proved to be of great benefit to the Group in a number of projects during the past fiscal year. They were all able to respond much more quickly and in a more targeted manner to specific needs than would have been the case with external support.

Legal risks/process 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. In particular, long-pending legal proceedings in the USA were reassessed at year-end 2011. We are less certain of the chances of a successful outcome to these lawsuits than we were a year earlier. Consequently, we have adjusted the amounts reported in the financial statements. Overall, this reassessment resulted in a EUR 3.3 million charge against consolidated earnings due to bad debt losses and legal fees. Aside from this, at present the company has no knowledge of any legal risks that could threaten the assets of the Muehlhan Group.

Other Disclosures

Executive Board report on relationships with affiliated companies

Pursuant to Section 312 of the German Stock Corporation Act (Aktiengesetz), the Executive Board has prepared a report on relationships with affiliated companies that includes the following Final Declaration: "We declare that MYAG 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 WDG, Syntegra, GMIS or GIVE or their subsidiaries that could have been to the detriment of MYAG or its subsidiaries."

Outlook

Importance of Ship Newbuilding continues to decline while that of new sectors increases

Because of the sharp declines in the Ship Newbuilding business in recent years, we expect further decreases in sales revenues and earnings for our subsidiaries operating in this business. Fortunately, the breakdown of sales by business divisions in fiscal year 2011 demonstrates that Muehlhan is well positioned to offset such declines with increasing business in its other sectors.

In addition to diversifying into different regions and divisions, which has been crucial to providing us with greater stability as some of our submarkets faltered, we also need to expand those business sectors where the outlook continues to be positive. For example, we expect our entry into the Malaysian market to provide a strong boost to the Repair business. After a long start-up phase, the Ship Repair business in the Persian Gulf should also start contributing significantly better sales revenues in 2012.

The offshore business and expansion of wind energy in Europe, the USA and Canada could lead to improved business in the Energy sector. The year 2011 was a record year for the industry in terms of installed capacity. Meanwhile, around 3% of total energy needs are now being supplied by wind power – and regions such as Asia and, above all, North America, will further accelerate expansion in this area.

We are also optimistic about the Industry business field. In addition to our U.S. subsidiary Muehlhan Certified Coatings, which has a great deal of experience in this field, other Muehlhan companies also plan to further expand their Industry business and to broaden their service portfolios accordingly. If the steel construction and scaffolding activities achieve sales similar to those posted in 2011, the Muehlhan Group could report total sales of between EUR 165 and 175 million.

Stable sales revenues should also flow through to the bottom line

As a project business service provider, Muehlhan cannot completely eliminate exposure to risks that reduce earnings. However, by adjusting doubtful goodwill in the USA and various old receivables, we believe that we have laid the foundation for a successful restart. The Executive Board therefore expects 2012 earnings before interest and taxes (EBIT) of between EUR 3.0 and 5.0 million. Consolidated profit should be between EUR 0.5 and 2.0 million.

The company expects the sales and earnings trend to be similar in 2013.

Hamburg, 23 March 2012

The Executive Board

Stefan Müller-Arends

Dr. Andreas C. Krüger

04 Group Consolidated Financial Statement

for the fiscal year from 1 January 2011 to 31 December 2011

CONSOLIDATED BALANCE SHEET

ASSETS in kEUR	Notes	31.12.2011	31.12.2010
NON-CURRENT ASSETS			
Intangible assets	1	21,449	22,628
Property, plant and equipment	2	23,408	23,258
Financial assets	3	51	30
Deferred tax assets	4	3,786	2,696
Total non-current assets		**48,694**	**48,613**
CURRENT ASSETS			
Inventories	5	4,184	3,673
Trade receivables	6	42,516	37,377
Cash and cash equivalents	7	10,869	12,241
Assets for current income tax		462	438
Other current assets	8	5,518	5,987
Total current assets		**63,549**	**59,715**
BALANCE SHEET TOTAL		**112,243**	**108,328**

Rounding differences may occur.

EQUITY & LIABILITIES in kEUR	Notes	31.12.2011	31.12.2010
EQUITY	9		
Subscribed capital		19,500	19,500
Capital reserves		28,176	28,105
Treasury shares		- 1,549	- 1,578
Other reserves		9,437	9,830
Retained earnings		- 366	3,508
Non-controlling interests		1,865	1,893
Total equity		**57,062**	**61,258**
NON-CURRENT LIABILITIES			
Pension accruals	10	826	725
Non-current financial liabilities	11	1,729	948
Deferred tax liabilities	14	142	173
Total non-current liabilities		**2,697**	**1,845**
CURRENT LIABILITIES			
Provisions	15	793	898
Current financial liabilities	11	21,562	21,308
Trade payables	16	16,593	11,616
Liabilities for current income tax	12	756	375
Other current liabilities	13	12,780	11,028
Total current liabilities		**52,484**	**45,225**
BALANCE SHEET TOTAL		**112,243**	**108,328**

Rounding differences may occur.

CONSOLIDATED INCOME STATEMENT

in kEUR		Notes	2011	2010
Sales			172,285	165,004
Other operating income		21	3,941	5,324
Cost of materials and purchased services		18	- 72,163	- 71,457
Personnel expenses		19	- 66,258	- 62,401
Depreciation and amortization			- 7,733	- 9,485
Other operating expenses		21	- 31,370	- 29,467
Profit from operations			**- 1,297**	**- 2,481**
Income from investments			-9	19
Interest income			74	305
Financing costs		20	- 2,123	- 1,728
Financial result			**- 2,058**	**- 1,404**
Earnings before taxes			**- 3,355**	**- 3,885**
Income tax expense		22	- 573	- 594
Consolidated loss			**- 3,929**	**- 4,480**
Thereof attributable to				
non-controlling interests			10	- 111
Equity holders of Muehlhan AG			**- 3,939**	**- 4,368**
NET EARNINGS PER SHARE		23		
Shares	number		18,833,105	19,022,018
basic	in EUR		- 0.21	- 0.23
diluted	in EUR		- 0.21	- 0.23

Rounding differences may occur.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in kEUR	Notes	2011	2010
Consolidated loss		**- 3,929**	**- 4,480**
Other result	24		
(+/-) Currency translation differences (legally independent entities abroad)		- 367	1,674
Other result after tax		**- 367**	**1,674**
Total result		**- 4,296**	**- 2,806**
Thereof attributable to			
non-controlling interests		- 28	- 81
equity holders of Muehlhan AG		**- 4,268**	**- 2,725**

Rounding differences may occur.

