



**MOTIVATED FOR SUCCESS**

**Annual Report 2002**

## SUMMARY OF SELECTED FINANCIAL DATA (US-GAAP)

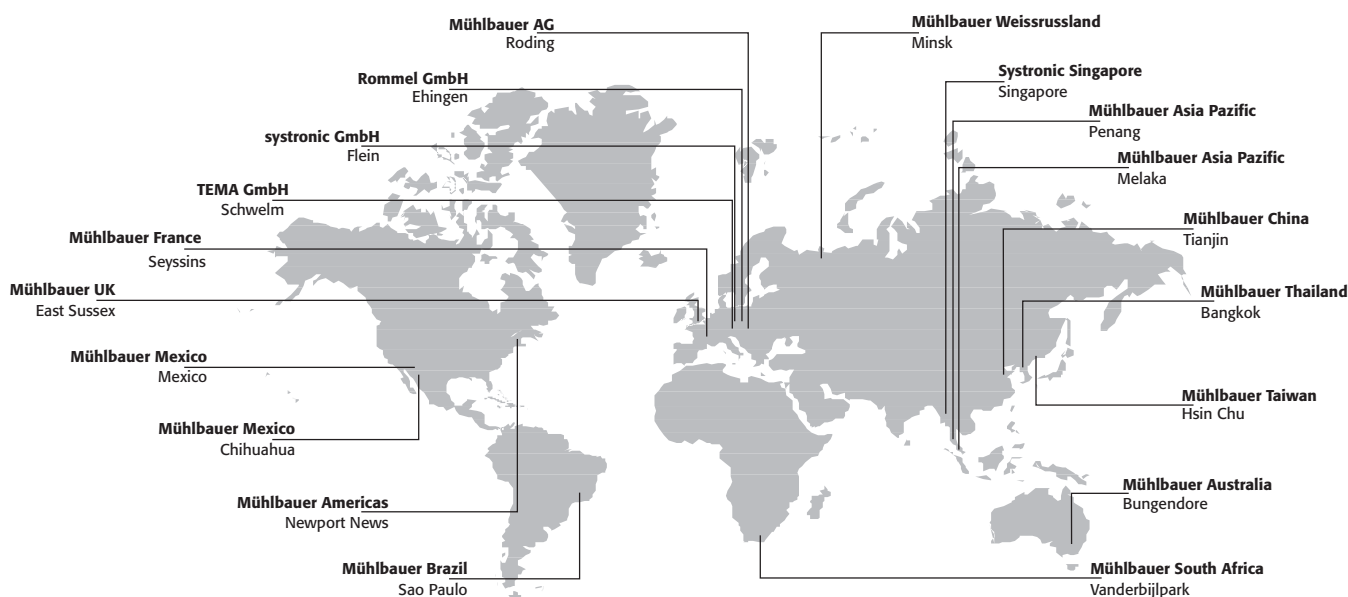
<b>MÜHLBAUER GROUP</b>		<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>FROM CONSOLIDATED STATEMENT OF INCOME</b>						
SALES BY APPLICATIONS	TEUR	91,317	89,422	110,322	71,026	53,910
SMART IDENTIFICATION	TEUR	50,651	47,781	48,552	34,984	23,226
SEMICONDUCTOR RELATED PRODUCTS	TEUR	22,103	24,464	42,427	22,159	17,880
BOARD HANDLING	TEUR	6,641	7,366	8,616	5,421	7,336
PRECISION PARTS & SYSTEMS	TEUR	12,085	10,116	10,981	8,597	5,203
OTHER	TEUR	(163)	(305)	(254)	(135)	265
SALES BY REGIONS	TEUR	91,317	89,422	110,322	71,026	53,910
GERMANY	TEUR	43,369	38,059	33,545	27,244	25,098
OTHER EUROPE	TEUR	26,799	24,422	41,482	23,559	11,992
AFRICA	TEUR	179	947	1,410	53	2,807
NORTH AMERICA	TEUR	3,392	2,545	6,478	5,598	4,126
SOUTH AMERICA	TEUR	852	3,740	2,592	1,324	1,362
ASIA	TEUR	16,766	19,479	25,016	13,356	8,242
AUSTRALIA	TEUR	123	535	53	27	18
OTHER	TEUR	(163)	(305)	(254)	(135)	265
<b>FROM CONSOLIDATED BALANCE SHEETS</b>						
TOTAL ASSETS AND LIABILITIES	TEUR	129,432	137,942	144,934	128,791	125,480
TOTAL CURRENT ASSETS	TEUR	79,835	83,626	93,293	85,849	81,201
TOTAL FINANCIAL ASSETS	TEUR	7,383	7,749	10,762	9,819	13,100
TOTAL FIXED ASSETS	TEUR	41,189	45,169	38,870	31,903	29,837
TOTAL INTANGIBLE GOODS	TEUR	1,025	1,398	2,009	1,220	1,342
TOTAL CURRENT LIABILITIES	TEUR	20,254	23,138	27,344	20,665	24,746
TOTAL LONG-TERM LIABILITIES	TEUR	10,925	12,980	13,275	13,297	13,593
TOTAL SHAREHOLDERS' EQUITY	TEUR	98,253	101,824	104,315	94,829	87,141
FIXED ASSETS						
CAPITAL EXPENDITURES	TEUR	2,338	13,099	14,137	7,825	11,627
DEPRECIATION AND AMORTIZATION	TEUR	6,656	7,319	6,216	5,443	5,133
<b>FROM CONSOLIDATED STATEMENTS OF CASHFLOWS</b>						
CASH PROVIDED BY (USED FOR)						
OPERATING ACTIVITIES	TEUR	23,398	15,159	15,307	(6,037)	(949)
CASH USED FOR INVESTING ACTIVITIES	TEUR	(1,864)	(9,872)	(4,701)	(751)	(37,412)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	TEUR	(10,243)	(6,840)	(8,558)	(6,335)	52,402
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS <sup>1)</sup>	TEUR	11,291	(1,553)	2,048	(13,123)	14,041
<b>HUMAN RESOURCES</b>						
NUMBER OF EMPLOYEES	NUMBER	1,274	1,299	1,206	898	756
SKILLED WORKERS	NUMBER	521	574	542	392	345
EXECUTIVES	NUMBER	484	464	403	296	250
TRAINEES AND PART-TIMERS	NUMBER	269	261	261	210	161
<b>MÜHLBAUER HOLDING AG &amp; Co. KGaA</b>						
TOTAL STOCK CAPITAL <sup>2)</sup>	TEUR	18,811	18,811	18,805	18,786	18,765
TOTAL ISSUED AND OUTSTANDING SHARES <sup>3)</sup>	THOUSAND	14,696	14,696	14,692	14,677	14,660
DIVIDEND	EUR	<sup>4)</sup> 0.30	0.30	0.35	0.30	0.23
STOCK PRICE (YEAR-END CLOSE)	EUR	10.30	29.60	84.00	41.00	33.52
MARKET CAPITALIZATION (YEAR-END CLOSE) <sup>3)</sup>	TEUR	151,369	435,004	1,234,128	601,757	491,403

1) LESS EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

2) COMMON STOCK AND FIXED CAPITAL CONTRIBUTION OF THE PERSONALLY LIABLE SHAREHOLDER

3) OBTAINED ON TOTAL STOCK CAPITAL

4) SUBJECT TO THE CONSENT OF THE ANNUAL GENERAL MEETING



## KEY FIGURES (US-GAAP)

		2002	2001	2000	1999	1998
<b>FROM CONSOLIDATED STATEMENTS OF INCOME</b>						
SALES	TEUR	91,317	89,422	110,322	71,026	53,910
GROSS MARGIN OF SALES	TEUR %	29,947 32.8	28,664 32.1	44,660 40.5	31,965 45.0	22,508 41.8
EBITDA <sup>1)</sup> OF SALES	TEUR %	12,635 13.8	15,802 17.7	30,210 27.4	20,627 29.0	15,925 29.5
EBIT <sup>2)</sup> OF SALES	TEUR %	5,979 6.5	8,483 9.5	23,994 21.7	15,184 21.4	10,792 20.0
EBT <sup>3)</sup> OF SALES	TEUR %	4,790 5.2	6,563 7.3	25,080 22.7	17,493 24.6	10,727 19.9
NET EARNINGS OF SALES	TEUR %	3,506 3.8	5,551 6.2	17,697 16.0	13,824 19.5	8,533 15.8
TOTAL PERSONAL COSTS	TEUR	38,093	37,888	39,236	27,984	23,116
EARNINGS PER SHARE	EUR	0.20	0.35	1.02	0.68	0.36
RETURN ON EQUITY (BEFORE TAX)	%	4.9	6.4	24.0	18.4	12.3
RETURN ON CAPITAL EMPLOYED <sup>5)</sup>	%	6.8	8.0	24.3	18.4	13.4
<b>FROM CONSOLIDATED BALANCE SHEETS</b>						
WORKING CAPITAL <sup>6)</sup>	TEUR	45,260	59,215	57,776	49,321	27,166
WORKING CAPITAL INTENSITY <sup>7)</sup>	%	49.6	66.2	52.4	69.4	50.4
CAPITAL EMPLOYED <sup>8)</sup>	TEUR	87,474	105,782	98,656	82,444	80,500
NET DEBT	TEUR	9,099	(5,202)	(3,493)	(7,937)	4,483
EQUITY RATIO	%	75.9	73.8	72.0	73.6	69.4
<b>FROM CONSOLIDATED STATEMENTS OF CASH FLOWS</b>						
FREE CASH FLOW OF SALES	TEUR %	20,519 22.5	(2,156) (2.4)	(63) (0.1)	(9,018) (12.7)	(8,612) (16.0)

1) EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION

2) EARNINGS BEFORE INTEREST AND TAX

3) EARNINGS BEFORE TAX

4) INCL. EXTRAORDINARY GAIN FROM PARTICIPATION IN COMPANIES

5) ROCE = EBIT/CAPITAL EMPLOYED

6) WORKING CAPITAL = TRADE RECEIVABLES + INVENTORIES + PREPAID EXPENSES + OTHER CURRENT ASSETS  
- TRADE LIABILITIES - PREPAYMENTS RECEIVED - OTHER CURRENT LIABILITIES

7) WORKING CAPITAL INTENSITY = WORKING CAPITAL/SALES

8) CAPITAL EMPLOYED = WORKING CAPITAL + TOTAL FIXED ASSETS

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at a glance

THE FOLLOWING DETAILS REFER TO THE GROUP. THE SEPARATE REPORT FOR THE MÜHLBAUER HOLDING AG & CO. KGAA CAN BE OBTAINED FROM THE COMPANY. THE ENGLISH TRANSLATION IS FOR THE CONVENIENCE OF THE READER ONLY. THE ORIGINAL GERMAN VERSION IS THE LEGALLY BINDING TEXT.

THE WORLD IS CHANGING DAY BY DAY.



TECHNOLOGY

SPEED

MARKETS

PEOPLE'S DEMANDS

CHANGE EVEN MORE QUICKLY.

THE QUALIFIED FULFILMENT OF THESE DEMANDS REQUIRES INTELLIGENT AND CONTINUOUS CHANGE.

EVOLUTION, NOT REVOLUTION.

CHANGES DO NOT TAKE PLACE IN A BIG WAY.

THEY START ON A SMALL SCALE.

ALWAYS IN A PERSONAL WAY.

WITH ONE FIRST STEP.

OFTEN THE MOST DECISIVE STEP.

one step ahead



JOSEF MÜHLBAUER, CEO

**LADIES AND GENTLEMEN, SHAREHOLDERS, STAFF, PARTNERS AND FRIENDS,**

MÜHLBAUER HAS ALWAYS STOOD OUT FROM THE CROWD WITH ITS ABILITY TO REACT QUICKLY AND EFFECTIVELY TO THE DIPS IN ECONOMIC CYCLES AND SIMULTANEOUSLY TO CONTINUE INVESTING IN THE FUTURE — AND THIS YEAR WAS NO EXCEPTION IN THIS RESPECT. WHILST THE GLOBAL ECONOMY WAS BUSY CONSTANTLY REVISING ITS GROWTH FORECASTS DOWNWARDS, WE WERE FURTHER STRENGTHENING OUR POSITION AS A MARKET AND TECHNOLOGY LEADER IN THE WORLD OF ID AND POSITIONING THE COMPANY TO PREPARE FOR FUTURE POTENTIAL FOR GROWTH.

2002 WAS MARKED IN PARTICULAR BY ORGANIZATIONAL RESTRUCTURING, THE OPENING-UP OF NEW MARKETS AND THE COMPLETION OF VARIOUS PRODUCT RANGES WITH THE ADDITION OF FIRST CLASS SYSTEMS. AS A ONE-STOP PROVIDER OF CONVINCING AND SOPHISTICATED COMPLETE SOLUTIONS, WE HAVE ACHIEVED AN ATTRACTIVE POSITION AMONGST THE COMPETITION AND SUBSTANTIALLY STRENGTHENED OUR FINANCIAL POSITION VIA AGGRESSIVE WORKING CAPITAL MANAGEMENT.

THE INTERNATIONAL POLITICAL SITUATION WILL ACCELERATE THE INTRODUCTION OF DECENTRALIZED SECURITY SOLUTIONS IN MANY COUNTRIES — FOR PASSENGER IDENTIFICATION, FOR INSTANCE. WE WILL CONTINUE TO ACCOMPANY THIS EXPANSION WITH INNOVATIVE TURNKEY AUTOMATION SOLUTIONS IN OUR ROLE AS A GLOBAL PARTNER IN THE MANUFACTURE OF ID CARDS. THE GOVERNMENT OF HONG KONG HAS INTRODUCED A MULTI-APPLICATION CHIP CARD WHICH FUNCTIONS AS AN IDENTITY CARD, DRIVER'S LICENCE, PAYMENT CARD AND ALSO CONTAINS BIOMETRIC DATA. WE EXPEDITED THE PROJECT WITH THE SUPPLY OF POWERFUL, HIGH-VOLUME PERSONALIZATION SYSTEMS. THERE IS ALSO CURRENTLY A LARGE DEMAND IN THE SMART LABELS MARKET AND A PROMISING RANGE OF APPLICATIONS IN PRODUCT IDENTIFICATION. WE ARE SUPPORTING THIS DEVELOPMENT WITH TECHNOLOGICALLY SOPHISTICATED COMPLETE SOLUTIONS.

WE HAVE STRATEGICALLY EXPANDED OUR TECHNOLOGICAL CAPABILITIES BY MEANS OF ACQUISITIONS – THIS EXTENDS THE VALUE CHAIN AND ACTIVATES NEW MARKET POTENTIAL. WITH THE ACQUISITION OF SYSTRONIC, WE NOW HAVE DIRECT ACCESS TO COATING TECHNOLOGY AND ARE DEVELOPING THE PROCESS CHAIN IN SMART LABEL PRODUCTION. FURTHERMORE, THE INTEGRATION OF THE VISION SYSTEM SPECIALIST TEMA ENABLED US TO EXTEND OUR COMPETENCE IN THE OPTICAL INSPECTION OF PRODUCTION PROCESSES.

THE MOST IMPORTANT ELEMENT OF ALL IS OUR INTERNATIONAL CUSTOMER BASE, WHICH DRIVES US AND WHICH RELIES ON OUR TECHNOLOGICAL KNOW-HOW AND CONSULTANCY COMPETENCE IN STRATEGIC ALLIANCES AND DEVELOPMENT PROJECTS. WE WILL THEREFORE CONTINUE TO BOOST THE PROCESSES IN ORDER TO BETTER POSITION THE COMPANY IN THE INTERNATIONAL MARKETS AND TO ENHANCE OUR COMPETITIVENESS TO AN EVEN GREATER EXTENT. WE ARE INVESTING A GREAT DEAL OF ENERGY IN OUR RESEARCH AND DEVELOPMENT ACTIVITIES AND INVESTMENTS IN PROMISING FUTURE PROJECTS.

STRATEGIC INVESTMENTS IN THE FUTURE HAVE MADE US A STRONG COMPETITOR. WE OWE THIS POSITIONING TO THE TRUST OF OUR SHAREHOLDERS, CUSTOMERS AND BUSINESS ALLIES AND IT MOTIVATES ALL OF US, FROM TRAINEES TO MANAGERS, TO LIVE UP TO OUR MISSION. AND IF THIS MEANS FOLLOWING NEW PATHS AND OPENING UP NEW MARKETS, WE WILL DO JUST THAT.

I WOULD BE DELIGHTED IF YOU WOULD CONTINUE TO ACCOMPANY US, AND THANK YOU FOR YOUR SUPPORT AND THE TRUST YOU HAVE PLACED IN US.

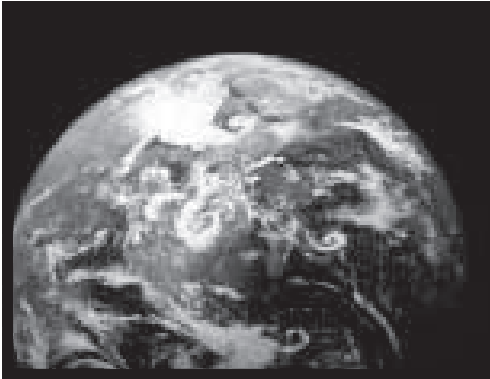
RODING, FEBRUARY 2003

YOURS SINCERELY,

A handwritten signature in black ink, appearing to read 'Josef Mühlbauer', written in a cursive style.

JOSEF MÜHLBAUER  
CHIEF EXECUTIVE OFFICER

**FIGURES. FACTS. DATA.**



**6.3**  
**BILLION**

**THE SMALLER THE WORLD, THE GREATER OUR NEED FOR SECURITY.**

IN THE FOLLOWING MINUTE THE WORLD POPULATION WILL GROW BY 150, IN THE NEXT HOUR BY 9,000, IN THE COURSE OF TODAY BY 216,000, AND IN THIS YEAR BY MORE THAN 5 MILLION PEOPLE. THE SMALLER THE WORLD, THE GREATER THE SECURITY REQUIREMENTS FOR EACH AND EVERY CITIZEN OF THIS EARTH. BIOMETRIC IDENTITY CARD PROCEDURES PLAY AN IMPORTANT PART HERE. EVEN TODAY, MÜHLBAUER PROVIDES BRAND-NEW READY-TO-USE PRODUCTION SYSTEMS.

**EACH DAY THE WORLD POPULATION INCREASES BY 216,000 PEOPLE.  
AND WITH THEM OUR SECURITY REQUIREMENTS.**

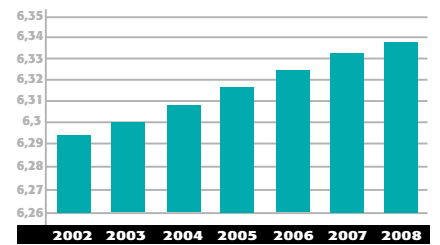
IN FUTURE IT WILL BE POSSIBLE TO IDENTIFY GOODS ALL OVER THE WORLD. SMART LABELS ARE REVOLUTIONIZING THE LOGISTICS DEPARTMENTS. AS A FURTHER DEVELOPMENT OF THE BAR CODE THEY CAN TRANSMIT AND RECEIVE DATA QUICKLY AND PRECISELY — EVEN OVER DISTANCES, WITHOUT DIRECT CONTACT, AND ONE HUNDRED PER CENT FREE OF ERROR.

**“THE MARKET FOR OUR PRODUCTS IS GETTING BIGGER EVERY DAY.”**

SMART LABELS CAN OPTIMIZE THE LOGISTICS OF PARCEL SERVICES AND TRANSPORT COMPANIES, SIMPLIFY THE CONTROLLING OF FLIGHT LUGGAGE, AND RENDER TEXTILES WITH HIGH-RANKING BRAND NAMES FREE FROM THEFT AND FORGERY.

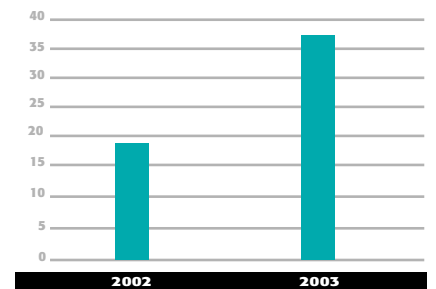
THE POSSIBILITIES ARE ALMOST UNLIMITED. MÜHLBAUER, AN INNOVATIVE BEARER OF EXPERT KNOWLEDGE, MAKES READY-TO-USE AUTOMATIC SYSTEMS FOR EVERY THINKABLE KIND OF LABEL.

**Population growth (billion)**



Source: University of Freiburg

**Need for security  
US budget of homeland security in billion USD**



Source: Government of the United States (2003)





THE FUTURE MARKET

the market is growing

**LOOK INTO MY EYES, AND I'LL TELL YOU WHO YOU ARE.**



THE NATURAL AGEING PROCESS AND MEDICAL OPERATIONS CAN MAKE UNDENIABLE CHANGES IN YOUR APPEARANCE. ONLY A FEW FEATURES REMAIN UNCHANGEABLE ALL YOUR LIFE.

IN FUTURE IT WILL BE POSSIBLE TO REGISTER ON A CHIP CARD THE DIGITALIZED FEATURES OF YOUR IRIS, YOUR FINGER-PRINT, OR THE BACK OF YOUR HAND. THAT WOULD MAKE PASSPORT CHECKS SUPERFLUOUS. TRAVELLERS WOULD TO GO UP TO A CAMERA AND PLACE THEIR IRIS-CHIP-CARD INTO A MACHINE, FOR INSTANCE. IF THE BIO-DATA AGREE WITH THOSE ON THE PLASTIC CARD, THE WAY IS CLEAR. IDENTITY CARDS CAN BE FORGED. EYES AND SKIN CANNOT.

**YOUR UNCHANGEABLE FEATURES GIVE YOU SECURITY, CONFIDENCE, AND TRUST.**

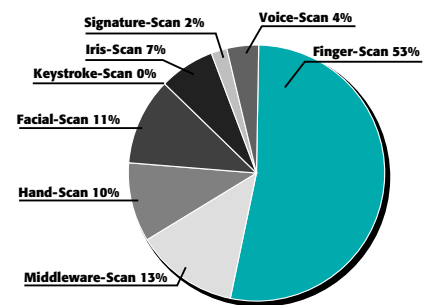
IN AMSTERDAM 4,000 PASSENGERS ARE CURRENTLY TAKING PART IN A LARGE-SCALE EXPERIMENT FOR BIOMETRIC PASSPORT CHECKS. THE DUTCH MINISTRY OF JUSTICE IS ALREADY PLANNING TO MAKE A GENERAL CHANGE FOR PASSPORTS AND IDENTITY CARDS. THE STORY OF THE SUCCESS IN AMSTERDAM HAS ALREADY SPREAD AROUND THE GLOBE: US SECURITY SYSTEMS COULD ALSO BENEFIT FROM THIS SYSTEM. A SYSTEM THAT IS AT THE DISPOSAL OF MÜHLBAUER CUSTOMERS.

IN SYDNEY AIRPORT TOO BIOMETRIC APPLICATIONS ARE CURRENTLY BEING TESTED. AN EXPERIMENT WITH BIOMETRIC SMART CARDS IS ALSO RUNNING AT LONDON'S GATWICK AIRPORT.

THIS YEAR THE WORLD-WIDE SALE OF RECOGNITION SYSTEMS IS GOING TO BREAK THROUGH THE BILLION-DOLLAR BORDER, EXPERTS SAY.

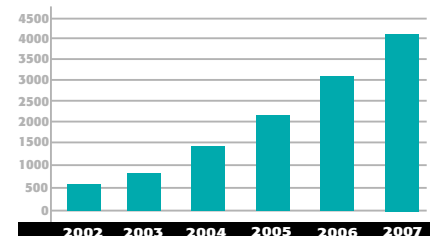
(SOURCE: BIOMETRIC TECHNOLOGIE TODAY / FROST & SULLIVAN)

Technologies of Biometrics in % in 2001

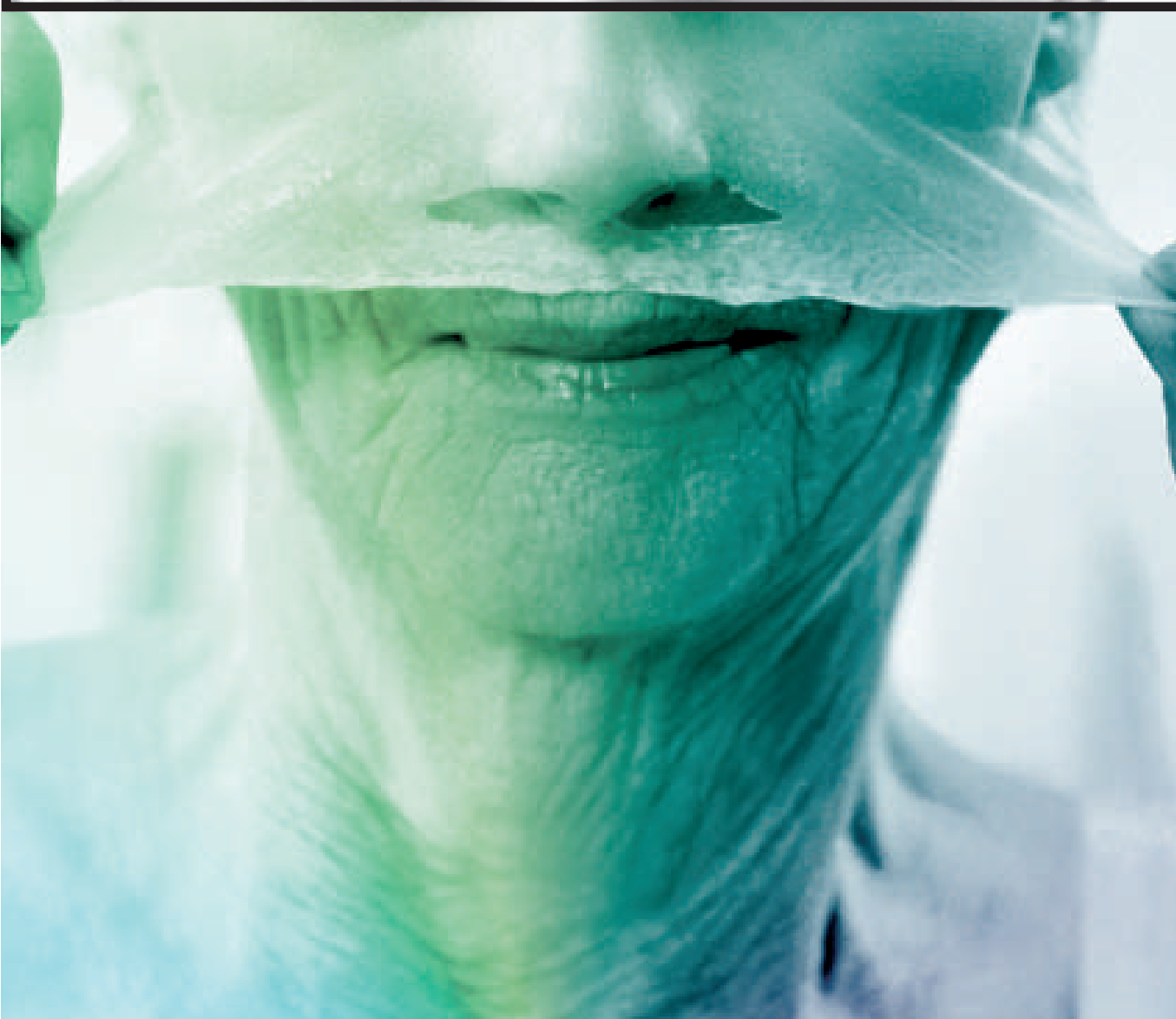
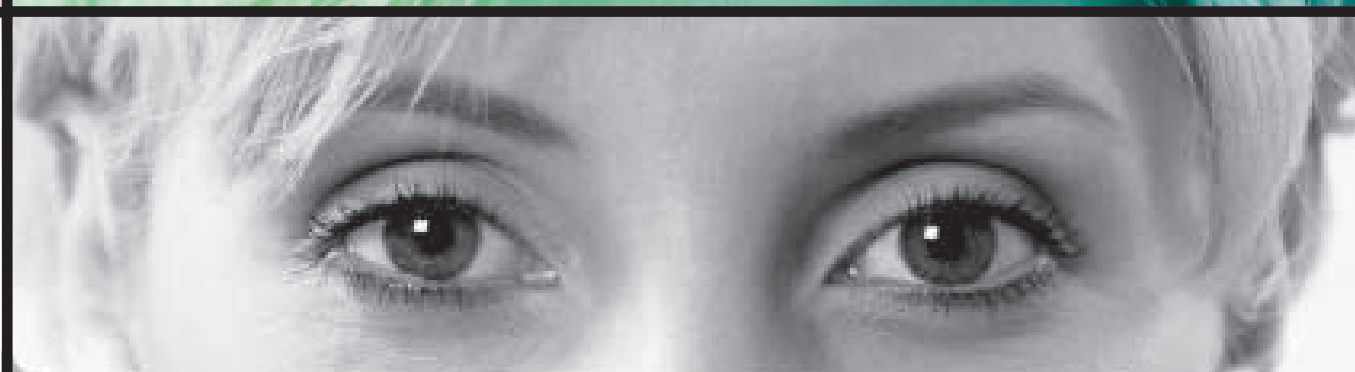


Source: Biometric Group, 2002

Biometric market worldwide in mill. USD



Source: Biometric Group, 2002



BIOMETRIC PROCEDURES

biometrics

**THE CARDS ARE BEING SHUFFLED AGAIN. BY US AND BY OUR CUSTOMERS.**



OPEN YOUR WALLET. YOU'LL FIND A WHOLE HOST OF INDIVIDUAL DOCUMENTS THERE. EACH ONE BEARS YOUR OWN VERY PERSONAL DATA.

ALL THE LEADING MANUFACTURERS OF CREDIT CARDS, INSURANCE CARDS, MULTI-MEDIA CARDS, IDENTITY CARDS, AND DRIVING LICENCES MAKE THEIR PRODUCTS WITH MÜHLBAUER HIGH-TECH SYSTEMS.

A GREAT NUMBER OF ALL THE EUROPEAN BANK CARDS HAVE ALREADY BEEN DELIVERED BY OUR CUSTOMERS.

AND THE POTENTIAL IS NOWHERE NEAR BEING EXHAUSTED. IN THE FIELD OF CARD PERSONALIZATION THE GLOBAL SECURITY DEMANDS ARE RISING. IN ORDER TO BE ABLE TO GUARANTEE ITS POPULATION THE GREATEST POSSIBLE DATA PROTECTION, EACH COUNTRY IS DOING ITS BEST TO PRODUCE AND TO PERSONALIZE ITS OWN CARDS IN ITS OWN FACTORIES. MÜHLBAUER, BEING A GENERAL BUSINESS COMPANY, IS A STRONG SUPPORTER OF THIS PROCEDURE. FROM THE INITIAL IDEA RIGHT UP TO THE DELIVERY OF READY-TO-USE PRODUCTION-SYSTEMS, MÜHLBAUER — AS ONLY COMPANY THROUGHOUT THE WORLD — COVERS THE ENTIRE RANGE.

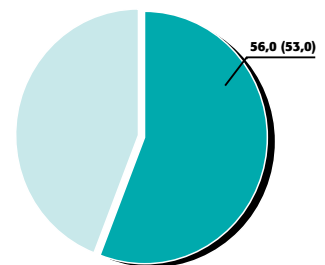
**“SMART CARDS – MADE BY SMART PEOPLE – LOCALLY”**

IN THE FIELD OF BIOMETRIC DATA SAVING IN PARTICULAR, EXPERTS ARE FORECASTING AN INCREASE IN GROWTH OF OVER 1.3 BILLION DOLLARS<sup>1)</sup> IN THE NEXT FEW YEARS.

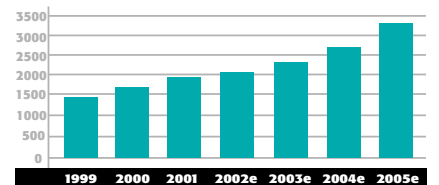
MOREOVER, THE APPLICATION POSSIBILITIES INCREASE WITH THE SAVING CAPACITY: INTELLIGENT HEALTH CARDS CAN CARRY THEIR OWNER'S ENTIRE MEDICAL HISTORY INCLUDING MEDICATION, X-RAY PHOTOGRAPHS AND OTHER REPORTS; BANKING TRANSACTIONS COULD BE CARRIED OUT AT HOME ON YOUR OWN COMPUTER. ON THE BASIS OF BIOMETRIC RECOGNITION FEATURES FORGER-FREE KEY CARDS COULD ALLOW ACCESS TO COMPUTERS. THE ELECTRONIC SIGNATURE BRINGS ANOTHER IMPORTANT SECURITY ASPECT INTO PLAY. INNOVATIONS WHICH MAKE EVERYBODY'S LIFE SIMPLER, SAFER, AND MORE COMFORTABLE. THE MÜHLBAUER STAFF ARE WORKING EVERY DAY TO JOIN UP THE MARKETS.

THERE ARE NO LIMITS TO THE POSSIBILITIES. FOR US, THAT MEANS DEVELOPING USEFUL INNOVATIONS WITH OUR CLIENTS AND EXTENDING THE POSITION OF THE WORLD'S MARKET-LEADER IN A CAREFULLY PLANNED WAY.

Percentage of sales Smart ID (previous year)



Market development of Smart Cards worldwide in million units



Source: BNP Paribas, April 2002

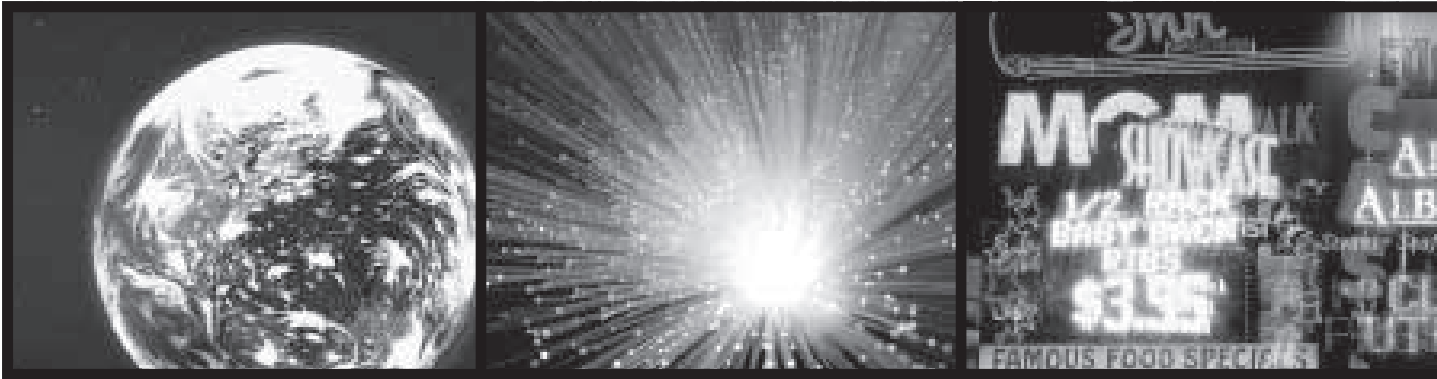
<sup>1)</sup> SOURCE: IDC, 2000



SMART CARDS

smart cards

**MULTIMEDIA CARDS – TOMORROW’S BILLION MARKET.**

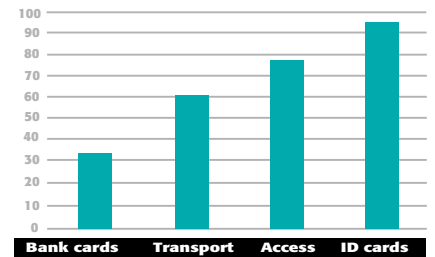


MILLIONS OF PEOPLE USE A MOBILE PHONE EVERY DAY. MOST OF THEM JUST TO TELEPHONE AND TO SEND AN SMS. BUT SOON THE THIRD GENERATION OF CELLULAR RADIO WILL BE WITH US, THE “UNIVERSAL MOBILE TELECOMMUNICATIONS SYSTEM”, IN SHORT UMTS.

A GLANCE INTO THE FUTURE: YOU WANT TO GO TO THE CINEMA. BUT WHICH FILM? WITH UMTS YOU CAN WATCH CINEMA TRAILERS IN TV QUALITY ON YOUR INTERNET-RECEIVING MOBILE PHONE. WITH A TRANSFER RATE OF 2 MEGABYTES PER SECOND, WHICH IS TWICE DSL-SPEED.

OR YOU COULD SEND A PHOTO TAKEN BY YOUR MOBILE PHONE DIRECT AS AN E-MAIL – IN LESS THAN 3 SECONDS.

**Market development of individual applications**  
Cumulated annual growth rate 2001/2005 in %



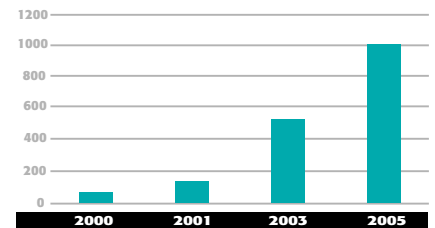
Source: BNP Paribas, April 2002

**“THE FUTURE HAS BEGUN. AND WE ARE HELPING TO SHAPE IT!”**

MULTIMEDIA CARDS ARE IDEAL DATA SAVERS FOR UMTS MOBILES, AND THE BILLION MARKET OF TOMORROW.

MÜHLBAUER DELIVERS THE NECESSARY PRODUCTION SYSTEMS. READY-TO-USE.

**Development of memory capacity (MB)**



Source: Infineon Technologies, 2001

**PASSED A THOUSAND TIMES – AND A THOUSAND TIMES NOTHING WAS TOUCHED.**



THE FUTURE MARKET

DO YOU SKI? THEN YOU WILL KNOW THE UNPLEASANT SITUATION WHEN YOU HAVE TO FISH YOUR SOGGY SKI-LIFT TICKET OUT OF YOUR ANORAK POCKET WITH DAMP FINGERS EVERY TIME YOU WANT TO GO ON THE LIFT.

CONTACTLESS TICKETS PUT AN END TO THAT. IN FUTURE YOUR TICKET CAN BE READ WITHOUT DIRECT CONTACT AS YOU WALK PAST. YOUR HANDS REMAIN FREE, AND ABOVE ALL, WARM. FOR THE LIFT ORGANIZERS THIS MEANS FEWER QUEUES, LESS PERSONNEL COSTS, MORE BUSINESS, AND HAPPIER CUSTOMERS.

LOCAL PUBLIC TRANSPORT SERVICES CAN ALSO BENEFIT FROM THE CONTACTLESS CARDS. MONTHLY TICKETS CAN BE BOUGHT ON ANY DAY. THE CUSTOMER WHO DOES NOT KNOW HIS WAY ROUND NO LONGER NEEDS TO BE FAMILIAR WITH THE CHARGES – THE BOOKING MACHINE DEDUCTS THE CORRECT AMOUNT AND EXPOSES THOSE WANTING TO TRAVEL WITHOUT A TICKET. THIS USER-FRIENDLY SYSTEM INCREASES THE NUMBER OF PASSENGERS, BESIDES SAVING TIME AS WELL AS PERSONNEL AND MAINTENANCE COSTS.

**MÜHLBAUER HAS DEVELOPED THE LEADING HIGH-TECH SYSTEMS  
FOR THE PRODUCTION OF CONTACTLESS CARDS.**

IN SOUTH KOREA THERE ARE ALREADY 4 MILLION CONTACTLESS BUS TICKETS IN USE. IN ASIA, EUROPE, AND AMERICA THE INTEREST IN ELECTRONIC TICKET SYSTEMS IS GROWING RAPIDLY.

MÜHLBAUER IS ALREADY DELIVERING PRODUCTION SYSTEMS THAT ARE READY TO GO INTO MASS PRODUCTION.

smart cards

## WHAT DO YOU NEED FOR INTELLIGENT EVOLUTION?



HAVE YOU EVER SEARCHED IN A LIBRARY FOR A BOOK THAT WAS NOT STANDING IN ITS PROPER PLACE? YOU NEVER FIND IT. SMART LABELS COULD PUT THE SHELVES IN ORDER. THESE INTELLIGENT LABELS CAN WITHOUT CONTACT RECEIVE AND TRANSMIT DATA OVER A DISTANCE WITH A READING PANEL. IT WILL BE POSSIBLE TO LOCALIZE EVERY BOOK ONE HUNDRED PER CENT, EVERY TIME, IF IT IS EQUIPPED WITH A SMART LABEL.