CONSOLIDATED CASH FLOW STATEMENT

in kEUR	2011	2010
Profit from operations	- 1,297	- 2,481
Depreciation / amortization (+) on non-current assets	7,733	9,485
Decrease (-) in deferred government grants	0	- 217
Gain (-) on disposal of fixed assets	- 50	- 1,103
Unrealized currency gains, losses	- 228	66
Decrease (-), increase (+) in provisions	- 53	174
Cash flow	**6,104**	**5,923**
Increase (-), decrease (+) in inventories, trade receivables and other assets (excluding payments received on account)	- 6,423	575
Increase (+), decrease (-) in trade payables and other liabilities	7,208	- 3,076
Cash generated by operating activities	**6,889**	**3,422**
Payments of income taxes	- 1,286	- 937
Payments of interest	- 1,872	- 1,629
Net cash flow from operating activities	**3,731**	**856**
Receipts of interest	64	323
Proceeds from disposals of non-current assets (+) in respect of		
tangible assets	610	5,212
financial assets	0	25
Capital expenditures (-) in respect of		
intangible assets	- 58	- 117
tangible assets	- 6,849	- 4,841
financial assets	- 21	0
Cash used in (-) / cash flow from (+) investing activities	**- 6,254**	**602**
Cash outflows for purchase of treasury shares (-)	0	- 907
Payments to equity holders and non-controlling interests (dividends) (-)	0	- 1,394
Increase (+), decrease (-) in payments received on account	464	- 1,371
Receipts (+) on current bank liabilities	4	481
Receipts (+) on non-current bank liabilities	781	822
Cash flow from (+) / cash used in (-) financing activities	**1,248**	**- 2,369**
Effect of exchange rate related fluctuations of cash and cash equivalents*	- 97	674
Total changes in cash and cash equivalents*	- 1,372	- 237
Cash and cash equivalents* at the beginning of the period	12,241	12,478
Cash and cash equivalents* at the end of the period	**10,869**	**12,241**

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

Rounding differences may occur.

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

	Equity applicable to equity holders of the parent company				
	Subscribed capital	Capital reserves	Other reserves		
in kEUR			Revenue reserves	Translation adjustments	Adjustment resulting from currency translation
On 1 January 2010	**19,500**	**28,060**	**5,326**	**589**	**- 2,354**
Share buyback					
Contribution share-based payment		45			
Transfer to revenue reserves			4,550		
Dividends paid					
Other changes					77
Total result					1,643
On 31 December 2010	**19,500**	**28,105**	**9,876**	**589**	**- 634**
Changes in treasury shares					
Contribution share-based payment		71			
Other changes					- 65
Total result					- 329
On 31 December 2011	**19,500**	**28,176**	**9,876**	**589**	**- 1,028**

On 31 December 2011 an amount of kEUR 14,339 (previous year: kEUR 13,964) was available for distribution to shareholders of the parent company.

Rounding differences may occur.

Retained earnings	Treasury shares	Equity	Non-controlling interests	Group equity
13,646	**- 672**	**64,094**	**2,226**	**66,320**
	- 907	- 907		- 907
		45		45
- 4,550		0		0
- 1,143		- 1,143	- 252	- 1,394
- 77		0		0
- 4,368		- 2,725	- 81	- 2,806
3,508	**- 1,578**	**59,364**	**1,893**	**61,258**
	30	30		30
		71		71
65		0		0
- 3,939		- 4,268	- 28	- 4,296
- 366	**- 1,549**	**55,197**	**1,865**	**57,062**

FIXED ASSETS MOVEMENTS SCHEDULE 2011

in kEUR	Acquisition and production costs Balance 01.01.2011	Additions	Translation differences	Disposals	Reclas-sifications	Balance 31.12.2011
I. Intangible assets						
1. Concessions, industrial and similar rights and assets	2,364	58	- 16	5	0	2,402
2. Goodwill	34,521	0	0	0	0	34,521
	36,885	**58**	**- 16**	**5**	**0**	**36,923**
II. Property, plant and equipment						
1. Land, land rights and buildings including buildings on third-party land	8,010	357	- 123	154	0	8,089
2. Technical equipment and machinery	58,547	3,251	219	1,577	- 1,112	59,328
3. Other equipment, operating and office equipment	9,126	930	- 108	881	1,151	10,218
4. Prepayments and assets under construction	319	2,312	2	211	- 39	2,383
	76,001	**6,849**	**- 10**	**2,822**	**0**	**80,017**
III. Financial assets						
1. Shares in affiliated companies	29	21	0	0	0	51
2. Investments	1	0	0	0	0	1
	30	**21**	**0**	**0**	**0**	**51**
	112,916	**6,928**	**- 26**	**2,827**	**0**	**116,991**

Rounding differences may occur.

Accumulated depreciation / amortization					Net book values	
Balance 01.01.2011	Additions	Translation differences	Disposals	Balance 31.12.2011	Balance 31.12.2011	Previous year
1,451	210	16	5	1,640	761	913
12,806	1,027	0	0	13,833	20,688	21,715
14,257	**1,237**	**16**	**5**	**15,474**	**21,449**	**22,628**
3,529	1,281	27	151	4,632	3,457	4,481
42,652	4,062	- 186	2,538	44,362	14,966	15,895
6,562	1,153	93	7	7,615	2,602	2,564
0	0	0	0	0	2,383	319
52,743	**6,496**	**- 66**	**2,696**	**56,609**	**23,408**	**23,258**
0	0	0	0	0	51	29
0	0	0	0	0	1	1
0	**0**	**0**	**0**	**0**	**51**	**30**
67,000	**7,733**	**- 51**	**2,700**	**72,083**	**44,908**	**45,916**