ANOTHER ADVANTAGE: INFORMATION ALREADY SAVED CAN BE ALTERED. THE SMART LABEL IDENTIFICATION IS BASED ON THIS POSSIBILITY. WHEN THE READER LEAVES THE LIBRARY, HE GOES THROUGH A READING AREA — THE BOOKS ARE LISTED TOGETHER WITH HIS IDENTITY CARD AND ARE REGARDED AS LENT OUT. THE CUSTOMER SAVES TIME, AND THE LIBRARY MONEY.

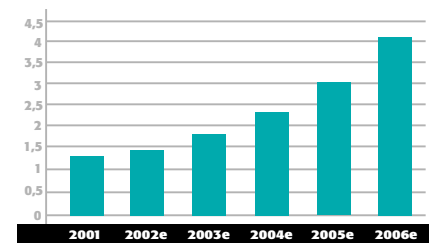
### THESE ARE NOT VISIONS. THEY ARE THE REALITY OF TODAY AND THE MARKET OF TOMORROW.

THIS EXAMPLE CAN OF COURSE BE TRANSFERRED TO OTHER BRANCHES IN LIFE TOO. TRANSPORT COMPANIES AND THEIR PRINCIPALS CAN ESTABLISH THE LOCATION OF VALUABLE DELIVERIES AT ALL TIMES. GOODS CAN BE SORTED OUT MORE QUICKLY IN THE LOGISTICS AND STORAGE DEPARTMENTS. STOCKTAKING IS SIMPLIFIED. ITEMS OF LUGGAGE AT AIRPORTS ARE IDENTIFIED QUICKLY AND EXACTLY. TEXTILES CAN BE BETTER PROTECTED FROM BRAND PIRATES.

### MÜHLBAUER DELIVERS COMPLETE SOLUTIONS FOR THE MASS PRODUCTION OF THE MOST VARIED TYPES OF LABELS.

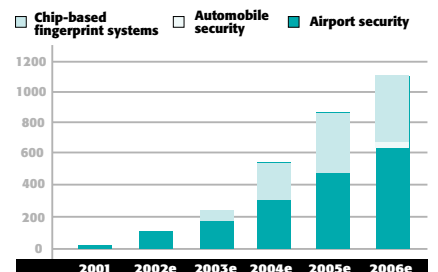
TODAY A GREAT MANY PEOPLE ARE INVESTING IN SMART LABELS — PARCEL SERVICES, TRANSPORT COMPANIES, WHOLESALERS AND RETAILERS, PHARMACEUTICALS AND COSMETICS PRODUCERS, AND BRAND NAMES FROM THE CLOTHES AND FASHION BRANCHES. OPTIMAL PROTECTION OF YOUR PRODUCTS GUARANTEES YOU LOWER COSTS AND A HIGHER TURN-OVER. STATE BOUNDARIES AND AIRPORTS CAN ALSO BE MADE SAFER THROUGH SMART LABELS.

Worldwide RFID market in billion USD



Source: Frost & Sullivan (06 resp. 08/2002)

Market development of RFID applications in million USD



Source: Frost & Sullivan (06 resp. 08/2002)





SMART LABELS



smart labels

**FULL PROGRAM IN THE SEMICONDUCTOR INDUSTRY.**



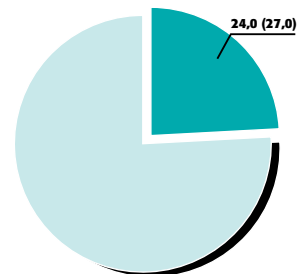
HIGHER CAPACITY, FASTER, EXACTER – AND SMALLER – THE SEMICONDUCTOR INDUSTRY.

THE PERFECT SOLUTION EVEN QUICKER, REALIZING THE CUSTOMER’S WISHES EXACTLY IN A HIGH-VALUE QUALITY OF WORK – THESE ARE CHALLENGES THAT MÜHLBAUER TAKES ON DAY AFTER DAY. ALSO, NEW CRITERIA ARE ALWAYS BEING SET UP FOR THE REQUIREMENTS OF THE FINAL PRODUCT. THE ELECTRONIC COMPONENT MUST BE SMALLER, LIGHTER, AND MORE EFFICIENT IN ORDER TO SATISFY THE ULTIMATE CUSTOMER’S DEMANDS. ONE SUCH EXAMPLE IS THE MOBILE PHONE WITH THE FUNCTIONS OF CAMERA, DICTAPHONE, AND E-MAIL TRANSFER.

THIS ALSO INVOLVES NEW TECHNOLOGY FOR THE CREATION OF SUCH COMPONENTS.

BECAUSE OF THE VERY BROAD RANGE OF USES, THE CUSTOMER BASE IS BROADLY DIVERSIFIED, INVOLVING FRONT-END COMPANIES (WAFER MANUFACTURERS), SUBCON COMPANIES (PAY PRODUCTION), RIGHT UP TO THE MANUFACTURERS OF THE ULTIMATE PRODUCTS (CAR INDUSTRY, CONSUMER GOODS INDUSTRY). THE ADVANTAGE IS THAT THE HIGHEST QUALITY IS PLACED AT THE DISPOSAL OF THE SUBSEQUENT PROCEDURE.

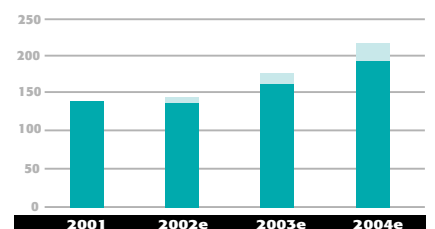
Sales share semiconductor related products 2002 (previous year)



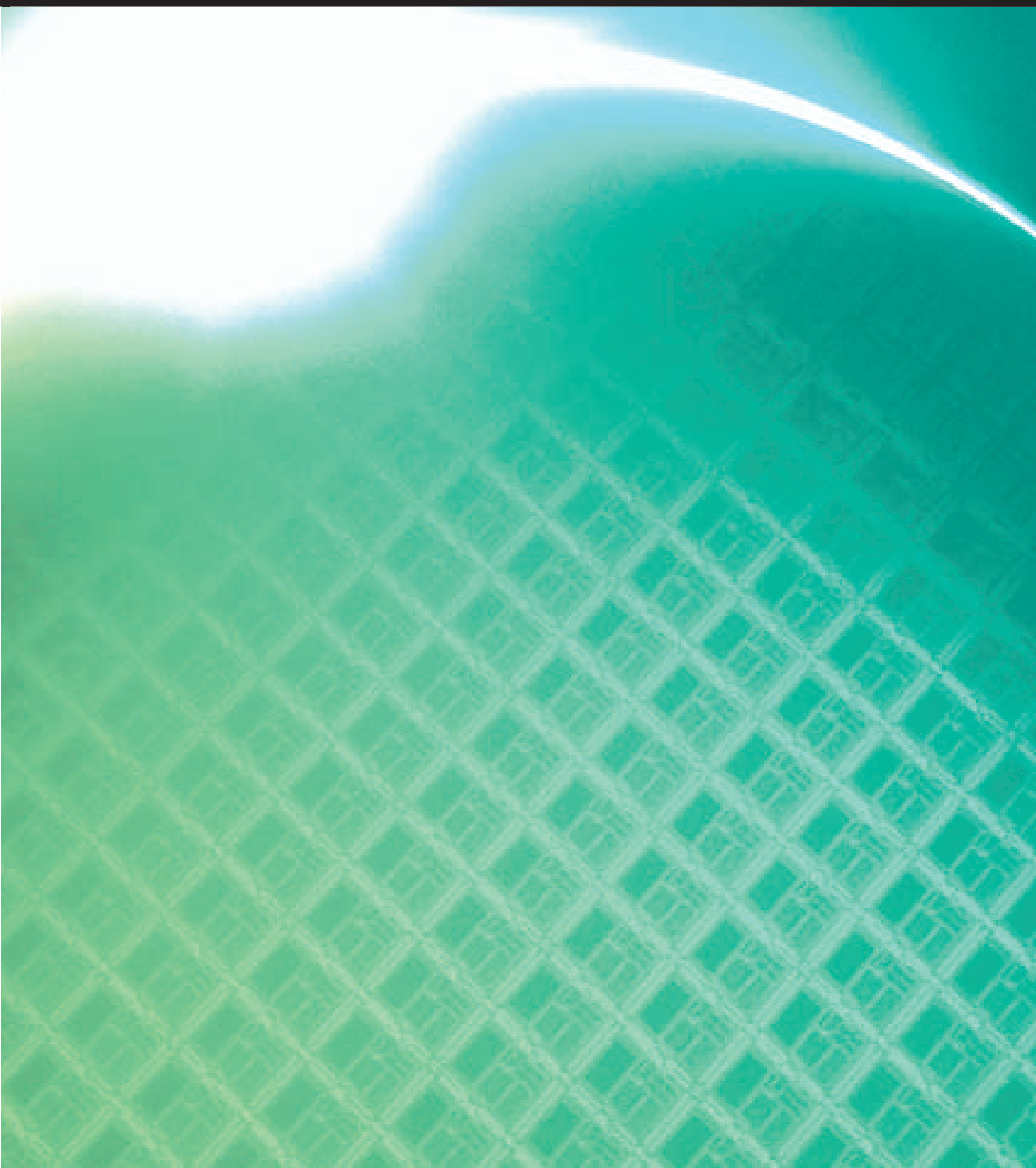
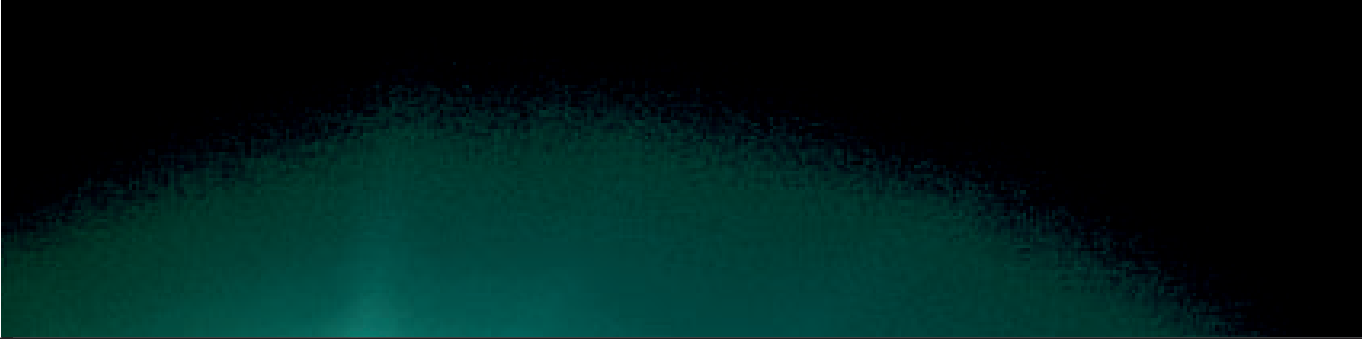
**“WE FEEL HAPPIEST WHERE HIGH SPEEDS ARE REQUIRED  
IN THE SMALLEST SPACE.”**

IN ORDER TO BE ABLE TO OFFER THE PERFECT KEY SOLUTION, MÜHLBAUER HAS FOR EXAMPLE DEVELOPED THE COMPLETE FLIP CHIP ASSEMBLY LINE FOR IC MODULES. PROCESSES SUCH AS PREPARING SILICON - OF THE SIZE OF A GRAIN OF SALT AND WITH THE MATERIAL SENSITIVITY OF GLASS - IN THE FLIP CHIP PROCEDURE, THE ELECTRIC FUNCTIONALITY TEST, AND AN OPTICAL INSPECTION CAN BE OFFERED TO MÜHLBAUER’S CUSTOMERS TODAY – FOR THE REQUIREMENTS OF TOMORROW.

Development of worldwide semiconductor market in billion USD



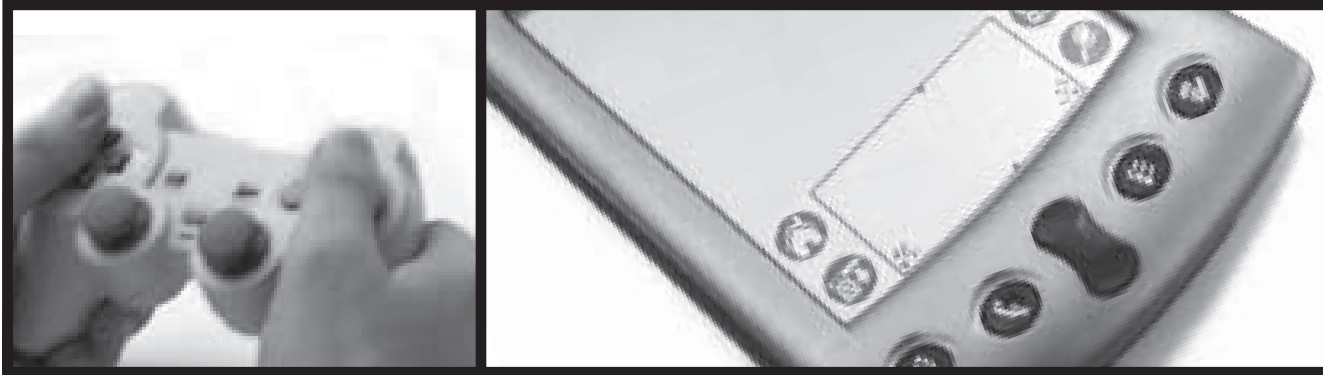
Source: Infineon Technologies, 11/2002 and WSTS



SEMICONDUCTOR  
RELATED PRODUCTS

semiconductor

## **“TRACEABILITY” THE COMPLETE SOLUTION FOR UNMISTAKABLE PRINTED CIRCUIT BOARDS (PCB)**



CARS HAVE NEVER BEEN AS SAFE AS THEY ARE TODAY. AIRBAGS, ELECTRONIC ANTI BLOCKING AND NAVIGATION SYSTEMS MAKE DRIVING A CAR VERY EASY. EVEN SO: CAR COMPANIES CALL VEHICLES BACK INTO THE WORKSHOPS AGAIN AND AGAIN. THIS CAUSES HIGH EXPENSES WHICH COULD BE CONSIDERABLY REDUCED – BY “TRACEABILITY”, THE ABSOLUTE METHOD FOR FOLLOWING UP PRODUCTS IN THE FACTORY.

EACH SUPPLIER EQUIPS HIS PRINTED CIRCUIT BOARD COMPONENT WITH A TWO-DIMENSIONAL CODE. IF A TECHNICAL PROBLEM OCCURS IN A CAR MODEL, THE DEFECTIVE PRODUCT CAN BE IDENTIFIED WITH ONE HUNDRED PER CENT CERTAINTY. THE BIG ADVANTAGE: NOT ALL THE CARS IN THIS PRODUCT SERIES HAVE TO BE CALLED BACK, BUT JUST THOSE VEHICLES THAT ARE REALLY AFFECTED.

PRINTED CIRCUIT BOARDS ARE TO BE FOUND NOT ONLY IN CARS, BUT ALSO IN RADIO AND TELEVISION SETS, VIDEO-RECORDERS, MACHINE CONTROL SYSTEMS, CORDLESS TELEPHONES, AND ALL OTHER KINDS OF ELECTRONIC DEVICES.

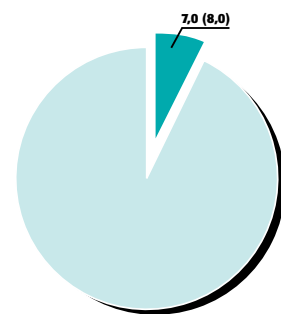
### **“IN A MARKET WHOSE CONSTANCY CONSISTS OF BEING PERPETUALLY IN MOTION, WE ARE THE DRIVING FORCE.”**

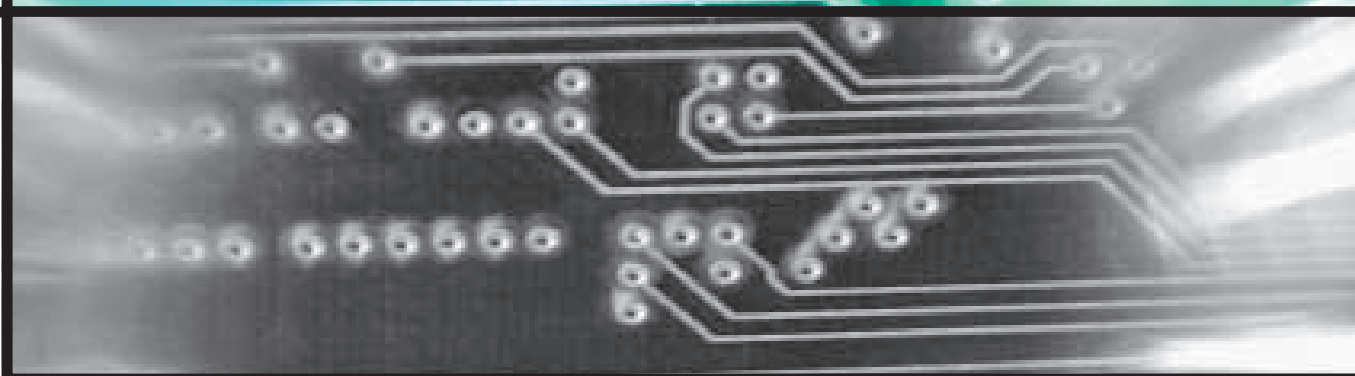
ROMMEL GMBH (EHINGEN), A SUBSIDIARY COMPANY OF MÜHLBAUER AG, HAS CONVINCING EXPERT KNOWLEDGE IN THE FIELD OF “TRACEABILITY”. FOR THE COMPLETE SOLUTION, IN ADDITION TO PRECISE LABELLING AND WRITING EQUIPMENT FOR PRINTED CIRCUIT BOARDS, THEY ALSO HAVE READING EQUIPMENT, THE NECESSARY SOFTWARE, AND SCANNING STATIONS.

WITH LOADING AND UNLOADING STATIONS, MAGAZINE BUFFER SYSTEMS, TURNING AND TWISTING STATIONS AND MOVING BELTS, ROMMEL FULFILS ALL THE ADDITIONAL REQUIREMENTS OF THE PRINTED CIRCUIT BOARD INDUSTRY. MOREOVER, DEFECTS CAN BE RECOGNIZED AND PUT RIGHT AT AN EARLY STAGE BY MEANS OF THE AUTOMATED PRINTED CIRCUIT BOARD TESTS.

THE COMPANY’S SUBSIDIARY IS BEST EQUIPPED FOR THE FUTURE: FLEXIBLE, SPACE-SAVING FOILS ARE CONTINUALLY REPLACING THE HARD PLATES USED UP TO NOW. LEADING KNOW-HOW AND A PERMANENT DEVELOPMENT ACTIVITY HAVE MADE ROMMEL INTO A COMPETENT SUPPLIER FOR THE WORLDWIDE DEMAND IN HANDLING SOLUTIONS. THE FUTURE IN THIS MARKET IS ONLY JUST BEGINNING!

Percentage of sales Borad Handling 2002 (previous year)

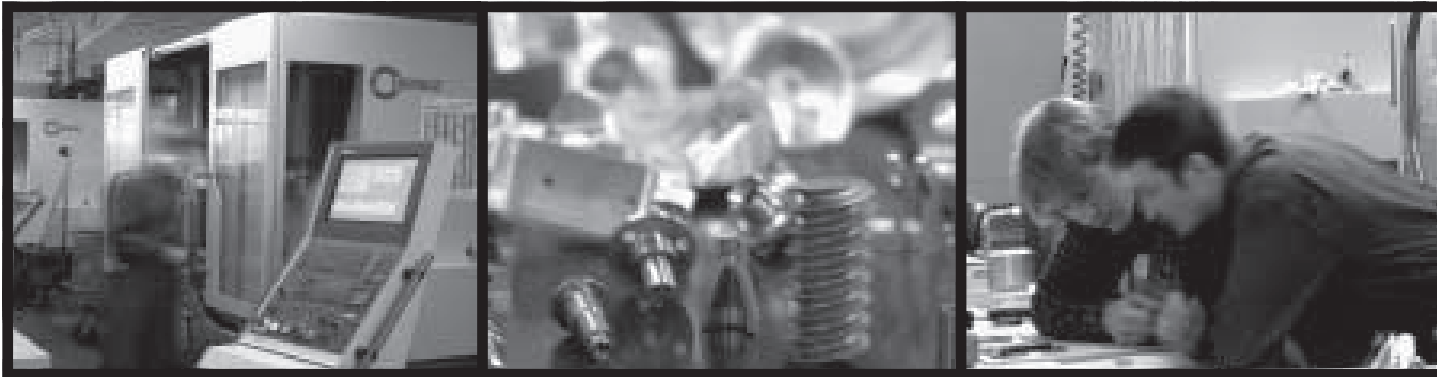




BOARD HANDLING

# board handling

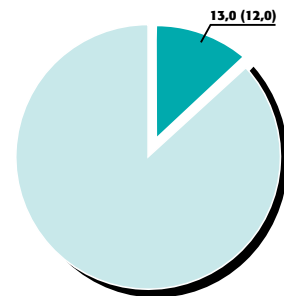
## TOP OF THE LIST FOR PRECISE WORK.



ONLY THE BEST IS GOOD ENOUGH – FOR MÜHLBAUER PRODUCTS THIS IS TRUE RIGHT DOWN TO THE LAST DETAIL. THE COMPANY DEPARTMENT OF PRECISION PARTS & SYSTEMS GETS ALL THE PRECISION PARTS READY AND IS THEREFORE AN IMPORTANT GUARANTOR IN THE MÜHLBAUER GROUP FOR THE FULFILMENT OF THE HIGHEST QUALITY CLAIMS.

A HIGH DEGREE OF VERTICAL INTEGRATION, HIGHEST FLEXIBILITY, AND CONTINUOUS RENEWAL OF TECHNOLOGY ALSO CONVINCE EXTERNAL CUSTOMERS. FROM READY MADE PARTS FOR THE RACING SERIES, SATELLITES, HELICOPTERS, OR NIGHT VIEWING EQUIPMENT UP TO COMPLETE PATIENTS' COUCHES FOR THE MEDICAL DEPARTMENT – COMPANIES FROM THE FIELDS OF FORMULA 1, AIR AND SPACE TRAVEL, SEMICONDUCTOR, MEDICAL AND MEASURING TECHNIQUES, OPTICS, AND ASSEMBLY AUTOMATION – ALL TRUST OUR COMPLEX KNOW-HOW.

Percentage of sales Precision Parts 2002 (previous year)



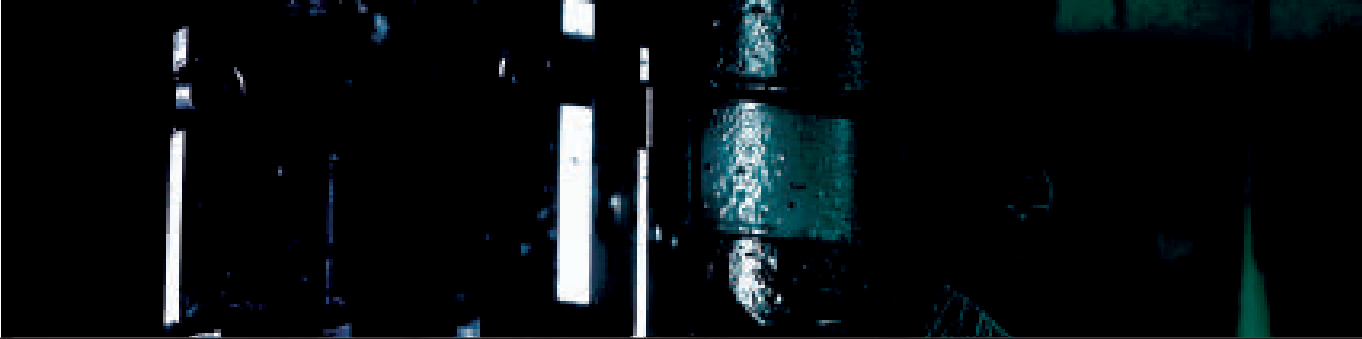
**“...READY FOR PRODUCTION SOLUTIONS OF PROTOTYPES, FROM THE SERIES PRODUCTION RIGHT UP TO THE MANUFACTURE OF COMPONENTS.”**

CONTINUOUS INVESTMENTS IN THE NEWEST MANUFACTURE TECHNOLOGY TIGHTEN UP DEVELOPMENT AND PRODUCTION CYCLES. EVEN BETTER QUALITY IN EVEN BETTER DELIVERY TIMES INCLUDING OVERNIGHT PRODUCTION – ALSO A SUCCESS FOR THE TEAMS OF EXCELLENT STAFF IN THE RÖDING AND STOLLBERG (SAXONY) LOCATIONS.

**“THE WINNER IS ...”**

MORE THAN 80 % OF OUR SPECIALIZED PERSONNEL COME FROM OUR COMPANY. THE EXTRAORDINARILY HIGH QUALIFICATION STANDARDS GAINED PRECISION PARTS THE 1ST PRIZE (TRAINING OSCAR) FROM AMONG 151 COMPETITORS FOR THE BEST TRAINING IN THE NATIONAL COMPETITION RUN BY THE YOUNG GERMAN ECONOMY.





PRECISION PARTS  
& SYSTEMS

precision parts

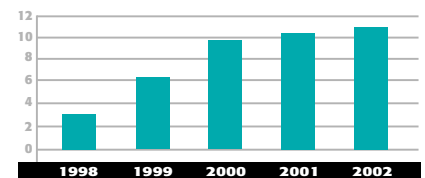
**“WE DO NOT SEE THE FUTURE IN ADVANCE. WE MAKE IT POSSIBLE!”**



WITH THE INVENTION OF TOOLS, MAN BEGAN SEVERAL HUNDRED THOUSAND YEARS AGO TO DEVELOP BEYOND THE POWERS OF NATURE. SINCE THEN WE HAVE REALIZED EVER BOLDER DREAMS — WHETHER TO FLY LIKE A BIRD OR TO INVESTIGATE OTHER PLANETS.

MORE THAN 200 ENGINEERS AND TECHNICIANS IN THE RESEARCH ESTABLISHMENTS IN RODING, DRESDEN, AND OBERHACHING ARE OUR DYNAMIC DRIVING FORCE. WITH THEIR BASIC RESEARCH THEY MAKE UNUSUAL LEAPS IN DEVELOPMENT THROUGHOUT THE WORLD. WHERE THE MARKET IS STILL LOOKING FOR SOLUTIONS, MÜHLBAUER IS ALREADY OFFERING SERIAL MADE INNOVATIONS. THE BEST EXAMPLE OF THIS IS OUR MARKET LEADERSHIP IN THE FIELD OF THE SMART ID. FUTURE IS TO SCHEDULE

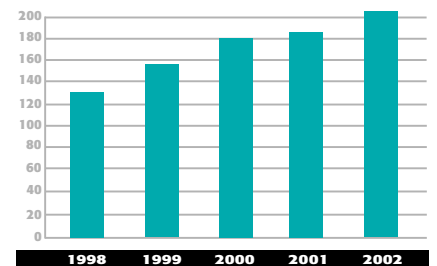
**Research and development expenses in million EUR**



**5 OWN DEVELOPMENT LOCATIONS, IN ADDITION PARTNER COMPANIES, RESEARCH INSTITUTES AND UNIVERSITIES.**

THE FUTURE IS THE RESULT OF WHAT WE ARE DOING TODAY. FOR THAT REASON WE SHALL CONTINUE TO EXPAND OUR TECHNOLOGICAL BASIS AND INTRODUCE NEW, INNOVATIVE PRODUCT SOLUTIONS IN ORDER TO BE ONE DECISIVE STEP AHEAD OF THE COMPETITION IN THE FUTURE TOO.

**Staff development research and development (annual average)**



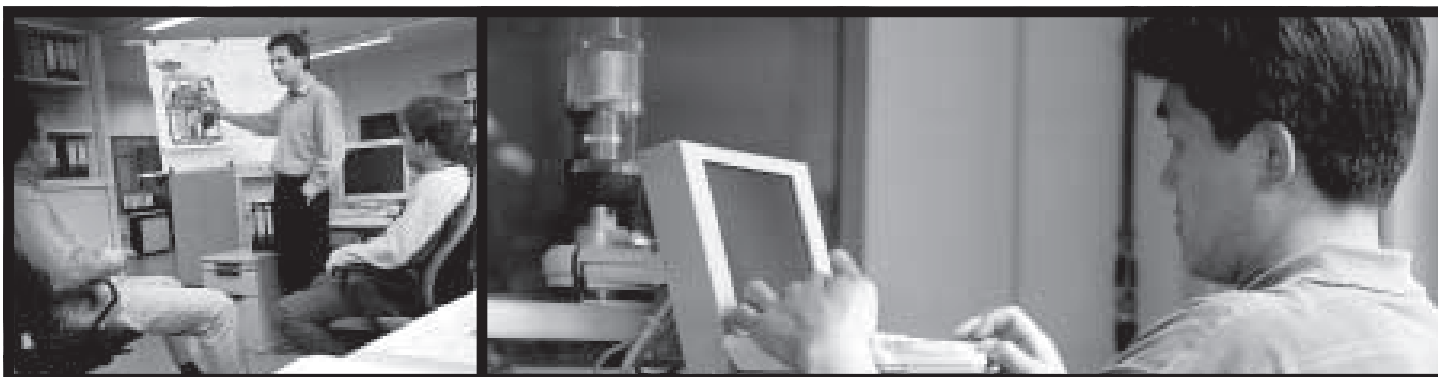




RESEARCH AND  
DEVELOPMENT

the future is to schedule

## PERFECT SERVICE AND THE SUPPORT OF PARTNERS.



THIS IS A CLAIM THAT WE FULFIL THROUGHOUT THE WORLD.

YOU DO NOT GET TO KNOW THE REAL QUALITY OF A COMPANY UNTIL YOU NEED HELP IN A HURRY. MÜHLBAUER IS REPRESENTED IN ALL FIVE CONTINENTS, AND CAN BE REACHED AT ALL TIMES AND IN ALL PLACES. OUR SYSTEM TECHNICIANS LOOK AFTER OUR CUSTOMERS IN RODING JUST AS WELL AS IN CHINA, KUALA LUMPUR, SAO PAOLO, NEW YORK, JOHANNESBURG, AND SYDNEY. NOT JUST AROUND THE WORLD, BUT ALSO RIGHT ROUND THE CLOCK.

WE CAN REACT IMMEDIATELY WHENEVER SPARE PARTS ARE NEEDED QUICKLY AND RELIABLY. IN ADDITION TO THE USUAL SERVICES SUCH AS REPAIRS AND MAINTENANCE, MÜHLBAUER ALSO OFFERS CUSTOMERS A SPECIAL SERVICE: PRODUCT ASSISTANCE.

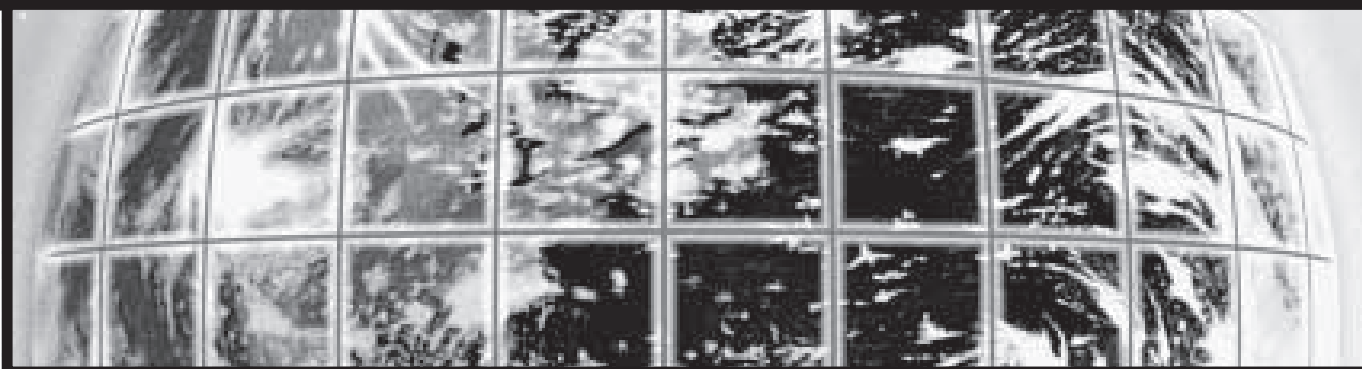
WE DELIVER NOT ONLY COMPREHENSIVE PRODUCTION CONCEPTS, BUT WE ALSO STRENGTHEN OUR PRODUCTION TEAMS AND TRAIN OUR STAFF ON THE SPOT. THAT HELPS OUR CUSTOMERS TO ADAPT THEIR PERSONNEL CAPACITY TO THE ORDERS SITUATION AND TO MAKE THE VERY BEST USE OF OUR HIGH-TECH SYSTEMS. TOGETHER WE ARE DEVELOPING NEW IDEAS IN APPLICATION, PROCEDURES, AND MACHINE TECHNOLOGY — IN THE VERY PLACE WHERE CREATIVE SOLUTIONS ARE NEEDED.

**“NOT JUST ALL AROUND THE WORLD, BUT ALSO AROUND  
THE CLOCK!”**

THE CENTRAL POINT OF OUR WORLD-WIDE SERVICE NETWORK IS THE SERVICE TEAM IN RODING.

HERE WE DO NOT MERELY CHECK UP ON THE QUALITY OF EACH INDIVIDUAL SYSTEM. IT IS HERE THAT WE OPTIMIZE OUR PRODUCTS ONCE AGAIN. ONLY THOSE HIGH-TECH SYSTEMS THAT ARE OF SUPREME QUALITY AND THE HIGHEST LEVEL LEAVE OUR FACTORY. THIS IS GUARANTEED BY THE MÜHLBAUER SYSTEM TECHNICIANS' EXCELLENT LEVEL OF TRAINING AND THEIR WELL FOUNDED KNOWLEDGE OF THE PROCEDURES.

WITH EVERY CUSTOMER'S WISH THAT WE ARE ABLE TO FULFIL WE PROGRESS FURTHER ALONG THE PATH TOWARDS BEING AN EVEN BETTER COMPANY.



SERVICE & SUPPORT

service

**OVER 1,200 TEAM-PLAYERS WORK FOR A BETTER WORLD EVERY DAY.**

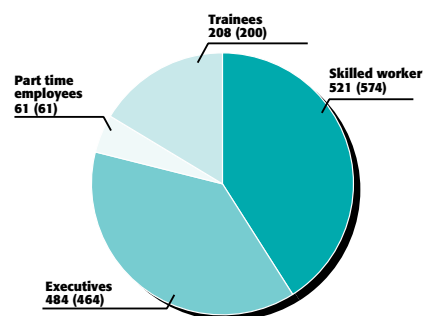


**MOTIVATION, COMPETENCE, AND DYNAMICS**

IN ORDER TO BE ABLE TO MAINTAIN AND EXPAND OUR LEADERSHIP IN THE WORLD'S MARKETS, THE COMPANY'S VALUES MUST BE LIVED BY THE STAFF THROUGHOUT THE WORLD. RESPONSIBLE, RESULT-ORIENTATED ACTIVITY AND CONTINUAL FURTHER TRAINING, THE USE OF SYNERGIES IN THE INDIVIDUAL FIELDS OF WORK AND MOBILITY, AND ABOVE ALL INDIVIDUAL MOTIVATION AND CREATIVITY IN THE IMPLEMENTATION OF THE COMPANY'S TARGETS ARE THE DRIVING FORCE FOR THE INCREASE IN THE COMPANY'S VALUE.

IN ORDER TO GIVE OUR STRATEGIC VISIONS A SOLID FOUNDATION, WE PROMOTE THE TRAINING OF A MEASURABLE PERFORMANCE CULTURE. WE SUPPORT OUR STAFF'S GREAT INTEREST AND COMPANY-LIKE WAYS OF THINKING WITH REGARD TO GROWTH AND HIGH TECHNOLOGY WITH AN ATTRACTIVE COMBINATION OF A STOCK OPTION PROGRAM AND A PERFORMANCE-ORIENTED BONUS PROGRAMME WHICH IS ORIENTED TOWARDS THE FULFILMENT OF PREVIOUSLY AGREED INDIVIDUAL SUCCESS TARGETS.

Average annual staff structure in 2002 (previous year)

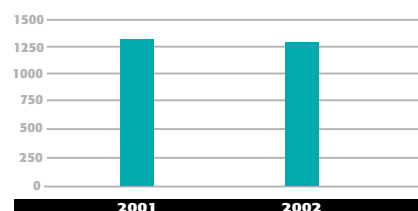


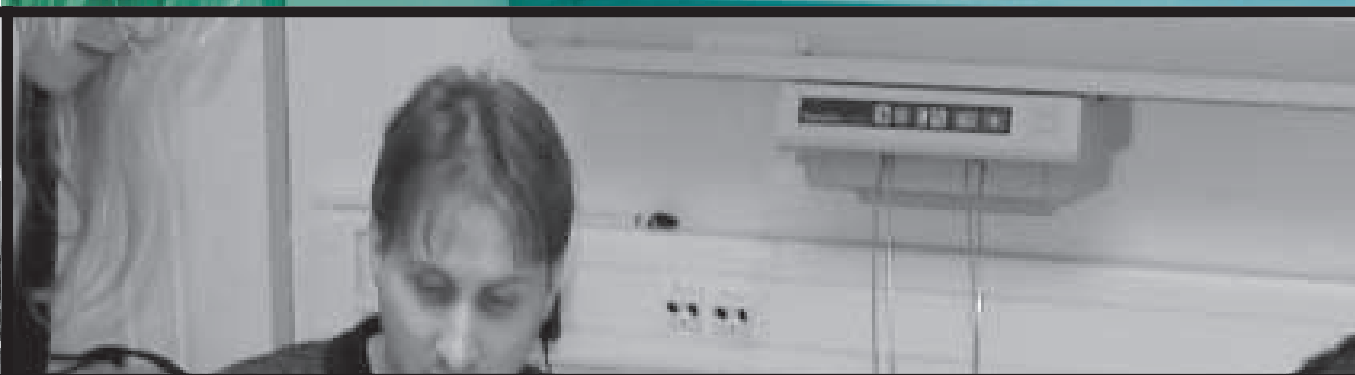
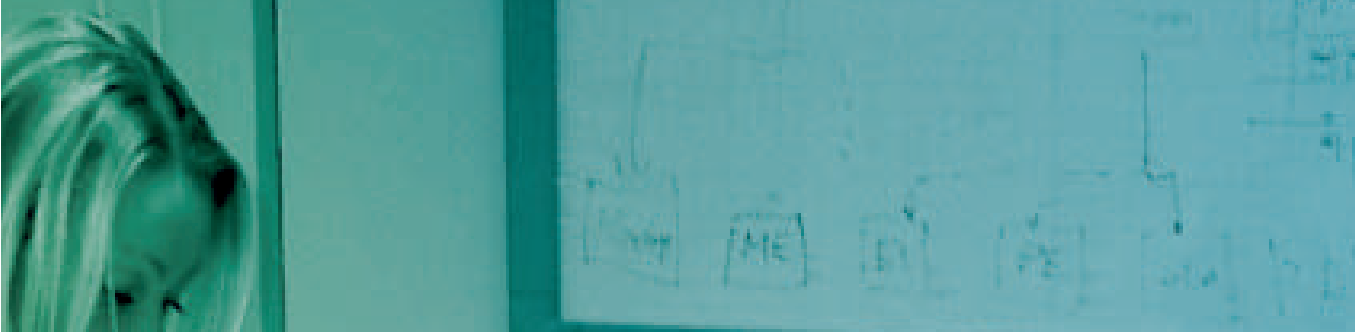
**“... ABSOLUTE PROFESSIONALISM IN THE PRODUCTION, TECHNICAL REALIZATION OF OUR RESEARCH RESULTS, AND THE ABILITY OF CHILDREN TO GET ENTHUSIASTIC ABOUT IT ALL.”**

IN THE QUALITY-ORIENTED TRAINING OF APPRENTICES, MÜHLBAUER RANKS IN THE FIRST POSITION THROUGHOUT THE WHOLE OF GERMANY. THE TRAINING EFFORTS HAVE PRODUCED CONSIDERABLE MOMENTUM REGIONALLY FOR A POSITIVE DEVELOPMENT WITH REGARD TO ECONOMY AND EMPLOYMENT, GIVING US THE POSITION OF A STABLE EMPLOYER WITH GOOD PROSPECTS FOR THE FUTURE. THE QUALIFICATION POTENTIAL, WHICH IS ESSENTIAL FOR FURTHER EXPANSION IN THE GROWING MARKETS, IS ENSURED BY OUR ENORMOUS EFFORTS IN THE FURTHER EDUCATION AND MOTIVATION OF OUR TEAM AND THE PROMOTION OF TEAM RESPONSIBILITY OF MANAGERS IN CHARGE IN FLAT HIERARCHIES.

WITHOUT THE TIRELESS ENERGY, HARD WORK, AND FREQUENTLY VERY HIGH PERSONAL DEDICATION OF OUR STAFF IT WOULD NOT BE POSSIBLE TO REALIZE THE TARGETS OF OUR COMPANY. THE BOARD OF DIRECTORS OF MÜHLBAUER AG THANKS ALL ITS STAFF FOR THEIR DEDICATION AND THEIR ACHIEVEMENTS.

Average annual number of employees





MASTERMINDS

masterminds



**FINANCIAL CALENDAR:**

<b>MARCH 17, 2003</b>	<b>BALANCE SHEET PRESS CONFERENCE, FRANKFURT</b>
<b>MARCH 18, 2003</b>	<b>ANALYSTS' CONFERENCE, HANOVER (DVFA-IT-FORUM, CeBIT 2003)</b>
<b>APRIL 29, 2003</b>	<b>ANNUAL GENERAL MEETING, RODING</b>
<b>MAY 06, 2003</b>	<b>QUARTERLY REPORT I/2003</b>
<b>AUGUST 05, 2003</b>	<b>QUARTERLY REPORT II/2003</b>
<b>NOVEMBER 04, 2003</b>	<b>QUARTERLY REPORT III/2003</b>
<b>MARCH 2004</b>	<b>ANNUAL REPORT 2003</b>

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## **CORPORATE GOVERNANCE**

### **THE PRINCIPLES OF VALUE-ORIENTATED BUSINESS MANAGEMENT**

CORPORATE GOVERNANCE IS THE ART OF BUSINESS MANAGEMENT. THESE DAYS IT DOES NOT, HOWEVER, ENTAIL MERELY COMPANY LEADERSHIP IN COMPLIANCE WITH LEGAL REQUIREMENTS. MATTERS PERTAINING TO BUSINESS MANAGEMENT AND CORPORATE CONTROL ARE QUITE RIGHTLY ATTRACTING A HIGH LEVEL OF ATTENTION AND ARE DISCUSSED IN A WIDE VARIETY OF PUBLIC FORUMS UNDER THE HEADING OF "CORPORATE GOVERNANCE".

THE GERMAN CORPORATE GOVERNANCE CODE, ADOPTED BY THE GOVERNMENT COMMISSION IN 2002 SETS OUT THE PRINCIPLE LEGAL REQUIREMENTS FOR THE MANAGEMENT AND CONTROL OF GERMAN COMPANIES LISTED ON THE STOCK EXCHANGE, INCLUDING NATIONALLY AND INTERNATIONALLY RECOGNISED STANDARDS FOR GOOD AND RESPONSIBLE BUSINESS MANAGEMENT FOR EXECUTIVES AND THE SUPERVISORY BOARDS. ITS PURPOSE IS TO FOSTER THE CONFIDENCE OF NATIONAL AND INTERNATIONAL INVESTORS, CUSTOMERS, EMPLOYEES AND THE GENERAL PUBLIC IN THE MANAGEMENT AND CONTROL OF GERMAN PUBLIC COMPANIES LISTED ON THE STOCK EXCHANGE. THE CODE HIGHLIGHTS THE RIGHTS OF SHAREHOLDERS WHO PROVIDE THE COMPANY WITH THE NECESSARY EQUITY AND SHOULD THE BUSINESS RISK.

THE APPLICATION AND OBSERVANCE OF GUIDELINES AND STANDARDS FOR CORPORATE GOVERNANCE MAKE AN ESSENTIAL CONTRIBUTION TOWARDS SECURING THE LASTING CONFIDENCE OF SHAREHOLDERS, CUSTOMERS, EMPLOYEES AND OTHER PUBLIC GROUPS IN CORPORATE MANAGEMENT. IT IS FOR THIS REASON, THAT IN THE YEAR UNDER REVIEW, WE HAVE WORKED ON ENHANCING THE COMPANY'S RESPONSIBLE AND VALUE-ADDING MANAGEMENT AND CONTROL MECHANISMS AND THAT THE DECLARATION OF CONFORMITY FOR 2002, SUBMITTED BY THE PERSONALLY LIABLE SHAREHOLDER AND THE SUPERVISORY BOARD OF MÜHLBAUER HOLDING AG & Co. KGaA ON DECEMBER 23, 2002, NOW FORMALLY COMPLIES WITH THE PRINCIPLES OF THE "GERMAN CORPORATE GOVERNANCE CODE" WITH THE EXCEPTION OF THE FOLLOWING TARGET RECOMMENDATIONS:

- AS THE SUPERVISORY BOARD COMPRISES THREE MEMBERS, IT IS DEEMED UNNECESSARY TO FORM ANY COMMITTEES ON THE SUPERVISORY BOARD
- THE MATTER OF AMENDING THE STATUTES IN ORDER TO INTRODUCE PROFIT-RELATED PAYMENT FOR BOARD MEMBERS WILL BE DECIDED AT A LATER TIME
- FOR THE TIME BEING, THERE WILL BE NO DEDUCTIBLE ON D&O INSURANCE, AS THIS FORESTALLS THE COMPANY'S ATTEMPTS TO ACQUIRE POTENTIAL MEMBERS WITH EXTENSIVE CORPORATE EXPERIENCE, AS THEY WOULD THEN HAVE TO RECKON WITH LIABILITY RISKS RELATING TO NEGLIGENT BEHAVIOUR.

IN THE INTERESTS OF VALUE-ORIENTED BUSINESS MANAGEMENT, WE ARE CURRENTLY ENGAGED IN DESIGNING OUR OWN CODE, BASED ON THE GOVERNMENT COMMISSION'S GERMAN CORPORATE GOVERNANCE CODE, IN ORDER TO ENSURE EXTERNAL TRANSPARENCY FOR PRACTICES ALREADY IN USE WITHIN THE COMPANY. THIS WILL ALSO INCLUDE FURTHER "SHOULD"-SUGGESTIONS FROM THE GOVERNMENT COMMISSION — ABOVE AND BEYOND THE LEGAL REQUIREMENTS AND "SHALL"- RECOMMENDATIONS —, WHICH MÜHLBAUER HOLDING AG & Co. KGaA HAS IMPLEMENTED TO THE GREATEST POSSIBLE EXTENT.

RODING, FEBRUARY 2003  
MÜHLBAUER HOLDING AG & Co.  
KOMMANDITGESELLSCHAFT AUF AKTIEN  
PERSONALLY LIABLE SHAREHOLDER

## REFLECTION OF A DIFFICULT STOCK MARKET YEAR

COMMENSURATE WITH OVERALL TRENDS IN THE ECONOMY AND A DECIDEDLY DIFFICULT CAPITAL MARKET, THE PERFORMANCE OF MÜHLBAUER SHARES IN THE PAST YEAR LEFT MUCH TO BE DESIRED.

AFTER A SHARE PRICE OF OVER 30 EUR AT THE BEGINNING OF THE YEAR, THE ADVANCED GLOBAL ECONOMIC DECLINE AND ACCOMPANYING INVESTMENT RESTRAINT BY THE VAST MAJORITY OF MARKET PARTICIPANTS FURTHER EXACERBATED THE FALTERING CAPITAL MARKET. LIKE MOST OTHERS, MÜHLBAUER SHARES WERE UNABLE TO ELUDE THIS TREND AND IN SPITE OF THE PARTIAL STABILIZATION MANIFESTED IN THE COURSE OF THE YEAR, IN LINE WITH THE BULK OF SECURITIES AND INDICES THEY STEADILY DIMINISHED IN VALUE. ON THE TIDE OF FURTHER GLOBAL PROFIT WARNINGS, ACCOUNTING SCANDALS AND INSOLVENCIES, ON OCTOBER 7, 2002 MÜHLBAUER SHARES FELL TO THEIR HISTORIC LOW OF 9.40 EUR. FOLLOWING AN INTERIM RECOVERY, AT THE END OF THE YEAR THE SHARES WERE BEING TRADED AT 10.30 EUR.

THE COMPANY'S MARKET CAPITALIZATION<sup>1)</sup> AT THE END OF THE YEAR STOOD AT 151.4 MILLION EUR. MÜHLBAUER SAFEGUARDED LIQUIDITY IN THE XETRA ELECTRONIC TRADING SYSTEM WITH TWO DESIGNATED SPONSORS. THE AVERAGE DAILY VOLUME OF TRADE<sup>2)</sup> IN THE 2002 FINANCIAL YEAR AMOUNTED TO ABOUT 13,000 SHARES (PREVIOUS YEAR ABOUT 17,000 SHARES).

## STABLE DIVIDENDS

EARNINGS PER SHARE IN THE 2002 FINANCIAL YEAR AMOUNTED TO 20 CENTS, 15 CENTS LESS THAN PREVIOUS YEAR (35 CENTS). AT THE ANNUAL GENERAL MEETING THE PERSONALLY LIABLE SHAREHOLDER AND THE SUPERVISORY BOARD WILL PROPOSE AN UNCHANGED DIVIDEND OF 30 CENTS. WHILEST MANY COMPANIES ARE CUTTING DIVIDENDS, MÜHLBAUER SHAREHOLDERS WILL THUS RECEIVE AN ABOVE-AVERAGE PROFIT – COMPARED WITH OTHER FORMS OF INVESTMENT – OF 2.83 %. WITH THIS PERFORMANCE MÜHLBAUER SHARES WILL DEVIATE SIGNIFICANTLY FROM THE BENCHMARK (NEMAX 50 1.26 %). ALL INDIVIDUAL SHARE CERTIFICATES ARE DIVIDEND-BEARING. THE PAYOUT DATE<sup>3)</sup> FOR DIVIDENDS IS APRIL 30, 2003.

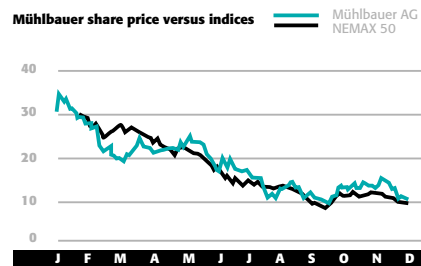
## SHARE BUYBACK PROGRAM STEPPED UP

IN THE REPORTING YEAR WE PRESSED AHEAD WITH OUR SHARE BUY-BACK PROGRAMME ON THE BASIS OF AN AUTHORISATION CONFERRED ON THE PERSONALLY LIABLE SHAREHOLDER AT THE ANNUAL GENERAL MEETING ON APRIL 26, 2002 AND ACQUIRED A TOTAL OF 168,368 OF OUR OWN SHARES AT AN AVERAGE PRICE OF 13.54 EUR PER SHARE. 14,479 INDIVIDUAL SHARE CERTIFICATES WERE SOLD TO EMPLOYEES. AS OF DECEMBER 31, 2002 THE COMPANY HELD 170,425 OF ITS OWN SHARES (PREVIOUS YEAR 16,736).

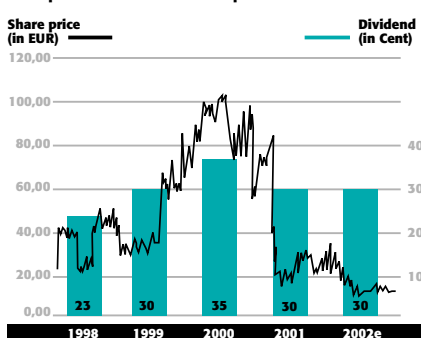
## ADMISSION TO NEMAX 50 AND PRIME STANDARD

ON JUNE 24, 2002 MÜHLBAUER SHARES WERE ADMITTED TO THE NEMAX 50 INDEX WITHIN THE SCOPE OF THE FREEFLOAT-BASED REVALUATION OF THE STOCK MARKET CRITERIA AND NOW RANK AMONG THE 50 BIGGEST AND MOST LIQUID SECURITIES ON THE NEUER MARKT, WITH THE RESULT THAT THEY ENJOY GREATLY INCREASED ATTENTION. WHEREAS FOUR MONTHS PREVIOUSLY THE DAILY TURNOVER HIGH HAD AVERAGED 42,000 SHARES, IN THE PERIOD FROM JUNE TO AUGUST INCLUSIVE IT AMOUNTED TO ABOUT 74,000 SHARES. IN THE COURSE OF INTRODUCTION OF A NEW INDEX SYSTEM BY THE DEUTSCHE BÖRSE AG ON OCTOBER 31, 2002 MÜHLBAUER WAS ONE OF THE FIRST COMPANIES TO BE ADMITTED TO THE PRIME STANDARD SEGMENT, WHICH MAKES EXACTING DEMANDS ON REPORTING, ALTHOUGH THE COMPANY HAS ALREADY SATISFIED THESE STANDARDS SINCE ITS INITIAL LISTING ON THE STOCK EXCHANGE IN 1998.

Mühlbauer share price versus indices



Share price versus dividend development





### **CORPORATE GOVERNANCE PRINCIPLES APPROVED**

A SIGNIFICANT BOOST TO INVESTOR CONFIDENCE WAS EFFECTED WITH THE IMPLEMENTATION OF THE CORPORATE GOVERNMENT CODE. WITH THE FULFILMENT OF DOMESTIC AND INTERNATIONAL STANDARDS – LONG-SINCE TAKEN FOR GRANTED BY THE COMPANY – A CONCERTED EFFORT IS BEING MADE TO FURTHER INSPIRE THE CONFIDENCE OF INVESTORS, BUSINESS PARTNERS, EMPLOYEES AND THE GENERAL PUBLIC. THE MÜHLBAUER GROUP'S INTERNET PRESENTATION, COMPLETELY REDESIGNED IN AUTUMN 2002, HAS BEEN INSTRUMENTAL IN THIS. THE LATTER IS SUBJECT TO A PROCESS OF CONSTANT IMPROVEMENT AND EXPANSION, E.G. BY ADDITION OF INFORMATION SUCH AS THE PUBLICATIONS OF THE "GOVERNMENT COMMISSION GERMAN CORPORATE GOVERNANCE CODE", TOGETHER WITH A REGULARLY UPDATED SUMMARY OF ANALYSTS' RECOMMENDATIONS AND DIRECTORS' DEALINGS.

### **INVESTOR RELATIONS ENJOYS HIGH PRIORITY**

IN 2002, IN ADDITION TO CLOSE COMMUNICATION WITH INSTITUTIONAL AND PRIVATE INVESTORS AND ANALYSTS WITHIN THE FRAMEWORK OF INVESTOR RELATIONS, MÜHLBAUER HAS CONTINUED TO PURSUE A POLICY OF OPENNESS, TRANSPARENCY AND UP-TO-DATE COMMUNICATIONS. BESIDES 18 NEWS ITEMS RELEVANT TO THE FINANCIAL MARKETS, AND ROADSHOWS IN LONDON, FRANKFURT, U.S. AND SWITZERLAND, THE ANALYSTS' CONFERENCE AND A SERIES OF TELEPHONE CONFERENCES ACCOMPANIED CURRENT REPORTING ACTIVITIES, THAT WERE REFLECTED IN 26 RESEARCH REPORTS (PREVIOUS YEAR: 22 REPORTS) BY A TOTAL OF 15 BANKS (PREVIOUS YEAR: 15).

WITH A VIEW TO FURTHER EXPANDING ACTIVE COMMUNICATIONS AND INVESTOR RELATIONS AT AN INTERNATIONAL LEVEL AND ADDRESSING NEW INVESTORS, IN THE CURRENT YEAR MÜHLBAUER WILL CONTINUE TO MAKE ITS PRESENCE FELT WITH NUMEROUS ROADSHOWS IN GERMANY AS WELL AS IN THE UNITED KINGDOM, FRANCE, SWITZERLAND, USA AND – FOR THE FIRST TIME – IN THE ASIAN REGION.

SINCERE THANKS ARE DUE TO OUR SHAREHOLDERS, ANALYSTS AND FINANCIAL MARKET PARTNERS FOR THE CONFIDENCE THEY HAVE PLACED IN US AND FOR THEIR COOPERATION IN THE PAST YEAR. WE WILL PURSUE WITH THE HIGHEST DEGREE OF COMMITMENT OUR OBLIGATION TO ENHANCE THE VALUE OF THE COMPANY, AND MAKE MÜHLBAUER SHARES AN ATTRACTIVE AND LUCRATIVE INVESTMENT BY CONTINUING TO SELECTIVELY PROVIDE INFORMATION ON THE GROUP'S DEVELOPMENT AND PERSPECTIVES AND EXPANDING THE DIALOGUE WITH OUR INVESTORS.

<sup>1)</sup> TOTAL NUMBER OF COMMON SHARES AND CAPITAL SHARE OF PERSONALLY LIABLE SHAREHOLDER

<sup>2)</sup> TOTAL OF XETRA TRADE AND FRANKFURT STOCK MARKET TRADE

<sup>3)</sup> SUBJECT TO THE CONSENT OF THE ANNUAL GENERAL MEETING



HUBERT FORSTER, CFO

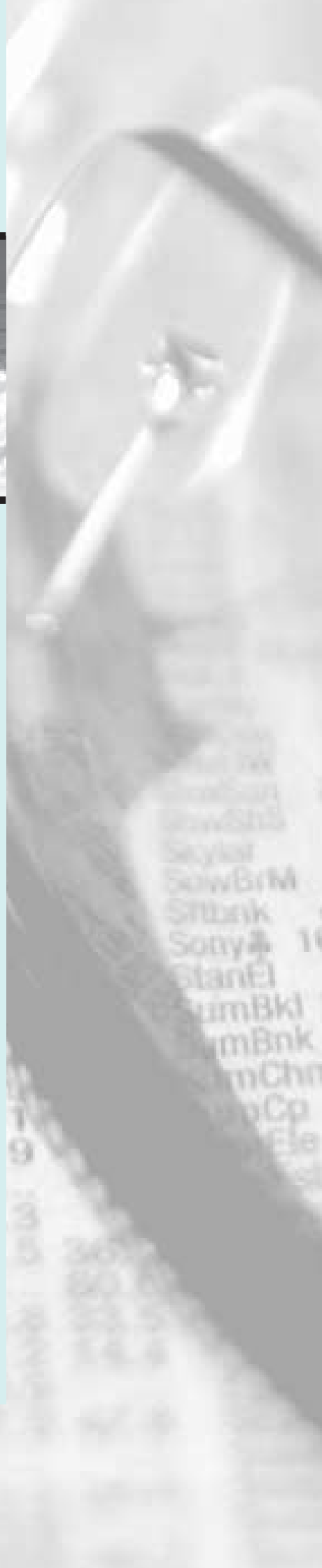
**LADIES AND GENTLEMEN, SHAREHOLDERS, ANALYSTS, STAFF, PARTNERS AND FRIENDS,**

FOR MORE THAN 20 YEARS THE NAME OF MÜHLBAUER HAS STOOD FOR EFFICIENT, TECHNOLOGICALLY SOPHISTICATED EQUIPMENT SOLUTIONS. WE ARE INTERNATIONAL MARKET LEADERS WITH OUR INNOVATIVE PRODUCTS FOR THE MANUFACTURE OF SMART CARDS AND SMART LABELS. IN 2002 WE CONTINUED TO PUSH TOWARDS OUR TECHNOLOGICAL POSITIONING AND MARKET LEADERSHIP WITH VIGOR, STAMINA AND FOCUS IN AN EXCITING AND CHALLENGING BUSINESS ENVIRONMENT. WE ALSO WORKED HARD DURING THIS PERIOD TO SUBSTANTIALLY STRENGTHEN OUR FINANCIAL POSITION.

DESPITE THE PROBLEMATIC INTERNATIONAL CONDITIONS, WE WERE ABLE TO INCREASE SALES SLIGHTLY BY 2.1% TO 91.5 MILLION EUR IN THE PAST FINANCIAL YEAR. IN THE YEAR UNDER REVIEW, NET PROFIT – INCLUDING VALUE ADJUSTMENTS FOR RECEIVABLES AND SECURITIES AND AN EXCEPTIONAL RETURN FROM THE INITIAL CONSOLIDATION - TOTALLED 3.5 MILLION EUR – 2.1 MILLION EUR LESS THAN FOR THE CORRESPONDING PERIOD IN THE PREVIOUS YEAR. NET EARNINGS PER SHARE AMOUNTED TO 20 CENTS – 15 CENTS LESS THAN IN THE PREVIOUS YEAR.

THE MAIN FOCUS OF OUR EFFORTS DURING THE LAST BUSINESS YEAR WAS ON GENERATING A FREER CASH FLOW. AS A RESULT, AND DESPITE DECREASED PROFITS, THE CASH FLOW FROM BUSINESS ACTIVITIES INCREASED TO OVER 23.4 MILLION EUR – AN INCREASE OF 54.4% OVER THE PREVIOUS YEAR. THE FREE CASH FLOW INCREASED FROM -2.2 MILLION EUR IN THE PREVIOUS YEAR BY 22.7 MILLION EUR TO + 20.5 MILLION EUR. THIS CORRESPONDS TO A RETURN ON SALES OF 22.5% AND DEMONSTRATES OUR AGGRESSIVE WORKING CAPITAL MANAGEMENT AS WELL AS THE CONSERVATIVE INVESTMENT POLICY PURSUED DURING THE LAST BUSINESS YEAR.

WORKING CAPITAL WAS REDUCED FROM 66.2% OF SALES IN THE PREVIOUS YEAR TO 49.6% IN THE YEAR UNDER REVIEW – AN IMPROVEMENT OF JUST UNDER 14 MILLION EUR . OUR TARGET IS TO REDUCE THE WORKING CAPITAL STILL FURTHER, IN ORDER TO IMPROVE CASH FLOW AND TO INCREASE THE RATE OF RETURN ON THE CAPITAL EMPLOYED.



AT THE END OF THE YEAR, WE WERE ONE OF THE FIRST COMPANIES TO BE REGISTERED WITH THE PRIME STANDARD OF THE DEUTSCHE BÖRSE AG. THIS IS A SECTOR OF THE STOCK MARKET THAT HAS HIGH REPORTING STANDARDS, ALTHOUGH THIS COMPANY HAS ALWAYS MET THOSE STANDARDS SINCE BEING QUOTED ON THE STOCK EXCHANGE. WE HAVE ADOPTED AND IMPLEMENTED THE PRINCIPLES OF CORPORATE GOVERNANCE ON SCHEDULE. WE WILL CONTINUE TO BUILD ON THE TRUST OF THE FINANCIAL MARKETS WITH A CORPORATE POLICY THAT EMPHASIZES SHAREHOLDER VALUE, SOLID FINANCIAL MANAGEMENT AND A TRADITIONAL, MODERATELY CONSERVATIVE ACCOUNTING POLICY.

ALTHOUGH THE CONFIDENCE OF OUR SHAREHOLDERS AND THE RESULTS ACHIEVED BY THE HARD WORK OF MANY OF OUR STAFF ARE NOT CURRENTLY RECEIVING THE ACKNOWLEDGEMENT THEY DESERVE OWING TO CURRENT STOCK MARKET CONDITIONS, WE ARE TODAY MORE CONVINCED THAN EVER OF THE LEGITIMACY OF OUR STRATEGY AND THAT THE EFFORTS WE ARE MAKING TODAY WILL PAY OFF AS SOON AS THERE IS AN UPTURN IN THE ECONOMY THAT WILL ALLOW US TO FULLY HARNESS THE UNIQUE POTENTIAL OF OUR COMPANY.

TO SUCCESSFULLY EXPLOIT THE AVAILABLE MARKET POTENTIAL, WE DISENGAGED OURSELVES FROM THE GENERAL ATMOSPHERE OF GLOOM AT THE BEGINNING OF THE CURRENT YEAR AND WORKED AT CREATING A SIGNIFICANTLY MORE UPBEAT FEELING WITHIN THE COMPANY. COMMITTED AS WE ARE TO AMBITIOUS TARGETS, WE AGAIN STRENGTHENED OUR IDENTIFICATION WITH THE COMPANY AND ARE TAKING A PROACTIVE APPROACH TO THE FUTURE. IN MANY PEOPLES' EYES THIS MIGHT SEEM EXTRAORDINARY, BUT WE JUST CALL IT SPORTS.

RODING, FEBRUARY 2003

YOURS SINCERELY,

A handwritten signature in black ink, consisting of a stylized 'H' followed by a large, flowing loop and a long horizontal stroke extending to the right.

HUBERT FORSTER  
CHIEF FINANCIAL OFFICER

## **STRATEGY**

### **FUTHER DEVELOPMENT OF OUR CORE COMPETENCE AND WORLDWIDE MARKET LEADERSHIP**

THE MÜHLBAUER TECHNOLOGY GROUP IS A LEADING PROVIDER OF INNOVATIVE AND TECHNOLOGICALLY SOPHISTICATED MACHINE LINES FOR THE WHOLE VALUE-ADDED CHAIN IN SMART CARD AND SMART LABEL PRODUCTION. OUR RANGE OF SOLUTIONS COVERS THE WHOLE VALUE-ADDED CHAIN: FROM THE ORIGINAL IDEA TO PLANNING AND PRODUCTION, RIGHT UP TO HIGHLY COMPLEX KEY TECHNOLOGIES FOR A WIDE RANGE OF REQUIREMENTS. OUR STRATEGIC CORPORATE TARGET IS TO CONTINUE THIS SOLUTION-ORIENTED APPROACH UNCOMPROMISINGLY. THIS MEANS ASSERTING AND FURTHER DEVELOPING OUR CORE COMPETENCE AND WORLDWIDE MARKET LEADERSHIP IN OUR CORE BUSINESS AREA OF "SMART IDENTIFICATION". WE WANT TO TAP INTO NEW GROWTH MARKETS BY EXTENDING OUR RANGE INTO RELATED SECTORS. OUR ADVANTAGES ARE OUR INNOVATIVE STRENGTH, A COMMITTED WORKFORCE AND CUSTOMER PROXIMITY. THESE ARE A SOUND BASIS FOR FURTHER BENEFITS AND GROWTH AND FOR A SUSTAINED INCREASE IN THE VALUE OF THE COMPANY.

### **THE MAIN DEVELOPMENTS DURING THE BUSINESS YEAR 2002**

OWING TO THE DIFFICULT MARKET ENVIRONMENT WORLDWIDE, MÜHLBAUER CONCENTRATED ITS CORE COMPETENCES IN THE YEAR UNDER REVIEW AND FOCUSED MAINLY ON DEVELOPING ITS TECHNOLOGY AND MARKET LEADERSHIP. THE FOLLOWING IS A BRIEF OVERVIEW OF THE MAIN DEVELOPMENTS DURING THE BUSINESS YEAR 2002:

- THE ANNUAL GROUP EARNINGS FOR THE BUSINESS YEAR 2002 AMOUNTS TO 3.5 MILLION EUR INCLUDING 2.5 MILLION EUR DEPRECIATION ON LOANS AND SECURITIES COMPARED TO 5.6 MILLION EUR IN THE PREVIOUS YEAR.
- THE FREE CASH FLOW IMPROVED IN THE BUSINESS YEAR 2002 TO 20.5 MILLION EUR (PREVIOUS YEAR -2.2 MILLION EUR ) DUE TO AGGRESSIVE WORKING CAPITAL MANAGEMENT, COST REDUCTION MEASURES AND REDUCED INVESTMENT.
- WITH THE MARKETING OF THE FIRST HIGH-PERFORMANCE LINE FOR THE MANUFACTURE OF SMART LABELS IN DECEMBER 2001 - THE THIRD MACHINE GENERATION TAL 4000 – WE EXTENDED OUR WORLDWIDE MARKET AND TECHNOLOGY LEADERSHIP POSITION.
- SYSTRONIC SYSTEMLÖSUNGEN FÜR DIE ELEKTRONIKINDUSTRIE GmbH WAS FOUNDED ON JANUARY 29, 2002 AND ALL PERSONNEL KNOW-HOW AND ASSETS ACQUIRED FROM THE LEGAL PREDECESSOR IN THE COURSE OF A NET-ASSET DEAL. THUS THE MÜHLBAUER GROUP NOW HAS COMPREHENSIVE KNOW-HOW IN THE FIELD OF COATING TECHNOLOGY WITH POSITIVE SYNERGY EFFECTS FOR THE SMART ID SECTOR.
- WITH THE APPROVAL OF THE GENERAL MEETING ON APRIL 26, 2002 THE COMPANY WAS ABLE TO CONTINUE ITS STABLE DIVIDEND POLICY AND PAY A DIVIDEND OF 30 CENTS PER SHARE ENTITLED TO DIVIDENDS.
- WITH THE CONTRACT DATED APRIL 29, 2002 MÜHLBAUER WAS GRANTED THE ORDER TO SUPPLY THE HONG KONG GOVERNMENT WITH SYSTEMS FOR ID CARD PRODUCTION, THEREBY UNDERLINING THE GLOBAL IMPORTANCE OF CHIP BASED SECURITY SYSTEMS.
- MÜHLBAUER TOOK A 100 % INTEREST IN TEMA GmbH ON OCTOBER 10, 2002, THEREBY REINFORCING THE QUALITY AND SAFETY OF ITS PRODUCT RANGE.
- IN THE COURSE OF THE INTRODUCTION OF A NEW INDEX SYSTEM BY DEUTSCHE BÖRSE AG ON OCTOBER 31, 2002, MÜHLBAUER WAS ONE OF THE FIRST COMPANIES TO BE GRANTED ADMISSION TO THE PRIME STANDARD SEGMENT.

- ON DECEMBER 23, 2002 THE COMPANY STATED ITS DECLARATION OF CONFORMITY ACCORDING TO THE "GOVERNMENT COMMISSION CORPORATE GOVERNANCE CODEX", THUS FURTHER REINFORCING INVESTOR CONFIDENCE.

## **ECONOMIC ENVIRONMENT**

### **WORLD ECONOMY RUNNING ON THE SPOT**

IN CONTRAST TO THE WORLDWIDE EXPECTATIONS, THERE WERE NO SIGNS OF ANY ECONOMIC IMPROVEMENT IN 2002. DOMINATED BY CONTINUED UNCERTAINTY ABOUT GENERAL ECONOMIC CONDITIONS AS WELL AS THE INCREASING GEOPOLITICAL INFLUENCE ON THE STATE OF THE GLOBAL ECONOMY, THE SLIGHT POSITIVE IMPULSES AT THE START OF THE YEAR DID NOT LEAD TO A STABLE UPSWING, BUT RATHER TO A FURTHER WEAKENING OF THE WORLD ECONOMY ON THE BACK OF A FURTHER LOSS OF CONFIDENCE ON THE CAPITAL MARKETS AND REDUCED CORPORATE EXPECTATIONS. AS A RESULT OF THIS TREND, THE ARBEITSGEMEINSCHAFT DEUTSCHER WIRTSCHAFTSWISSENSCHAFTLICHER FORSCHUNGSINSTITUTE (WORKING COMMITTEE OF THE GERMAN ECONOMIC RESEARCH INSTITUTES) EXPECTS AN INCREASE OF THE WORLDWIDE REAL GROSS DOMESTIC PRODUCT (GDP) BY 2.3 PER CENT IN 2003 (PREVIOUS YEAR: + 1.3 PER CENT). IN VIEW OF INCREASING UNCERTAINTY IN THE USA, THE INCREASE OF GDP IN 2002 BY 2.3 PER CENT DID NOT SIGNIFY ANY MAJOR IMPROVEMENT. DESPITE SUBDUING FACTORS IN PRIVATE CONSUMPTION, HOWEVER, THE INSTITUTES EXPECT THAT THE OVERALL ECONOMIC EXPANSION WILL GAIN SOMEWHAT IN MOMENTUM IN 2003 AND THAT THE REAL GROSS DOMESTIC PRODUCT CAN RISE BY 2.7 PER CENT ON THE BACK OF A RECOVERY IN INVESTMENT. FOLLOWING A DECLINE IN REAL GDP OF 0.5 PER CENT IN 2002, THE EXPERTS ARE FORECASTING ONLY A GRADUAL RECOVERY OF THE ECONOMY IN JAPAN. EXPORT FACTORS IN PARTICULAR WILL SUPPORT THE RETICENT GROWTH OF THE REAL GROSS DOMESTIC PRODUCT BY 1.2 PER CENT IN 2003. AFTER A SLOW INCREASE IN THE ECONOMY IN 2002 OF 0.8 PER CENT, THE DRIVING ECONOMIC FORCES ARE GRADUALLY GAINING THE UPPER HAND IN THE EUROPE. AS UNCERTAINTIES FADE AND THE FINANCIAL MARKETS STABILIZE, THE ANALYSTS EXPECT DOMESTIC DEMAND TO IMPROVE TRIGGERING A RISE IN THE REAL GDP BY 1.8 PER CENT IN 2003. IN GERMANY, HOWEVER, THE EXPERTS ONLY EXPECT TO SEE A GRADUAL STRENGTHENING IN THE ECONOMIC RECOVERY TOWARDS THE END OF 2003 OWING TO THE REINFORCEMENT OF EXPORTS IN THE COURSE OF A GLOBAL ECONOMIC UPSWING. IN CONTRAST TO THE PROGNOSSES GIVEN IN AUTUMN 2002, HOWEVER, THE EXPERT COMMITTEE – IN LINE WITH A NUMBER OF INSTITUTES – IS ASSUMING A CLEARLY REDUCED GDP TREND AMOUNTING TO ONLY AROUND 1.0 PER CENT FOR 2003 (PREVIOUS YEAR: + 0.4 PER CENT) OWING TO A NEGATIVE TREND IN THE ECONOMIC POLICY INDICATORS.

### **THE MARKET FOR DIGITAL SECURITY**

OWING TO THE DIVERSE RANGE OF APPLICATIONS FOR SMART CARDS AND SMART LABELS, PROCESSES CAN BE MADE MORE SECURE AND INDIVIDUAL WORK AND LEISURE-TIME ENVIRONMENTS MORE CONVENIENT AND FLEXIBLE. AS AN EXAMPLE OF THE WIDE RANGE OF APPLICATIONS, 1,000 DOORS ARE EQUIPPED WITH SMART CARDS AND FINGERPRINT SCANNERS TO PROVIDE SECURITY AT O'HARE AIRPORT AND MIDWAY AIRPORT IN CHICAGO. 55,000 EMPLOYEES HAVE HAD THEIR FINGERPRINTS SCANNED AND STORED ON A SMART CARD. THE APPLICATIONS MADE POSSIBLE BY SMART LABELS ARE EVEN MORE IMPRESSIVE. ALONGSIDE CLASSICAL APPLICATIONS, SUCH AS LUGGAGE IDENTIFICATION, APPLICATIONS IN M-COMMERCE ARE REGARDED AS HAVING GREAT FUTURE POTENTIAL, FOR EXAMPLE TO REGULATE THE ACCESS TO FILLING STATIONS IN CONNECTION WITH AUTOMATIC CHARGING. EXPERTS FORECAST AN AVERAGE ANNUAL GROWTH RATE IN CARD APPLICATIONS OF 14.5 % UP TO 2005<sup>1)</sup> AND IN RFID APPLICATIONS FOCUSING ON THE SMART LABEL OF UP TO 27 % BY 2006. INDIVIDUAL APPLICATIONS WILL SEE ABOVE-AVERAGE GROWTH IN THE SAME PERIOD. ENORMOUS ANNUAL GROWTH, FOR EXAMPLE, IS EXPECTED FOR ID CARD APPLICATIONS (96 %) AND CARD APPLICATIONS FOR ACCESS (78 %) ON THE BASIS OF INCREASING SECURITY CONSIDERATIONS. THE MARKET RESEARCH INSTITUTE FROST & SULLIVAN IS PREDICTING AVERAGE ANNUAL GROWTH RATES FOR VARIOUS BIOMETRIC APPLICATIONS OF WELL OVER 100%<sup>2)</sup>. MÜHLBAUER IS ALREADY PROVIDING FUTURE-ORIENTED AND EFFICIENT MACHINE TECHNOLOGIES – FROM A TO Z – FOR THE MANUFACTURE OF THESE PRODUCTS.

1) SOURCE: STUDIE SMART CARDS, BNP PARIBAS, APRIL 2002.

2) SOURCE: FROST & SULLIVAN REPORT A194 / A195, AUGUST 2002.

## RESEARCH AND DEVELOPMENT

### IMPROVEMENT AND EXTENSION OF THE PROCESS STEPS IN SYSTEM SOLUTIONS

TECHNOLOGY COMPETENCE AND INNOVATIVE STRENGTH ARE THE MAIN BASIS OF OUR BUSINESS, HELPING US NOT ONLY TO STAY COMPETITIVE BUT TO KEEP WELL AHEAD OF OUR COMPETITORS IN MANY AREAS. THIS IS WHY, DESPITE THE WEAK ECONOMIC PHASE IN 2002, WE HAVE INVESTED EVEN MORE IN RESEARCH AND DEVELOPMENT, SPENDING AROUND 5 % MORE THAN IN THE PREVIOUS YEAR (10.2 MILLION EUR ) AT APPROX. 10.8 MILLION EUR . WORKING IN LINE WITH CUSTOMER REQUIREMENTS AND IN THE INTERESTS OF CUSTOMER ADVANTAGE, MÜHLBAUER HAD AROUND 206 HIGH-GRADE EXPERTS – OFTEN IN COOPERATION WITH RENOWNED RESEARCH INSTITUTES, PROJECT PARTNERS AND CUSTOMERS – DEVELOPING NEW AND INNOVATIVE PRODUCT IDEAS IN 2002.

A BRIEF EXTRACT OF THE PRODUCTS NEWLY DEVELOPED IN 2002 IS TESTIMONY TO CUSTOMER-ORIENTED AND TECHNOLOGICALLY MATURE SOLUTIONS:

- MARKET ESTABLISHMENT OF THE FLIP CHIP MOUNTER FCM 6000 AND THE DIE BENDER/SORTER DB 200
- DEVELOPMENT OF THE ASSEMBLING MACHINE ASC 3000 WITH THE OPTION OF OVERLAY-FROM-REEL FOR A WIDE RANGE OF MATERIALS AND SHAPES
- INTEGRATION OF THE PROCESSES MILLING AND IMPLANTING IN THE SYSTEM UNIT CMI 3000
- EXTENSION OF THE PERSONALIZATION SYSTEM SCP 5600 BY AN EIGHTFOLD PROCESS MODULE FOR OPTICALLY WRITEABLE AND READABLE CARDS
- EXTENSION OF THE TAL 4000 BY THE PROCESS VARIATIONS OF FOIL AND PASTE CONTACTING
- DEVELOPMENT OF NEW COMPATIBILITY MODULES FOR THE MOUNTING OF RFID CHIPS OF MORE RECENT SUPPLY FORMS

IN ORDER TO ENSURE THE EXCLUSIVITY OF OUR DEVELOPMENT RESULTS WE ALSO MADE NUMEROUS PATENT APPLICATIONS IN 2002 AND EXTENDED THE PATENT PORTFOLIO, PARTICULARLY IN THE LATTER HALF OF THE YEAR.

## SALES

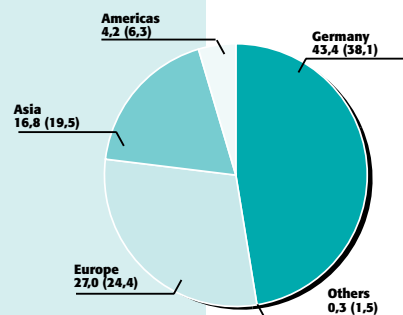
### GROWTH IN A DIFFICULT ENVIRONMENT

DESPITE THE DIFFICULT WORLD ECONOMIC SITUATION IN THE BUSINESS YEAR 2002, MÜHLBAUER ACHIEVED SLIGHTLY HIGHER SALES THAN IN THE PREVIOUS YEAR. COMPARED TO THE PREVIOUS YEAR (89.4 MILLION EUR ), THE CONSOLIDATED SALES ROSE BY 2.1 PER CENT TO 91.3 MILLION EUR .