FIXED ASSETS MOVEMENTS SCHEDULE 2010

	Acquisition and production costs					
in kEUR	Balance 01.01.2010	Additions	Translation differences	Disposals	Reclas-sifications	Balance 31.12.2010
I. Intangible assets						
1. Concessions, industrial and similar rights and assets	2,238	117	10	1	0	2,364
2. Goodwill	34,521	0	0	0	0	34,521
	36,759	**117**	**10**	**1**	**0**	**36,885**
II. Property, plant and equipment						
1. Land, land rights and buildings including buildings on third-party land	12,881	544	255	5.671	0	8,010
2. Technical equipment and machinery	54,569	2,486	1,656	1,408	1,244	58,547
3. Other equipment, operating and office equipment	8,827	791	258	751	1	9,126
4. Prepayments and assets under construction	538	1,019	6	0	- 1,245	319
	76,815	**4,841**	**2,175**	**7,830**	**0**	**76,001**
III. Financial assets						
1. Shares in affiliated companies	54	0	0	25	0	29
2. Investments	1	0	0	0	0	1
	55	**0**	**0**	**25**	**0**	**30**
	113,628	**4,958**	**2,186**	**7,856**	**0**	**112,916**

Rounding differences may occur.

Accumulated depreciation / amortization					Net book values	
Balance 01.01.2010	Additions	Translation differences	Disposals	**Balance 31.12.2010**	**Balance 31.12.2010**	**Previous year**
1,239	205	- 8	1	1,451	913	999
9,796	3,010	0	0	12,806	21,715	24,725
11,035	**3,215**	**- 8**	**1**	**14,257**	**22,628**	**25,724**
4,329	481	-70	1,351	3,529	4,481	8,552
38,241	4,659	- 1,026	1,274	42,652	15,895	16,328
5,897	1,130	- 148	613	6,562	2,564	2,929
0	0	0	0	0	319	538
48,468	**6,270**	**- 1,243**	**3,239**	**52,743**	**23,258**	**28,347**
0	0	0	0	0	29	54
0	0	0	0	0	1	1
0	**0**	**0**	**0**	**0**	**30**	**55**
59,503	**9,485**	**- 1,252**	**3,239**	**67,000**	**45,916**	**54,126**

NOTES

I. General comments

The core business of Muehlhan AG (hereinafter "MYAG" or "company") and its subsidiaries is 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 2011 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 the fiscal year beginning on 1 January 2011, the following new mandatory standards went into effect: Improvements to IFRSs 2010, IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, IAS 24 R, Related Party Disclosures, Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement, Amendment to IFRS 1, Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters and Amendment to IAS 32, Financial Instruments: Disclosure and Presentation. These standards, interpretations and amendments had no noteworthy impact on the company's net assets, financial position or results of operations. We do not expect the amendment to the standard IFRS 7, Disclosures – Transfer of Financial Assets, already adopted by the EU Commission (and applicable to fiscal years beginning on or after 1 July 2011) to have any effect on future financial statements.

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

II. Significant consolidation, accounting and valuation principles

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

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

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

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

Deferred taxes are recorded to reflect consolidation effects.

Consolidated group and associated companies

In addition to MYAG, the consolidated financial statements include 26 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 2010.

On 27 June 2011, Muehlhan Canada Inc. was founded as a wholly owned subsidiary of Muehlhan AG and is headquartered in Windsor, Ontario. The consolidation of this company will not limit comparability with the prior-year financial statements.

The fully consolidated companies Muehlhan GmbH, Emden (ME) and Muehlhan Rostock GmbH, Rostock (MRW) were merged with Muehlhan Bremen GmbH, which is also fully consolidated, with retroactive effect from 1 January 2011. The merger became effective upon entry in the Commercial Register on 26 October 2011. As a result, ME and MRW are no longer included in the consolidated group. This will not have any negative impact on the comparability of future financial statements, as ME's and MRW's underlying businesses will continue to be included with the merger. Muehlhan Bremen GmbH has been renamed Muehlhan Deutschland GmbH.

On 12 December 2011, the company founded Allround Job Services Sp. z o.o., headquartered in Sczcecin, Poland. Muehlhan Polska Sp. z o.o. (MPL) holds 95% of the shares and Muehlhan AG holds 5%. The consolidation of this company will not limit comparability with the prior-year financial statements.

Muehlhan United Inc., Houston, Texas and Muehlhan Windpower Inc., Lafayette, Louisiana, USA were liquidated in 2011. Neither company was operational in 2010 or 2011. The liquidation resulted in a charge against consolidated earnings of EUR 5 thousand. The deconsolidation will not limit comparability with prior-year financial statements.

Effective 19 August 2011, Muehlhan Bremen GmbH (now Muehlhan Deutschland GmbH) acquired 80% of the shares of SOS Dienstleistungsbetrieb GmbH, Kiel (SOS). SOS has not been fully consolidated, as the company's contribution would not materially affect the consolidated financial statements. The shareholding in SOS is shown under "Shares in affiliated companies". As of 31 December 2011, this item amounted to EUR 21 thousand.

Muehlhan Grand Bahama Ltd. and AIS-Allround-Industrie-Service GmbH, Appel, likewise 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 each 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, Bremen and Gerüstbau Muehlhan GmbH, 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 2011:

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 (formerly: Muehlhan Bremen GmbH), Bremen - Germany	100	MYAG
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	95	MPL
		5	MYAG
MF	Muehlhan S.A.R.L., St. Nazaire - France	100	MYAG
MMF	Muehlhan Morflot OOO, St Petersburg - Russia	70	MYAG
MNL	Muehlhan B.V., Vlaardingen - Netherlands	100	MYAG
MGB	Muehlhan Surface Protection Ltd., Aberdeen, Scotland - Great Britain	100	MYAG
MGR	Muehlhan Hellas S.A., Athens - Greece	51	MYAG
MSPU	Muehlhan Surface Protection Inc., Houston, TX - USA	100	MYAG
SSP	Sipco Surface Protection Inc. (formerly: Muehlhan Marine Inc.), Humble, TX - 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
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
MME	Muehlhan Surface Protection Middle East L.L.C., Dubai - UAE	100	MYAG
MDA	Muehlhan Dehan L.L.C., Abu Dhabi - UAE	100	MME
MDQ	Muehlhan Dehan Qatar W.L.L., Doha - Qatar	100	MME
MMEH	Muehlhan Middle East Holding Limited, Dubai - UAE	100	MYAG
PRA	Procon Emirates L.L.C., Abu Dhabi - UAE	100	MMEH
PRD	Procon Emirates L.L.C., Dubai - UAE	100	MMEH
MCN	Muehlhan Surface Protection (Shanghai) Co. Ltd., Shanghai - China	100	MYAG

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

Symbol	Company	Share-holding in %	Equity on 31.12.2010 in kEUR	Profits/ loss for the year 2010 in kEUR
MFP	Muehlhan Grand Bahama Ltd., Nassau - Bahamas	100	0.1	0.0
SOS	SOS-Dienstleistungsbetrieb GmbH, Kiel	80	14.8	2.9
AIS	AIS-Allround Industrie-Service GmbH, Appel	51	79.3	- 17.7

The stakes in AIS and SOS are held indirectly through MGR and MD, respectively.

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	
	31.12.2011	31.12.2010	2011	2010
AED	4.75	4.92	5.13	4.85
CNY	8.22	8.82	9.02	8.93
DKK	7.43	7.45	7.45	7.45
GBP	0.84	0.86	0.87	0.86
PLN	4.45	3.96	4.13	4.00
QAR	4.71	4.87	5.09	4.81
RUB	41.90	40.94	41.03	40.24
SGD	1.68	1.71	1.75	1.79
USD	1.29	1.34	1.40	1.32

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 acquisition cost and net realizable value, as derived from the selling price on the balance sheet date.

Construction contracts

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

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

Receivables and other assets

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

Receivables and other assets are initially stated at their fair values and are subsequently reported at amortized cost less write-downs. 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.

Income from long-term make-to-order production is recognized in accordance with internal Group accounting and valuation methods for long-term construction contracts (see above).

Property, plant and equipment

The assets reported as property, plant and equipment are stated at acquisition or production cost 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 - 50 years
Technical equipment, operating and office equipment: 2 - 15 years

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

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

Goodwill and intangible fixed assets with an indeterminate useful life

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

Other intangible assets

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

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, two of the companies also have defined-benefit plans, for which one of the required provisions relates almost exclusively to the commitment to a now-retired former managing director of a subsidiary. 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. The accrual is reduced by the amount of potential plan assets. Service and interest costs are shown under personnel expenses. The present value of the defined-benefit obligation (DBO) is calculated by discounting the expected future payments at the interest rate applicable to top-rated corporate bonds denominated in the currency in which payments have to be made and at maturities matching those of the pension obligations. Contribution payments made under defined-contribution plans are shown under personnel expenses; pension accruals are recorded only for the amounts outstanding on the balance sheet date.

Other provisions

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

Financial liabilities

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

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

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

Research and development costs

Research expenses and development costs are recognized as expenses in the period in which they are incurred. The requirements set forth in IAS 38 for capitalizing development costs have not been met.

Trade payables and other liabilities

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 commercial and tax purposes 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 asset.

III. Notes to the balance sheet

1. Intangible assets

Intangible fixed assets include the following items:

in kEUR	31.12.2011	31.12.2010
Concessions, industrial property rights and similar rights and assets	761	913
Goodwill	20,688	21,715
TOTAL	**21,449**	**22,628**

Pursuant to IFRS 3, goodwill has not been regularly amortized since 1 January 2005. In accordance with IAS 36, an impairment test was performed during the past fiscal year. This involved allocating goodwill to the cash-generating units at the company level. The following table provides a breakdown of changes in goodwill by segment:

in EUR million	31.12.2010	Depreciation and amortization	31.12.2011
Europe	17.2	0.0	17.2
America	1.0	1.0	0.0
Asia	3.4	0.0	3.4
TOTAL	**21.7**	**1.0**	**20.7**

The goodwill is tested for impairment based on the net realizable value (net selling price) of the respective units. As the values cannot currently be determined from existing offers or sales and as there is no discernible market that could be used as a benchmark for determining the values, valuations are based on the alternative discounted cash flow (DCF) method using 4-year business plans for the units in question. The business plans were drawn up in the fourth quarter of 2011 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 segments comprising the CGUs are listed here under Note 17. In 2011, the EBIT margins for the CGUs before write-downs were: Europe: 7.0%, America: -12.3% and Asia: -15.6%. 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 SSP CGU (formerly MMI). A return to the offshore market appears unlikely and the company is also skeptical about the business trend in the maritime segments. The impairment test therefore indicated the need to recognize an impairment loss of EUR 1.0 million, i.e. to write off the goodwill amount 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: Europe: 6.3% - 14.0% (previous year: 6.3% - 8.9%), America: 7.0% (previous year: 8.1%) and Asia: 7.5% - 10.5% (previous year: 9.0% - 10.5%). The weighted average cost of capital rates reflect the current market estimates of the specific risks allocable to the respective cash-generating units. These were determined on the basis of the weighted average cost of capital customary for the respective industries. The interest rate was further adjusted to take into account market estimates of all risks specifically allocable to the CGUs for which estimates of future cash flows were not adjusted. We assumed terminal growth rates of 0.5% for Europe and America (previous year: 0.5%) and 1.5% for Asia (previous year: 1.5%). Only for Russia and Qatar higher growth rates of 4.5% and 3.5%, respectively, were assumed. The growth rates are based on the nominal growth rates used and reflect long-term, market-specific inflation rates that were adjusted to reflect the specific business segments' expected trends.

Sensitivity of assumptions used

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 would cause the carrying amounts (book values) of the CGUs to materially exceed their recoverable amounts. However, extrapolating the sales revenues and EBIT margin from fiscal year 2011 to cover the budget period and the terminal value would indeed lead to recognition of an impairment loss in the case of some of the CGUs.

The same also applies to the HSG CGU, for which an impairment loss was recognized in 2010. Here, the trend was very positive in 2011, meeting our expectations. We expect this recovery to continue in 2012 and thus a return to profitability. In 2011, the MDQ CGU experienced heavy capacity underutilization and posted a loss. This was attributable to the postponed market launch of a new shipyard customer for whom we had already built up capacity. We expect to see a gradual trend toward full capacity utilization in 2012, and thus a return to pre-2011 sales and EBIT levels.

An isolated increase of 2 percentage points in the individual CGU discount rate or a reduction of the terminal value growth rate to 0% would not require recognition of an impairment.