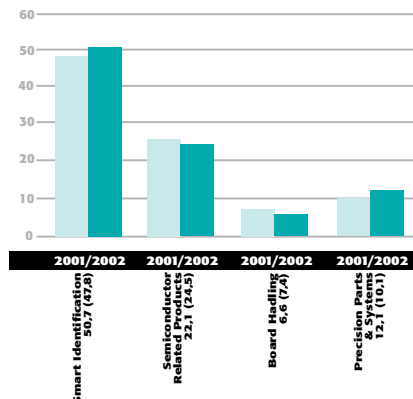
THE CORE BUSINESS AREA "SMART IDENTIFICATION" INCREASED ITS TOTAL SALES BY 6 PER CENT TO A NEW RECORD VALUE OF 50.7 MILLION EUR (PREVIOUS YEAR: 47.8 MILLION EUR ). THE BACKGROUND TO THIS POSITIVE TREND IS PRIMARILY THE CONTINUED DEMAND FOR INTELLIGENT AND FOOLPROOF IDENTIFICATION SYSTEMS. THE AREA OF "SEMICONDUCTOR RELATED PRODUCTS" ACHIEVED 22.1 MILLION EUR AND THUS REMAINED 9.7 PER CENT BEHIND THE PREVIOUS YEAR'S SALES OF 24.5 MILLION EUR OWING TO THE CONTINUING CRISIS IN THE SEMICONDUCTOR SECTOR AND THE RELATED WEAKNESS IN DEMAND FOR CAPITAL INVESTMENT GOODS. THE SALES IN THE AREA OF "BOARD HANDLING" FELL IN COMPARISON TO THE PREVIOUS YEAR BY 9.8 PER CENT FROM 7.4 MILLION EUR TO 6.6 MILLION EUR . THE SECTION "PRECISION PARTS & SYSTEMS" MADE A CONTRIBUTION OF 12.1 MILLION EUR (PREVIOUS YEAR: 10.1 MILLION EUR ) TO THE GROUP SALES AND, AT 19.4 PER CENT, REPRESENTED THE STRONGEST PERCENTAGE GROWTH IN SALES FOR THE BUSINESS YEAR 2002.

IN THE BUSINESS YEAR 2002, THE REGIONAL SALES EMPHASIS WAS ONCE AGAIN EUROPE. HERE THE GROUP'S SALES INCREASED FROM 62.5 MILLION EUR BY 12.3 PERCENT TO 70.2 MILLION EUR, WHEREBY GERMANY'S PROPORTION OF 61 PERCENT IN THE PREVIOUS YEAR SLIGHTLY ROSE UP TO 62 PERCENT IN THE YEAR OF THE REPORT. THE PROPORTION OF SALES ACHIEVED IN ASIA ALSO SANK BY 13.9 PERCENT FROM 19.5 MILLION EUR IN THE PREVIOUS YEAR TO 16.8 MILLION EUR IN THE YEAR OF THE REPORT, THIS WAS MAIN-

Regional breakdown of sales in million EUR (previous year)



Sales development by applications in million EUR (previous year)



LY DUE TO THE REDUCTION IN THE SEMICONDUCTOR BUSINESS. IN NORTH AND SOUTH AMERICA SALES WERE REDUCED BY 32.6 PERCENT COMPARED TO THE SAME PERIOD OF THE PREVIOUS YEAR (6.3 MILLION EUR) DOWN TO 4.2 MILLION EUR DUE TO THE OVERALL DIFFICULT ECONOMIC SITUATION. IN THE OTHER REGIONS, SALES DROPPED BY 1.2 MILLION EUR DOWN TO 0.3 MILLION EUR IN THE YEAR OF THE REPORT COMPARED TO 1.5 MILLION EUR IN THE PREVIOUS YEAR.

## **ORDER INCOME AND ORDER BACKLOG**

### **INVESTMENT RETICENCE OWING TO WORLDWIDE UNCERTAINTY**

THE CONSOLIDATED INCOMING ORDERS IN THE BUSINESS YEAR 2002 AMOUNTED TO 85.9 MILLION EUR AND WERE THUS 8.3 PER CENT BELOW THE VALUE FOR THE PREVIOUS YEAR (93.6 MILLION EUR).

IN THE AREA OF "SMART IDENTIFICATION", DESPITE THE DECLINE IN ORDERS FROM 58.3 MILLION EUR IN THE PREVIOUS YEAR BY 25 PER CENT TO 43.7 MILLION EUR IN THE YEAR UNDER REVIEW, IT WAS POSSIBLE TO SUPPLY NEW ID PROJECTS, PARTICULARLY IN ITALY, AUSTRIA, CROATIA AND SWITZERLAND. INCOMING ORDERS IN THE SECTION "SEMICONDUCTOR RELATED PRODUCTS" ROSE, OWING TO THE COMPANIES SYSTRONIC AND TEMA CONSOLIDATED FOR THE FIRST TIME, FROM 21.9 MILLION EUR IN THE PREVIOUS YEAR BY 3.6 PER CENT TO 22.7 MILLION EUR IN THE YEAR UNDER REVIEW. AFTER A WEAK FIRST QUARTER, THE SECTION "BOARD HANDLING" BENEFITED FROM INCREASING INCOMING ORDERS IN THE LATER COURSE OF THE YEAR, ACHIEVING A VOLUME AT THE END OF THE YEAR UNDER REVIEW OF 8.3 MILLION EUR, WHICH CORRESPONDS TO A GROWTH OF 44.6 PER CENT COMPARED WITH THE PREVIOUS YEAR (5.8 MILLION EUR) THE SECTION "PRECISION PARTS & SYSTEMS" ALSO BENEFITED FROM THE EXTENSION OF ITS ACTIVITIES TO NEW, ATTRACTIVE NICHES, ACHIEVING INCOMING ORDERS OF 11.2 MILLION EUR REPRESENTING AN INCREASE COMPARED WITH THE PREVIOUS YEAR (7.7 MILLION EUR) OF 45.6 PER CENT. ORDER BACKLOG ON DECEMBER 31, 2002 AMOUNTED TO 31.8 MILLION EUR. THE YEAR HAD STARTED WITH ORDER BACKLOG AMOUNTING TO 48.1 MILLION EUR.

## **PROFIT SITUATION, BALANCES AND CASH FLOWS**

### **CLEAR IMPROVEMENT OF THE FREE CASH FLOW**

DESPITE THE DIFFICULT WORLD ECONOMIC SITUATION, THE GROUP EARNINGS BEFORE TAX IN THE BUSINESS YEAR 2002 ACHIEVED 4.8 MILLION EUR. COMPARED WITH THE PREVIOUS YEAR (6.6 MILLION EUR) THIS CORRESPONDS TO A DECLINE BY 1.8 MILLION EUR.

EARNINGS CAME UNDER CONSIDERABLE PRESSURE IN 2002 FROM DEPRECIATIONS IN CURRENT ASSETS AND FROM DEPRECIATIONS ON CURRENT INVESTMENTS. AFTER ADJUSTMENT BY THESE FACTORS EARNINGS AMOUNTED TO 6.0 MILLION EUR.

THE SALES GROWTH IS SET OFF BY AN UNDER-PROPORTIONAL RISE IN SALES COSTS OF 60.8 MILLION EUR IN THE PREVIOUS YEAR BY 1 PER CENT TO 61.4 MILLION EUR. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES INCREASED BY 23.7 PER CENT COMPARED WITH THE PREVIOUS YEAR (13.5 MILLION EUR) TO 16.7 MILLION EUR. THIS INCREASE MAINLY APPLIES TO THE DEPRECIATIONS ON CURRENT ASSETS.

THE EXPENDITURE SET OUT IN THE STATEMENT OF INCOME FOR RESEARCH AND DEVELOPMENT OF 10.8 MILLION EUR OR 11.8 PER CENT OF THE SALES ROSE ONLY SLIGHTLY COMPARED TO THE PREVIOUS YEAR (10.2 MILLION EUR OR 11.5 PER CENT). AT 3.5 MILLION EUR, THE BALANCE OF THE OTHER OPERATING INCOME WAS AT ROUGHLY THE SAME LEVEL AS IN THE PREVIOUS YEAR.

IN THE YEAR UNDER REVIEW THE FINANCIAL RESULTS AMOUNTED TO -1.2 MILLION EUR (PREVIOUS YEAR: -1.9 MILLION EUR) THUS REFLECTING THE FURTHER WORLDWIDE WEAKENING OF THE CAPITAL MARKETS. WHILE THE NET INTEREST INCOME OF -0.4 MILLION EUR IN THE PREVIOUS YEAR WAS REDUCED TO -0.2 MILLION EUR IN THE YEAR UNDER REVIEW, THE BALANCE OF REALIZED GAINS AND LOSSES FROM TRADING AND AVAILABLE-FOR-SALE SECURITIES AND THE BALANCE OF UNREALIZED GAINS AND LOSSES FROM TRADING SE-

CURITIES AMOUNTED TO -1.0 MILLION EUR IN THE YEAR UNDER REVIEW (PREVIOUS YEAR: -1.5 MILLION EUR).

INCOME TAXES INCREASED IN THE YEAR UNDER REVIEW TO 1,9 MILLION EUR (PREVIOUS YEAR: 1.0 MILLION EUR). THE INCREASE IN THE TAX QUOTA FROM 15.4 PER CENT IN THE PREVIOUS YEAR TO 39.1 PER CENT IN THE YEAR UNDER REVIEW WAS MAINLY THE RESULT OF TAX CHANGES WHICH BECAME EFFECTIVE AS OF JANUARY 01, 2002 ACCORDING TO WHICH GAINS AND LOSSES FROM TRADING SECURITIES ARE NOT TAKEN INTO CONSIDERATION IN THE CALCULATION OF THE INCOME SUBJECT TO TAX.

AFTER CONSIDERATION OF AN EXTRAORDINARY INCOME AMOUNTING TO 0.6 MILLION EUR RESULTING FROM THE FIRST-TIME CONSOLIDATION OF TEMA GMBH AS OF OCTOBER 01, 2002, THE ANNUAL EARNINGS FOR THE YEAR UNDER REVIEW AMOUNT TO 3.5 MILLION EUR. COMPARED TO THE PREVIOUS YEAR (5.6 MILLION EUR) THIS CORRESPONDS TO A DECREASE BY 2.1 MILLION EUR. THIS RESULTS IN EARNINGS PER SHARE AMOUNTING TO 20 CENTS – 15 CENTS LOWER THAN THE PREVIOUS YEAR LEVEL OF 35 CENTS.

DESPITE THE FIRST-TIME CONSOLIDATION OF ACQUIRED COMPANIES AND THE INCREASED BUSINESS VOLUME OF 137.9 MILLION EUR COMPARED TO THE PREVIOUS YEAR, THE BALANCE SHEET TOTAL FELL BY 6.2 PER CENT TO 129.4 MILLION EUR.

ON THE ASSET SIDE THE CURRENT ASSETS OF 83.6 MILLION EUR IN THE PREVIOUS YEAR DECLINED BY 4.5 PER CENT TO 79.8 MILLION EUR IN THE YEAR UNDER REVIEW. WHILE CASH AND CASH EQUIVALENTS INCREASED SIGNIFICANTLY WITH A RISE OF 494 PER CENT TO 13.1 MILLION EUR, THE INVENTORIES FELL BY 16.9 PER CENT FROM 52.1 MILLION EUR TO 43.4 MILLION EUR AND THE OTHER CURRENT ASSETS BY 84.9 PER CENT TO 1.0 MILLION EUR. OWING TO A DECLINE IN INVESTMENT AND CURRENT DEPRECIATIONS THE FIXED ASSETS FELL FROM 54.3 MILLION EUR BY 8.7 PER CENT TO 49.6 MILLION EUR.

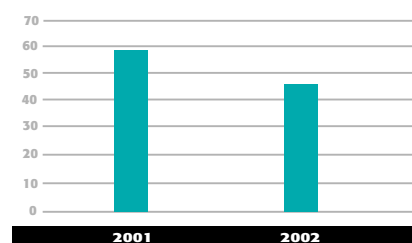
ON THE LIABILITIES SIDE THE CURRENT LIABILITIES DECREASED FROM 23.1 MILLION EUR IN THE PREVIOUS YEAR BY 12.5 PER CENT TO 20.3 MILLION EUR IN THE YEAR UNDER REVIEW, WHEREBY THE CURRENT FINANCIAL LIABILITIES IN THE PREVIOUS YEAR AMOUNTING TO 2.3 MILLION EUR WERE COMPLETELY CLEARED AND THE TRADE PAYABLES INCREASED BY 24.7 PER CENT FROM 5.7 MILLION EUR TO 7.0 MILLION EUR OWING TO THE INCREASE IN INCOMING ORDERS IN THE FOURTH QUARTER OF 2002. DOWNPAYMENTS RECEIVED ON ORDERS FELL COMPARED TO THE PREVIOUS YEAR (4.6 MILLION EUR) BY 64.9 PER CENT TO 1.6 MILLION EUR, WHILE THE OTHER CURRENT LIABILITIES INCREASED FROM 4.8 MILLION EUR BY 11.7 PER CENT TO 5.3 MILLION EUR. THE LONG-TERM LIABILITIES WERE REDUCED – MAINLY DUE TO THE SCHEDULED REPAYMENT OF LONG-TERM FINANCIAL LIABILITIES AND THE SCHEDULED CONSUMPTION OF PUBLIC FUNDING OF 0.9 MILLION EUR RESPECTIVELY – FROM 13.0 MILLION EUR IN THE PREVIOUS YEAR BY 15.8 PER CENT TO 10.9 MILLION EUR IN THE YEAR UNDER REVIEW.

AS OF DECEMBER 31, 2002, THE STOCKHOLDERS' EQUITY AMOUNTED TO 98.3 MILLION EUR AND HAS DECREASED COMPARED TO THE SAME PERIOD OF THE PREVIOUS YEAR (101.8 MILLION EUR) BY 3.5 PER CENT. THE REDUCTION IS MAINLY THE RESULT OF THE DIVIDEND PAYOUT (4.7 MILLION EUR) AND THE ACQUISITION OF OWN SHARES (2.3 MILLION EUR) BALANCED WITH THE ANNUAL EARNINGS ACHIEVED IN THE YEAR UNDER REVIEW.

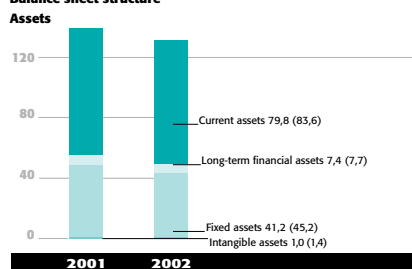
COMPARED TO THE PREVIOUS YEAR (73.8 PER CENT) THE EQUITY RATIO INCREASED BY 2.1 PER CENT TO 75.9 PER CENT.

PRECEDING FROM THE HIGH LEVEL OF THE PREVIOUS YEAR (+15.2 MILLION EUR) THE CASH FLOW FROM CURRENT BUSINESS ROSE IN 2002 BY A FURTHER 8.2 MILLION EUR TO +23.4 MILLION EUR, CLEARLY SHOWING THE POSITIVE EFFECT OF THE REINFORCEMENT OF WORKING CAPITAL MANAGEMENT IN THE YEAR UNDER REVIEW. THE OPERATIONAL WORKING CAPITAL WAS REDUCED FROM 59.2 MILLION EUR IN THE PREVIOUS YEAR BY 13.9 MILLION EUR TO 45.3 MILLION EUR IN THE YEAR UNDER REVIEW. PARALLEL TO THIS THE WORKING

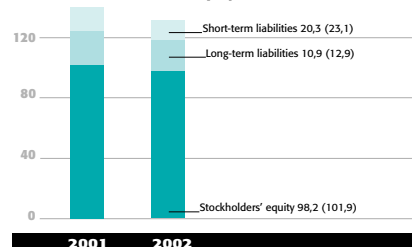
**Working Capital in mill. EUR**



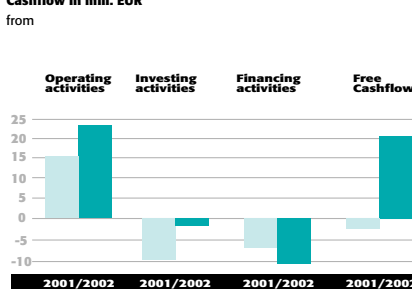
**Balance sheet structure**



**Balance sheet structure**  
**Liabilities and stockholders' equity**



**Cashflow in mill. EUR**





CAPITAL INTENSITY FELL SIGNIFICANTLY FROM 66.2 PER CENT BY 16.6 PER CENT TO 49.6 PER CENT. OWING TO THE SHARP DECLINE IN INVESTMENT COMPARED TO THE PREVIOUS YEAR (-9.9 MILLION EUR), THE CASH FLOW FROM INVESTMENT WAS REDUCED BY 8 MILLION EUR TO -1.9 MILLION EUR IN THE YEAR UNDER REVIEW AND, ALONGSIDE THE NET INFLOW FROM LONG-TERM INVESTMENTS (+0.7 MILLION EUR), MAINLY INCLUDES EXPENDITURE FOR THE ACQUISITION OF FIXED ASSETS WITHIN THE FRAMEWORK OF THE ASSET DEAL WITH SYSTRONIC GmbH (-1.3 MILLION EUR) AND THE ACQUISITION OF THE INTEREST IN TEMA GmbH (-0,3 MILLION EUR). THE CASH FLOW FROM FINANCING ACTIVITY INCREASED FROM -6.8 MILLION EUR IN THE PREVIOUS YEAR BY -3.4 MILLION EUR TO -10.2 MILLION EUR IN THE YEAR UNDER REVIEW. CONSIDERABLE OUTFLOWS IN CASH AND CASH EQUIVALENTS RESULTED MAINLY FROM REPAYMENTS OF SHORT-TERM AND LONG-TERM LOANS (-3.5 MILLION EUR), THE PURCHASE OF OWN SHARES (-2.3 MILLION EUR) AND THE DIVIDEND PAYOUTS IN THE YEAR UNDER REVIEW (-4.7 MILLION EUR).

THE CHANGES IN THE RESPECTIVE LIQUIDITY IN THE YEAR UNDER REVIEW HAVE LED TO A CONSIDERABLE INCREASE IN CASH AND CASH EQUIVALENTS FROM 2.2 MILLION EUR IN THE PREVIOUS YEAR BY 10.9 MILLION EUR TO 13.1 MILLION EUR AT THE END OF THE PERIOD UNDER REVIEW.

## **PURCHASING**

### **STRATEGIC REORIENTATION EXECUTED**

THE STRATEGIC REORIENTATION OF MATERIAL MANAGEMENT WAS EXECUTED IN 2002. GOODS ARE PURCHASED INTERNATIONALLY AT THE BEST POSSIBLE TERMS AND CONDITIONS AND UNDER ECONOMIC CONSIDERATIONS. GLOBAL PURCHASING MANAGERS ARE RESPONSIBLE FOR PROCUREMENT FOR THE WHOLE GROUP AND THESE ARE SUPPORTED LOCALLY BY DECENTRALIZED PROCUREMENT MANAGERS. THE PROCUREMENT STRATEGY OF THE MÜHLBAUER GROUP PROVIDES GENERAL GUIDELINES FOR THE PROCUREMENT POLICY. AT THE SAME TIME THE WORLD WIDE WEB IS GAINING INCREASING IMPORTANCE IN TERMS OF THE E-PROCUREMENT OF MATERIALS IN THE COURSE OF GLOBAL NETWORKING.

IN 2002 THE PRINCIPLE OF THE "LEAD BUYER" AND OF "CENTRALIZED PURCHASING – DECENTRALIZED PROCUREMENT" LED TO A CLEAR REDUCTION OF THE NUMBER OF SUPPLIERS AND THUS TO A FURTHER CONCENTRATION OF VOLUME ON A SMALL NUMBER OF HIGH-PERFORMANCE PARTNERS, THE SO-CALLED "PREFERRED SUPPLIERS". THIS ALLOWED US TO TAKE ADVANTAGE OF ECONOMIES OF SCALE WHILE RETAINING THE LOCAL CONTENT. ALL OF THE PURCHASING POSITIONS IN THE GROUP WERE SUBJECTED TO CONSTANT CRITICAL SCRUTINY AND THE PROCUREMENT PRICES OPTIMIZED WHEREVER POSSIBLE BY BULK CONTRACTS AND MADE MORE TRANSPARENT OVER THE LONGER TERM BY FIXED PRICES. THE FURTHER EXPANSION OF THE CONSIGNMENT STOCK AND THE CONCLUSION OF COOPERATION AGREEMENTS WITH IMPORTANT PARTNERS HAS LED TO A FURTHER OPTIMIZATION OF PROCUREMENT TIMES. THE IMPLEMENTATION OF PROCUREMENT CONTROLLING AND THE INTRODUCTION OF A CODE NUMBER SYSTEM IN THE AREA OF MATERIAL MANAGEMENT GIVES THE MÜHLBAUER GROUP EVEN GREATER COST TRANSPARENCY, SO THAT COST OPTIMIZATION CAN BE INITIATED AT AN EARLY STAGE. IN THE BUSINESS YEAR 2002 A TOTAL OF GOODS AND SERVICES WERE PROCURED AMOUNTING TO A VALUE OF 22.3 MILLION EUR (PREVIOUS YEAR: 32.4 MILLION EUR).

DESPITE THE CONCENTRATION OF CERTAIN PROCUREMENT GOODS ON A SMALL NUMBER OF HIGH-PERFORMANCE PARTNERS, THE MAINTENANCE OF OUR INDEPENDENCE FROM BUSINESS PARTNERS REMAINS AN IMPORTANT PILLAR IN THE PROCUREMENT POLICY AND THE GROUP IMPLEMENTS THIS ON THE BASIS OF AN UNCOMPROMISING SECOND-SOURCE STRATEGY. WE CONTINUE TO MAINTAIN A PARTNERSHIP-ORIENTED RELATIONSHIP WITH OUR SUPPLIERS AND PLACE GREAT VALUE ON COOPERATION BASED ON MUTUAL TRUST.

## **INVESTMENTS**

### **STATE OF THE ART IN TECHNOLOGY**

AFTER COMPLETION OF THE ENORMOUS BUILDING CAPACITY EXPANSION AT THE RÖDING

LOCATION, MAINLY IN 2000 AND 2001, MÜHLBAUER CONSIDERABLY REDUCED ITS INVESTMENT ACTIVITY IN THE YEAR UNDER REVIEW AND SPENT A TOTAL OF 2.3 MILLION EUR (PREVIOUS YEAR: 13.1 MILLION EUR) ON FIXED AND INTANGIBLE ASSETS. THE LARGEST SINGLE PROJECT WAS THE PROPERTY ACQUIRED AT THE FLEIN LOCATION FROM THE INSOLVENT SYSTRONIC GROUP WITHIN THE FRAMEWORK OF THE ASSET DEAL INCLUDING TECHNICAL SYSTEMS AND MACHINES AS WELL AS FACTORY AND OFFICE EQUIPMENT WITH AN INVESTMENT SUM OF 1.3 MILLION EUR . ALL OF THE INVESTMENTS WERE FINANCED FULLY FROM THE CASH FLOW.

## **EMPLOYEES**

### **CONSOLIDATING OUR ATTRACTIVE EMPLOYER STATUS**

MÜHLBAUER IS CONTINUOUSLY WORKING ON SECURING AND ENHANCING ITS STATUS AS AN ATTRACTIVE EMPLOYER. THIS INCLUDES FLAT HIERARCHIES, A TEAM-ORIENTED WORKING CLIMATE AND A HIGH DEGREE OF PERSONAL RESPONSIBILITY.

WITH 1,265 EMPLOYEES AS OF DECEMBER 31, 2002, THE MÜHLBAUER GROUP HAS EXACTLY THE SAME NUMBER OF EMPLOYEES AS IN THE SAME PERIOD OF THE PREVIOUS YEAR. ADJUSTED FOR CHANGES IN THE CONSOLIDATION GROUP, THE NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2002 FELL BY 75 EMPLOYEES (-5.9 PER CENT). THE REDUCTION WAS MADE MAINLY IN RODING.

IN THE YEAR UNDER REVIEW THE EMPLOYEES AT MÜHLBAUER AGAIN HAD THE EXCLUSIVE OPPORTUNITY OF ACQUIRING STAFF SHARES AT A FAVOURABLE PRICE AND THUS PARTICIPATING IN THE COMPANY'S SUCCESS. IN ADDITION TO THIS, IDENTIFICATION WITH THE COMPANY AND ITS TARGETS WERE FURTHER REINFORCED BY THE SHARE OPTION PROGRAM "IDENTIFICATION 2003". THIS GIVES SELECTED EMPLOYEES AND MANAGERS WORLDWIDE THE OPPORTUNITY OF PARTICIPATING IN THE SUCCESS OF THE MÜHLBAUER SHARE ON THE BASIS OF OPTIONS. IN ORDER TO CONTINUOUSLY DEVELOP THE HIGH QUALIFICATION LEVEL OF THE PERSONNEL, THE OPTIONS ARE LINKED DIRECTLY TO THE ACHIEVEMENT OF INDIVIDUAL GOALS. THE PROGRAM THUS MAKES A MAJOR CONTRIBUTION IN OBSERVING THE PRINCIPLES OF VALUE-ORIENTED CORPORATE MANAGEMENT.

IN THE YEAR UNDER REVIEW THERE WERE 226 (PREVIOUS YEAR: 227) YOUNG PEOPLE UNDERGOING TRAINING AT MÜHLBAUER. THIS REPRESENTS A PROPORTION OF 17.9 PER CENT OF THE TOTAL STAFF. THE GROWING DEMAND FOR HIGHLY QUALIFIED SPECIALISTS MAKES CUSTOMIZED IN-HOUSE VOCATIONAL TRAINING EXTREMELY IMPORTANT.

THE TECHNICAL QUALIFICATION OF THE PERSONNEL AND THEIR WILLINGNESS TO ENGAGE IN PERMANENT LEARNING ARE CENTRAL COMPETITIVE FACTORS – PARTICULARLY FOR COMPANIES IN HIGHLY INNOVATIVE SECTORS. IN ORDER TO MAINTAIN MÜHLBAUER'S COMPETITIVENESS AND ITS TECHNOLOGICAL MARKET LEADERSHIP IN THE HIGH-TECH MARKETS OF THE FUTURE, CONSTANT PRODUCT AND PROCESS INNOVATIONS ARE NECESSARY. THE COMPANY THUS OFFERS ITS EMPLOYEES NUMEROUS OPPORTUNITIES FOR POST-QUALIFICATION AND UPSKILLING.

THE PERSONNEL COSTS OF THE MÜHLBAUER GROUP IN 2002 AMOUNTED TO 38.1 MILLION EUR AND ARE THUS ALMOST CONSTANT RELATIVE TO THE PREVIOUS YEAR (37.9 MILLION EUR). WAGES AND SALARIES ACCOUNTED FOR 31.5 MILLION EUR (PREVIOUS YEAR: 31.3 MILLION EUR). SOCIAL SECURITY PAYMENTS ACCOUNTED FOR 6.6 MILLION EUR AND WERE THUS AT THE SAME LEVEL AS THE PREVIOUS YEAR.

## **RISK MANAGEMENT**

### **RECOGNIZING CHANCES – CONTROLLING RISKS**

THE CHANCE AND RISK MANAGEMENT SYSTEM PRACTICED IN THE MÜHLBAUER GROUP IS SUBJECT TO A CONTINUOUS PROCESS OF FURTHER DEVELOPMENT AND IMPROVEMENT. THE OPERATIONAL FUNCTION AREAS OF THE MÜHLBAUER GROUP FORM THE BASIS OF THIS

SYSTEM AND ENSURE THAT CHANCE AND RISK MANAGEMENT CONTINUES TO DEVELOP AS A SUBSTANTIAL AND INTEGRAL PART OF THE CORE PROCESSES. WITHIN THE FRAMEWORK OF THE ANNUAL FINANCIAL STATEMENT ACTIVITIES, THE SYSTEM WAS THOROUGHLY INSPECTED BY THE AUDITOR.

THE IDENTIFICATION AND ASSESSMENT OF RISKS IS BASED ON A TRANSPARENT AND CLEARLY STRUCTURED MONITORING PROCESS, IN WHICH SPHERES OF RESPONSIBILITY AND REPORTING OBLIGATIONS ARE CLEARLY DEFINED. THE RESPONSIBLE PARTIES ARE SUPPORTED HERE BY, AMONG OTHER THINGS, REGULAR REPORTS ON THE FUNCTION AREAS MATERIAL MANAGEMENT, PRODUCTION, DEVELOPMENT AND SALES (SALES ANALYSIS, RECEIVABLES MANAGEMENT ETC.) ON A MONTHLY AND IN SOME CASES ON A WEEKLY BASIS. THIS ENSURES CONSTANT MONITORING, CONTROL AND COMMUNICATION OF THE RISKS.

THE RISK COMMITTEE DRAWS UP THE RISK REPORT AT REGULAR INTERVALS AND SUBMITS THIS TO THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD AS A BASIS FOR MAKING DECISIONS. IN THE CASE OF RISKS WHICH ARISE SUDDENLY, THE BOARD IS KEPT INFORMED BY AD HOC REPORTS ON A CASE TO CASE BASIS. EXTENSIVE DOCUMENTATION ON THE INTRANET GIVES EVERY EMPLOYEE WORLDWIDE THE NECESSARY INFORMATION FOR DEALING WITH POTENTIAL RISKS.

### **MARKET AND ECONOMIC RISKS**

THE CONTINUED TIGHT SITUATION ON THE SEMICONDUCTOR AND CHIP CARD MARKETS CONFIRMS THE POLICY OF THE COMPANY MANAGEMENT OF PAYING CLOSE ATTENTION TO THE RISK OF ECONOMIC MARKET FLUCTUATIONS IN ORDER TO BE ABLE TO ASSESS THE CHANCE AND RISK POTENTIAL. THE RISKS TO THE COMPANY ARE STILL REGARDED AS BEING ON AN IDENTIFIABLE AND CONTROLLABLE LEVEL. DETAILED OBSERVATIONS, SOUND ANALYSIS AND THE CORRESPONDING DOCUMENTATION OF THE DEVELOPMENTS OBSERVED CONTINUE TO FORM THE BASIS OF RISK CONTROL. THIS GIVES US THE OPPORTUNITY OF REACTING TO SHORT-TERM AND LONGER-TERM MARKET TRENDS.

### **TECHNOLOGY RISKS**

THE DEMANDS ON COMPANIES IN HIGHLY INNOVATIVE MARKETS ARE PLACED MAINLY ON THEIR PRODUCT AND SERVICES PORTFOLIO. FLEXIBLE ADAPTATION TO MARKET AND CUSTOMER REQUIREMENTS IS THUS ESSENTIAL FOR THE CONTINUED EXISTENCE OF THE COMPANY. THE RISK OF ILL-CONCEIVED PRODUCT DEVELOPMENT IS COUNTERACTED BY PERIODICAL REVIEWS, DETAILED ANALYSES AND THE CORRESPONDING DOCUMENTATION. THE STRATEGIC COOPERATION WITH KEY CUSTOMERS AND RENOWNED RESEARCH AND DEVELOPMENT INSTITUTES IS CONSTANTLY BEING CULTIVATED AND OPTIMIZED.

THE RISK INVOLVED IN THE CORRECT SELECTION OF BASIS TECHNOLOGIES MUST ALSO BE CONSIDERED IN THIS CONTEXT. THIS ISSUE IS SUBJECT TO REGULAR CRITICAL DISCUSSION WITHIN THE MÜHLBAUER GROUP. PARTICULARLY IN THE FIELD OF DRIVE TECHNOLOGY, SOFTWARE AND ELECTRONICS, THIS QUESTION CAN BE DECISIVE FOR THE FUTURE OF A HIGHLY INNOVATIVE COMPANY. IN ORDER TO MINIMIZE THE RISKS, MARKET AND COMPETITION OBSERVATIONS ARE CARRIED OUT IN BOTH TECHNOLOGICAL AND STRATEGIC TERMS.

THE INTRODUCTION OF A PATENT MANAGEMENT SYSTEM IS AIMED AT SUPPORTING THIS IN THE FUTURE BY TAKING PREVENTIVE MEASURES AGAINST THE RISK OF PATENT INFRINGEMENTS, PARTICULARLY IN THE CASE OF NEW DEVELOPMENTS. WITH NEW PRODUCT DEVELOPMENTS AND DIVERSIFICATION OF THE PRODUCT RANGE THERE IS ALSO A RISK THAT CUSTOMER REQUIREMENTS MAY NOT BE GIVEN SUFFICIENT CONSIDERATION WHERE THERE IS A STRONG FOCUS ON STANDARD PRODUCTS. WHERE THERE IS EXCLUSIVE CUSTOMER ORIENTATION, HOWEVER, THERE IS A DANGER THAT DEVELOPMENTS FAIL TO TAKE MARKET REQUIREMENTS INTO ACCOUNT, ALLOWING COMPETITORS TO BE FASTER TO MARKET AND THUS MORE FAVORABLY POSITIONED. IN ORDER TO COUNTERACT THIS RISK, THE COORDINATION PROCESS BETWEEN THE DEPARTMENTS SALES, PRODUCT MANAGEMENT AND DEVELOPMENT IS TO BE FURTHER REINFORCED. IMPULSES AND TARGET SPECIFICATIONS, PARTICULARLY FROM PRODUCT MANAGEMENT, AS WELL AS MARKET INFORMATION ARE ALSO BEING OPTIMIZED.

## **GENERAL RISKS**

THROUGH THE ACQUISITION OF SYSTRONIC GMBH AND TEMA GMBH IN THE BUSINESS YEAR 2002 SPECIAL ATTENTION WAS GIVEN TO THE RISKS OF DATA AVAILABILITY, SECURITY AND INTEGRITY. THE INTEGRATION OF STANDARD OPERATING SYSTEMS, THE GLOBAL NETWORKING OF ALL LOCATIONS AND OF INTERNAL AND EXTERNAL DATA TRANSFER IS A MATTER OF COURSE FOR AN INTERNATIONALLY OPERATING GROUP. IN ORDER TO COPE WITH ALL OF THESE CONTINUOUSLY CHANGING CONDITIONS, THE PRECONDITIONS FOR RAPID AND FLEXIBLE ACTION HAVE TO BE CREATED. THE CONSTANT UPGRADING OF FIREWALLS AND VIRUS PROTECTION PROGRAMS IS ONE OF THE STANDARD MEASURES HERE. SOLUTIONS TO ENSURE OPTIMUM NETWORK STABILITY ARE CONSTANTLY BEING DEVELOPED AND TESTED.

RISKS IN THE AREA OF PERSONNEL DEVELOPMENT ARE COUNTERACTED BY MANAGEMENT BY PURSUING AN ACTIVE AND TARGET-ORIENTED PERSONNEL POLICY. THIS STRATEGY IS SUPPORTED BY THE ECONOMY-RELATED DECLINE IN DEMAND FOR PERSONNEL CAPACITY IN ALMOST ALL INDUSTRIAL SECTORS AND THE ASSOCIATED WILLINGNESS OF PERSONNEL TO ACCEPT HIGHER MOBILITY.

THE MÜHLBAUER GROUP IS PROTECTED FROM THE EXTERNAL RISKS AS A RESULT OF FORCE MAJEURE (STORM, FLOODS, FIRE) IDENTIFIED, ANALYZED AND DOCUMENTED WITHIN THE FRAMEWORK OF THE RISK MANAGEMENT SYSTEM BY INSURANCE. BUILDING SAFETY MEASURES ARE ALSO CARRIED OUT ON A ROUTINE BASIS. EMERGENCY PLANS ARE ELABORATED AND PUBLISHED THROUGHOUT THE GROUP.

THE MANAGEMENT OF THE MÜHLBAUER GROUP IS AWARE OF THE RISK LANDSCAPE WITH ALL THE CHANCES AND RISKS IT INVOLVES. IT WILL CONTINUE TO PURSUE THE STRATEGIC GOAL OF CAPITALIZATION ON THE OPPORTUNITIES BY MAKING ACTIVE ENTREPRENEURIAL DECISIONS WHILE TAKING ACCOUNT OF THE RISKS. TAKING INTO ACCOUNT ALL OF THE INFORMATION AND ANALYSES, THERE ARE CURRENTLY NO RISKS FOR THE MÜHLBAUER GROUP WHICH WOULD HAVE SUCH AN EFFECT ON THE ASSET, FINANCE AND INCOME SITUATION THAT THEY WOULD ENDANGER THE CONTINUED EXISTENCE OF THE COMPANY.

## **OUTLOOK**

### **MARKET POSITIONING FOR FUTURE GROWTH**

IN VIEW OF THE GROWING DEMAND FOR CHIP BASED, SECURITY ORIENTED ID SOLUTIONS, THE MÜHLBAUER GROUP HAS FURTHER INCREASED ITS SPEED, MASSIVELY INTENSIFIED ITS WORLDWIDE SALES AND DISTRIBUTION CHANNELS AND CONSIDERABLY ACCELERATED ITS PRODUCT MARKETING ACTIVITIES IN ORDER TO FURTHER REINFORCE ITS POSITION IN THE WORLD MARKETS. WITH THIS THE COMPANY EXPECTS TO IDENTIFY MARKET TRENDS EVEN EARLIER AND TO TAP INTO AVAILABLE SALES POTENTIALS EVEN FASTER.

PARTICULARLY IN VIEW OF THE ADVANCING WORLDWIDE DECENTRALIZATION PROCESS AND THE INCREASING DEMAND FOR INNOVATIVE AND FOOLPROOF IDENTIFICATION SYSTEMS, MÜHLBAUER EXPECTS AN INCREASE IN THE NUMBER OF INDEPENDENT CUSTOMERS AND A TREND TOWARDS LARGER SYSTEM ORDERS AND TURNKEY PROJECTS. OWING TO ITS TECHNOLOGY LEADERSHIP IN THE ID SECTOR, MÜHLBAUER EXPECTS TO BENEFIT AS A GLOBAL SYSTEM PARTNER OF THIS SECURITY INDUSTRY.

ADDITIONAL INVESTMENT REQUIREMENTS MAY ARISE AS THE DEMAND IS DISTRIBUTED OVER AN INCREASING NUMBER OF APPLICATION OPTIONS. THE GROWING DEMAND FOR INCREASINGLY FLEXIBLE PRODUCTION SYSTEMS REPRESENTS AN EVER-INCREASING CHALLENGE FOR MÜHLBAUER. IN ORDER TO MAINTAIN ITS TECHNOLOGY LEADERSHIP IN THE ID SECTOR AND TO FURTHER REINFORCE ITS COMPETITIVENESS, MÜHLBAUER CONTINUES TO WORK INTENSIVELY ON EXTENDING ITS PRODUCT PORTFOLIO BY NEW INNOVATIVE SOLUTIONS TAILORED TO MEET CUSTOMER REQUIREMENTS. THIS MEANS THAT MÜHLBAUER WILL BENEFIT OVERPROPORTIONALLY FROM ANY ECONOMIC UPSWING.

THE STRATEGIC GOAL HERE IS TO DEVELOP PROFITABLY ON THE BASIS OF ORGANIC GROWTH SUPPORTED BY COOPERATIVE VENTURES AND STRATEGIC ACQUISITIONS.

## **DISCLAIMER**

THIS CORPORATE REPORT CONTAINS FORWARD-LOOKING STATEMENTS BASED ON ASSUMPTIONS AND ESTIMATES OF THE MÜHLBAUER MANAGEMENT. ALTHOUGH WE ASSUME THAT THE EXPECTATIONS CONTAINED IN THESE PROGNOSTIC STATEMENTS ARE REALISTIC, WE CANNOT GUARANTEE THAT THESE EXPECTATIONS WILL PROVE TO BE CORRECT. THE ASSUMPTIONS CAN BE SUBJECT TO RISKS AND UNCERTAINTIES WHICH COULD LEAD TO A SITUATION WHERE THE ACTUAL RESULTS DIFFER MATERIALLY FROM THE PROGNOSTIC STATEMENTS. FACTORS WHICH COULD CAUSE SUCH DEVIATIONS INCLUDE: CHANGES IN THE ECONOMIC AND BUSINESS ENVIRONMENT, CURRENCY AND INTEREST RATE FLUCTUATIONS, INTRODUCTION OF COMPETING PRODUCTS, LACK OF ACCEPTANCE OF NEW PRODUCTS OR SERVICES AND ALTERATIONS IN THE BUSINESS STRATEGY. MÜHLBAUER DOES NOT PLAN TO UPDATE THE FORWARD-LOOKING STATEMENTS NOR DOES THE COMPANY ASSUME ANY OBLIGATIONS TO DO THIS.





#### **CONSOLIDATED FINANCIAL STATEMENTS**

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**CONSOLIDATED STATEMENT OF INCOME (US-GAAP)**  
**FROM JANUARY 01 TO DECEMBER 31, 2002**  
**OF MÜHLBAUER HOLDING AG & CO. KGaA**

	NOTES	JAN. 01 - DEC. 31, 02		JAN. 01 - DEC. 31, 01	
		TEUR	%	TEUR	%
1. SALES	(24)	91,317	100.0	89,422	100.0
2. COST OF SALES		(61,370)	(67.2)	(60,758)	(67.9)
<b>3. GROSS PROFIT</b>		<b>29,947</b>	<b>32.8</b>	<b>28,664</b>	<b>32.1</b>
4. OPERATING EXPENSES					
A) SELLING, GENERAL AND ADMINISTRATIVE		(16,682)	(18.3)	(13,486)	(15.1)
B) RESEARCH AND DEVELOPMENT		(10,761)	(11.8)	(10,244)	(11.5)
<b>5. OPERATING INCOME</b>		<b>2,504</b>	<b>2.7</b>	<b>4,934</b>	<b>5.5</b>
6. OTHER INCOME AND EXPENSES					
A) INTEREST INCOME		1,101	1.2	6,397	7.1
B) INTEREST EXPENSES		(2,290)	(2.5)	(8,317)	(9.3)
C) OTHER INCOME	(25)	3,475	3.8	3,549	4.0
<b>7. INCOME BEFORE INCOME TAXES</b>		<b>4,790</b>	<b>5.2</b>	<b>6,563</b>	<b>7.3</b>
8. INCOME TAXES	(14)	(1,871)	(2.0)	(1,012)	(1.1)
<b>9. ORDINARY INCOME NET OF TAX</b>		<b>2,919</b>	<b>3.2</b>	<b>5,551</b>	<b>6.2</b>
10. EXTRAORDINARY GAINS	(3)	587	0.6	0	0.0
<b>11. NET EARNINGS</b>		<b>3,506</b>	<b>3.8</b>	<b>5,551</b>	<b>6.2</b>
<b>EARNINGS PER COMMON SHARE IN EUR</b>					
BASIC					
ORDINARY INCOME NET OF TAX		0.18		0.35	
EXTRAORDINARY GAINS		0.02		0.00	
NET EARNINGS		0.20		0.35	
FULLY DILUTED					
ORDINARY INCOME NET OF TAX		0.18		0.35	
EXTRAORDINARY GAINS		0.02		0.00	
NET EARNINGS		0.20		0.35	
<b>WEIGHTED AVERAGE OF COMMON SHARES</b>					
BASIC		6,206,620		6,261,165	
FULLY DILUTED		6,207,436		6,275,246	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.



**CONSOLIDATED BALANCE SHEETS (US-GAAP) AS AT DEC. 31, 2002  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	NOTES	DEC. 31, 02 TEUR	DEC. 31, 01 TEUR
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
CASH AND CASH EQUIVALENTS		13,110	2,206
SECURITIES	(5)	2,261	2,592
TRADE RECEIVABLES	(6)	19,161	19,645
INVENTORIES	(7)	43,345	52,132
DEFERRED TAX ASSETS	(14)	804	459
PREPAID EXPENSES		176	120
OTHER CURRENT ASSETS	(8)	978	6,472
		<b>79,835</b>	<b>83,626</b>
<b>INVESTMENT AND LONG-TERM FINANCIAL ASSETS</b>			
SECURITIES	(5)	7,383	7,749
		<b>7,383</b>	<b>7,749</b>
<b>FIXED ASSETS</b>			
LAND	(9)	1,581	1,449
BUILDINGS, NET	(9)	30,044	31,030
TECHNICAL AND OTHER EQUIPMENT, NET	(9)	9,539	12,621
BUILDINGS AND EQUIPMENT IN PROGRESS	(9)	25	69
		<b>41,189</b>	<b>45,169</b>
<b>INTANGIBLE ASSETS</b>			
GOODWILL	(10)	468	468
SOFTWARE UND LICENSES	(10)	557	930
		<b>1,025</b>	<b>1,398</b>
		<b>129,432</b>	<b>137,942</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
SHORT-TERM DEBT	(11)	0	2,308
DEBT MATURING WITHIN ONE YEAR	(12)	1,010	1,174
TRADE PAYABLES		7,038	5,646
DOWNPAYMENTS RECEIVED ON ORDERS		1,604	4,565
SHAREHOLDERS' LOANS		40	43
OTHER CURRENT LIABILITIES	(13)	5,312	4,757
ACCRUALS FOR INCOME TAXES	(14)	760	217
OTHER ACCRUALS	(15)	4,490	4,428
		<b>20,254</b>	<b>23,138</b>
<b>LONG-TERM LIABILITIES</b>			
CONVERTIBLE BONDS		37	39
LONG-TERM DEBT	(16)	3,001	3,883
INVESTMENT GRANTS RECEIVED	(17)	5,832	6,721
DEFERRED TAX LIABILITIES	(14)	1,681	2,013
POSTRETIREMENT AND POSTEMPLOYMENT BENEFIT LIABILITIES	(18)	374	324
		<b>10,925</b>	<b>12,980</b>
<b>STOCKHOLDERS' EQUITY</b>			
COMMON STOCK			
PAR VALUE 1,28; 6,380,000 COMMON SHARES AUTHORIZED; 6,279,200 COMMON SHARES ISSUED;			
(THEREOF 6,108,775 COMMON SHARES OUTSTANDING)	(20)	8,038	8,038
OWN SHARES	(20), (23)	(219)	(22)
FIXED CAPITAL CONTRIBUTIONS	(20)	(2,980)	(2,980)
ADDITIONAL PAID-IN-CAPITAL	(20)	58,351	60,086
RETAINED EARNINGS		34,907	36,442
OTHER COMPREHENSIVE INCOME	(21)	156	260
		<b>98,253</b>	<b>101,824</b>
		<b>129,432</b>	<b>137,942</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

**CONSOLIDATED STATEMENTS OF CASHFLOWS (US-GAAP)  
OF MÜHLBAUER HOLDING AG & Co. KGAA**

	JAN.01, TO DEC. 31, 02 TEUR	JAN.01, TO DEC. 31, 01 TEUR
<b>OPERATING ACTIVITIES</b>		
1. INCOME BEFORE INCOME TAXES INCLUDING PROFIT OF THE PERSONALLY LIABLE SHAREHOLDER	4,790	6,563
2. CONSOLIDATED NET INCOME INCLUDING PROFIT OF THE PERSONALLY LIABLE SHAREHOLDER	3,506	5,551
<b>ADJUSTMENTS TO RECONCILE CONSOLIDATED NET INCOME TO NET CASH (USED IN) PROVIDED BY CURRENT OPERATING ACTIVITIES</b>		
3. +/- EXPENSES (INCOME) FROM THE EMPLOYEE PROFIT-SHARING PROGRAM	(217)	(1,377)
4. +/- EXTRAORDINARY EXPENSES (INCOME) FROM ACQUISITIONS	(587)	0
5. +/- DEPRECIATIONS/(APPRECIATIONS) TO		
- FIXED ASSETS	6,057	6,548
- GOODWILL	0	78
- SOFTWARE AND LICENSES	599	693
6. +/- (GAINS)/LOSSES FROM THE SALE OF OBJECTS FROM THE ASSETS	(5)	(101)
7. - CURRENCY DIFFERENCES FROM THE TRANSITION OF ASSETS	15	2
8. +/- REALIZED NET (GAINS)/LOSSES FROM SECURITIES AND LONG-TERM FINANCIAL ASSETS	497	2,570
9. +/- UNREALIZED (GAINS)/LOSSES FROM SECURITIES (TRADING PAPERS)	668	214
10. - PURCHASE IN SECURITIES (TRADING PAPERS)	(2,822)	(8,711)
11. + SALES OF SECURITIES (TRADING PAPERS)	1,913	10,242
12. +/- (INCREASE)/DECREASE OF TRADE RECEIVABLES	(1,193)	11,356
13. +/- INCREASE/(DECREASE) OF VALUE ADJUSTMENTS FOR TRADE RECEIVABLES	2,030	(133)
14. +/- (INCREASE)/DECREASE OF INVENTORIES	5,625	(9,096)
15. + VALUE ADJUSTMENTS FOR INVENTORIES	3,456	3,217
16. +/- (INCREASE)/DECREASE OF DEFERRED TAX ASSETS	456	70
17. +/- (INCREASE)/DECREASE OF PREPAID EXPENSES	(54)	6
18. +/- (INCREASE)/DECREASE OF OTHER CURRENT ASSETS	5,494	(1,182)
19. +/- INCREASE/(DECREASE) OF TRADE PAYABLES	1,286	(1,135)
20. +/- INCREASE/(DECREASE) OF DOWNPAYMENTS RECEIVED ON ORDERS	(3,030)	1,589
21. +/- INCREASE/(DECREASE) OF OTHER LIABILITIES	385	419
22. +/- INCREASE/(DECREASE) OF ACCRUALS FOR INCOME TAXES	543	(5,109)
23. +/- INCREASE/(DECREASE) OF DEFERRED TAX LIABILITIES	(332)	(178)
24. +/- INCREASE/(DECREASE) OF OTHER ACCRUALS	(53)	(1,118)
25. +/- INCREASE/(DECREASE) OF INVESTMENT GRANTS RECEIVED	(889)	701
26. +/- INCREASE/(DECREASE) OF PENSION LIABILITIES	50	43
27. = CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	23,398	15,159
<b>INVESTING ACTIVITIES</b>		
28. + PAYMENTS RECEIVED FROM DISPOSALS OF OBJECTS OF THE ASSETS	25	192
29. - PURCHASE IN FIXED ASSETS	(2,078)	(12,938)
30. - PURCHASE IN SOFTWARE AND LICENSES	(222)	(161)
31. - PURCHASE IN PARTICIPATION IN COMPANIES (NET OF CASH)	(313)	0
32. - PURCHASE IN SECURITIES (AVAILABLE-FOR-SALE-PAPERS)	(2,437)	(5,276)
33. + SALES OF SECURITIES (AVAILABLE-FOR-SALE-PAPERS)	3,161	8,310
34. = CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(1,864)	(9,872)
<b>FINANCING ACTIVITIES</b>		
35. - REPAYMENT OF LONG-TERM DEBTS	(1,174)	(1,174)
36. +/- INCREASE/(DECREASE) OF SHORT-TERM DEBTS	(2,308)	1,481
37. +/- INCREASE/(DECREASE) OF SHAREHOLDER LOANS	(3)	(10)
38. - EXERCISE/REPAYMENT OF CONVERTIBLE BONDS	(2)	(6)
39. - WITHDRAWAL OF CONVERTIBLE BONDS	0	(4)
40. + PROCEEDS FROM INCREASES OF THE SHARE CAPITAL	0	106
41. - PURCHASE OF OWN SHARES	(2,293)	(204)
42. + SALES OF OWN SHARES	276	474
43. - DIVIDENDS PAID	(4,739)	(7,508)
44. + PAYMENTS ON THE OFFSET ACCOUNT OF THE PERSONALLY LIABLE SHAREHOLDER	0	5
45. = CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(10,243)	(6,840)
46. +/- INCREASE/(DECREASE) OF CURRENCY EXCHANGE RATE CHANGES	(387)	141
47. = NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (TOTAL OF LINES 46, 45, 34 UND 27)	10,904	(1,412)
48. + CASH AND CASH EQUIVALENTS ON JANUARY 1	2,206	3,618
49. = CASH AND CASH EQUIVALENTS ON DECEMBER 31	13,110	2,206
<b>ADDITIONAL CASHFLOW INFORMATION:</b>		
TAX PAID	3,373	10,553
INTEREST PAID	357	529

**Non-cash transactions:**

IN 2002 UNREALIZED GAINS AND LOSSES FROM AVAILABLE-FOR-SALE PAPERS ARE SHOWN UNDER OTHER COMPREHENSIVE INCOME

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

**DEVELOPMENT OF THE CONSOLIDATED SHAREHOLDERS' EQUITY (US-GAAP)  
OF MÜHLBAUER HOLDING AG & CO. KGAA**

	NOTES	NUMBERS OF SHARES	COMMON STOCK TEUR	FIXED CAPITAL TEUR	ADDITIONAL PAID-IN CAPITAL TEUR	RETAINED- EARNINGS TEUR	OTHER COMPREHENSIVE INCOME (LOSS)		TOTAL TEUR
							CUMULATIVE TRANSACTION ADJUSTMENT TEUR	AVAILABLE FOR-SALE SECURITIES TEUR	
<b>BALANCE JAN 01, 2001</b>		<b>3,878,585</b>	<b>4,965</b>	<b>66</b>	<b>61,018</b>	<b>38,468</b>	<b>118</b>	<b>(319)</b>	<b>104,316</b>
CONSOLIDATED NET INCOME			-	-	-	5,551	-	-	5,551
NET INTEREST INCOME OFFSET ACCOUNT PERSONALLY LIABLE SHAREREHOLDERS		-	-	-	-	5	-	-	5
OTHER COMPREHENSIVE INCOME (LOSS)	(20)	-	-	-	-	-	141	320	461
TOTAL COMPREHENSIVE INCOME (LOSS)		-	-	-	-	5,556	141	320	6,017
DEFERRED COMPENSATION	(18)	-	-	-	(1,377)	-	-	-	(1,377)
ISSUANCE OF COMMON STOCK	(18), (19)	2,384,320	3,052	(3,046)	100	-	-	-	106
PURCHASE OF OWN SHARES	(19), (22)	(7,000)	(9)	-	(121)	(74)	-	-	(204)
SALE OF OWN SHARES	(19), (22)	6,559	8	-	466	-	-	-	474
DIVIDENDS		-	-	-	-	(7,508)	-	-	(7,508)
<b>BALANCE DEC. 31, 2001</b>		<b>6,262,464</b>	<b>8,016</b>	<b>(2,980)</b>	<b>60,086</b>	<b>36,442</b>	<b>259</b>	<b>1</b>	<b>101,824</b>
CONSOLIDATED NET INCOME		-	-	-	-	3,506	-	-	3,506
OTHER COMPREHENSIVE INCOME (LOSS)		-	-	-	-	-	(387)	283	(104)
TOTAL COMPREHENSIVE INCOME (LOSS)		-	-	-	-	3,506	(387)	283	3,402
DEFERRED COMPENSATION		-	-	-	(217)	-	-	-	(217)
PURCHASE OF OWN SHARES		168,368	(216)	-	(1,775)	(302)	-	-	(2,293)
SALE OF OWN SHARES		14,679	19	-	257	-	-	-	276
DIVIDENDS		-	-	-	-	(4,739)	-	-	(4,739)
<b>BALANCE DEC. 31, 2002</b>		<b>6,108,775</b>	<b>7,819</b>	<b>(2,980)</b>	<b>58,351</b>	<b>34,907</b>	<b>(128)</b>	<b>284</b>	<b>98,253</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

consolidated financial statements

**DEVELOPMENT OF CONSOLIDATED FIXED ASSETS SCHEDULE (US-GAAP)  
OF MÜHLBAUER HOLDING AG & Co. KGAA**

**GROSS ACQUISITION AND MANUFACTURING COSTS**

	<b>BALANCE JAN.01,2002 TEUR</b>	<b>CURRENCY CHANGES TEUR</b>	<b>ADDITIONS TEUR</b>	<b>DISPOSALS TEUR</b>	<b>BALANCE DEC. 31,2002 TEUR</b>
<b>I. INTANGIBLE ASSETS</b>					
1. OTHER INTANGIBLE ASSETS	4,216	0	226	(0)	4,442
2. GOODWILL	785	0	0	(0)	785
<b>INTANGIBLE ASSETS</b>	<b>5,001</b>	<b>0</b>	<b>226</b>	<b>(0)</b>	<b>5,227</b>
<b>II. PROPERTY, PLANT AND EQUIPMENT</b>					
1. LAND, LEASEHOLD IMPROVEMENTS AND BUILDINGS INCLUDING BUILDINGS ON LAND OWNED BY OTHERS	41,940	0	809	(0)	42,749
2. TECHNICAL EQUIPMENT AND MACHINERY	31,606	0	436	(11)	32,031
3. OTHER EQUIPMENT, FACTORY AND OFFICE EQUIPMENT	15,551	(67)	911	(117)	16,278
4. ADVANCE PAYMENTS RELATING TO PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS	69	0	25	(69)	25
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>89,166</b>	<b>(67)</b>	<b>2,181</b>	<b>(197)</b>	<b>91,083</b>
<b>III. INVESTMENTS AND LONG-TERM FINANCIAL ASSETS</b>					
1. SECURITIES	7,748	0	2,437	(3,170)	7,015
<b>INVESTMENTS AND LONG-TERM FINANCIAL ASSETS</b>	<b>7,748</b>	<b>0</b>	<b>2,437</b>	<b>(3,170)</b>	<b>7,015</b>
<b>TOTAL</b>	<b>101,915</b>	<b>(67)</b>	<b>4,844</b>	<b>(3,367)</b>	<b>103,325</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

ACCUMULATED DEPRECIATION					BOOK VALUE		
BALANCE JAN 01, 2002 TEUR	CURRENCY CHANGES TEUR	ADDITIONS (=DEPRECIATIONS) OF THE FINANCIAL YEAR) TEUR	DISPOSALS TEUR	BALANCE DEC. 31, 2002 TEUR	BALANCE DEC. 31, 2002 TEUR	BALANCE DEC. 31, 2001 TEUR	
3,286	0	599	(0)	3,885	557	930	
317	0	0	(0)	317	468	468	
<b>3,603</b>	<b>0</b>	<b>599</b>	<b>(0)</b>	<b>4,202</b>	<b>1,025</b>	<b>1,398</b>	
9,461	0	1,663	(0)	11,124	31,625	32,479	
23,514	0	2,643	(11)	26,146	5,885	8,092	
11,022	(51)	1,751	(98)	12,624	3,654	4,529	
0	0	0	(0)	0	25	69	
<b>43,997</b>	<b>(51)</b>	<b>6,057</b>	<b>(109)</b>	<b>49,894</b>	<b>41,189</b>	<b>45,169</b>	
(1)	0	(358)	(9)	(368)	7,383	7,749	
<b>(1)</b>	<b>0</b>	<b>(358)</b>	<b>(9)</b>	<b>(368)</b>	<b>7,383</b>	<b>7,749</b>	
<b>47,599</b>	<b>(51)</b>	<b>6,298</b>	<b>(118)</b>	<b>53,728</b>	<b>49,597</b>	<b>54,316</b>	

## **(1) THE COMPANY**

MÜHLBAUER HOLDING AG & Co. KOMMANDITGESELLSCHAFT AUF AKTIEN, RODING ("MÜHLBAUER" OR "COMPANY") IS AN INTERNATIONAL ENTERPRISE THAT DEVELOPS, PRODUCES AND DISTRIBUTES A WIDE RANGE OF SYSTEMS AND TURN-KEY SOLUTIONS FOR THE MANUFACTURE OF

- SMART CARDS — CHIP CARDS, CONTACTLESS CARDS, DUAL-INTERFACE CARDS, SMART-MEDIA/MULTIMEDIA CARDS;
- SMART LABELS — INTELLIGENT LABELS FOR CONTACTLESS DATA TRANSFER;
- SEMICONDUCTOR PRODUCTS FOR A VARIETY OF MICROELECTRONIC APPLICATIONS.

ADDITIONAL SEGMENTS OF ACTIVITY ARE THE MANUFACTURING OF PRODUCTION LINES AND HANDLING SYSTEMS FOR THE ELECTRONICS INDUSTRY, MANUFACTURING OF INDUSTRIAL IMAGE PROCESSING SYSTEMS FOR SEVERAL INDUSTRIES AS WELL AS PRECISION PARTS MANUFACTURING. MÜHLBAUER'S SPECTRUM OF SERVICES ALSO ENCOMPASSES THE DEVELOPMENT AND PRODUCTION OF SYSTEMS FOR THE MANUFACTURE OF CARRIER TAPES FOR THE ELECTRONICS INDUSTRY.

THE COMPANY HAS PRODUCTION PLANTS LOCATED IN THE GERMAN CITIES OF RODING AND STOLLBERG. MÜHLBAUER ALSO OPERATES A NETWORK OF INTERNATIONAL SALES AND SERVICE OFFICES IN THE UNITED KINGDOM, FRANCE, BELARUS, SOUTH AFRICA, CHINA, TAIWAN, AUSTRALIA, MEXICO AND BRAZIL, IN ADDITION TO INDEPENDENT SALES AND SERVICE COMPANIES IN THE USA AND MALAYSIA. ADDITIONALLY, THE COMPANY MAINTAINS CONTACT TO COMMERCIAL AGENCIES IN VARIOUS COUNTRIES.

## **(2) BASIS OF PRESENTATION**

THE COMPANY HAS BEEN LISTED SINCE JULY 10, 1998 ON THE "GEREGELTER MARKT" OF THE FRANKFURT STOCK EXCHANGE AND ON THE NEUER MARKT OF THE DEUTSCHE BÖRSE AG.

THE CONSOLIDATED FINANCIAL STATEMENT WAS PREPARED BASED ON THE FINANCIAL REPORTING STANDARDS USED IN THE USA ("UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES" OR "US-GAAP").

MÜHLBAUER HOLDING AG & Co. KGAA IS A JOINT STOCK COMPANY ACCORDING TO GERMAN LAW. IN ACCORDANCE WITH THE REGULATIONS OF THE GERMAN COMMERCIAL CODE (HGB) AND THE CORPORATION LAW (AKTG) THE COMPANY MUST PREPARE A CONSOLIDATED FINANCIAL STATEMENT BASED ON THE ACCOUNTING REGULATIONS OF THE HGB. ACCORDING TO § 292A HGB A CONSOLIDATED FINANCIAL STATEMENT ACCORDING TO GERMAN LAW IS NOT REQUIRED IF A CONSOLIDATED FINANCIAL STATEMENT BASED ON INTERNATIONAL PRINCIPLES SUCH AS US-GAAP IS SUBMITTED. WITH THE PRESENT CONSOLIDATED FINANCIAL STATEMENT, MÜHLBAUER IS EXEMPT AS DEFINED IN § 292A HGB. IN ORDER TO COMPLY WITH THE PREREQUISITES FOR THE EXEMPTION, THE NOTES CONTAIN ADDITIONAL INFORMATION NOT REQUIRED BY US-GAAP. THE MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT WAS PREPARED IN ACCORDANCE WITH THE REGULATIONS OF § 290 PAR. 1 FF HGB.

ALL NUMERICAL FIGURES CONTAINED IN THIS CONSOLIDATED FINANCIAL STATEMENTS ARE INDICATED IN THOUSAND EURO ("TEUR"), UNLESS EXPLICITLY STATED OTHERWISE. NEGATIVE AMOUNTS ARE INDICATED IN PARENTHESES.

AS AT DECEMBER 31, 2002, THE CONSOLIDATED COMPANIES INCLUDE - BESIDES THE MÜHLBAUER HOLDING AG & Co. KGAA - FIVE (PREVIOUS YEAR: THREE) GERMAN AND TWO FOREIGN SUBSIDIARY COMPANIES LISTED BELOW AS WELL AS THE SPECIAL FUND:

**GERMAN COMPANIES:**

<b>NAME AND REGISTERED OFFICE</b>	<b>INTEREST IN %</b>	<b>EQUITY CAPITAL IN TEUR</b>	<b>RESULT OF THE YEAR IN TEUR</b>
MÜHLBAUER AKTIENGESELLSCHAFT, RODING	100	60,481	877
ASEM PRÄZISIONS-AUTOMATEN-GMBH, DRESDEN	100	792	799
ROMMEL GMBH, EHINGEN	100	3,601	69
SYSTRONIC SYSTEMLÖSUNGEN FÜR DIE ELEKTRONIKINDUSTRIE GMBH, FLEIN <sup>1)</sup>	100	646	(379)
TEMA GMBH, SCHWELM <sup>2)</sup>	100	1,817	1,634
SPECIAL FUND (FUND ASSETS) <sup>3)</sup>	100	10,395	402

**FOREIGN COMPANIES:**

<b>NAME AND REGISTERED OFFICE</b>	<b>INTEREST IN %</b>	<b>EQUITY CAPITAL IN TEUR<sup>4)</sup></b>	<b>RESULT OF THE YEAR IN TEUR<sup>5)</sup></b>
MÜHLBAUER, INC., NEWPORT NEWS, VIRGINIA	100	637	29
MUHLBAUER SDN. BHD., MELAKA, MALAYSIA	100	1,678	269

1) FIRST CONSOLIDATION AT JANUARY 29, 2002

2) FIRST CONSOLIDATION AT OCTOBER 01, 2002

3) FINANCIAL YEAR FROM DEC. 01 TO NOV. 30

4) CONVERSION TO EXCHANGE RATE AT REFERENCE DATE DEC. 31, 2002

5) CONVERSION TO AVERAGE EXCHANGE RATE FROM JAN. 01, 2002 TO DEC. 31, 2002

FURTHER INFORMATION ON THE INDIVIDUAL COMPANIES CAN BE FOUND IN THE NOTES TO THE FINANCIAL STATEMENTS OF THE RESPECTIVE COMPANY ON FILE AT THE COMMERCIAL REGISTRATION OFFICE OF THE CITY OF REGENSBURG, REGISTER NO. HRB 7036.

**(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****BASIS OF CONSOLIDATION**

THE CONSOLIDATED FINANCIAL STATEMENT INCLUDES, IN ADDITION TO MÜHLBAUER, ALL SUBSIDIARIES IN WHICH MÜHLBAUER EXERTS DIRECT OR INDIRECT CONTROL DUE TO THE MAJORITY OF THE VOTING RIGHTS. COMPANIES IN WHICH MÜHLBAUER HAS NO CONTROL, BUT STILL EXERTS CONSIDERABLE INFLUENCE ON THE BUSINESS OPERATIONS ("ASSOCIATED COMPANIES"), ARE ACCOUNTED FOR ACCORDING TO THE EQUITY METHOD. THE EXISTENCE OF SUCH A DECISIVE INFLUENCE IS GENERALLY ASSUMED FOR COMPANIES IN WHICH MÜHLBAUER HAS AN INTEREST OF 20 PERCENT TO 50 PERCENT. SUBSIDIARIES IN WHICH THE COMPANY HAS AN INTEREST OF LESS THAN 20 PERCENT ARE ACCOUNTED FOR AT THE COST OF ACQUISITION LESS ANY EXTRAORDINARY DEPRECIATIONS. AS FAR AS MÜHLBAUER HAS THE OPPORTUNITY TO EXERT A DECISIVE INFLUENCE ON THE BUSINESS OPERATIONS OF THESE COMPANIES, THE EQUITY METHOD IS APPLIED.

ANY MATERIAL TRANSACTIONS BETWEEN THE CONSOLIDATED COMPANIES ARE ELIMINATED FROM THE CONSOLIDATED FINANCIAL STATEMENT.

**CORPORATE MERGERS**

THE BALANCE SHEETS FOR CORPORATE MERGERS ARE PREPARED ACCORDING TO SFAS No. 141 "BUSINESS COMBINATIONS" OF THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) USING THE PURCHASE METHOD. THE ASSETS PURCHASED AND DEBTS TAKEN OVER ARE GIVEN THE RESPECTIVE CURRENT VALUE. A REMAINING POSITIVE DIFFERENCE (GOODWILL) AFTER DISCLOSURE OF HIDDEN RESERVES AND DEBTS FOUND, IS ACTIVATED IN THE BALANCE SHEET. A RESULTING PASSIVE DIFFERENCE, IN SO FAR IT STILL EXISTS AFTER PROPORTIONAL DEDUCTION OF CERTAIN ASSETS OF THE CAPITAL ASSETS, WILL BE RECEIVED AS AN EXTRAORDINARY GAIN TO AFFECT THE RESULT.

### FOREIGN CURRENCY TRANSLATION

THE FUNCTIONAL CURRENCY OF THE SUBSIDIARY COMPANIES IN FOREIGN COUNTRIES IS IN EACH CASE THE LOCAL CURRENCY AT THE LOCALITY OF THE SUBSIDIARY COMPANY. WITH THE EXCEPTION OF STOCKHOLDERS' EQUITY, WHICH IS CONVERTED AT HISTORICAL RATES, ASSETS AND LIABILITIES QUOTED IN FOREIGN CURRENCIES ARE CONVERTED AT THE RATE ON THE BALANCE DAY. THE ITEMS OF THE STATEMENT OF INCOME OF MUHLBAUER SDN. BHD., MELAKA, MALAYSIA, ARE CONVERTED AT AVERAGE RATES, AND THOSE OF MÜHLBAUER, INC., NEWPORT NEWS, VIRGINIA, AT THE RATE ON THE DAY OF EACH TRANSACTION. ANY CONVERSION DIFFERENCES RESULTING THEREFROM ARE LISTED NEUTRALLY WITH REGARD TO SUCCESS AS SEPARATE COMPONENTS IN THE STOCKHOLDERS' EQUITY.

THE FOLLOWING CHART SHOWS THE CONVERSION RATES USED FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENT:

	RATE ON CLOSING DATE		MEAN AVERAGE RATE	
	DECEMBER 31, 2002	DECEMBER 31, 2001	2002	2001
CURRENCY:	EUR	EUR	EUR	EUR
MALAYSIA: 100 MYR	25.0914	29.8151	27.9009	29.4014
USA: 1 USD	0.9539	1.1347	1.0606	1.1169

FOREIGN CURRENCY TRANSACTIONS ARE EACH TRANSLATED WITH THE VALID DAILY RATE AND FOREIGN CURRENCY GAINS AND LOSSES ARE POSTED UNDER THE OTHER OPERATIONAL EARNINGS OR EXPENSES AS AFFECTING THE OPERATING RESULT.

### SALES RECOGNITION

SALES ARE INDICATED LESS CUSTOMER PREMIUMS AND REBATES, UPON DELIVERY OF GOODS OR PERFORMANCE OF SERVICE. A DELIVERY IS DEEMED FULFILLED WHEN RISKS AND OPPORTUNITIES CONNECTED WITH THE GOODS HAVE BEEN TRANSFERRED TO THE PURCHASER. COMMISSION EXPENSES ARE LISTED AS SALES AND DISTRIBUTION COSTS.

### PRODUCT-RELATED COSTS

EXPENDITURES FOR PRODUCT MARKETING AND ADVERTISING AND FOR OTHER SALES-RELATED ACTIVITIES ARE RECORDED AS EXPENSES AS THEY OCCUR. IN THE FISCAL YEAR 2002 THIS TOTALLED 601 TEUR (2001: 1,290 TEUR). GUARANTEE RESERVES ARE FORMED BEGINNING AT THE TIME THE SALES ARE REALIZED. RESEARCH AND DEVELOPMENT COSTS ARE POSTED AS EXPENSES AT THE FULL COST AS THEY OCCUR.

### EARNINGS PER SHARE

IN CALCULATING THE EARNINGS PER SHARE, ALL EFFECTS FROM RIGHTS OF CONVERSION INTO STOCKHOLDERS' EQUITY ARE INCLUDED, IN ACCORDANCE WITH SFAS NO. 128 "EARNINGS PER SHARE". WHEN THIS DILUTION IS APPLIED, TWO CATEGORIES ARE TO BE INDICATED FOR THE EARNINGS PER SHARE. FOR THE CATEGORY "BASIC EARNINGS PER SHARE", DILUTED SHARES ARE NOT TAKEN INTO ACCOUNT; THE CONSOLIDATED EARNINGS ARE DIVIDED BY THE WEIGHTED AVERAGE OF THE ISSUED SHARES. THE CATEGORY "DILUTED EARNINGS PER SHARE", IN ADDITION TO THE WEIGHTED AVERAGE OF SHARES ISSUED, ALSO TAKES INTO ACCOUNT DILUTED SHARES, WHICH ARISE AS A RESULT OF CONVERTIBLE BONDS.

THE CONVERSION OF THE WEIGHTED AVERAGE OF SHARES ISSUED FOR CALCULATION OF THE "BASIC EARNINGS PER SHARE" TO THE WEIGHTED AVERAGE OF THE SHARES ISSUED FOR CALCULATION OF THE "DILUTED EARNINGS PER SHARE" IS CALCULATED AS FOLLOWS:



	<b>2002</b>	<b>2001</b>
	<b>QUANTITY</b>	<b>QUANTITY</b>
WEIGHTED AVERAGE OF SHARES FOR CALCULATION OF THE "BASIC EARNINGS PER SHARE"	6,206,620	6,261,165
DILUTIVE EFFECT OF CONVERTIBLE DEBENTURE STOCK	816	14,081
WEIGHTED AVERAGE OF SHARES FOR CALCULATION OF THE „DILUTED EARNINGS PER SHARE“	<b>6,207,436</b>	<b>6,275,246</b>

#### **CASH AND CASH EQUIVALENTS**

CASH AND CASH EQUIVALENTS REFER TO CURRENT CREDIT BALANCES AT FINANCIAL INSTITUTIONS, CASH ASSETS AND CAPITAL THAT CAN BE LIQUIDIZED ON SHORT NOTICE (ORIGINAL MATURITY OF THREE MONTHS OR LESS).

#### **TRADE RECEIVABLES**

TRADE RECEIVABLES ARE ASSESSED AT THE NOMINAL AMOUNT. DISCERNIBLE RISKS ARE ALLOWED FOR BY APPROPRIATE REVALUATIONS.

#### **INVENTORIES**

INVENTORIES ARE ASSESSED EITHER AT THE COST OF ACQUISITION AND MANUFACTURE OR AT THE LOWER MARKET VALUE. RAW MATERIALS, AUXILIARY AND OPERATIONAL MATERIALS ARE ASSESSED PRIMARILY AT THE FLOATING AVERAGE PRICE.

NON-SELLABLE AND REDUCED-VALUE INVENTORY IS ASSESSED ACCORDING TO THE LOWER-OF-COST-OR-MARKET PRINCIPLE. FINISHED AND UNFINISHED PRODUCTS, INCLUDING ORDER-RELATED DEVELOPMENT TASKS, ARE ASSESSED ACCORDING TO THE PRINCIPLE OF UNIT VALUATION. DIRECT MATERIAL AND PRODUCTION UNIT COSTS AND PROPORTIONAL MATERIAL AND PRODUCTION OVERHEAD COSTS ARE CARRIED AS ASSETS UNDER STANDARD UTILIZATION.

#### **SECURITIES**

NEGOTIABLE SECURITIES ARE ASSESSED BY "SPECIFIC IDENTIFICATION" IN ACCORDANCE WITH SFAS NO. 115 "ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES" AT THE STOCK EXCHANGE OR MARKET PRICE ON THE CLOSING DATE. UNREALIZED GAINS AND LOSSES ARE POSTED AS AFFECTING THE OPERATING RESULT FOR "TRADING" SECURITIES THAT WERE ACQUIRED FOR READY SALE. UNREALIZED PROFITS AND LOSSES FOR SECURITIES THAT ARE NEITHER INTENDED AS A PERMANENT COMPONENT OF THE COMPANY'S ASSETS NOR FOR RESELLING ("AVAILABLE-FOR-SALE" SECURITIES) ARE NOT POSTED AS AFFECTING THE OPERATING RESULT; INSTEAD, THEY ARE INCLUDED IN THE "OTHER COMPREHENSIVE INCOME".

SECURITIES INTENDED AS A PERMANENT COMPONENT OF THE COMPANY'S ASSETS ARE POSTED WITH ITS CONTINUATIVE PURCHASE COSTS ("HELD-TO-MATURITY"). IN CASE OF AVAILABLE-FOR-SALE SECURITIES ARE EXPECTED TO PERMANENTLY DECREASE IN VALUE, THE NEGATIVE DIFFERENCE IS POSTED AS AFFECTING THE OPERATING RESULT.

THE COMPANY DECIDES AT THE TIME ON WHICH SECURITIES ARE PURCHASED, WHICH CATEGORY THEY ARE TO BE PLACED INTO, AND CHECKS UP THIS CLASSIFICATION ON EVERY DATE OF BALANCE.

#### **FIXED ASSETS**

FIXED ASSETS ARE ASSESSED AT THE PURCHASE OR MANUFACTURING COST LESS CUMULATIVE DEPRECIATIONS. THE SCHEDULE DEPRECIATIONS ARE LINEAR, OVER A NORMAL SERVICEABLE LIFE BASED ON CATEGORIES, AS FOLLOWS:

BUILDINGS	10 – 33 YEARS
TECHNICAL EQUIPMENT	5 – 10 YEARS
OTHER EQUIPMENT , FIXTURES AND OFFICE EQUIPMENT	3 – 10 YEARS

COSTS FOR REPLACEMENT PARTS, PERIODIC MAINTENANCE AND REPAIRS ARE RECORDED AS THEY OCCUR BASED ON ACTUAL COSTS. SIGNIFICANT RENEWAL OR EXPANSION INVESTMENTS ARE CARRIED AS ASSETS, IF THEY INCREASE THE USEABLE LIFE OF AN ASSET. IN THE EVENT OF LOSSES IN ASSETS, THE CORRESPONDING HISTORICAL PURCHASE COSTS AND CUMULATIVE DEPRECIATIONS ARE ACCOUNTED FOR AS WRITE-OFFS AND THE DIFFERENCE TO THE SALE PROCEEDS IS POSTED AS A PROFIT OR LOSS UNDER THE OTHER OPERATIONAL EARNINGS OR EXPENSES.

THE ACQUISITION AND MANUFACTURING COSTS OF CERTAIN LONG-TERM CONSTRUCTION PROJECTS CONTAIN CAPITALIZED FINANCING COSTS DURING THE PERIOD OF MANUFACTURE. STARTING AT DATE OF THE INITIAL USE, THESE COSTS ARE DEPRECIATED OVER THE NORMAL USEABLE LIFE OF THE CORRESPONDING ASSET.

#### **INTANGIBLE ASSETS**

ACQUIRED INTANGIBLE ASSETS CONSIST PRIMARILY OF LICENSES AND ACQUIRED TECHNOLOGICAL KNOW-HOW, WHICH ARE CARRIED AS ACQUISITION COSTS AND LINEARLY DEPRECIATED OVER THE EXPECTED USEABLE LIFE OF 3 YEARS.

THE COMPANY HAS BEEN USING SFAS NO. 142 "GOODWILL AND OTHER INTANGIBLE ASSETS" SINCE JANUARY 01,2002. ON THAT DATE THE COMPANY PRESENTED EXCLUSIVELY DEPRECIATED GOODWILL OF 468 TEUR. PURSUANT TO SFAS NO. 142 GOODWILL WILL NOT CONTINUE TO BE DEPRECIATED, BUT WILL BE EXAMINED IN ACCORDANCE WITH THE INSTRUCTIONS OF SFAS NO. 142 AT LEAST ONCE A YEAR FOR ANY DEPRECIATION. IN CONNECTION WITH THE INTRODUCTION OF SFAS NO. 142 THE COMPANY CARRIED OUT AN INVESTIGATION TO SEE, WHETHER THERE WERE ANY REASONS FOR BELIEVING THAT THE GOODWILL RESULTING FROM THE ACQUISITION OF ROMMEL GmbH WAS AFFECTED UNFAVOURABLY IN ITS VALUE AT THAT TIME. FOR THIS EXAMINATION THE COMPANY ESTABLISHED THE ATTRIBUTABLE BOOK-VALUE FOR THE RELEVANT BUSINESS UNIT BY CLASSIFYING GOODS AND SECURITIES, INCLUDING THE EXISTING GOODWILL AND THE INTANGIBLE ASSETS OF THE BUSINESS UNIT AT THE TIME OF APPLICATION. THE COMPANY ESTABLISHED THE MARKET VALUE OF THE BUSINESS UNIT AT THE TIME OF CONVERSION, AND COMPARED THIS WITH THE BOOK-VALUE. THE EXAMINATION, WHICH DID NOT RESULT IN ANY UNPLANNED DEPRECIATION, WAS COMPLETED BY THE COMPANY IN JUNE 2002.