Changes in fiscal years 2011 and 2010 are shown in the fixed assets movements schedule included in the Group consolidated financial statements.

2. Property, plant and equipment

Property, plant and equipment includes the following items:

in kEUR	31.12.2011	31.12.2010
Land, land rights and buildings including buildings on third-party land	3,457	4,481
Technical equipment and machinery	14,966	15,895
Other equipment, operating and office equipment	2,602	2,564
Prepayments and assets under construction	2,383	319
TOTAL	**23,408**	**23,258**

Net book values of tangible fixed assets are determined from their purchase costs. Accumulated depreciation on tangible fixed assets amounted to EUR 56.6 million (previous year: EUR 52.7 million).

As in 2010, tangible fixed assets included EUR 1.2 million of leased assets relating to technical equipment.

Capital expenditures amounted to EUR 6.8 million in 2011 (previous year: EUR 4.8 million).

Changes in fiscal years 2011 and 2010 are shown in the fixed assets movements schedule included in the Group consolidated financial statements.

3. Financial assets

Financial assets include the following items:

in kEUR	31.12.2011	31.12.2010
Shares in affiliated companies	51	29
Investments	1	1
TOTAL	**51**	**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. SOS-Dienstleistungsbetrieb GmbH, Kiel, was acquired in fiscal year 2011.

Changes in fiscal years 2011 and 2010 are shown in the fixed assets movements 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	31.12.2011	31.12.2010
Accumulated tax loss carryforwards	3.530	2,602
Non-current assets	578	484
Current assets	144	47
Provisions and other liabilities	80	97
Settlement through netting by fiscal jurisdiction	- 546	- 534
TOTAL	3,786	2,696

In Germany, there are trade-tax loss carryforwards of EUR 9.2 million and corporate income tax loss carryforwards of EUR 5.6 million as of the balance sheet date. There are tax loss carryforwards of EUR 17.3 million abroad. Almost none of the loss carryforwards will expire for at least 15 years.

According to the medium-term forecasts of the companies involved, a tax benefit in the amount of EUR 3,530 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 EUR 3,512 thousand relate to tax jurisdictions in which losses were posted in 2011 or 2010. On the other hand, EUR 3.1 million of tax benefits were not capitalized for unutilized loss carryforwards.

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

in kEUR	2011	2010
Balance on 1 January	2,696	2,704
Currency translation differences	90	5
Allocation affecting net income in the Group consolidated income statement	1,012	521
Settlement through netting by fiscal jurisdiction	- 12	- 534
Balance on 31 December	3,786	2,696

5. Inventories

Inventories may be broken down as follows:

in kEUR	31.12.2011	31.12.2010
Raw materials, consumables and supplies	4,132	3,531
Prepayments	52	142
TOTAL	4,184	3,673

6. Trade receivables

Trade receivables include the following items:

in kEUR	31.12.2011	31.12.2010
Accounts receivable from services rendered	34,168	28,414
Accounts receivable from work in progress	21,564	21,370
Prepayments received on account of work in progress	- 13,215	- 12,407
TOTAL	42,516	37,377

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 on account of construction contracts that will not be invoiced until 2013, meaning that a maturity of up to one year can be assumed in such instances, as well.

Sales amounting to EUR 172,285 thousand (previous year: EUR 165,004 thousand) include contract revenues from long-term make-to-order production (additions to work in progress during the fiscal year) amounting to EUR 18,562 thousand (previous year: EUR 19,527 thousand). The accumulated costs pertaining to construction contracts in progress on the balance sheet date amounted to EUR 20,493 thousand (previous year: EUR 20,590 thousand) and the accumulated profits/losses amounted to EUR 1,311 thousand (previous year: EUR 900 thousand).

7. Cash and cash equivalents

Cash and cash equivalents amounted to EUR 10.9 million on 31 December 2011 (previous year: EUR 12.2 million) and aside from available cash consisted primarily of overnight money. On average, overnight money carried interest at 0.2% on the balance sheet date. As of the balance sheet date, there were no drawing restrictions.

8. Other receivables

Other receivables may be broken down as follows:

in kEUR	31.12.2011	31.12.2010
Other tax receivables	2,187	1,547
Prepaid expenses	1,059	1,065
Miscellaneous	2,272	3,374
TOTAL	**5,518**	**5,987**

Other receivables have a term of up to one year. The fair value is equal to the carrying amount (book value).

9. Equity

Subscribed capital

The parent company's issued capital amounted to EUR 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 EUR 1.00 share of the issued capital.

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

Capital reserves

In 2006, the premium from the issuance of 4 million new shares totaling EUR 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 EUR 1,205 thousand were netted against the capital reserves.

Treasury shares

Muehlhan AG's Annual General Meetings held on 19 May 2009 and 18 May 2010 passed resolutions authorizing the Executive Board to acquire treasury shares with a nominal value of up to EUR 1.95 million. The buyback began in the fourth quarter of 2009. No shares were acquired in 2011 (previous year: 366,253 shares at an average price of EUR 2.48). In 2011, 13,174 shares were disposed under the Employee Program (see Note 19 as well). The treasury shares were shown separately as deduction items totaling EUR 1,548,757 (previous year: EUR 1,578,399) in the equity section.

Other reserves

Other reserves include the following items:

in kEUR	31.12.2011	31.12.2010
Revenue reserves	9,876	9,876
Currency translation reserve	- 1,028	- 634
Reserve in connection with the first-time application of IFRS	589	589
TOTAL	**9,437**	**9,830**

Retained earnings

No dividends were distributed to shareholders in fiscal year 2011 (previous year: EUR 1,143 thousand).

Non-controlling interests

MGR and MMF had non-controlling interests as of the balance sheet date. MYAG holds 70% of MMF and 51% of MGR. In the 2011 reporting year, results totaling EUR 10 thousand (previous year: EUR -111 thousand) were allocated to these companies' other shareholders.

10. Pension accruals

Pension accruals totaled EUR 826 thousand (previous year: EUR 725 thousand). There are no plan assets. Of the total amount, EUR 427 thousand (previous year: EUR 320 thousand) was attributable to companies abroad.

In addition to defined-contribution plans which, apart from current contributions, do not involve any further pension commitment, two of the Group companies in Germany also have defined-benefit plans, for which one of the required provisions relates almost exclusively to the commitment to a now-retired former managing director of a subsidiary.

The calculations for this provision are based on the "2005 G" actuarial tables of Dr Klaus Heubeck. In accordance with IAS 19, the valuation was performed using the projected unit credit method. For 2011, a discount rate of 5.17% (previous year: 4.7%) and future pension payment increases of 2.0% (previous year: 1.75%) were assumed. Since the only person covered by this provision is already retired, there was no need to take employee turnover or future salary increases into account.

The Group's pension accruals changed as follows:

in kEUR	2011	2010
Balance on 1 January	725	704
Interest with respect to earned pension entitlements	20	22
Benefits paid	- 36	- 36
Change in accruals – defined-benefit plans	117	35
Balance on 31 December	**826**	**725**

It is expected that pension payments in 2012 will be at the same level as in the previous year.

11. Financial liabilities

Financial liabilities include the following items, shown by maturity:

	Total	Time to maturity		
in kEUR	2011	0-1 year	1-5 years	> 5 years
Bond	20,167	20,167	0	0
Liabilities to banks	2,173	1,164	1,009	0
Lease liabilities	950	230	720	0
TOTAL	**23,291**	**21,562**	**1,729**	**0**

	Total	Time to maturity		
in kEUR	2010	0-1 year	1-5 years	> 5 years
Bond	19,917	19,917	0	0
Liabilities to banks	1,164	1,164	0	0
Lease liabilities	1,175	227	948	0
TOTAL	**22,256**	**21,308**	**948**	**0**

On 28 March 2006, Muehlhan AG issued a bond with an original amount of EUR 35 million, of which EUR 15 million has since been repaid prematurely. The bond matures in 2016. The bond issue was subscribed by The Prudential Insurance Company of America. The coupon was initially 6.02% in 2011, rising to 8.02% p.a. as of 21 March 2011, payable as before every six months in arrears. The remainder will be repaid in five equal annual installments beginning in 2012. The bond was recorded at amortized cost after allowing for the transaction costs. The bond will involve annual outflows of funds totaling EUR 5,407 thousand in 2012, EUR 5,228 thousand in 2013 and EUR 13,579 thousand thereafter. The main bond covenants the Group has to satisfy include achieving a minimum EBITDA and a minimum equity ratio, not exceeding a maximum amount of borrowings under the guarantee and complying with the following ratio requirements: EBIT / interest balance and net debt / EBITDA. Some performance-related bond covenants were not met as of 30 September 2011 and as of 31 December 2011. On 23 March 2012, a definitive agreement to continue the financing was reached with the bond creditor and our primary bank, guaranteeing that the company will be able to continue operating its businesses at the same level as before. The bond coupon was increased from 8.02% to 8.77%, effective 23 March 2012. To the best of our knowledge, there is no active market for this bond, so as far as we know, the fair value is most likely equivalent to its carrying amount (book value). The bond was classified as current in accordance with IAS 1.74 and 1.75, but due to the extension of the financing agreement, it will again be possible to classify it as non-current from 23 March 2012 on.

Liabilities under finance leases totaled EUR 950 thousand on the balance sheet date (previous year: EUR 1,175 thousand). The scope of the Group's finance leases is insignificant.

The MYAG Group has at its disposal credit lines totaling EUR 11.6 million (previous year: EUR 10.6 million), which can be used at its discretion as cash loans and loan guarantees. In addition, it has guarantee facilities totaling EUR 28.8 million (previous year: EUR 61.6 million) from Euler Hermes Kreditversicherungs AG, Zurich Versicherung Aktiengesellschaft and CNA Surety, San Francisco, USA. In addition to liabilities to banks in the amount of EUR 2.2 million (previous year: EUR 1.2 million), loan guarantees totaled EUR 16.3 million as of 31 December 2011 (previous year: EUR 17.5 million). On 31 December 2011, aside from cash and cash equivalents, the company had at its disposal unutilized overdraft and guarantee facilities in the amount of EUR 20.7 million (previous year: EUR 53.5 million). The effective interest rate on financial liabilities averaged 8.3% during the fiscal year.

12. Tax liabilities

Tax liabilities totaling EUR 756 thousand (previous year: EUR 375 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 2011	Time to maturity 0-1 year	1-5 years	> 5 years
Liabilities for other taxes	**2,337**	**2,337**	**0**	**0**
Liabilities relating to social security	1,545	1,545	0	0
Liabilities to personnel	5,300	5,300	0	0
Deferred income	2,287	2,287	0	0
Other liabilities	1,311	1,311	0	0
Other liabilities	**12,780**	**12,780**	**0**	**0**

in kEUR	Total 2010	Time to maturity 0-1 year	1-5 years	> 5 years
Liabilities for other taxes	**2,104**	**2,104**	**0**	**0**
Liabilities relating to social security	1,545	1,545	0	0
Liabilities to personnel	4,151	4,151	0	0
Deferred income	1,241	1,241	0	0
Other liabilities	1,987	1,987	0	0
Other liabilities	**11,028**	**11,028**	**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	31.12.2011	31.12.2010
Non-current assets	159	182
Current assets	382	377
Provisions and other liabilities	147	147
Settlement through netting by fiscal jurisdiction	-546	-534
TOTAL	**142**	**173**

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

in kEUR	2011	2010
Balance on 1 January	173	632
Currency translation differences	-4	28
Allocation affecting net income in the Group consolidated income statement	-15	47
Settlement through netting by fiscal jurisdiction	-12	-534
Balance on 31 December	**142**	**173**

15. Provisions and contingent liabilities

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

in kEUR	Balance on 01.01.2011	Exchange differences	Utilization
Tax provisions	**561**	**3**	**219**

in kEUR	Reversal	Addition	Balance on 31.12.2011
Tax provisions	**77**	**344**	**611**

Tax provisions mainly comprise income taxes accrued in fiscal year 2011 but not yet paid as well as expected tax payments for prior years. No deferred taxes are included. The tax provisions are expected to result in an outflow of funds in the following fiscal year.