#### **VALUE PRESERVATION OF LONG-TERM ASSETS**

INTANGIBLE ASSETS BEARING A CERTAIN USEFUL LIFE AND OTHER LONG-TERM ASSETS ARE SUBJECTED TO THE "IMPAIRMENT TEST" IN ACCORDANCE WITH SFAS NO. 121 "ACCOUNTING FOR THE IMPAIRMENT OF LONG-TERM ASSETS AND FOR LONG-TERM ASSETS TO BE DISPOSED OF" IF FACTS OR CHANGES IN CIRCUMSTANCES INDICATE THAT THE RESPECTIVE BOOK VALUES ARE NO LONGER VALID. A DECREASE IS TO BE CONSIDERED IF THE TOTAL OF ALL FUTURE NON-DISCOUNTED CASH FLOWS FROM THE UTILIZATION OF THE ASSET IS NOT SUFFICIENT TO COVER THE CORRESPONDING BOOK VALUE. THE BOOK VALUE OF THE RESPECTIVE ASSET IS DEPRECIATED TO THE MARKET VALUE, WHICH IS GENERALLY DETERMINED BASED ON THE DISCOUNTED FUTURE CASH FLOWS.

#### **PENSION AND POSTRETIREMENT BENEFITS**

THE ACCOUNTING AND ASSESSMENT OF RESERVES FOR PENSIONS IS BASED ON THE PENSION REPORT ACCORDING TO THE "PROJECTED UNIT CREDIT METHOD" IN COMPLIANCE WITH SFAS NO. 87 "EMPLOYERS' ACCOUNTING FOR PENSIONS".

#### **OTHER ACCRUALS**

ACCRUALS ARE FORMED IF AN OBLIGATION TOWARD THIRD PARTIES EXISTS ON THE CLOSING

DATE. THE ASSESSMENT OF THE OTHER ACCRUALS IS BASED ON THE FACTS ON THE BALANCE SHEET DATE AND ANY INFORMATION OR EVENTS THAT COME TO LIGHT AFTER THE CLOSING DATE. THE CALCULATION OF THE CONTINGENCY ACCRUAL IS BASED ON A VARIABLE PERCENTAGE OF THE GUARANTEED REVENUE, WHICH IS CALCULATED BASED ON PAST EXPERIENCE WITH A CERTAIN PROBABILITY FOR SERVICE UNDER A GUARANTEE.

#### **INCOME TAX**

THE COMPANY APPLIES SFAS NO. 109 "ACCOUNTING FOR INCOME TAXES". ACCORDING TO THE LIABILITIES METHOD, DEFERRED TAXES AND RESERVES FOR DEFERRED TAXES ARE FORMED FOR THE EXPECTED TAX LIABILITIES RESULTING FROM THE DIFFERENCES IN ASSETS AND LIABILITIES BETWEEN THE CONSOLIDATED BOOK VALUES AND THE TAX VALUES. THE APPLICABLE TAX RATES AND TAX REGULATIONS ARE USED THAT ARE VALID AT THE TIME THESE DIFFERENCES ARE ELIMINATED. DEBIT-SIDE TAXES ARE EXAMINED FOR FUTURE REALIZABILITY AND DEPRECIATED, IF NECESSARY.

AS FAR AS SHARES IN INCORPORATED BODIES CAN BE SOLD TAX-EXEMPT IN GERMANY BEGINNING JANUARY 01, 2002 DUE TO NEW LEGISLATURE, THIS TAX EXEMPTION WAS TAKEN INTO ACCOUNT IN DETERMINING DEFERRED TAXES AS AT DECEMBER 31, 2002.

THE PERSONALLY LIABLE SHAREHOLDER IS SUBJECT ONLY TO TRADE TAX WITHIN THE COMPANY. THE TAXATION OF HIS SHARE OF PROFITS WITH RESPECT TO CORPORATION TAX AND SOLIDARITY TAX IS WITHIN THE PERSONAL REALM OF THE PERSONALLY LIABLE SHAREHOLDER, IN WHICH THE APPLICABLE INDIVIDUAL TAX RATES ARE USED.

#### **INVESTMENT GRANTS RECEIVED**

TAX-EXEMPT INVESTMENT GRANTS RECEIVED ARE RECORDED AS INCOME AT THE TIME OF LAWFUL CLAIM. TAXABLE INVESTMENT SUBSIDIES FOR FIXED INTANGIBLE ASSETS ARE DEFERRED AND ASSIGNED AS INCOME CONGRUENT TO THE CORRESPONDING EXPENSES FOR THE PERIOD. THE INVESTMENT GRANTS ALLOCATED TO THE RESEARCH AND DEVELOPMENT OF NEW PRODUCTS AND PROCESSES ARE ASSIGNED AS INCOME AFFECTING THE OPERATING RESULT ANALOGOUS TO THE RELATED COSTS INCURRED IN THE RESPECTIVE PERIOD.

#### **STOCK COMPENSATION PLAN**

THE COMPANY ACCOUNTS FOR ITS OBLIGATIONS FROM SHARE OPTION PLANS ACCORDING TO APB 25 "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES" AND ALSO PUBLISHES THE SUPPLEMENTARY INFORMATION REQUIRED BY SFAS NO. 123 "ACCOUNTING FOR STOCK-BASED COMPENSATION".

#### **USE OF ESTIMATES AND ASSUMPTIONS**

THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENT REQUIRES, TO A CERTAIN DEGREE, ESTIMATES AND ASSUMPTIONS BY THE MANAGEMENT. THESE ESTIMATES AND ASSUMPTIONS AFFECT THE PRESENTATION OF ASSETS AND LIABILITIES, THE STATEMENT OF EVENTUAL LIABILITIES ON THE BALANCE SHEET DATE AND THE PRESENTATION OF PROFITS AND EXPENSES FOR THE REPORTING PERIOD. THE ACTUAL AMOUNTS CAN DEVIATE FROM THE ESTIMATES.

#### **RECENT FINANCIAL REPORTING REGULATIONS**

IN JUNE 2001 THE FASB PUBLISHED THE SFAS NO. 143 "ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS", WHICH ADDRESSES THE REPORTING OF LIABILITIES FROM THE RETIREMENT OF LONG-TERM ASSETS AND THE CORRESPONDING RETIREMENT COSTS.

THIS STANDARD CAN BE APPLIED TO ALL LIABILITIES CONNECTED WITH THE TERMINATION OF LONG-TERM ASSETS FROM ACQUISITIONS, CONSTRUCTION, DEVELOPMENT AND/OR NORMAL USE OF THE ASSET. THE STANDARD IS TO BE APPLIED BY ALL COMPANIES FOR BUSINESS YEARS BEGINNING AFTER JUNE 15, 2002.

IN JUNE 2002 THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) ISSUED SFAS NO. 146 "ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES", WHICH CONTAINS THE BOOK-KEEPER'S MARSHALLING AND BALANCING OF EXPENSES WHICH ARISE FROM THE SALE OF COMPANY ITEMS, AND CANCELS THE REGULATIONS ABOUT THE EMERGING ISSUE TASK FORCE ("EITF") ISSUE NO. 94-3 "THE MARSHALLING OF OBLIGATIONS ON SPECIFIC PERSONNEL REDUCTION MEASURES AND OTHER EXPENSES IN CONNECTION WITH THE CLOSING DOWN OF A BUSINESS (INCLUDING CERTAIN EXPENSES FOR RESTRUCTURING MEASURES)". SFAS 146 CAN BE APPLIED ON THE CLOSING DOWN OR THE SALE OF COMPANY ITEMS WHICH ARE INITIATED AFTER DECEMBER 31, 2002 AND REQUIRES THAT AN OBLIGATION FOR EXPENSES IN CONNECTION WITH THE CLOSURE OR THE SALE OF COMPANY ITEMS IS NOT SET UP BEFORE THEN AND IS ASSESSED WITH THE MARKET VALUE WHEN THE OBLIGATION HAS BEEN SET UP. PURSUANT TO THE INSTRUCTIONS OF EITF NO. 94-3 IT WAS ALREADY POSSIBLE TO RECORD AN OBLIGATION FOR RESIGNATION COSTS AT THAT TIME WHEN THE COMPANY HAD PLACED ITSELF UNDER THE OBLIGATION TO CLOSE DOWN OR SELL.

IN DECEMBER 2002 THE FASB PUBLISHED THE SFAS NO. 148 "ACCOUNTING FOR STOCK-BASED COMPENSATION – TRANSITION AND DISCLOSURE". THIS DECLARATION ALTERS SFAS NO. 123 "ACCOUNTING FOR STOCK-BASED COMPENSATION" IN ORDER TO MAKE ALTERNATIVE TRANSFER-PATHS AVAILABLE TO A VOLUNTARY CHANGE TO FAIR-VALUE-BASED BALANCING METHODS FOR SHARE-BASED PAYMENT SYSTEMS. IN ADDITION, THIS DECLARATION ALTERS THE DISCLOSURE REQUIREMENTS OF STATEMENT 123 AND REQUIRES DISCLOSURE AT A PROMINENT POSITION BOTH IN THE ANNUAL FINANCIAL STATEMENTS AND THE INTERIM BALANCE SHEETS FOR THE BALANCING METHOD FOR SHARE-BASED PAYMENT SYSTEMS AND THE EFFECT OF THIS METHOD ON THE ANNOUNCED RESULTS.

MÜHLBAUER HAS EXAMINED THE NEW REGULATIONS AND EXPECTS, THAT THE FIRST APPLICATION OF THESE STANDARDS WILL NOT HAVE ANY GREAT EFFECT ON THE BUSINESS TRANSACTIONS BALANCED UP TO THE DEADLINE.

IN NOVEMBER 2002, THE FASB PUBLISHED THE INTERPRETATION NO. 45 "GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS". THIS INTERPRETATION DEMANDS EXTENDED INFORMATION IN THE APPENDICES CONCERNING THE SCOPE OF THE OBLIGATIONS ENTERED INTO BY THE GUARANTOR IN THE ANNUAL ACCOUNTS AND THAT THE MARKET VALUE WITHIN THE FRAMEWORK OF OBLIGATIONS ENTERED INTO IN GUARANTEES IS SHOWN AS OBLIGATIONS IN THE BALANCE SHEET.

IN JANUARY 2003 THE FASB PUBLISHED THE INTERPRETATION NO. 46 "CONSOLIDATION OF VARIABLE INTEREST ENTITIES". THIS INTERPRETATION DEFINES WHEN A COMPANY IS RECOGNIZED AS A "VARIABLE INTEREST ENTITY" - "VIE" AND WHEN THIS TYPE OF VARIABLE INTEREST ENTITY IS TO BE INCLUDED IN THE GROUP ACCOUNTS.

IN NOVEMBER 2002, THE EMERGING ISSUES TASK FORCE (EITF) ACHIEVED A CLOSING CONSENSUS CONCERNING THE EITF PAPER NO. 00-21 "REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES". THIS PAPER DEALS WITH CERTAIN ASPECTS OF BALANCE SHEET PREPARATION FOR SO-CALLED MULTI-DELIVERABLE TRANSACTIONS AND ESPECIALLY THE REGULATION WHETHER AN AGREEMENT REGARDING A MULTI-DELIVERABLE TRANSACTION CONTAINS A NUMBER OF INDIVIDUAL PERFORMANCES. THIS PAPER ALSO SPECIFIES HOW THE COUNTER PERFORMANCE IS TO BE MEASURED AND DISTRIBUTED AMONGST THE RESPECTIVE INDIVIDUAL PERFORMANCES OF THE MULTI-COMPONENT TRANSACTION. THE INFORMATION CONTAINED IN THIS PAPER IS TO BE APPLIED TO ALL TRADING TRANSACTIONS AFTER JUNE 15, 2003. ALTERNATIVELY THE NEW REGULATIONS CAN ALSO BE APPLIED TO EXISTING TRADING TRANSACTIONS WHEREBY ANY POSSIBLE RESULTING EFFECTS MUST BE SHOWN AS "CUMULATED EFFECT FROM CHANGES OF BALANCE SHEET PRINCIPLES".

THE COMPANY IS CURRENTLY EVALUATING THE EFFECTS OF FASB INTERPRETATION NO. 45 AND 46 AND EITF NO. 00-21 ON ITS FINANCIAL STATEMENTS.

**(4) ACQUISITIONS**

ON JANUARY 29, 2002 THE COMPANY FOUNDED THE SYSTRONIC SYSTEMLÖSUNGEN FÜR DIE ELEKTRONIKINDUSTRIE GMBH, WHOSE REGISTERED OFFICE IS IN FLEIN. THE TARGET IS TO DEVELOP, MANUFACTURE, AND MARKET INNOVATIVE MANUFACTURING SYSTEMS AND CUSTOMER-ORIENTATED SOLUTIONS FOR THE ELECTRONICS INDUSTRY. FOR THIS PURPOSE THE NEWLY-FOUNDED COMPANY PURCHASED IN THE COURSE OF AN ASSET DEAL THE INTANGIBLE ASSETS, THE MOVABLE OBJECTS, INVENTORIES AND THE VOLUME OF ORDERS FROM THE INSOLVENT SYSTRONIC SYSTEMLÖSUNGEN FÜR DIE ELEKTRONIKPRODUKTION GMBH AND TOOK OVER THE STAFF EMPLOYED THERE. THE SITE OF LAND WITH THE PRODUCTION AND ADMINISTRATION BUILDING LOCATED THEREON WAS PURCHASED BY MÜHLBAUER HOLDING AG & Co. KGaA AND HANDED OVER TO THE NEWLY FOUNDED COMPANY FOR USE WITHIN THE COURSE OF A LEASING RELATIONSHIP. THE PURCHASE PRICE FOR THE ASSETS PURCHASED WAS 1,815 TEUR AND WAS PAYABLE IN PARTIAL AMOUNTS OF 524 TEUR ON JUNE 30, 2002 AND 1,291 TEUR ON DECEMBER 31, 2002.

ON OCTOBER 10, 2002 THE COMPANY PURCHASED ALL THE COMPANY SHARES OF TEMA GMBH WHOSE REGISTERED OFFICE IS IN SCHWELM. THIS COMPANY, WHICH WAS FOUNDED IN 1976, AND HAD BEEN ENGAGED IN THE FIELD OF INDUSTRIAL IMAGE PROCESSING SINCE THE MID-EIGHTIES, HAD AT ITS DISPOSAL IN PARTICULAR VALUABLE KNOW-HOW IN THE FIELD OF OPTICAL INSPECTION. WITH ITS HIGHLY QUALIFIED STAFF, TEMA GMBH DEVELOPED MODULARLY USABLE COMPLETE SYSTEMS FOR THE SECURITY, DOCUMENTATION, AND OPTIMIZATION OF THE PRODUCTION PROCESS, WHICH WERE TO LEAD TO A CONSIDERABLE INCREASE IN EFFICIENCY, THUS RESULTING IN WORLD-WIDE APPLICATION. WITH REGARD TO THE SECURITY ASPECT IN PARTICULAR, THE QUALITY ASSURANCE AND ALSO THE RELIABILITY OF ALL THE SYSTEMS CAN BE CLEARLY IMPROVED ON BY MEANS OF THE BROADLY APPLICABLE OPTICONTROL SYSTEMS – THESE ARE OPTICALLY BASED HIGH-TECH CONTROL MODULES. THE TOTAL PURCHASE PRICE WAS 361 TEUR.

THE TIME VALUES OF THE ASSETS AND LIABILITIES AT THE TIME OF THE TAKE-OVER BREAK DOWN AS FOLLOWS:

	<b>TIME VALUE AT THE TIME OF PURCHASE IN TEUR</b>
CASH	48
OTHER CURRENT ASSETS	1,450
FIXED ASSETS	34
INTANGIBLE ASSETS	1,405
TOTAL OF PURCHASED ASSETS	2,937
TOTAL OF TAKEN-OVER LIABILITIES	(1,138)
<b>PURCHASED NET ASSET</b>	<b>1,799</b>

THE ACQUISITION DESCRIBED ABOVE WAS BALANCED IN ACCORDANCE WITH THE PURCHASING METHOD. ACCORDING TO THAT, THE GROUP'S STATEMENT OF INCOME CONTAINS THE RESULTS AS FROM OCTOBER 01, 2002. THE TIME VALUES OF THE ASSETS AND LIABILITIES AT THE TIME OF PURCHASE WERE REDUCED BY A TOTAL OF 851 TEUR PURSUANT TO SFAS NO. 141 "BUSINESS COMBINATIONS". THE SUM OF MONEY BY WHICH THE TIME-VALUE OF THE PURCHASED NET PROPERTY, WHICH IS TO BE TAKEN INTO CONSIDERATION AFTER REDUCTION, EXCEEDS THE PURCHASE PRICE, WAS COLLECTED AS AN EXTRAORDINARY SUM AS AFFECTING NET INCOME

**(5) SECURITIES AND LONG-TERM FINANCIAL ASSETS**

THE ACQUISITION COSTS AND MARKET VALUES OF THE DEBT INSTRUMENTS AND SECURITIES WITH EQUITY INTERESTS PRESENTED UNDER "SECURITIES" AND "FINANCIAL ASSETS" BREAK DOWN AS FOLLOWS:

	DECEMBER 31, 2002				DECEMBER 31, 2001			
	ACQUISITION-COSTS TEUR	UNREALIZED GAIN TEUR	UNREALIZED LOSS TEUR	EXCHANGE/ COSTS TEUR	ACQUISITION-COSTS TEUR	UNREALIZED GAIN TEUR	UNREALIZED LOSS TEUR	EXCHANGE/ MARKET VALUE TEUR
<b>TRADING</b>								
SHARES	3,242	5	(986)	2,261	2,912	183	(503)	2,592
DECREASE DUE TO REALLOCATION	(3,242)	(5)	(986)	(2,261)	-	-	-	-
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,912</b>	<b>183</b>	<b>(503)</b>	<b>2,592</b>
<b>AVAILABLE-FOR-SALE</b>								
DEBT INSTRUMENTS	7,015	368	0	7,383	7,748	77	(76)	7,749
SHARES								
INCREASE DUE TO REALLOCATION	2,261	-	-	2,261	-	-	-	-
<b>TOTAL</b>	<b>9,276</b>	<b>368</b>	<b>0</b>	<b>9,644</b>	<b>7,748</b>	<b>77</b>	<b>(76)</b>	<b>7,749</b>
	<b>9,276</b>	<b>368</b>	<b>0</b>	<b>9,644</b>	<b>10,660</b>	<b>260</b>	<b>(579)</b>	<b>10,341</b>

THE SHARE INSTRUMENT HITHERTO LISTED UNDER THE "TRADING" SECURITIES WERE REORGANIZED BY DECEMBER 31, 2002 INTO "AVAILABLE-FOR-SALE" SECURITIES AT THE MARKET VALUE.

THE FOLLOWING TABLE PRESENTS THE COSTS OF ACQUISITION AND THE MARKET PRICE OF THE DEBT INSTRUMENTS AT THE END OF THE YEAR AFTER THE RESIDUAL TERM:  
EXCHANGE/

	DECEMBER 31, 2002		DECEMBER 31, 2001	
	ACQUISITION COSTS TEUR	EXCHANGE-/ MARKET VALUE TEUR	ACQUISITION COSTS TEUR	EXCHANGE-/ MARKET VALUE TEUR
DEBT INSTRUMENTS DUE				
WITHIN ONE YEAR	0	0	1,077	1,058
BETWEEN 2 AND 5 YEARS	2,254	2,365	2,106	2,149
BETWEEN 6 AND 10 YEARS	4,265	4,516	4,565	4,542
AFTER 10 YEARS	496	502	0	0
	<b>7,015</b>	<b>7,383</b>	<b>7,748</b>	<b>7,749</b>

THE ACTUAL DUE-DATES CAN VARY DUE TO SELLING OR REPAYMENT RIGHTS.

THE GAINS FROM THE DECREASE OF THE DEBT INSTRUMENTS WERE 3,161 TEUR (2001: 8,310 TEUR). THE GAINS REALISED THEREFROM IN THE YEAR OF THE REPORT WERE 32 TEUR, THE LOSSES WERE 41 TEUR (2001: 377 TEUR). PROFITS FROM THE SALES OF SHARES IN THE REPORTED YEAR WERE 1,913 TEUR (2001: 10,242 TEUR). THE GAINS REALIZED THEREFROM WERE 198 TEUR (2001: 944 TEUR), AND THE LOSSES REALISED WERE 686 TEUR (2001: 3,513 TEUR). THE MARKET VALUES OF THE DEBT INSTRUMENTS CONTAIN UNREALIZED PROFITS TO THE VALUE OF 368 TEUR (2001: 1 TEUR). THE UNREALIZED LOSSES FROM PRESENT SHARES WERE 981 TEUR IN THE REPORT YEAR (2001: 320 TEUR).

## (6) TRADE RECEIVABLES

TRADE RECEIVABLES AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS:

	DEC. 31, 2002 TEUR	DEC. 31, 2001 TEUR
GROSS VALUE OF THE TRADE RECEIVABLES	22,945	21,402
LESS VALUE ADJUSTMENTS	(3,784)	(1,757)
	<b>19,161</b>	<b>19,645</b>

ALL TRADE RECEIVABLES HAVE A RESIDUAL TERM OF LESS THAN ONE YEAR.

**(7) INVENTORIES**

THE INVENTORIES AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS:

	<b>DEC. 31, 2002</b>	<b>DEC. 31, 2001</b>
	<b>TEUR</b>	<b>TEUR</b>
RAW MATERIALS, AUXILIARY AND OPERATING MATERIALS INCL. PRE-PAYMENTS FOR MATERIALS	5,640	6,016
UNFINISHED PRODUCTS	21,905	33,129
FINISHED PRODUCTS	15,800	12,987
	<b>43,345</b>	<b>52,132</b>

IN THE REPORTING YEARS 2002 AND 2001 THE COMPANY ADJUSTED THE VALUE OF INVENTORIES FOR THE AMOUNT OF 3,456 TEUR AND 3,217 TEUR.

**(8) OTHER CURRENT ASSETS**

THE OTHER CURRENT ASSETS AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS:

	<b>DEC. 31, 2002</b>	<b>DEC. 31, 2001</b>
	<b>TEUR</b>	<b>TEUR</b>
INVESTMENT AND TECHNOLOGY GRANTS	411	346
INTEREST DEMANDS	188	196
PRE-PAYMENTS PAID	171	120
TAX ACCRUALS	59	5,148
INVESTMENT PREMIUMS	30	531
OTHER	119	131
	<b>978</b>	<b>6,472</b>

**(9) FIXED ASSETS**

THE BREAKDOWN OF THE FIXED ASSETS AS AT DECEMBER 31, 2002 AND 2001 IS PRESENTED IN THE FOLLOWING OVERVIEW:

	<b>DEC. 31, 2002</b>	<b>DEC. 31, 2001</b>
	<b>TEUR</b>	<b>TEUR</b>
ACQUISITION COSTS		
LAND	1,581	1,449
BUILDINGS	41,168	40,491
OTHER FACILITIES, FIXTURES AND OFFICE EQUIPMENT	48,309	47,157
BUILDINGS AND EQUIPMENT UNDER CONSTRUCTION	25	69
	91,083	89,166
CUMULATIVE DEPRECIATIONS FROM PREVIOUS YEARS	43,837	37,449
DEPRECIATIONS FOR THE FINANCIAL YEAR	6,057	6,548
	<b>41,189</b>	<b>45,169</b>

ANY RESTRAINTS ON DISPOSAL ARISE FROM NOTE (16)

## (10) INTANGIBLE ASSETS

THE INTANGIBLE ASSETS AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS:

	<b>DEC. 31, 2002</b>	<b>DEC. 31, 2001</b>
	<b>TEUR</b>	<b>TEUR</b>
SOFTWARE (DERIVATIVE)	3,566	3,340
SALES LICENSE	876	876
GOODWILL	785	785
	5,227	5,001
CUMULATIVE DEPRECIATIONS FROM PREVIOUS YEARS	3,603	2,832
DEPRECIATIONS FOR THE FINANCIAL YEAR	599	771
	<b>1,025</b>	<b>1,398</b>

IN ACCORDANCE WITH SFAS No. 141 „BUSINESS COMBINATIONS“, THE COMPANY DID NOT EXECUTE SCHEDULED DEPRECIATIONS IN THE REPORTING YEAR. PREVIOUS YEAR, THE SCHEDULED DEPRECIATIONS TOTALLED 78 TEUR. WITHOUT CONSIDERATION OF AMORTIZATIONS MADE, IN THE PREVIOUS YEAR (PRO-FORMA) NET EARNINGS OF 5,629 TEUR HAVE HAD RESULTED.

## (11) SHORT-TERM DEBTS

THE COMPANY HAS AGREED ON MUTUALLY INDEPENDENT SHORT-TERM CREDIT LINES WITH SEVERAL FINANCIAL INSTITUTIONS FOR THE EXPECTED FINANCING REQUIREMENTS. THESE CREDIT LINES WERE 34,000 TEUR AND 51,033 TEUR BY DECEMBER 31, 2002 AND 2001 RESPECTIVELY, AND ARE UNSECURED. OF THESE, 31,335 TEUR AND 45,280 TEUR WERE AVAILABLE BY DECEMBER 31, 2002 AND 2001 RESPECTIVELY.

THE TOTAL SUM OF INTEREST PAYMENTS FOR SHORT-TERM CREDIT CLAIMS WAS 74 TEUR AND 179 TEUR IN 2002 AND 2001 RESPECTIVELY. INTEREST PAYMENTS WERE MADE EITHER MONTHLY OR QUARTERLY, IN ACCORDANCE WITH THE AGREEMENTS DRAWN UP WITH THE VARIOUS BANKS. THE AVERAGE INTEREST RATE FOR SHORT-TERM DEBTS WAS 5.10 % ON DECEMBER 31, 2002 AND 5.51 % FOR 2001.

## (12) DEBTS MATURING WITHIN ONE YEAR

THE DEBTS MATURING WITHIN ONE YEAR HAVE THE FOLLOWING MATURITIES:

	<b>2002</b>	<b>2001</b>
	<b>TEUR</b>	<b>TEUR</b>
1ST QUARTER	19	183
2ND QUARTER	486	500
3RD QUARTER	19	6
4TH QUARTER	486	485
	<b>1,010</b>	<b>1,174</b>

INTEREST IS PAID, ACCORDING TO THE AGREEMENTS WITH VARIOUS BANKS, EITHER MONTHLY, QUARTERLY OR SEMI-ANNUALLY. WITH RESPECT TO THE SECURITIES PROVIDED WE REFER TO NOTE 16.



**(13) OTHER CURRENT LIABILITIES**

THE OTHER CURRENT LIABILITIES AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS:

	<b>DEC. 31, 2002</b>	<b>DEC. 31, 2001</b>
	<b>TEUR</b>	<b>TEUR</b>
WAGES AND SALARIES	2,026	1,933
SOCIAL SECURITY CONTRIBUTIONS	1,268	1,250
INCOME TAX ON SALARIES AND WAGES	740	676
GRANTS	553	576
TAXES	392	0
COMMISSIONS	76	159
WEALTH CREATION	47	43
OTHER	210	120
	<b>5,312</b>	<b>4,757</b>

**(14) INCOME TAX**

THE EXPENDITURES (PROCEEDS) FROM INCOME TAXES ARE DETERMINED FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2002 AND 2001 AS FOLLOWS:

	<b>DEC. 31, 2002</b>	<b>DEC. 31, 2001</b>
	<b>TEUR</b>	<b>TEUR</b>
GERMAN CORPORATION TAX	765	402
GERMAN SOLIDARITY TAX	41	(17)
GERMAN TRADE TAX	925	772
FOREIGN INCOME TAX	103	41
<b>CURRENT TAXES</b>	<b>1,834</b>	<b>1,198</b>
DEFERRED TAX EARNINGS	37	(186)
<b>TOTAL</b>	<b>1,871</b>	<b>1,012</b>
OF TOTAL		
GERMANY	1,777	1,057
FOREIGN	94	(45)

THE FOLLOWING CHART SHOWS A TRANSITIONAL CALCULATION FROM THE EXPECTED TAX EXPENDITURE TO THE ACTUAL TAX EXPENDITURE PRESENTED IN THE FINANCIAL STATEMENT. TO DETERMINE THE EXPECTED TAX EXPENDITURE, THE EFFECTIVE CORPORATION TAX OF 26.375 PERCENT FOR THE FINANCIAL YEAR 2002 (PREVIOUS YEAR: 26.375 PERCENT) WAS MULTIPLIED BY THE EARNINGS AFTER TRADE TAX.

	DEC. 31, 2002		DEC. 31, 2001	
	TEUR	IN %	TEUR	IN %
EARNINGS BEFORE TAX (EBT)	4,790	100.0	6,563	100.0
TRADE TAX EXPENDITURE	(885)	(18.5)	(430)	(6.6)
<b>EARNINGS AFTER TRADE TAX</b>	<b>3,905</b>	<b>81.5</b>	<b>6,133</b>	<b>93.4</b>
EXPECTED CORPORATION TAX EXPENDITURE (INCL. SOLIDARITY TAX)	(1,030)	(26.4)	(1,618)	(26.4)
PRODUCTION OF TAX ON DIVIDENDS	(394)	(10.1)	0	0.0
NON-TAX-DEDUCTIBLE EXPENDITURES	(283)	(7.3)	(4)	(0.1)
TAX DIFFERENCE (FOREIGN )	(60)	(1.5)	(83)	(1.4)
NON-TAX-DEDUCTIBLE DEPRECIATION ON GOODWILL	0	0.0	(21)	(0.3)
TAX-EXEMPT EARNINGS	70	1.8	540	8.8
DEDUCTIBLE TAXES	125	3.2	236	3.9
TAX PROFIT ON INTERMEDIATE GAIN ELIMINATION	300	7.7	0	0.0
OTHER	(11)	(0.3)	(40)	(0.6)
CORPORATION TAX EXPENDITURE (INCL. SOLIDARITY TAX)	(1,283)	(32.9)	(990)	(16.1)
<b>TAX EXPENDITURE BEFORE TAX REDUCTION FROM EARNINGS SHARE</b>	<b>(2,168)</b>	<b>(45.3)</b>	<b>(1,420)</b>	<b>(21.6)</b>
TAX RELIEF ON EARNINGS SHARE OF THE PERSONALLY LIABLE SHAREHOLDER	297	6.2	408	6.2
<b>TAX EXPENDITURE</b>	<b>(1,871)</b>	<b>(39.1)</b>	<b>(1,012)</b>	<b>(15.4)</b>

THE TAX RELIEF ON THE EARNINGS SHARE OF THE PERSONALLY LIABLE SHAREHOLDER ORIGINATES DUE TO THE FACT THAT THE CORPORATION TAX AND THE SOLIDARITY TAX ON THE EARNINGS SHARE OF THE PERSONALLY LIABLE SHAREHOLDER MUST NOT BE INDICATED IN THE COMPANY FINANCIAL STATEMENT. THESE TAXES ARE ALLOCATED DIRECTLY TO THE PERSONALLY LIABLE SHAREHOLDER AND ARE PAID BY HIM SEPARATELY – INDEPENDENT OF THE APPLICABLE TAX RATES FOR THE COMPANY. THE PERCENTAGE OF THE TAX EXPENDITURE BEFORE TAX REDUCTION FROM THE EARNINGS SHARE OF THE PERSONALLY LIABLE SHAREHOLDER (45.3 PERCENT) IS THEREFORE THE SAME AS THE EFFECTIVE RATE OF TAXATION TO BE APPLIED TO THE PROFITS TO BE ALLOCATED TO THE LIMITED LIABILITY SHAREHOLDERS. IN THE PREVIOUS YEAR THIS WAS 21.6 PERCENT.

IN CALCULATING THE FOREIGN DEFERRED TAXES, THE LOCAL APPLICABLE TAX RATE WAS USED. FOR DEFERRED TAXES IN GERMANY, THE FOLLOWING TAX RATES WERE USED:

- 14.95 %<sup>1)</sup> FOR TRADE TAX
- 26.38 % FOR CORPORATION TAX AND CORRESPONDING SOLIDARITY TAX (5.50 PERCENT).

1) AVERAGE TAX RATE OF NATIONAL OPERATIONAL FACILITIES

THE TOTAL TAX BURDEN WAS REDUCED BY THE RETURN OF PREVIOUSLY PAID TAXES OF 86 TEUR (PREVIOUS YEAR: 328 TEUR). TAX LOSSES CARRIED FORWARD ARE TREATED AS TAX REDUCTIONS AND ARE INCLUDED IN THE DETERMINATION OF THE DEFERRED TAXES. THESE TAX LOSSES CARRIED FORWARD (414 TEUR) – NOTWITHSTANDING CHANGES IN LEGISLATION – CAN BE CARRIED FORWARD WITHOUT LIMITATIONS. IN PREVIOUS YEAR THEY TOTALLED 468 TEUR.

ON SEPTEMBER 19, 2002 THE FEDERAL GOVERNMENT INTRODUCED AN INCREASE IN THE CORPORATION INCOME TAX FROM 25 % TO 26.5 %. THIS LAW SERVES TO SUPPORT THE VICTIMS OF THE FLOOD DESASTER, AND WILL ONLY BE EFFECTIVE IN THE BUSINESS YEAR OF 2003. IT HAS BEEN DECIDED NOT TO TAKE THIS ONE-YEAR-EFFECT INTO CONSIDERATION, AS THIS WILL NOT HAVE ANY GREAT INFLUENCE ON THE PROPERTY, FINANCIAL OR PROFITS SITUATIONS.

THE DEFERRED TAX ASSETS AND LIABILITIES AS AT DECEMBER 31, 2002 AND 2001  
BREAK DOWN AS FOLLOWS:

	DEC. 31, 2002 TEUR	DEC. 31, 2001 TEUR
INVENTORIES	538	614
SECURITIES	9	109
INVESTMENT GRANTS	1,378	1,603
PENSION OBLIGATIONS	92	61
INTERMEDIATE GAIN ELIMINATION	1,377	0
TAX LOSSES CARRIED FORWARD	414	468
UNREALIZED EARNINGS AND LOSSES FROM CURRENCY DIFFERENCES	244	211
OTHER	44	31
	4,096	3,097
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>1,368</b>	<b>915</b>
SECURITIES	368	0
INVESTMENT GRANTS	7,590	8,776
PROPERTY, PLANT AND EQUIPMENT INVESTMENT GRANTS	0	2
UNREALIZED EARNINGS AND LOSSES FROM CURRENCY DIFFERENCES	287	0
OTHER	42	26
	8,287	8,804
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>(2,245)</b>	<b>(2,469)</b>
<b>NET AMOUNT OF DEFERRED TAXES</b>	<b>(877)</b>	<b>(1,554)</b>

A VALUATION RESERVE FOR DEFERRED TAXES WAS NOT REQUIRED AS AT THE CLOSING DATE OF THE REPORTING PERIOD.

THE DEFERRALS AND ACCRUALS FOR DEFERRED TAXES ARE CALCULATED AS FOLLOWS:

	DEC. 31, 2002 TEUR	DEC. 31, 2001 TEUR
SHORT-TERM DEFERRED TAX LIABILITIES	(203)	(7)
SHORT-TERM DEFERRED TAX ASSETS	1,007	466
	804	459
LONG-TERM DEFERRED TAX LIABILITIES	(2,042)	(2,461)
LONG-TERM DEFERRED TAX ASSETS	361	448
	<b>(877)</b>	<b>(1,554)</b>

#### (15) OTHER ASSRUALS

THE OTHER ACCRUALS AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS:

	DEC. 31, 2002 TEUR	DEC. 31, 2001 TEUR
PERSONNEL AND SOCIAL SECURITY OBLIGATIONS	1,420	2,004
GUARANTEES	1,264	1,095
LEGAL COSTS	589	0
TAXES	457	457
THIRD-PARTY SERVICES	248	233
SERVICES YET TO BE PERFORMED	227	452
COMMISSIONS	136	0
OTHERS	149	187
	<b>4,490</b>	<b>4,428</b>

## (16) LONG-TERM DEBTS

THE LONG-TERM DEBTS AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS:

	DEC. 31, 2002 TEUR	DEC. 31, 2001 TEUR
SYNDICATED LOAN FROM THE SCHMIDT BANK KGAA (5,113 TEUR) AND THE LANDESANSTALT FÜR AUFBAUFINANZIERUNG (2,556 TEUR), FIXED VALUE 7,669 TEUR, TERM THROUGH 30.06.2006, SEMI-ANNUAL REPAYMENT OF 480 TEUR ON 30.06. AND 30.12., VARIABLE INTEREST RATE BASED ON TRANCHES 1ST INSTALMENT 2,556 TEUR, INTEREST 5.71 % (FIXED THROUGH 30.06.2006) 2ND INSTALMENT 2,556 TEUR, INTEREST 5.74 % (FIXED THROUGH 30.06.2006) 3RD INSTALMENT 2,557 TEUR, INTEREST 5.76 % (FIXED THROUGH 30.06.2006)	3,355	4,314
LOAN FROM THE SPARKASSE EHINGEN FIXED VALUE 614 TEUR, ANNUITY REPAYMENT WITH MONTHLY PAYMENT OF 5.1 TEUR INTEREST RATE 7 % (FIXED THROUGH 30.04.2006)	528	552
LOAN FROM THE STADTSPARKASSE WUPPERTAL OUT OF FUND OF KfW FIXED VALUE 102 TEUR, MATURITY THROUGH SEPT. 30, 2007; SEMI-ANNUAL REPAYMENT OF 6 TEUR EACH MARCH 31 AND SEPT 30 INTEREST RATE 4.75 % (FIXED THROUGH 30.09.2007)	64	0
LOAN FROM THE STADTSPARKASSE WUPPERTAL OUT OF FUND OF KfW FIXED VALUE 102 TEUR, MATURITY THROUGH SEPT. 30, 2007; SEMI-ANNUAL REPAYMENT OF 6 TEUR EACH MARCH 31 AND SEPT 30 INTEREST RATE 4.75 % (FIXED THROUGH 30.09.2007)	64	0
LOAN FROM THE SPARKASSE EHINGEN FIXED VALUE 179 TEUR, ANNUITY REPAYMENT WITH MONTHLY PAYMENT OF 0.1 TEUR INTEREST RATE 5.85 % (FIXED THROUGH 19.02.2002)	0	162
LOAN FROM THE SPARKASSE EHINGEN FIXED VALUE 256 TEUR, ANNUITY REPAYMENT WITH MONTHLY PAYMENT OF 5 TEUR INTEREST RATE 6.20 % (FIXED THROUGH 30.04.2002)	0	29
<b>LOANS</b>	<b>4,011</b>	<b>5,057</b>
LESS DEBTS MATURING WITHIN ONE YEAR	1,010	1,174
<b>LONG-TERM DEBTS</b>	<b>3,001</b>	<b>3,883</b>

THE MATURITY OF THE LONG-TERM DEBTS TO FINANCIAL INSTITUTIONS CAN BE TAKEN FROM THE FOLLOWING CHART:

	DEC. 31, 2002 TEUR
2003 (SHORT-TERM)	1,010
2004	1,012
2005	1,013
2006	536
2007	60
THEREAFTER	380
	<b>4,011</b>

THE TOTAL AMOUNT OF ASSURED DEBTS AS AT DECEMBER 31, 2002 AND 2001 WAS 4,011 TEUR (THEREOF 3,355 TEUR SECURED DEBTS AND 528 TEUR REGISTERED LAND DEBTS AS WELL AS 128 TEUR TRANSFERS BY WAY OF SECURITY AND ASSIGNMENTS) AND 5,057 TEUR (THEREOF 4,314 TEUR SECURED DEBTS AND 743 TEUR REGISTERED LAND DEBTS). OF THESE, 1,010 TEUR (2001: 1,174 TEUR) ARE ALLOCATED TO THE MATURING WITHIN ONE YEAR.