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

in kEUR	Balance on 01.01.2011	Utili-zation	Re-versal	Ad-dition	Balance on 31.12.2011
Warranties	141	0	2	0	139
Anticipated losses	196	196	0	43	43
Total	**337**	**196**	**2**	**43**	**182**

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. For management and internal reporting purposes, primary reporting is done by geographic region. Here, the Group's results are broken down into the European, American and Asian segments. 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, which are 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 EUR 54.2 million, Poland with EUR 22.4 million, Denmark with EUR 19.8 million and the USA with EUR 19.7 million, based on the countries where the respective headquarters are located. 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 segment 2011

in kEUR	Europe	America	Asia	Holding company	Recon-ciliation	Group
External revenues	135,231	19,684	15,983	1,506	- 120	172,285
Intersegment sales	423	300	56	3,723	- 4,502	0
SALES	**135,655**	**19,985**	**16,040**	**5,229**	**- 4,622**	**172,285**
EBITDA	12,938	- 636	- 1,026	- 3,921	- 919	6,436
Depreciation and amortization	- 3,430	- 1,452	- 1,484	- 574	234	- 6,706
Goodwill impairment loss	0	- 1,027	0	0	0	- 1,027
EBIT	**9,508**	**- 3,115**	**- 2,510**	**- 4,494**	**- 686**	**- 1,297**
Capital expenditures	**2,167**	**2,460**	**2,137**	**164**	**0**	**6,928**

Breakdown by segment 2010

in kEUR	Europe	America	Asia	Holding company	Recon-ciliation	Group
External revenues	125,151	19,784	19.822	128	120	165,004
Intersegment sales	447	0	2	4,013	- 4,461	0
SALES	**125,597**	**19,784**	**19,823**	**4,141**	**- 4,341**	**165,004**
EBITDA	9,593	- 1,775	1,189	- 2,258	254	7,003
Depreciation and amortization	- 3,619	- 1,070	- 1,348	- 641	204	- 6,475
Goodwill impairment loss	0	- 2,333	- 677	0	0	- 3,010
EBIT	**5,975**	**- 5,178**	**- 836**	**- 2,899**	**457**	**- 2,481**
Capital expenditures	**3,056**	**877**	**801**	**223**	**0**	**4,958**

Breakdown by business segment

	External revenues		EBIT	
in kEUR	2011	2010	2011	2010
Ship Newbuilding	36,218	55,930	- 3,592	1,933
Ship Repair	33,680	29,019	560	985
Energy	39,694	31,641	680	- 6,103
Industry	26,897	26,652	1,378	- 1,242
Other Services	34,411	21,514	4,857	4,387
Central divisions/Consolidation	1,386	248	- 5,180	- 2,442
TOTAL	172,285	165,004	- 1,297	- 2,481

V. Notes to the income statement

18. Cost of materials and purchased services

This item may be broken down as follows:

in kEUR	2011	2010
Costs of raw materials, consumables and supplies	34,650	32,419
Cost of purchased services	37,513	39,037
TOTAL	72,163	71,457

19. Personnel expenses

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

Number	2011	2010
Europe (incl. Central divisions)	1,299	1,309
America	209	264
Asia	624	708
TOTAL	2,131	2,281

Personnel expenses include:

in kEUR	2011	2010
Wages and salaries	55,242	52,065
Social security costs	10,470	9,797
Post-employment benefit costs	546	539
TOTAL	**66,258**	**62,401**

The expenditure for research and development, which consists almost exclusively of personnel expenses, totaled EUR 0.2 million in 2011, the same as in 2010.

Employee investment

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. A virtual share portfolio with a value equal to the identified amount of value bonus for previous years is allocated to the beneficiary. The shares are transferred to the recipient of the bonus in four equal tranches in the years following the year of assessment. For any transfer to take place in subsequent years, the beneficiary must still be employed by the Group. Any future negative virtual share allocations may be netted against existing claims. Once a year, the agreement can be terminated. The value bonus is recognized in accordance with IFRS 2, Share-based Payment. Approximately 219,000 virtual shares may be allocated Group-wide in 2011. As of the balance sheet date, around 259,000 virtual shares had been allocated. An initial tranche of 13,174 shares were 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 2011, the Group recognized an expense of EUR 101 thousand (2010: EUR 45 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, 2011 financing costs also included EUR 109 thousand of expenses related to the valuation of the bond at amortized cost (previous year: EUR 99 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 (2011: EUR 3,941 thousand; previous year: EUR 5,324 thousand) mainly consisted of exchange gains (2011: EUR 1,910 thousand; previous year: EUR 1,903 thousand). In 2010, gains from the disposal of fixed assets were still material (2011: EUR 94 thousand; previous year: EUR 1,231 thousand).

Other operating expenses (2011: EUR 31,370 thousand; previous year: EUR 29,467 thousand) primarily included travel expenses (EUR 5,149 thousand; previous year: EUR 5,228 thousand), rentals and incidental expenses (EUR 3,861 thousand; previous year: EUR 3,696 thousand), write-downs of receivables and bad debt losses (EUR 4,958 thousand; previous year: EUR 3,268 thousand), legal and consulting expenses (EUR 2,374 thousand; previous year: EUR 2,788 thousand), repairs (EUR 2,366 thousand; previous year: EUR 2,639 thousand), motor vehicle expenses (EUR 2,735 thousand; previous year: EUR 2,614 thousand), exchange losses (EUR 1,186 thousand; previous year: EUR 1,503 thousand), insurance premiums (EUR 1,632 thousand; previous year: EUR 1,543 thousand) and staff training and other personnel costs (EUR 1,342 thousand; previous year: EUR 860 thousand). Minimum lease payments under operating lease agreements totaled EUR 939 thousand (previous year: EUR 851 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	2011	2010
Current tax expense	- 1,570	- 1,068
Deferred taxes	997	474
TOTAL	**- 573**	**- 594**

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	2011	2010
Earnings before taxes	- 3,355	- 3,885
Theoretical tax refund/expense at the tax rate of MYAG: 31.5%	1,057	1,224
Adjustments as a result of the utilization or capitalization of hitherto unused tax loss carryforwards	- 1,249	- 848
Effects of impairment to goodwill	- 349	- 948
Effects of differing tax rates	- 9	- 9
Adjustments as a result of prior-period tax refunds and tax expenses	- 23	- 13
Actual tax expenses	**- 573**	**- 594**
Actual tax rate	- 17.1%	- 15.3%

23. Earnings per share

The earnings per share calculation is based on the net income allocable to Muehlhan AG's equity investors and the average number of ordinary shares outstanding during the fiscal year. The number of shares used in calculating earnings per share was 18,833,105 shares for 2011 (previous year: 19,002,018). 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 "Currency translation differences" item does not contain a tax component.