**(17) INVESTMENT GRANTS RECEIVED**

THE COMPANY RECEIVED FUNDS FOR THE ERECTION OF PRODUCTION, ADMINISTRATIVE AND TECHNOLOGICAL FACILITIES FROM VARIOUS PUBLIC INSTITUTIONS AS A RESULT OF STATE-SPONSORED BUSINESS PROMOTION PROGRAMS. THE INVESTMENT GRANTS CONTAINED IN THE PRESENT FINANCIAL STATEMENT AS AT DECEMBER 31, 2002 AND 2001 BREAK DOWN AS FOLLOWS

	<b>DEC. 31, 2002</b>	<b>DEC. 31, 2001</b>
	<b>TEUR</b>	<b>TEUR</b>
AT BEGINNING OF FINANCIAL YEAR	6,721	6,020
INVESTMENT GRANTS RECEIVED DURING THE FINANCIAL YEAR	86	1,759
	6,807	7,779
DEPRECIATION FOR FINANCIAL YEAR ANALOGOUS TO CORRESPONDING ASSETS	975	1,058
<b>AT END OF FINANCIAL YEAR</b>	<b>5,832</b>	<b>6,721</b>

**(18) POSTRETIREMENT AND POST EMPLOYMENT BENEFIT LIABILITIES**

MÜHLBAUER HAS WARRANTED PENSIONS TO MEMBERS OF THE MANAGEMENT BOARD. THE PENSION COMMITMENTS ENCOMPASS ENTITLEMENTS TO RETIREMENT, DISABILITY AND SURVIVORS' PENSIONS, AND IS CONCEIVED AS GUARANTEED ON THE ONE HAND AND DEPENDENT ON THE INCOME, ON THE OTHER. ALL WARRANTED PENSIONS ARE COVERED BY APPROPRIATE INSURANCE POLICIES (SPECIAL PENSION FUND OR PLAN ASSETS). AT THE END OF THE REPORTING PERIOD, ALL INSURANCE POLICIES HAD BEEN CONCLUDED, WITH ONE EXCEPTION.

THE ASSESSMENT OF THE PENSION OBLIGATIONS AND THE NECESSARY EXPENDITURES TO COVER THESE OBLIGATIONS IS BASED ON SFAS NO. 87 "EMPLOYERS' ACCOUNTING FOR PENSIONS" ACCORDING TO THE "PROJECTED UNIT CREDIT" METHOD. FUTURE SALARY INCREASES AND OTHER INCREASES ARE INCLUDED IN THE ASSESSMENT.

THE BENEFIT OBLIGATIONS FOR THE REPORTING YEAR BREAK DOWN INTO THE FOLLOWING COMPONENTS:

	<b>2002</b>	<b>2001</b>
	<b>TEUR</b>	<b>TEUR</b>
SERVICE COST	66	60
INTEREST COST	30	24
EXPECTED RETURN ON PLAN ASSETS	0	0
TRANSITION ASSET	(1)	(1)
	<b>95</b>	<b>83</b>

THE FOLLOWING TABLE SHOWS THE CHANGE IN THE FUTURE INTEREST CASH VALUE WITH RESPECT TO THE PROJECTED BENEFIT OBLIGATION (PBO), THE CHANGE IN THE PLAN ASSETS, THE FUNDED STATUS AND THE PENSION RESERVES:

	<b>2002 TEUR</b>	<b>2001 TEUR</b>
PROJECTED BENEFIT OBLIGATION (PBO) AS AT JANUARY 1	492	406
SERVICE COST	66	60
INTEREST COST	30	24
ACTUARIAL LOSSES/(-)GAINS	21	2
PROJECTED BENEFIT OBLIGATION (PBO) AS AT DECEMBER 31	609	492
FAIR VALUE OF PLAN ASSETS AS AT JANUARY 1, 2001	202	162
PLAN ASSETS	8	7
BENEFITS PAID DURING THE FINANCIAL YEAR	38	33
FAIR VALUE OF THE PLAN ASSETS AS AT DECEMBER 31	248	202
FUNDED STATUS	361	290
ACTUARIAL GAINS	(8)	12
TRANSITION ASSET	21	22
<b>BENEFIT LIABILITY AS AT DECEMBER 31</b>	<b>374</b>	<b>324</b>

THE CALCULATION OF THE ACTUARIAL VALUES IS BASED ON THE FOLLOWING ASSUMPTIONS:

	<b>2002 TEUR</b>	<b>2001 TEUR</b>
INTEREST RATE	6 %	6 %
SALARY TREND	3 %	3 %
PENSION TREND	2 %	2 %

### **(19) STOCK COMPENSATION PLANS**

BASED ON A DECISION OF THE ANNUAL GENERAL MEETING OF JUNE 25, 1998 THE MANAGEMENT WAS AUTHORIZED, WITH THE APPROVAL OF THE SUPERVISORY BOARD, TO INTRODUCE A MANAGEMENT PARTICIPATION PROGRAM IN THE FORM OF THE ISSUE OF CONVERTIBLE BONDS. FOR THIS PURPOSE, THE SHARE CAPITAL WAS INCREASED BY 153 TEUR FOR THE ISSUE OF UP TO 120,000 SHARES IN STOCK ISSUED TO THE OWNER (LIMITED CAPITAL I). BY DECISION OF THE ANNUAL GENERAL MEETING OF MAY 4, 2000, THE EARMARKING OF THE LIMITED CAPITAL<sup>1)</sup> WAS CHANGED BY THE AMOUNT OF 84 TEUR (CORRESPONDING TO 66,000 SHARES IN STOCK ISSUED TO THE OWNER), SO THAT THE LIMITED CAPITAL I IS NO LONGER USED TO GRANT CONVERSION RIGHTS TO OWNERS OF CONVERTIBLE BONDS, BUT RATHER FOR THE SERVING OF SUBSCRIPTION RIGHTS THAT CAN BE GRANTED IN THE FORM OF "NAKED OPTIONS" TO MEMBERS OF THE MANAGEMENT, THE EXECUTIVE STAFF AND EMPLOYEES. THIS CHANGE OF PURPOSE RESULTED IN LIMITED CAPITAL II. THE PREVIOUS LIMITED CAPITAL II WAS RENAMED LIMITED CAPITAL III.

#### **CONVERTIBLE BONDS PROGRAM**

THE LIMITED CAPITAL INCREASE (LIMITED CAPITAL I), WHICH SERVES TO GRANT CONVERSION RIGHTS TO THE OWNERS OF CONVERTIBLE BONDS, IS IMPLEMENTED ONLY INsofar AS THE OWNERS OF THE ISSUED CONVERTIBLE BONDS MAKES USE OF THEIR CONVERSION RIGHT.

THE CONVERTIBLE BONDS WERE OFFERED TO MEMBERS OF THE EXECUTIVE STAFF AND THOSE FILLING KEY POSITIONS IN THE MÜHLBAUER GROUP. THE SUBSCRIPTION RIGHT OF THE SHAREHOLDERS OF THE COMPANY HAVE BEEN EXCLUDED FROM THIS. ON JULY 10, 1998, 1,490 INTEREST-FREE CONVERTIBLE BONDS WITH A TOTAL FACE VALUE OF 76 TEUR AND A TERM THROUGH JULY 04, 2003 WERE ISSUED.

EACH CONVERTIBLE BOND WITH A FACE VALUE OF 51.13 EUR ENTITLES THE OWNER TO AN EXCHANGE FOR 40 SHARES IN STOCK ("STOCK OPTIONS") OF THE MÜHLBAUER HOLDING AG & Co. KGAA. THE CONVERSION RIGHT CAN BE EXERCISED NOT EARLIER THAN 2 YEARS AFTER ISSUE OF THE BOND (I.E. NO EARLIER THAN JULY 10, 2000 AT UP TO 30 PERCENT, NO EARLIER THAN JULY 10, 2001 AT UP TO 60 PERCENT, AND NO EARLIER THAN JULY 10, 2002 AT UP TO 100 PERCENT), WITH THE PREREQUISITE THAT THE DEVELOPMENT OF THE STOCK MARKET PRICE OF THE MÜHLBAUER SHARE EXCEEDS THE DEVELOPMENT OF THE NEUER MARKET INDEX AND THE PRE-TAX PROFIT MARGIN IS ABOVE 15 PERCENT. THE NEWLY ISSUED SHARES ON THE BASIS OF CONVERSIONS TAKE PART IN PROFIT SHARING BEGINNING WITH THE START OF THE FINANCIAL YEAR IN WHICH THEY WERE SOLD THROUGH THE EXERCISE OF CONVERSION RIGHTS.

THE FOLLOWING TABLE REFLECTS THE DEVELOPMENT OF THE NUMBER OF SHARE OPTION RIGHTS GRANTED IN THE COURSE OF THE FINANCIAL YEARS 2002 AND 2001:

	<b>2002</b>	<b>2001</b>
	<b>QUANTITY</b>	<b>QUANTITY</b>
JANUARY 1	30,520	37,920
GRANTING OF NEW OPTIONS	-	-
CONVERSION	-	(4,320)
DECLINE OF SUBSCRIPTION RIGHTS	(1,600)	(3,080)
EXPIRATION OF CONVERSION PERIOD	-	-
<b>AS AT DECEMBER 31</b>	<b>28,920</b>	<b>30,520</b>

THE CONVERSION PRICE OF THE INDIVIDUAL STOCK OPTIONS CORRESPONDS TO THE SALES PRICE PER SHARE IN STOCK (24.54 EUR) ACHIEVED WITHIN THE IPO.

AS OF THE QUALIFYING DATE, FOR NONE OF THE SHARE OPTION THE PREREQUISITES FOR EXERCISING CONVERSION RIGHTS WERE FULFILLED.

IN THE FINANCIAL YEAR, SHARE-ORIENTED DEFERRED ITEMS (CAPITAL RESERVE) FOR THE AMOUNT OF 217 TEUR WERE EFFECTIVELY ALLOCATED FOR THIS PLAN. IN THE PREVIOUS YEAR, A TAKING BACK OF 1,377 TEUR WAS RECORDED.

THE WEIGHTED AVERAGE MARKET VALUE OF THE CONVERTIBLE BONDS ISSUED IN 1998 AMOUNTED TO 11.50 EUR AT THE TIME OF ALLOCATION, USING THE OPTION ASSESSMENT MODEL OF BLACK SHOLES. THE CALCULATION WAS BASED ON THE FOLLOWING ASSUMPTIONS: VOLATILITY FACTOR 67 PERCENT, PROJECTED DISTRIBUTION FACTOR 0 PERCENT, RISK FREE INTEREST RATE 4.1 PERCENT, PROJECTED LIFE 3 YEARS.

IF THE EXPENDITURES FOR CONVERTIBLE BONDS HAD BEEN DETERMINED ACCORDING TO THE METHOD STATED IN SFAS NO. 123, BASED ON THE CURRENT VALUE AT THE TIME OF GRANTING, THIS WOULD HAVE RESULTED IN THE FOLLOWING CHANGES IN THE FINANCIAL STATEMENT:

		<b>2002</b>	<b>2001</b>
<b>NET INCOME</b>			
AS REPORTED	TEUR	3,506	5,551
PRO FORMA	TEUR	3,257	4,078
<b>EARNINGS PER SHARE</b>			
<b>BASIC</b>			
AS REPORTED	EUR	0,20	0,35
PRO FORMA	EUR	0,12	0,27
<b>DILUTED</b>			
AS REPORTED	EUR	0,20	0,35
PRO FORMA	EUR	0,12	0,27

## OPTION PROGRAM

DUE TO THE CHANGE IN PURPOSE OF THE LIMITED CAPITAL I TO LIMITED CAPITAL II FOR THE AMOUNT OF 84 TEUR RESOLVED IN THE ANNUAL GENERAL MEETING OF MAY 4, 2000, THE MANAGEMENT BOARD HAS BEEN AUTHORIZED, WITH THE APPROVAL OF THE SUPERVISORY BOARD, TO ISSUE TO MEMBERS OF THE MANAGEMENT, THE EXECUTIVE STAFF AND EMPLOYEES IN KEY POSITIONS SUBSCRIPTION RIGHTS FOR UP TO 66,000 SHARES IN STOCK ISSUED TO THE OWNER IN THE FORM OF "NAKED OPTIONS". THE NEW ORDINARY SHARES PARTICIPATE IN THE PROFIT BEGINNING WITH THE START OF THE FINANCIAL YEAR IN WHICH THEY ARE ISSUED BY EXERCISING SUBSCRIPTION RIGHTS.

THE SUBSCRIPTION PRICE CORRESPONDS TO THE AVERAGE SPOT RATE OF THE COMPANY'S SHARE ON THE FRANKFURT STOCK EXCHANGE ON THE LAST FIVE TRADING DAYS BEFORE THE BEGINNING OF THE ISSUE PERIOD. THE SUBSCRIPTION RIGHTS CAN BE EXERCISED UP TO 30 PERCENT AFTER EXPIRATION OF A WAITING PERIOD OF 2 YEARS, UP TO 60 PERCENT AFTER A WAITING PERIOD OF 3 YEARS AND UP TO 100 PERCENT AFTER A WAITING PERIOD OF 4 YEARS.

THE SUBSCRIPTION RIGHTS CAN BE EXERCISED BY THOSE ENTITLED, ONLY IF THE PRETAX PROFIT MARGIN (BASED ON US-GAAP) IS AT LEAST 15 PERCENT ACCORDING TO THE LAST QUARTERLY REPORT BEFORE THE TIME OF EXERCISE OR IF THE INCREASE IN VALUE OF THE SHARES BETWEEN GRANTING OF THE SUBSCRIPTION RIGHTS AND THE LAST TRADING DAY BEFORE THE TIME OF EXERCISE IS AT LEAST AS HIGH AS THE NEMAX ALL SHARE INDEX DURING THE SAME PERIOD. THE MANAGEMENT HAS BEEN AUTHORIZED TO DEFINE FURTHER INDIVIDUAL CRITERIA WITHIN THE OPTION CONTRACT. SUBSCRIPTION RIGHTS NOT EXERCISED EXPIRE UPON TERMINATION OF THE EMPLOYMENT CONTRACT OF THE ENTITLED PERSON OR AFTER A PERIOD OF 6 YEARS AFTER GRANTING OF THE RIGHTS.

WITH THE APPROVAL OF THE SUPERVISORY BOARD, IN THE REPORTED YEAR, THE PERSONALLY LIABLE SHAREHOLDER OFFERED IN TWO TRANCHES A TOTAL OF 45,000 SUBSCRIPTION RIGHTS TO EXECUTIVE STAFF AND EMPLOYEES IN KEY POSITIONS OF THE MÜHLBAUER GROUP TO PURCHASE. EVERY SINGLE SUBSCRIPTION RIGHTS AUTHORIZES THE BENEFICIARY TO OBTAIN A NON-REGISTERED SHARE. THE GRANTED SUBSCRIPTION RIGHTS EXPIRE WITHOUT SUBSTITUTION, IF CERTAIN INDIVIDUAL RESULTS AND TEAM AS WELL AS GROUP TARGETS ARE NOT ACHIEVED.

THE FOLLOWING TABLE REFLECTS THE DEVELOPMENT OF THE NUMBER OF STOCK OPTION RIGHTS GRANTED IN THE COURSE OF THE BUSINESS YEAR 2002:

	<b>TRANCHE 2002/I</b>	<b>TRANCHE 2003/I</b>
DATE OF ISSUE	MAY 07, 2002	DEC. 23, 2002
SUBSCRIPTION	21.94	11.79
END OF THE DEADLINE FOR REACHING AGREED SUCCESS TARGETS	DEC. 31, 2002	DEC. 31, 2003
SUBSCRIPTION RIGHTS GRANTED	5,000	40,000
EXPIRED SUBSCRIPTION RIGHTS	(5,000)	-
<b>DEC. 31</b>	<b>0</b>	<b>40,000</b>

## **(20) SHARE CAPITAL AND FIXED CAPITAL OF THE PERSONALLY LIABLE SHAREHOLDER**

### **NUMBER OF ISSUED SHARES**

THE NUMBER OF NO-PAR-VALUE SHARES ISSUED BY MÜHLBAUER HOLDING AG & Co. KGAA ON DECEMBER 31, 2002 AMOUNTED TO 6,279,200 (PREVIOUS YEAR:



6,279,200), CONSISTING OF 6,279,199 (PREVIOUS YEAR: 6,279,199) NON-REGISTERED SHARES AND ONE REGISTERED SHARE. THE BEARER OF THE REGISTERED SHARE IS ENTITLED TO DISPATCH ONE-THIRD OF ALL SUPERVISORY BOARD MEMBERS TO THE SUPERVISORY BOARD. THE DISPATCH RIGHT DOES NOT APPLY INsofar AND AS LONG AS THE BEARER OF THE SHARE GRANTING DISPATCH RIGHTS IS THE PERSONALLY LIABLE SHAREHOLDER OR ONE OF THE MEMBERS OF THE BOARD OF DIRECTORS. EACH SHARE REPRESENTS A SHARE IN THE SHARE CAPITAL FOR THE AMOUNT OF 1.28 EUR, ENTITLES THE BEARER TO ONE VOTE IN THE ANNUAL GENERAL MEETING AND IS FULLY ENTITLED TO DIVIDENDS. DIVIDENDS CAN BE DISTRIBUTED ONLY FROM THE DISTRIBUTABLE EARNINGS IN ACCORDANCE WITH THE COMMERCIAL FINANCIAL STATEMENTS OF MÜHLBAUER HOLDING AG & Co. KGAA.

THE SHARES OF THE PERSONALLY LIABLE SHAREHOLDER ARE EXCLUDED FROM EXERCISING THE VOTING RIGHT INsofar AS THE VOTING CONCERNS MATTERS INVOLVING HIM OR HIS CONTROL. THE PERSONALLY LIABLE SHAREHOLDER IS OBLIGATED TO THE COMPANY – WITH NO LEGAL OBLIGATION – FOR A PERIOD OF TEN YEARS, NOT TO EXERCISE HIS VOTING RIGHT AND HIS RIGHT TO PARTICIPATE IN ANNUAL GENERAL MEETINGS FROM HIS 2,000,000 SHARES ORIGINATING FROM HIS ENTITLEMENT TO CONVERSION OF PART OF HIS CAPITAL SHARE B FOR THE AMOUNT 2,560 TEUR, EXERCISED ON NOVEMBER 27, 2001 (SEE CONVERSION OF CAPITAL SHARE B (PERSONALLY LIABLE SHAREHOLDER CONTRIBUTION) TO SHARE CAPITAL) AS LONG AS HE IS THE OWNER OF THE SHARES. EXCEPTED FROM THIS ARE ONLY THE CASES IN WHICH THE EXERCISE OF THE VOTING RIGHT OR THE PARTICIPATION RIGHT IS NECESSARY TO PREVENT SERIOUS DAMAGE TO THE COMPANY OR IF THE ANNUAL GENERAL MEETING VOTES ON MATTERS FOR WHICH A MAJORITY OF AT LEAST 75 PERCENT OF THE ENTIRE EXISTING SHARE CAPITAL OF THE COMPANY IS NECESSARY, ACCORDING TO THE COMPANY CHARTER. FURTHERMORE, THE PERSONALLY LIABLE SHAREHOLDER IS OBLIGATED TO THE COMPANY TO PLACE THE SHARES ARISING FROM THEIR SALE AS A RESULT OF EXERCISING THIS RIGHT EITHER ON A BROAD BASE AMONG INSTITUTIONAL AND/OR PRIVATE INVESTORS OR TO SELL THEM ONLY TO INSTITUTIONAL INVESTORS. EXCEPTED FROM THE ABOVE RESTRICTION OF SALE IS THE TRANSFER OF THE SHARES IN QUESTION TO A COMPANY AFFILIATED WITH THE PERSONALLY LIABLE SHAREHOLDER OR TO MR. JOSEF MÜHLBAUER, WHEREBY THE PERSONALLY LIABLE SHAREHOLDER IS OBLIGATED IN THIS RESPECT TO THE COMPANY TO EXECUTE SUCH TRANSFERS ONLY IF THE RESPECTIVE BUYER ACCEPTS THE OBLIGATIONS BASED ON THE STATEMENT OF OBLIGATION OF THE PERSONALLY LIABLE SHAREHOLDER TOWARD THE COMPANY.

#### **FIXED CONTRIBUTION OF THE PERSONALLY LIABLE SHAREHOLDER**

THE PERSONALLY LIABLE SHAREHOLDER JOINED THE COMPANY ON MAY 5, 1998 WITH A CAPITAL CONTRIBUTION NOT CONTRIBUTED TO THE SHARE CAPITAL (PERSONALLY LIABLE SHAREHOLDER CONTRIBUTION OR CAPITAL SHARE B) FOR THE AMOUNT OF 13,820 TEUR. THE CONTRIBUTION OF THE PERSONALLY LIABLE SHAREHOLDER WAS IN THE FORM OF CONTRIBUTING ALL SHARES OF MÜHLBAUER GmbH, WHICH WAS CONVERTED TO MÜHLBAUER AKTIENGESELLSCHAFT ON MAY 5, 1998.

THE CONTRIBUTION OF THE COMPANY SHARES ACCORDING TO US-GAAP IS A "COMMON CONTROL TRANSACTION" AND, IN ACCORDANCE WITH APB 16 "BUSINESS COMBINATIONS", WAS ENTERED IN THE BALANCE SHEET AT THE BOOK VALUE OF THE SHARES. AT THE TIME OF CONTRIBUTION, THIS WAS 51 TEUR.

THE ANNUAL GENERAL MEETING, WITH THE APPROVAL OF THE PERSONALLY LIABLE SHAREHOLDER, CAN RESOLVE TO CONVERT THE CAPITAL SHARE B INTO SHARE CAPITAL. THE CONVERSION TAKES THE FORM OF A CAPITAL INCREASE. THE SUBSCRIPTION RIGHT OF THE LIMITED LIABILITY SHAREHOLDERS CAN BE EXCLUDED FROM THIS. THE FACE VALUE OF THE

CAPITAL INCREASE CORRESPONDS TO THE FACE VALUE OF THE AFFECTED CAPITAL OF THE PERSONALLY LIABLE SHAREHOLDER. AS FAR AS APPROVED CAPITAL EXISTS, THE CAPITAL INCREASE FOR CONVERSION OF THE PERSONALLY LIABLE SHAREHOLDER CAPITAL INTO SHARES IS TO BE PERFORMED FROM THE APPROVED CAPITAL. IF THIS IS NOT POSSIBLE ON LEGAL GROUNDS OR IF THE APPROVED CAPITAL IS INSUFFICIENT, THEN THE CONVERSION TAKES PLACE BY MEANS OF CONDUCTING THE LIMITED CAPITAL INCREASE, AS FAR AS LIMITED CAPITAL EXISTS. IF THIS IS NOT POSSIBLE ON LEGAL GROUNDS OR IF THE AMOUNT OF CAPITAL INCREASE FROM THE LIMITED CAPITAL INCREASE IS INSUFFICIENT, THEN THE ANNUAL GENERAL MEETING IS ENTITLED TO CREATE THE PREREQUISITES FOR CONVERSION BY MEANS OF A CAPITAL INCREASE. THE SUBSCRIPTION RIGHT OF THE LIMITED LIABILITY SHAREHOLDERS CAN BE EXCLUDED FROM THIS PROCEDURE.

IN THE EVENT OF A COMPLETE CONVERSION OF THE CAPITAL SHARE B, THE INCREASE OF THE SHARE CAPITAL EXCEEDS THE BOOK VALUE OF THE FIXED CONTRIBUTION BY 13,754 TEUR.

THE PERSONALLY LIABLE SHAREHOLDER, IN THE EVENT THAT HIS CAPITAL SHARE IS COMPLETELY CONVERTED TO SHARE CAPITAL, SHALL CEASE TO BE THE PERSONALLY LIABLE SHAREHOLDER WHEN THE CAPITAL INCREASE TAKES EFFECT.

#### **CONVERSION OF CAPITAL SHARE B (PERSONALLY LIABLE SHAREHOLDER CONTRIBUTION) TO SHARE CAPITAL**

THE ANNUAL GENERAL MEETING OF MAY 4, 2000 RESOLVED TO CONVERT 486 TEUR OF THE CAPITAL SHARE B INTO SHARE CAPITAL. THE CONVERSION TOOK PLACE UNDER PARTIAL UTILIZATION OF THE APPROVED CAPITAL. THE 380,000 ORDINARY SHARES CREATED BY THE CAPITAL INCREASE WERE SUBSCRIBED BY THE PERSONALLY LIABLE SHAREHOLDER. THE NEW SHARES PARTICIPATE FROM EARNINGS BEGINNING WITH THE START OF THE FINANCIAL YEAR IN WHICH THEY ARE ISSUED AFTER EXERCISING THE CONVERSION RIGHT. THE ENTRY IN THE COMMERCIAL REGISTER TOOK PLACE ON MAY 9, 2001.

BASED ON THE RESOLUTION OF THE COMPANY ANNUAL GENERAL MEETING OF JUNE 07, 2001, THE PERSONALLY LIABLE SHAREHOLDER IS AUTHORIZED BY MEANS OF A CHARTER AMENDMENT, IN FULFILMENT OF THE ENTITLEMENT OF THE PERSONALLY LIABLE SHAREHOLDER REGULATED BY § 8, NUMBER (2A) OF THE CHARTER TO CONVERT PART OF HIS CAPITAL SHARE B FOR THE AMOUNT OF UP TO 2,560 TEUR INTO SHARE CAPITAL AND IN ORDER TO PROVIDE THE SHARES REQUIRED FOR THIS, WITH THE APPROVAL OF THE SUPERVISORY BOARD, TO INCREASE THE SHARE CAPITAL UP TO JUNE 07, 2006 BY ISSUING NEW SHARES IN STOCK TO THE OWNER IN RETURN FOR CONTRIBUTION IN KIND, ONCE OR TWICE, HOWEVER FOR A TOTAL OF MAXIMUM 2,560 TEUR (APPROVED CAPITAL II). THE SUBSCRIPTION RIGHT OF THE LIMITED LIABILITY SHAREHOLDERS WAS EXCLUDED FROM THIS PROCEDURE. THE CHARTER AMENDMENT WAS ENTERED IN THE COMMERCIAL REGISTER OF THE REGENSBURG REGISTRAR COURT ON SEPTEMBER 05, 2001.

IN A WRITTEN STATEMENT OF NOVEMBER 26, 2001, THE PERSONALLY LIABLE SHAREHOLDER MADE USE OF HIS ENTITLEMENT TOWARD THE COMPANY OF CONVERSION OF A PART OF HIS CAPITAL SHARE B FOR THE AMOUNT OF 2,560 TEUR, I.E. OF THE CORRESPONDING PART OF HIS CAPITAL ACCOUNT I AND ALSO CORRESPONDING PARTS OF HIS CAPITAL ACCOUNTS II, III AND HIS LOSS CARRYOVER ACCOUNT INTO LIMITED LIABILITY CAPITAL AND DECIDED ON NOVEMBER 27, 2001 TO INCREASE THE SHARE CAPITAL OF THE COMPANY BY MEANS OF CONTRIBUTION IN KIND BY 2,560 TEUR, IN ORDER TO CONTRIBUTE THE CAPITAL SHARE OF THE PERSONALLY LIABLE SHAREHOLDER TO THE COMPANY FOR THE ABOVE AMOUNT WITH A GUARANTEE OF 2,000,000 SHARES. THE SUPERVISORY BOARD APPROVED THIS WITH A RESOLUTION OF THE SAME DATE.

2,000,000 SHARES WERE ISSUED AT THE FIXED ISSUE PRICE OF 1.28 EUR TO THE DEBIT OF CAPITAL SHARE B OF THE PERSONALLY LIABLE SHAREHOLDER WITH PARTICIPATING RIGHTS BEGINNING JANUARY 1, 2001. THE ENTRY IN THE COMMERCIAL REGISTER TOOK PLACE ON DECEMBER 14, 2001.

#### ACCOUNTS OF THE PERSONALLY LIABLE SHAREHOLDER

THE FOLLOWING ACCOUNTS ARE MAINTAINED AT MÜHLBAUER HOLDING AG & Co. KGaA FOR THE PERSONALLY LIABLE SHAREHOLDER:

- AN INTEREST-FREE CAPITAL ACCOUNT I, TO WHICH THE CAPITAL SHARE B FOR THE CURRENT AMOUNT OF 10,774 TEUR IS POSTED,
- AN INTEREST-FREE CAPITAL ACCOUNT II AS A (CAPITAL) RESERVE ACCOUNT, TO WHICH ADDITIONAL MONEY TO BE PAID FOR THE CONTRIBUTION OF THE CAPITAL SHARE IS POSTED, AND WHICH CURRENTLY SHOWS NO BALANCE,
- AN INTEREST-FREE CAPITAL ACCOUNT III AS A (PROFIT) RESERVE ACCOUNT, TO WHICH THE PROFIT SHARES TO WHICH THE PERSONALLY LIABLE SHAREHOLDER IS ENTITLED BUT WHICH CANNOT BE WITHDRAWN ARE POSTED, AND WHICH CURRENTLY SHOWS NO BALANCE,
- AN INTEREST-FREE ACCOUNT FOR LOSSES CARRIED FORWARD, TO WHICH THE LOSS SHARES OF THE PERSONALLY LIABLE SHAREHOLDER ARE POSTED AND WHICH CURRENTLY SHOWS NO BALANCE, AND
- A CLEARING ACCOUNT AS AN ACTIVE ACCOUNT, TO WHICH THE ACCESSIBLE PROFIT SHARES, WITHDRAWALS, EMPLOYMENT COMPENSATION, INTEREST AND OTHER PAYMENT TRANSACTIONS BETWEEN THE COMPANY AND THE PERSONALLY LIABLE SHAREHOLDER ARE POSTED. THE BALANCE AS OF THE CLOSING DATE WAS 4,213 TEUR (PREVIOUS YEAR: 2,867 TEUR). AS FAR AS LEGALLY PERMISSIBLE, THE PERSONALLY LIABLE SHAREHOLDER CAN WITHDRAW FUNDS FROM THE CLEARING ACCOUNT DURING THE CURRENT FINANCIAL YEAR WITHOUT INTEREST ACCRUAL IN ANY CASE FOR PAYMENT OF PERSONAL TAXES RELATED TO HIMSELF OR HIS PARTNERS IN CONNECTION WITH HIS PARTICIPATION. OTHERWISE, INTEREST IS TO BE CALCULATED FOR THE DEBIT AND CREDIT BALANCES OF THE CLEARING ACCOUNT AT AN INTEREST RATE 2 PERCENT ABOVE THE RESPECTIVE BASE INTEREST RATE OF THE AUTHORITATIVE CENTRAL BANK.

#### OWN SHARES

THE DEVELOPMENT OF THE OWN STOCK PORTFOLIO IS PRESENTED BELOW:

	QUANTITY	PAR VALUE IN EUR
AS AT DECEMBER 31, 2001	16,736	21,422
<b>PURCHASE OF OWN SHARES</b>		
FROM THE AUTHORIZATION TO PURCHASE OWN SHARES AS DEFINED IN § 71 PAR. 1 NO. 8 AKTG	168,368	215,511
<b>SALES OF OWN SHARES</b>		
AS SO-CALLED EMPLOYEE SHARES AS DEFINED IN § 19A ESTG OF THE MÜHLBAUER GROUP	(9,023)	(11,549)
PAYMENTS FOR VARIABLE AMOUNTS	(5,456)	(6,984)
SALE OF SHARES VIA THE STOCK EXCHANGE	(200)	(256)
<b>As at December 31, 2002</b>	<b>170,425</b>	<b>218,144</b>

#### LIMITED CAPITAL

TAKING INTO ACCOUNT THE REALLOCATION OF A PART OF THE LIMITED CAPITAL AS A RESULT OF THE ANNUAL GENERAL MEETING OF MAY 4, 2000, THE CONVERSION OF NON-PAR VALUE SHARES OF PREVIOUS YEARS AS WELL AS THE EXPIRATION OF SUBSCRIPTION RIGHTS, THE SHARE CAPITAL WAS INCREASED IN A LIMITED MANNER BY UP TO 45 TEUR BY ISSUING UP TO 34,800 ISSUED TO THE OWNER (LIMITED CAPITAL I). THE LIMITED CAPITAL INCREASE SERVES TO GUARANTEE EXCHANGE RIGHTS OF OWNERS OF CONVERTIBLE BONDS, FOR THE ISSUE OF WHICH THE PERSONALLY LIABLE SHAREHOLDER WAS AUTHORIZED BY THE

RESOLUTION OF THE ANNUAL GENERAL MEETING OF JUNE 25, 1998. THE LIMITED CAPITAL INCREASE SHALL BE CARRIED OUT ONLY INSOFAR AS THE OWNERS OF THE ISSUED CONVERTIBLE BONDS MAKE USE OF THEIR CONVERSION RIGHT. THE NEW SHARES PARTICIPATE FROM EARNINGS BEGINNING WITH THE START OF THE FINANCIAL YEAR IN WHICH THEY ARE CREATED BY EXERCISING OF EXCHANGE RIGHTS.

THE SHARE CAPITAL IS FURTHER INCREASED IN A LIMITED MANNER BY UP TO 84 TEUR BY THE ISSUE OF UP TO 66,000 SHARES TO THE OWNER (LIMITED CAPITAL II). THE LIMITED CAPITAL INCREASE FOR THIS AMOUNT SERVES THE UTILIZATION OF SUBSCRIPTION RIGHTS IN THE FORM OF "NAKED OPTIONS", THE ISSUE OF WHICH THE PERSONALLY LIABLE SHAREHOLDER WAS AUTHORIZED BY RESOLUTION OF THE ANNUAL GENERAL MEETINGS OF MAY 4, 2000 AND JUNE 7, 2001. THE LIMITED CAPITAL INCREASE SHALL BE CARRIED OUT ONLY INSOFAR AS THE ENTITLED PERSONS MAKE USE OF THEIR SUBSCRIPTION RIGHTS. THE NEW SHARES PARTICIPATE FROM EARNINGS BEGINNING WITH THE START OF THE FINANCIAL YEAR IN WHICH THEY ARE CREATED BY THE EXERCISING OF SUBSCRIPTION RIGHTS.

FURTHERMORE, THE SHARE CAPITAL IS INCREASED BY UP TO 1,997 EUR IN A LIMITED MANNER, DIVIDED INTO UP TO 1,560,000 SHARES ISSUED TO THE OWNER (LIMITED CAPITAL III). THE LIMITED CAPITAL INCREASE SHALL BE CARRIED OUT ONLY INSOFAR AS THE PERSONALLY LIABLE SHAREHOLDER REQUIRES THE CONVERSION OF THE CAPITAL SHARE B INTO SHARE CAPITAL. THE NEW SHARES PARTICIPATE FROM EARNINGS BEGINNING WITH THE START OF THE FINANCIAL YEAR IN WHICH THEY ARE CREATED BY THE EXERCISING OF SUBSCRIPTION RIGHTS.

#### **AUTHORIZED CAPITAL**

THE AUTHORIZATIONS TO UTILIZE APPROVED CAPITAL GRANTED TO THE PERSONALLY LIABLE SHAREHOLDER WERE CANCELLED BY RESOLUTION OF THE ANNUAL GENERAL MEETING OF JUNE 7, 2001 AND AT THE SAME TIME REVISED AS FOLLOWS:

THE PERSONALLY LIABLE SHAREHOLDER IS AUTHORIZED, WITH THE APPROVAL OF THE SUPERVISORY BOARD, TO INCREASE THE SHARE CAPITAL UNTIL JUNE 7, 2006 BY ISSUING NEW SHARES ISSUED TO THE OWNER IN RETURN FOR CASH AND/OR CONTRIBUTION IN KIND ONCE OR SEVERAL TIMES, HOWEVER BY A TOTAL OF 176 TEUR (APPROVED CAPITAL I). THE SHAREHOLDERS SHALL ALWAYS BE GRANTED SUBSCRIPTION RIGHTS. WITH THE APPROVAL OF THE SUPERVISORY BOARD, HOWEVER, THE PERSONALLY LIABLE SHAREHOLDER CAN

- A) EXCEPT SHARES IN ODD LOTS FROM THE SUBSCRIPTION RIGHT;
- B) EXCLUDE THE SUBSCRIPTION RIGHT OF THE SHAREHOLDERS IN ORDER TO ISSUE NEW SHARES IN RETURN FOR CASH CONTRIBUTIONS AT AN ISSUE PRICE THAT IS NOT SIGNIFICANTLY LOWER THAN THE STOCK EXCHANGE PRICE;
- C) EXCLUDE THE SUBSCRIPTION RIGHT OF THE SHAREHOLDERS IN ORDER TO FREE UP THE SHARES FOR THE CONVERSION OF PERSONALLY LIABLE SHAREHOLDER CAPITAL IN ACCORDANCE WITH § 8 NUMBER (2) OF THE CHARTER;
- D) EXCLUDE THE SUBSCRIPTION RIGHT OF THE SHAREHOLDERS IN ORDER TO ISSUE THE SHARES IN RETURN FOR CONTRIBUTION IN KIND FOR THE ACQUISITION OF COMPANIES OR COMPANY INTERESTS.

THE SHARE OWNERSHIP OF THE LIMITED SHARE CAPITAL IS PRESENTED BELOW:

NAME	DEC. 31, 2002		DEC. 31, 2001	
	TEUR	IN %	TEUR	IN %
MÜHLBAUER HOLDING AG & Co. VERWALTUNGS KG	0	0.00	4,220	52.50
SECURA VERMÖGENSVERWALTUNGS GMBH	4,220	52.50	0	0.00
FREE FLOAT	3,599	44.79	3,796	47.23
	7,819	97.29	8,016	99.73
COMPANY-OWNED SHARES	218	2.71	21	0.27
	<b>8,037</b>	<b>100.00</b>	<b>8,037</b>	<b>100.00</b>

THAT PROPORTION OF THE SHARE CAPITAL HELD BY THE PERSONALLY LIABLE SHAREHOLDER BY DECEMBER 31, 2001, TO THE VALUE OF 4,220 TEUR, WAS INVESTED BY HIM ON OCTOBER 07, 2002 BY MEANS OF A NOTARIALLY CERTIFIED DECISION BY THE GENERAL MEETING IN THE COURSE OF THE INCREASE OF THE CAPITAL STOCK FROM 25 TEUR BY 4,175 TEUR TO 4,200 TEUR IN THE SECURA VERMÖGENSVERWALTUNGS GMBH.

THE PAID-IN CAPITAL WAS PAID BY THE INVESTMENT OF 3,296,852 INDIVIDUAL SHARE CERTIFICATES WITH AN ESTIMATED PROPORTION ON THE SHARE CAPITAL OF 1.28 EUR PER SHARE (A TOTAL OF 4,220 TEUR). THE BOOK-VALUE OF THE NON-CASH CAPITAL CONTRIBUTION WAS 4,218 TEUR; THAT PART OF THE BOOK-VALUE THAT EXCEEDS THE NOMINAL SUM OF THE NEW ORIGINAL INVESTMENT IS OWED AS A PREMIUM.

THE SECURA VERMÖGENSVERWALTUNGS GMBH ("SECURA") WAS FOUNDED BY THE PERSONALLY LIABLE SHAREHOLDER ON MARCH 02, 2001 UNDER THE FIRM OF MÜHLBAUER VERMÖGENSVERWALTUNGS GMBH WITH ITS REGISTERED OFFICE IN FRANKFURT AM MAIN, AND AN ORIGINAL INVESTMENT OF 25 TEUR, AND REGISTERED IN THE TRADE REGISTER AT THE LOCAL COURT OF FRANKFURT UNDER THE NUMBER HRB 52333. ON NOVEMBER 30, 2001 THE REGISTERED OFFICE WAS MOVED FROM FRANKFURT AM MAIN TO METTEN, AND REGISTERED IN THE TRADE REGISTER AT THE LOCAL COURT OF DEGGENDORF UNDER THE NUMBER HRB 2408. ON OCTOBER 07, 2002 THE COMPANY WAS CHANGED INTO SECURA VERMÖGENSVERWALTUNGS GMBH BY MEANS OF A NOTARIALLY CERTIFIED DECISION BY THE GENERAL MEETING.

AT THE END OF THE YEAR OF THE REPORT THE PERSONALLY LIABLE SHAREHOLDER'S PROPORTION OF THE REGISTERED CAPITAL IS DIRECTLY 0 EUR, AND INDIRECTLY 4,220 TEUR.

#### **ADDITIONAL PAID-IN CAPITAL**

THE ADDITIONAL PAID-IN CAPITAL REFERS TO THE PREMIUM OF THE CAPITAL INCREASE ENTERED IN THE COMMERCIAL REGISTER ON JULY 8, 1998 UPON THE INITIAL PUBLIC OFFERING (IPO) OF THE COMPANY, THE CAPITAL INCREASE VIA NEW SHARES, WHICH WAS ALSO PROVIDED WITH ADDITIONAL CAPITAL (GREENSHOE OPTION) LESS THE COSTS OF THE IPO. THE CAPITAL INCREASE CARRIED OUT IN FINANCIAL YEAR 1999 IN CONNECTION WITH THE ADJUSTMENT TO THE EURO IN ACCORDANCE WITH SECTION 6 OF THE RESOLUTION OF THE ANNUAL GENERAL MEETING OF MAY 6, 1999 WAS POSTED AS A DEBIT TO THE ADDITIONAL PAID-IN CAPITAL.