VI. Other disclosures

25. Risk management

Capital risk management

The Muehlhan Group pursues the goal of securing its capital base for the long term while generating an appropriate return on capital employed. At the same time, minimum capital requirements are taken into account. During the year under review, the Group was required by the bond covenants to maintain a minimum consolidated equity ratio of 45%. As of 31 December 2011, the Group had a consolidated equity ratio of 50.8% (previous year: 56.5%).

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

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

Liquidity risk

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

Currency risk

Approximately 60% of the Group's sales revenues are generated in Euros or Danish Kroner, which scarcely fluctuate in relation to the Euro. For the most part, the remaining revenues generated in foreign currencies are offset by expenses in the same currencies, meaning that the currency risk from operations is limited to the profit contribution from the companies concerned. As a matter of principle, the Group does not hedge this risk. The Group posted a net currency gain of EUR 0.7 million for 2011 (previous year: EUR 0.4 million). The change in the Group's financing structure in 2007 substantially reduced the impact of exchange-rate fluctuations on the income statement.

26. Transactions with related parties (companies and persons)

Transactions between the company and subsidiaries deemed to be related parties have been eliminated on consolidation and are not commented on in these notes. Transactions with related parties (companies and persons) are conducted on the same terms as those that would have applied to arm's-length transactions. Only a small number of transactions involved unconsolidated subsidiaries.

The composition of the Executive Board and the Supervisory Board is discussed in Notes 30 and 31. The Chairman of the Supervisory Board, Dr Wulf-Dieter H. Greverath, is also a related person within the meaning of IAS 24.9, since he is simultaneously a major shareholder of Muehlhan AG through the companies he controls. Dr Greverath and the companies controlled by him are referred to as the "Greverath Property" in the following comments. In 2011, the Group's expenses relating to the Greverath Property totaled EUR 340 thousand (previous year: EUR 343 thousand) and consisted of rent, real estate taxes and Supervisory Board compensation. In 2011, these were partially offset by EUR 7 thousand of income from the provision of services (previous year: EUR 4 thousand of income from the delivery of goods and the provision of services).

On the balance sheet date, the Greverath Property owed the company EUR 30 thousand in trade payables, unchanged from the previous year. These liabilities pertain to Supervisory Board compensation. As of the balance sheet date, there were no trade receivables (31 December 2010: EUR 10 thousand of income from the delivery of goods).

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. The bond issued in 2006 is also valued at amortized cost. For more information, please refer to Section II of these notes, "Significant consolidation, accounting and valuation principles".

28. Audit

The Annual General Meeting appointed BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the consolidated financial statements for fiscal year 2011. In 2011, total fees for financial statement auditing services within the Group amounted to EUR 150 thousand (previous year: EUR 170 thousand); for tax advisory services, EUR 25 thousand (previous year: EUR 19 thousand) and for other services, EUR 20 thousand (previous year: EUR 15 thousand), bringing the overall amount for all services to EUR 195 thousand (previous year: EUR 204 thousand). The fee for auditing MYAG's separate financial statements totaled EUR 18 thousand (previous year: EUR 17 thousand).

29. Other financial commitments and contingent liabilities

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

The company rents and leases office space, production halls, technical equipment, office equipment and its fleet of vehicles. The various contracts have remaining lease terms of up to five years. Some agreements contain renewal options and price-adjustment clauses, while some contain purchase options. The agreements reflect customary terms in their respective industries.

Other financial commitments consisting mainly of rental and lease payments amounted to EUR 5,487 thousand, of which EUR 1,932 thousand is due in 2012, EUR 1,412 thousand in 2013 and EUR 2,143 thousand at a later date.

30. Executive Board

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

Mr Stefan Müller-Arends, St Augustin (Chairman since 1 May 2011)
Dr Andreas C. Krüger, Hamburg (Chairman through 30 April 2011)
Mr Carsten Ennemann, Hamburg (through 31 December 2011)

One director represents the company jointly with another director or authorized officer, and is authorized to enter into legal transactions on behalf of the company while acting as a representative of a third party. The compensation of the parent company's Executive Board totaled EUR 1,414 thousand for the fiscal year. This amount included EUR 400 thousand of severance pay relating to the termination of Mr Ennemann's employment agreement.

31. Supervisory Board

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

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

The Supervisory Board was paid EUR 50 thousand for reimbursement of expenses for the fiscal year.

32. Subsequent events

Events occurring after the balance sheet date with a material effect on the Group's net assets, financial position and results of operations related to changes to the bond covenants. On 23 March 2012, a definitive agreement was reached with the bond creditor and our primary bank concerning continued financing. The bond coupon was raised from 8.02% to 8.77% effective 23 March 2012. The main bond covenants the Group has to satisfy still include achieving a minimum EBITDA and a minimum equity ratio, not exceeding a maximum amount of borrowings under the guarantee and complying with the following ratio requirements: EBIT / interest balance and net debt / EBITDA.

Hamburg, 23 March 2012

The Executive Board

Stefan Müller-Arends *Dr Andreas C. Krüger*

05 For more information

STATEMENT OF THE AUDITORS' REPORT *

"We have audited the consolidated financial statements prepared by Muehlhan AG, Hamburg, comprising the balance sheet, the consolidated statement of comprehensive income, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January 2011 to 31 December 2011. 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, 26 March 2012

BDO AG Wirtschaftsprüfungsgesellschaft

(Dr. Probst)	(zu Inn- u. Knyphausen)
Wirtschaftsprüfer	Wirtschaftsprüfer

* Translation of the German Auditors' Report

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FINANCIAL CALENDAR

30 March 2012	Publication of year-end results 2011
11 May 2012	Publication of 1st quarter figures 2012
15 May 2012	General Meeting Muehlhan AG
30 July 2012	Publication of half-yearly report 2012
15 November 2012	Publication of nine-month figures 2012

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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.