THE DEVELOPMENT OF THE ADDITIONAL PAID-IN CAPITAL IS PRESENTED BELOW:

	<b>IN TEUR</b>
PREMIUM FOR THE 2,680,000 INDIVIDUAL SHARE CERTIFICATES OF 23.26 EUR ("EX SPLITT") ISSUED FOR IPO	62,347
COST OF IPO	(3,907)
WITHDRAWAL OF THE SHARE PREMIUM ACCOUNT FOR ADJUSTMENT OF THE SHARE CAPITAL TO THE EURO	(7)
PREMIUM ON THE PURCHASE OF COMPANY-OWNED SHARES	(476)
SALES PRICE EXCEEDING THE FACE VALUE OF SOLD SHARES	466
PREMIUM ON THE 19,200 NEWLY CREATED SHARES FROM EXERCISE OF CONVERSION RIGHTS	446
INCREASE OF COMPENSATION (RESERVES FOR EXPENDITURES CONNECTED WITH CONVERTIBLE BOND PROGRAM IN ACCORDANCE WITH APB NO. 25)	1,217
<b>AS AT DECEMBER 31, 2001</b>	<b>60,086</b>
REDUCTION OF COMPENSATION (RESERVES FOR EXPENDITURES CONNECTED WITH CONVERTIBLE BOND PROGRAM IN ACCORDANCE WITH APB NO. 25)	(217)
PREMIUM ON THE PURCHASE OF COMPANY-OWNED SHARES	(1,775)
SALES PRICE EXCEEDING THE FACE VALUE OF SOLD SHARES	257
<b>AS AT DECEMBER 31, 2002</b>	<b>58,351</b>

## DIVIDEND DISTRIBUTION

THE PERSONALLY LIABLE SHAREHOLDER PARTICIPATES IN THE ASSETS OF THE COMPANY INCLUDING THE HIDDEN RESERVES, AND IN THE PROFIT AND LOSS OF THE COMPANY, AS WELL AS IN LIQUIDATION REVENUE TO THE EXTENT, THAT THE RATIO OF HIS CAPITAL SHARE CORRESPONDS TO THE SHARE CAPITAL.

THE CALCULATION OF THE PROFIT AND LOSS SHARES OF THE PERSONALLY LIABLE SHAREHOLDER IS BASED ON THE RESULT DETERMINED IN THE INDIVIDUAL FINANCIAL STATEMENTS OF MÜHLBAUER HOLDING AG & Co. KGaA IN ACCORDANCE WITH COMMERCIAL PRINCIPLES:

### MÜHLBAUER HOLDING AG & Co. KGaA TEUR

YEAR'S RESULT (ANNUAL SURPLUS/DEFICIT) BEFORE PROFIT OR LOSS OF PERSONALLY LIABLE SHAREHOLDER	7,108
+ CORPORATION TAX CREDIT, IF NOT ALREADY RECORDED AS PROFIT	0
+ CORPORATION TAX EXPENDITURE (INCLUDING TAX AMOUNTS ON THE CORPORATION TAX)	248
+ EXPENDITURE FOR OTHER TAXES AND DUTIES AFFECTING ONLY THE SHARE CAPITAL	0
ASSESSMENT BASIS	7,356
PROFIT OR LOSS BASED ON SHARE OF PERSONALLY LIABLE SHAREHOLDER OF TOTAL CAPITAL (CURRENTLY 57.27 %)	4,213

THE PROFIT SHARE TO WHICH THE PERSONALLY LIABLE SHAREHOLDER IS ENTITLED, IS — INsofar AS A LOSS IS CARRIED OVER — INITIALLY TO BE USED TO BALANCE OUT THE LOSSES CARRIED FORWARD ACCOUNT. OTHERWISE, THE PROFIT SHARES OF THE PERSONALLY LIABLE SHAREHOLDER ARE TO BE DEPOSITED TO THE PERSONALLY LIABLE SHAREHOLDER'S CAPITAL ACCOUNT III, IF AND INsofar AS THE PROFIT TO WHICH THE LIMITED LIABILITY SHAREHOLDERS IS ALLOCATED TO THE PROFIT RESERVES. THE RETAINED PROFIT AMOUNTS THUS TO BE ALLOCATED TO CAPITAL ACCOUNT III ARE TO BE ASSESSED IN SUCH A WAY, THAT THEY ARE PROPORTIONAL TO THE RATIO OF THE PERSONALLY LIABLE SHAREHOLDER'S CAPITAL SHARE TO THE SHARE CAPITAL. AS FAR AS THE PERSONALLY LIABLE SHAREHOLDER'S PROFIT SHARE IS NOT TO BE USED TO BALANCE OUT THE LOSSES CARRIED FORWARD ACCOUNT OR FOR ENDOWMENT OF THE CAPITAL ACCOUNT III, IT SHALL BE DEPOSITED TO THE CLEARING ACCOUNT. THE ABOVE APPLIES ACCORDINGLY, IF AMOUNTS ARE WITHDRAWN FROM THE PROFIT RESERVES.

THE PERSONALLY LIABLE SHAREHOLDER SHALL RECEIVE COMPENSATION FOR ALL EXPENSES INCURRED IN CONNECTION WITH MANAGING THE COMPANY.

THE ANNUAL GENERAL MEETING RESOLVED ON APRIL, 26, 2002 TO DISTRIBUTE A DIVIDEND OF 0.30 EUR FOR EACH SHARE QUALIFYING FOR DIVIDENDS FOR THE FINANCIAL YEAR 2001. ALTOGETHER, 1,872 TEUR WERE DISTRIBUTED. THE PROFIT SHARE ALLOCATED TO THE PERSONALLY LIABLE SHAREHOLDER WAS 2,711 TEUR. THE PERSONALLY LIABLE SHAREHOLDER RECOMMENDS THE DISTRIBUTION OF A DIVIDEND OF 0.30 EUR FOR FINANCIAL YEAR 2002 FOR EACH SHARE QUALIFYING FOR DIVIDENDS FROM THE PROFIT AS SHOWN IN THE BALANCE SHEET AND TO CARRY FORWARD THE REMAINING PROFIT TO NEW ACCOUNT.

FOR THE CALCULATION OF THE DISTRIBUTION VOLUME IN THE COMPANY, ONLY THE RESULTS DETERMINED BY MEANS OF COMMERCIAL ACCOUNTING REGULATIONS APPLY. THE THEORETICALLY DISTRIBUTABLE VOLUME CALCULATED FROM THE UNDISTRIBUTED PROFITS AND THE ANNUAL SURPLUS OF THE COMPANIES AFFILIATED WITH THE GROUP IS 23,722 TEUR AS OF DECEMBER 31, 2002 (PREVIOUS YEAR: 24,543). AN ADDITIONAL POSSIBLE DISTRIBUTABLE VOLUME OF 2,556 TEUR (PREVIOUS YEAR: 511 TEUR) RESULTS FROM EXISTING UNAPPROPRIATED EARNINGS.

## (21) OTHER COMPREHENSIVE INCOME

THE CHANGES IN THE OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS 2002 AND 2001 ARE PRESENTED BELOW:

	BEFORE TAXES TEUR	2002 TAX EFFECT TEUR	NET TEUR	BEFORE TAXES TEUR	2001 TAX- EFFECT TEUR	NET TEUR
DIFFERENCE FROM CURRENCY TRANSLATION	(387)		(387)	259	-	259
UNREALIZED GAINS/(LOSSES) FROM THE MARKET ASSESSMENT OF SECURITIES:						
CHANGE IN THE UNREALISED GAINS/(LOSSES)	377	(87)	290	360	(85)	275
REALIZED GAINS/(LOSSES)	(9)	2	(7)	(359)	85	(274)
UNREALISED GAINS/(LOSSES) TOTAL	368	(85)	283	1	0	1
TOTAL OTHER COMPREHENSIVE INCOME	<b>(19)</b>	<b>(85)</b>	<b>(104)</b>	<b>260</b>	<b>0</b>	<b>260</b>

## (22) FINANCIAL INSTRUMENTS

	DEC. 31, 2002		DEC. 31, 2002	
	BOOK VALUE TEUR	MARKET VALUE TEUR	BOOK VALUE TEUR	MARKET VALUE TEUR
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	13,110	13,110	2,206	2,206
SECURITIES (CURRENT)	2,261	2,261	2,592	2,592
TRADE RECEIVABLES	19,161	19,161	19,645	19,645
OTHER CURRENT ASSETS	978	978	6,472	6,472
SECURITIES (LONG-TERM)	7,383	7,383	7,749	7,749
<b>LIABILITIES</b>				
SHORT-TERM DEBTS	0	0	2,308	2,308
SHORT-TERM DEBTS MATURING WITHIN ONE YEAR	1,010	1,010	1,174	1,174
CONVERTIBLE BONDS	37	37	39	154
LONG-TERM DEBTS	3,001	3,001	3,883	3,883

FOR THE CASH AND CASH EQUIVALENTS AND SHORT-TERM DEBTS, THE BOOK VALUE CORRESPONDS TO THE MARKET VALUE ON THE QUALIFYING DATE. THE TRADE RECEIVABLES ARE EXCLUSIVELY SHORT-TERM. THEREFORE, THEIR BOOK VALUES ARE APPROXIMATELY THE SAME AS THEIR MARKET VALUE. THE INTEREST ON THE LONG-TERM DEBTS IS CALCULATED AT NORMAL MARKET INTEREST RATES. THE MARKET VALUE OF THE CONVERTIBLE BONDS ISSUED BY THE COMPANY IS REGULARLY DETERMINED BY ITS INTRINSIC VALUE (PRICE OF THE MÜHLBAUER SHARE LESS ADDITIONAL PAYMENT UPON CONVERSION). AS OF DECEMBER 31, 2002, THE CONVERTIBLE BONDS ISSUED UP UNTIL THAT TIME WERE ASSESSED AT 37 TEUR (PREVIOUS YEAR: 39 TEUR). AS OF DECEMBER 31, 2002, THE NON-PAR-VALUE SHARE OF THE COMPANY NOTICED 58 PERCENT BELOW THE SUBSCRIPTION PRICE. THEREFORE THE MARKET VALUE OF THE BONDS CONFORMS WITH THE BOOK VALUE. IN THE PREVIOUS YEAR'S REFERENCE PERIOD THE MARKET VALUE AMOUNTED TO 154 TEUR.

## (23) PURCHASE OF OWN SHARES

THE ANNUAL GENERAL MEETING RESOLVED ON APRIL 26, 2002 TO CANCEL THE AUTHORIZATION OF THE PERSONALLY LIABLE SHAREHOLDER TO PURCHASE OWN SHARES THROUGH NOVEMBER 30, 2002 BY RESOLUTION OF THE ANNUAL GENERAL MEETING OF JUNE 07,

2001, IN VIEW OF THE IMPENDING EXPIRATION OF THE AUTHORIZATION, AND TO AUTHORIZE THE PERSONALLY LIABLE SHAREHOLDER, AS THE REPRESENTATIVE OF THE COMPANY, TO PURCHASE SHARES OWNED BY THE COMPANY IN ORDER TO

- OFFER SHARES TO THIRD PARTIES UPON CONSOLIDATION WITH COMPANIES OR UPON ACQUISITION OF COMPANIES OR INTEREST IN COMPANIES, OR
- REDEEM SHARES, OR
- OFFER SHARES OF THE COMPANY AS PART OF THE EXISTING SHARE OPTION PROGRAM FOR SALE TO OWNERS OF SUBSCRIPTION RIGHTS, OR
- OFFER SHARES OF THE COMPANY FOR SALE TO EMPLOYEES AND/OR MEMBERS OF THE MANAGEMENT OF THE COMPANY.

THE AUTHORIZATION IS LIMITED TO THE PURCHASE OF A TOTAL OF UP TO 10 PERCENT OF THE SHARE CAPITAL, THIS IS NOT EXCEEDING 627,920 SHARES IN TOTAL. THE AUTHORIZATION CAN BE EXERCISED IN WHOLE OR IN PART, ONCE OR SEVERAL TIMES. THE AUTHORIZATION TAKES EFFECT FROM APRIL 26, 2002 AND IS VALID THROUGH SEPTEMBER 30, 2003.

THE PURCHASE OF SHARES TAKES PLACE VIA THE STOCK EXCHANGE OR BY MEANS OF A PUBLIC OFFER OF SALE TO ALL SHAREHOLDERS.

IF THE PURCHASE OF THE SHARES TAKES PLACE DIRECTLY VIA THE STOCK EXCHANGE, THE VALUE OF THE SHARE PAID BY THE COMPANY (NO INCLUDING INCIDENTAL COSTS) MUST NOT EXCEED THE PRICE DETERMINED ON THE TRADING DAY BY THE OPENING AUCTION IN THE XETRA SYSTEM OF THE DEUTSCHE BÖRSE AG OR ANOTHER SYSTEM REPLACING THE XETRA SYSTEM BY MORE THAN 5 PERCENT. THE MINIMUM PRICE MUST NOT BE MORE THAN 25 PERCENT LOWER THAN THAT PRICE. IF THE PURCHASE OF THE SHARES TAKES PLACE BY MEANS OF A PUBLIC OFFER OF SALE TO ALL SHAREHOLDERS, THE OFFERED PURCHASE PRICE OR THE LIMITS OF THE OFFERED PURCHASE PRICE SPREAD PER SHARE (NOT INCLUDING INCIDENTAL COSTS) MUST NOT EXCEED THE CLOSING PRICE IN THE XETRA SYSTEM OF THE DEUTSCHE BÖRSE AG OR ANOTHER SYSTEM REPLACING THE XETRA SYSTEM ON THE THIRD TRADING DAY BEFORE THE DAY OF PUBLICATION OF THE OFFER OF SALE BY MORE THAN 10 PERCENT, AND THE MINIMUM PRICE MUST BE NO LOWER THAN 10 PERCENT BELOW THAT PRICE. THE VOLUME OF THE OFFER CAN BE LIMITED. AS FAR AS THE ENTIRE APPLICATION OF THE OFFER EXCEEDS THIS VOLUME, THE ACCEPTANCE MUST TAKE PLACE ON A PRO-RATA BASIS. THE PRIVILEGED ACCEPTANCE OF A SMALL QUANTITY OF UP TO 100 TENDERED SHARES OF THE SHAREHOLDERS IS PERMISSIBLE.

IN THE YEAR 2002, THE COMPANY EXERCISED THE AUTHORIZATION GRANTED ON JUNE 07, 2001 TO PURCHASE A TOTAL OF 32,450 SHARES FROM THE MARKET. FURTHERMORE, IN THE YEAR 2002 THE COMPANY EXERCISED THE AUTHORIZATION GRANTED ON APRIL 26, 2002 TO PURCHASE A TOTAL OF 135,918 SHARES FROM THE MARKET. OF THESE, THE COMPANY STILL OWNED 170,425 SHARES (PREVIOUS YEAR: 16,736 SHARES) OR 2.71 PERCENT (PREVIOUS YEAR: 0.27 PERCENT) OF THE SHARE CAPITAL AS OF DECEMBER 31, 2002. THE PRICE FOR THE SHARES PURCHASES IN THE REPORTED YEAR TOTALLED 2,293 TEUR. IN THE CONTEXT OF THE SALE OF SHARES, 276 TEUR WERE REALIZED. THE ASSESSMENT OF THE OWN SHARES IS BASED ON THE PAR VALUE METHOD. THE DEVELOPMENT OF THE OWN SHARES IS PRESENTED IN NOTE 20.

## **(24) SEGMENT REPORT**

THE COMPANY DEVELOPS, PRODUCES AND SELLS PRODUCTS FOR THE CHIP CARD, SMART LABEL AND SEMICONDUCTOR INDUSTRIES. THE MAIN CUSTOMERS ARE THE SMART CARD, SMART LABEL AND SEMICONDUCTOR INDUSTRIES. DUE TO THE HIGH DENSITY OF THE INDIVIDUAL BUSINESS SECTORS, WHICH CONTRIBUTES TO THE USE OF COMPREHENSIVE SYNERGY EFFECTS, THE REPORTING IS CONDUCTED IN ACCORDANCE WITH SFAS NO. 131 "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION" IN A SINGLE SEGMENT. THE ADDITIONAL INFORMATION REQUIRED BY SFAS NO. 131 AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001 APPEARED AS FOLLOWS:



<b>SALES BY APPLICATION</b>	<b>2002 TEUR</b>	<b>2001 TEUR</b>
SMART IDENTIFICATION	50,651	47,781
SEMICONDUCTOR RELATED PRODUCTS	22,103	24,464
BOARD HANDLING	6,641	7,366
PRECISION PARTS AND SYSTEMS	12,085	10,116
	<b>91,480</b>	<b>89,727</b>
DETRACTION IN EARNINGS	(163)	(305)
	<b>91,317</b>	<b>89,422</b>

<b>SALES BY REGIONS</b>	<b>2002 TEUR</b>	<b>2001 TEUR</b>
GERMANY	43,369	38,059
REST OF EUROPE	26,799	24,422
ASIA	16,766	19,479
NORTH AMERICA	3,392	2,545
SOUTH AMERICA	852	3,740
AFRICA	179	947
AUSTRALIA	123	535
	<b>91,480</b>	<b>89,727</b>
DETRACTION IN EARNINGS	(163)	(305)
	<b>91,317</b>	<b>89,422</b>

<b>BOOK VALUE OF INTANGIBLE AND FIXED ASSETS</b>	<b>2002 TEUR</b>	<b>2001 TEUR</b>
GERMANY	42,082	46,404
ASIA	95	118
REST OF EUROPE	19	19
NORTH-/SOUTH AMERICA	18	26
TOTAL	<b>42,214</b>	<b>46,567</b>

#### **(25) SIGNIFICANT TYPES OF COSTS**

THE COSTS OF MATERIALS FOR THE FINANCIAL YEARS BREAK DOWN AS FOLLOWS:

	<b>2002 TEUR</b>	<b>2001 TEUR</b>
EXPENDITURES FOR RAW MATERIALS, AUXILIARY AND OPERATIONAL MATERIALS AND FOR GOODS PURCHASED	20,527	30,368
EXPENDITURES FOR SERVICES PURCHASED	1,760	2,065
<b>TOTAL</b>	<b>22,287</b>	<b>32,433</b>

<b>THE PERSONNEL COSTS FOR THE FINANCIAL YEARS BREAK DOWN AS FOLLOWS:</b>	<b>2002 TEUR</b>	<b>2001 TEUR</b>
WAGES AND SALARIES	31,458	31,323
SOCIAL CONTRIBUTIONS	6,521	6,447
PENSIONS	114	118
<b>TOTAL</b>	<b>38,093</b>	<b>37,888</b>

<b>THE OTHER OPERATIONAL INCOME FOR THE FINANCIAL YEARS BREAK DOWN AS FOLLOWS:</b>	<b>2002 TEUR</b>	<b>2001 TEUR</b>
INVESTMENT GRANTS	975	1,056
COMPENSTIONS FROM INSURANCE POLICIES AND OTHER COMPENSATIONS	591	143
FOREIGN CURRENCY GAINS	503	140
WRITE-BACK OF PROVISIONS	336	153
WRITE-BACK OF VALUE ADJUSTMENTS ON RECEIVABLES	246	449
VEHICLE USE	185	175
CANTEEN PROFITS	175	232
REVENUE FROM RE-INSURANCE POLICIES	48	41
RENT REVENUE	42	55
INVESTMENT PREMIUMS	30	693
GAINS (LOSSES) FROM THE SALE OF FIXED ASSETS	13	111
OTHERS	331	301
<b>TOTAL</b>	<b>3,475</b>	<b>3,549</b>

<b>THE FOREIGN CURRENCY GAINS AND LOSSES FOR THE FINANCIAL YEARS BREAK DOWN AS FOLLOWS:</b>	<b>2002 TEUR</b>	<b>2001 TEUR</b>
FOREIGN CURRENCY LOSSES	(405)	(301)
FOREIGN CURRENCY GAINS	503	140
	<b>98</b>	<b>(161)</b>

#### **(26) COMMITMENTS AND CONTINGENCIES**

	<b>2002 TEUR</b>	<b>2001 TEUR</b>
OTHER DEBTS		
OBLIGATIONS FROM PURCHASING AND MAINTENANCE CONTRACTS	3,203	2,637
OBLIGATIONS FROM RENTAL CONTRACTS	249	303
OBLIGATIONS FROM PLANNED INVESTMENTS	0	4

THE OTHER COMMITMENTS AND CONTINGENCIES CONTAIN NO LIABILITIES WITH A MATURITY OF MORE THAN ONE YEAR.

#### **(27) NUMBER OF EMPLOYEES**

THE AVERAGE NUMBER OF EMPLOYEES WAS AS FOLLOWS:

	<b>2002 NUMBER</b>	<b>2001 NUMBER</b>
SKILLED WORKERS	521	574
EXECUTIVES	484	464
	1,005	1,038
TRAINEES AND PART-TIME WORKERS	269	261
	<b>1,274</b>	<b>1,299</b>

THE NUMBER OF EMPLOYEES BY REGIONS FOR THE FINANCIAL YEARS FOLLOWS:

	<b>2002 TEUR</b>	<b>2001 TEUR</b>
GERMANY	1,227	1,250
REST OF EUROPE	5	4
USA	11	9
ASIA	31	36
<b>TOTAL</b>	<b>1,274</b>	<b>1,299</b>

## **(28) SIGNIFICANT DIFFERENCES BETWEEN GERMAN TRADE LAWS AND US-GAAP**

MÜHLBAUER HOLDING AG & Co. KGaA, AS A GERMAN PARENT COMPANY, MUST PREPARE A FINANCIAL STATEMENT ACCORDING TO THE FINANCIAL REPORTING REGULATIONS OF THE GERMAN COMMERCIAL CODE. HOWEVER, § 292A OF THE GERMAN COMMERCIAL CODE EXEMPTS A COMPANY FROM THIS OBLIGATION, IF IT PREPARES AND PUBLISHES A FINANCIAL STATEMENT BASED ON INTERNATIONALLY RECOGNIZED ACCOUNTING PRINCIPLES (SUCH AS US-GAAP). THE COMPANY PREPARES THE FINANCIAL STATEMENT ACCORDING TO US-GAAP. IN THE FOLLOWING, THE SIGNIFICANT DIFFERENCES BETWEEN THE US-GAAP AND GERMAN LAWS RELEVANT FOR THE COMPANY WITH RESPECT TO BALANCE SHEET, ASSESSMENT AND CONSOLIDATION METHODS ARE EXPLAINED.

### **ESSENTIAL DIFFERENCES:**

FINANCIAL REPORTING ACCORDING TO US-GAAP DIFFERS FROM THOSE OF THE GERMAN COMMERCIAL CODE WITH RESPECT TO THE OBJECTIVES. WHILE US-GAAP FOCUSES ON PROVIDING INFORMATION TO INVESTORS THAT IS RELEVANT FOR DECISION-MAKING, GERMAN FINANCIAL REPORTING PLACES GREATER EMPHASIS ON THE PROTECTION OF CREDITORS AND THE PRINCIPLE OF CAUTION.

### **SECURITIES:**

THE ASSESSMENT OF SECURITIES OF CURRENT ASSETS, WHICH CORPORATE SHARES OR CREDITOR RIGHTS, IS BASED ON THE STRICT LOWEST VALUE PRINCIPLE, ACCORDING TO § 253 III OF THE GERMAN COMMERCIAL CODE. THE ASSESSMENT IS DETERMINED UPWARD BY THE ACQUISITION COSTS AND DOWNWARD BY THE MARKET PRICE. UNREALISED GAINS DO NOT BECOME EFFECTIVE UNTIL THE SALE OF THE SECURITY. SECURITIES OF THE FINANCIAL ASSETS ARE ALWAYS CARRIED AS ASSETS WITH THE ACQUISITION COSTS. DEPRECIATIONS OF A LOWER ATTACHED FIXED VALUE (E.G. LOW MARKET PRICE) ARE OBLIGATORY IN CASE OF EXPECTED CONSTANT REDUCTION IN VALUE AND OPTIONAL IN CASE OF NON-CONSTANT REDUCTION IN VALUE.

ACCORDING TO US-GAAP SECURITIES IN THE FINANCIAL STATEMENT ARE ASSESSED AT THEIR MARKET PRICE ON THE BALANCE SHEET DATE. UNREALISED GAINS AND LOSSES ARE TREATED AS EFFECTIVE FOR "TRADING" SECURITIES. UNREALISED GAINS AND TEMPORARILY UNREALISED LOSSES ARE TREATED AS NEUTRAL FOR AVAILABLE-FOR-SALE SECURITIES, AFTER TAKING INTO ACCOUNT DEFERRED TAXES, IN A SEPARATE ITEM IN THE STOCKHOLDERS' EQUITY UNDER OTHER COMPREHENSIVE INCOME. IN THE EVENT OF AN EXPECTED CONSTANT REDUCTION IN VALUE OF AVAILABLE-FOR-SALE SECURITIES, THE NEGATIVE DIFFERENCE IS ALSO TREATED AS EFFECTIVE.

### **FIXED ASSETS:**

DEPRECIATIONS SOLELY ON THE BASIS OF TAX REGULATIONS IN THE FINANCIAL STATEMENTS OF THE CONSOLIDATED COMPANIES, IN PARTICULAR SPECIAL DEPRECIATIONS IN ACCORDANCE WITH § 3 OF THE ZONE EDGE INCENTIVE LAW (ZRFG) AND § 4 OF THE DEVELOPMENT AREAS LAW (FGG) ARE NOW ALLOWED ACCORDING TO US-GAAP.

### **ACCRUALS:**

ACCORDING TO GERMAN TRADE REGULATIONS, PROVISIONS FOR CONTINGENCIES CAN BE ACCRUED IN CERTAIN CASES WITHOUT AN OBLIGATION TOWARD THIRD PARTIES. ACCORDING TO US-GAAP, PROVISIONS ARE TO BE ACCRUED ONLY FOR EXISTING OBLIGATIONS TOWARD THIRD PARTIES AND OTHERWISE ONLY FOR VERY SPECIFIC CRITERIA.

### **PENSION LIABILITIES:**

ACCORDING TO US-GAAP, THE PENSION OBLIGATIONS RESULTING FROM PERFORMANCE-ORIENTED DEFINED BENEFIT PLANS ARE CALCULATED ACCORDING TO THE PROJECTED UNIT CREDIT METHOD. IN THIS METHOD, THE CASH VALUE OF PENSION LIABILITIES REQUIRED AS RESERVES INCREASES FROM YEAR TO YEAR BY THE CASH VALUE OF THE ADDITIONAL ENTITLEMENT EARNED BY THE EMPLOYEES (ACCUMULATION METHOD). THE BASIS FOR THE CALCULATION OF THESE ANNUAL PENSION COSTS IS THE CASH VALUE OF THE EARNED PENSION EXPECTANCY, TAKING INTO CONSIDERATION FUTURE SALARY AND WAGE ADJUSTMENTS

(PBO) AND A DISCOUNTING FACTOR CORRESPONDING TO THE CAPITAL MARKET INTEREST OF HIGH-QUALITY FIXED-INTEREST SECURITIES. THEREFORE, THE PBO IS NOT THE SAME AS THE REQUIRED RESERVE AMOUNT.

IN THE FINANCIAL STATEMENTS OF THE CONSOLIDATED COMPANIES PREPARED ACCORDING TO GERMAN FINANCIAL REPORTING PRINCIPLES, RESERVES FOR PENSION LIABILITIES TOWARD EMPLOYEES THAT EXISTED ON THE CLOSING DATE OF THE FINANCIAL STATEMENT WERE DETERMINED USING THE PARTIAL TAXABLE VALUE METHOD IN ACCORDANCE WITH § 253 I P. 2 OF THE COMMERCIAL CODE. ADJUSTMENTS FOR FUTURE SALARY AND WAGE INCREASES ARE NOT TAKEN INTO ACCOUNT BY THIS METHOD. THE OBLIGATIONS ARE ASSESSED COMPLETELY AS AN ACTUARIAL LIABILITY WITH RESPECT TO RETIREMENT AGE, LIFE EXPECTANCY AND OTHER FACTORS USING A FIXED ANNUAL INTEREST RATE OF NORMALLY 6 PERCENT.

#### **OTHER COMPREHENSIVE INCOME:**

OTHER COMPREHENSIVE INCOME ACCORDING TO US-GAAP INCLUDES UNREALISED GAINS AND LOSSES FROM THE MARKET ASSESSMENT OF SECURITIES (AVAILABLE-FOR-SALE SECURITIES) AND DIFFERENCES RESULTING FROM THE TRANSLATION OF FOREIGN CURRENCY.

#### **DEFERRED TAXES:**

ACCORDING TO GERMAN ACCOUNTING PRINCIPLES, FAVOURABLE DEFERRED TAXATION ITEMS THAT RESULT FROM A TAX LOSS CARRIED FORWARD, ARE NOT ASSESSED. ONLY FAVOURABLE DEFERRED TAXATION ITEMS RESULTING FROM THE ASSESSMENT DIFFERENCES BETWEEN TRADE LAW AND TAX REGULATIONS CAN BE ASSESSED. FOR UNFAVOURABLE DEFERRED TAXATION ITEMS, A PROVISION HAS TO BE FORMED.

ACCORDING TO US-GAAP, DEFERRED TAXES ARE DETERMINED USING THE LIABILITY METHOD. FOR THIS PURPOSE, TIME DIFFERENCES BETWEEN BOOK VALUES OF THE CONSOLIDATED BALANCE SHEET AND THE TAX BALANCE SHEET ARE GENERALLY ACCOUNTED FOR BY MEANS OF DEFERRED TAXES. HOWEVER, THE FAVOURABLE DEFERRED TAXES ARE REPORTED ON THE BALANCE SHEET, ONLY IF THEIR REALIZATION CAN BE DEEMED TO BE PROBABLE. AFTER CALCULATING THE FAVOURABLE DEFERRED TAXES, THEIR VALUE SHOULD BE ASSESSED. IF NECESSARY, A PARTIAL OR COMPLETE ADJUSTMENT OF THE ITEM MAY BE NECESSARY. CONTRARY TO GERMAN ACCOUNTING PRINCIPLES, DEFERRED TAXES RESULTING FROM TAX LOSSES CARRIED FORWARD MUST BE REPORTED IN THE BALANCE SHEET.

THE ASSESSMENT OF DEFERRED TAXES MUST TAKE PLACE AT THE TAX RATE EXPECTED AT THE TIME OF ELIMINATION OF TEMPORAL DIFFERENCES. AMOUNTS RESULTING FROM CHANGES IN TAX RATES ARE ACCOUNTED FOR AS EFFECTIVE AT THE TIME THAT THE LAW TAKES EFFECT.

#### **STOCK OPTIONS PLANS:**

FOR STOCK OPTIONS PLANS IN THE CONSOLIDATE FINANCIAL STATEMENT, THE SUBSCRIPTION RIGHTS GRANTED ARE ASSESSED ACCORDING TO US-GAAP IN ACCORDANCE WITH APB 25 "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES" AND A CORRESPONDING LIABILITY IS ESTABLISHED DURING THE WAITING PERIOD. ACCORDING TO GERMAN REPORTING PRINCIPLES, THE PLANS ARE NOT INCLUDED IN THE BALANCE SHEET.

#### **FOREIGN CURRENCY TRANSLATION:**

ACCORDING TO US-GAAP, TRADE RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES ARE TRANSLATED AT THE EXCHANGE RATE ON THE BALANCE SHEET DAY. UNREALISED GAINS AND LOSSES ARE TREATED AS EFFECTIVE. ACCORDING TO GERMAN PRINCIPLES, THE LOWEST VALUE PRINCIPLE APPLIES FOR FOREIGN CURRENCY RECEIVABLES AND THE HIGHEST VALUE PRINCIPLE FOR FOREIGN CURRENCY LIABILITIES. THIS MEANS, THAT ONLY UNREALISED LOSSES ARE SHOWN IN THE BALANCE SHEET.

#### **OWN SHARES**

ACCORDING TO US-GAAP, OWN SHARES THAT ARE IN THE POSSESSION OF THE COMPANY ARE OPENLY DEDUCTED DIRECTLY FROM THE STOCKHOLDERS' EQUITY. THE GERMAN FINANCIAL REPORTING REGULATIONS REQUIRE OWN SHARES TO BE SHOWN IN THE BALANCE SHEET IN THE CATEGORY OF SECURITIES UNDER CURRENT ASSETS.

#### **CONSOLIDATED INCOME STATEMENT:**

ACCORDING TO US-GAAP THE INCOME STATEMENT IS TO BE PREPARED ACCORDING TO THE COST-OF-SALES METHOD.

**(29) INFORMATION PURSUANT TO SECTION 160 (8) CORPORATION ACT**

THE MICROVALUE AG, ZURICH, SWITZERLAND, HAS INFORMED THE COMPANY PURSUANT TO SECTION 21 (1) SECURITIES TRADING ACT THAT THEIR PROPORTION OF THE VOTING RIGHTS IN THE COMPANY CROSSED THE THRESHOLD OF 5 % ON APRIL 26, 2002 AND IS NOW 5.18 %.

MR JOSEF MÜHLBAUER, METTEN, HAS INFORMED THE COMPANY PURSUANT TO SECTION 41 (2) (1) SECURITIES TRADING ACT THAT HIS PROPORTION OF THE VOTING RIGHTS IN THE COMPANY CAME TO A TOTAL OF 52.84% ON THE KEY DATE OF APRIL 01, 2002. OF THIS, 52.50 % ARE TO BE ATTRIBUTED TO HIM IN ACCORDANCE WITH SECTION 22 (1) (1) SECURITIES TRADING ACT

THE MÜHLBAUER VERMÖGENSVERWALTUNGS GMBH (NOW SECURA VERMÖGENSVERWALTUNGS GMBH) HAS INFORMED THE COMPANY PURSUANT TO SECTION 21 (1) SECURITIES TRADING ACT THAT THEY CROSSED THE THRESHOLD OF 5 % OF THE PROPORTION OF THE VOTING RIGHTS OF MÜHLBAUER HOLDING AG & Co. KGAA ON OCTOBER 07, 2002 AND NOW HAVE OVER 3,296,852 INDIVIDUAL SHARE CERTIFICATES, WHICH CORRESPONDS TO A VOTING RIGHTS PROPORTION OF 52.50 %.

THE MÜHLBAUER HOLDING AG & Co. VERWALTUNGS KG, RODING, HAS VOLUNTARILY INFORMED THE COMPANY PURSUANT TO SECTION 21 IN CONJUNCTION WITH SECTION 22 (1) (1) SECURITIES TRADING ACT THAT THEIR PROPORTION OF THE VOTING RIGHTS CONTINUES TO BE 52.50 %. HOWEVER, THESE VOTING RIGHTS ARE TO BE ATTRIBUTED TO THEM TO THE FULL EXTENT AS FROM OCTOBER 07, 2002 PURSUANT TO SECTION 22 (1) (1) SECURITIES TRADING ACT.

**(30) DECLARATION OF CONFORMITY ACCORDING TO SECTION 161 CORPORATION ACT**

IN THE INTERESTS OF A VALUE-ORIENTATED COMPANY MANAGEMENT, THE PERSONALLY LIABLE SHAREHOLDER AND THE SUPERVISORY BOARD OF MÜHLBAUER HOLDING AG & Co. KGAA HANDED IN THE FIRST DECLARATION OF CONFORMITY ON DECEMBER 23, 2002 TO THE GERMAN CORPORATE GOVERNANCE CODEX PURSUANT TO SECTION 161 CORPORATION ACT, AND MADE THIS PERMANENTLY ACCESSIBLE TO THE SHAREHOLDERS BY PUBLISHING IT ON THE COMPANY'S OWN WEBSITE AT [WWW.MUEHLBAUER.DE](http://WWW.MUEHLBAUER.DE).

**(31) RELATED PARTIES TRANSACTIONS**

THE COMPANIES OF MÜHLBAUER AKTIENGESELLSCHAFT AND ASEM PRÄZISIONS-AUTOMATEN GMBH RENT OFFICE PREMISES FROM MR JOSEF MÜHLBAUER, WHO IS THE CHAIRMAN OF MÜHLBAUER BETEILIGUNGS AG, INDIVIDUALLY AUTHORIZED TO REPRESENT. THE MÜHLBAUER BETEILIGUNGS AG IS A PERSONALLY LIABLE SHAREHOLDER OF MÜHLBAUER HOLDING AG & Co. VERWALTUNGS AG WHICH IN TURN IS A PERSONALLY LIABLE PARTNER OF MÜHLBAUER HOLDING & Co. KGAA. THE TENANCY RELATIONSHIP IS OF UNRESTRICTED DURATION AND CAN BE TERMINATED BY EITHER PARTY IF THEY GIVE NOTICE OF A PERIOD OF 6 MONTHS BY MEANS OF A REGULAR ANNOUNCEMENT OF NOTICE ACCORDING TO GERMAN LAW. THE RENT WAS 276 TEUR IN 2002 AND 275 TEUR IN 2001.

THE CHAIRMAN OF MÜHLBAUER AKTIENGESELLSCHAFT RECEIVED FIXED SALARY COMPONENTS OF 526 TEUR AND 560 TEUR IN THE BUSINESS YEARS 2002 AND 2001 RESPECTIVELY. THE VARIABLE SALARY WAS 164 TEUR IN 2002 AND 181 TEUR IN 2001.

THE SALARIES OF THE SUPERVISORY BOARD OF MÜHLBAUER AKTIENGESELLSCHAFT AMOUNTED TO 45 TEUR IN THE BUSINESS YEAR 2002 (FIXED COMPONENTS 5 TEUR, VARIABLE COMPONENTS 0 TEUR AND REIMBURSEMENTS FOR PERSONALLY PAID EXPENSES 40 TEUR). IN THE COMPARATIVE PERIOD OF THE PREVIOUS YEAR THE FIXED PAY WAS 6 TEUR.

IN HIS CAPACITY AS SOLE MEMBER OF THE EXECUTIVE BOARD OF MÜHLBAUER BETEILIGUNGS AG, WHICH IS ITSELF THE COMPANY-MANAGING PARTNER OF THE PERSO-

NALLY LIABLE SHAREHOLDER OF MÜHLBAUER HOLDING AG & Co. KGAA, MR JOSEF MÜHLBAUER PURCHASED 54,445 NON-PAR INDIVIDUAL SHARE CERTIFICATES AND ON DECEMBER 31, 2002 HOLDS 61,850 (PREVIOUS YEAR: 7,405) NON-PAR INDIVIDUAL SHARE CERTIFICATES OF THE COMPANY.

MS ANNA-ANTONIE MÜHLBAUER, MR JOSEF MÜHLBAUER'S WIFE, OWNS ON DECEMBER 31, 2002 43,392 NON-PAR INDIVIDUAL SHARE CERTIFICATES AND IS THE OWNER OF SHARE NO. 1. SHE IS THEREFORE ENTITLED TO SEND ONE THIRD OF ALL MEMBERS OF THE SHAREHOLDERS' SUPERVISORY BOARD INTO THE SUPERVISORY BOARD OF THE COMPANY.

### **(32) MANAGEMENT AND SUPERVISORY BOARD AND REPRESENTATION OF THE COMPANY**

THE PERSONALLY LIABLE SHAREHOLDER, MÜHLBAUER HOLDING AG & Co. VERWALTUNGS KG OF RODING, IS ENTITLED TO MANAGE AND REPRESENT THE COMPANY. THIS IN TURN IS REPRESENTED BY THE CHAIRMAN OF ITS GENERAL PARTNER, MÜHLBAUER BETEILIGUNGS AG OF RODING.

	AGE	END OF PERIOD	MEMBERSHIP IN OTHER SUPERVISORY COUNCILS AND OTHER COMPARABLE CONTROLLING COMMITTEES
<b>HERBERT GEISSLER, ASSESSOR</b>			
CHAIRMAN (UP TO MARCH 14, 2002)	55		MANAGING DIRECTOR OF E.ON ENERGIE IMMOBILIEN GMBH EXTERNAL MANDATES: MEMBER OF THE SUPERVISORY BOARD • MÜHLBAUER BETEILIGUNGS AG, RODING (CHAIRMAN) (UP TO DECEMBER 31, 2001) COMPANY MANDATES: MEMBER OF THE SUPERVISORY BOARD • MÜHLBAUER AKTIENGESELLSCHAFT (CHAIRMAN) (UP TO DECEMBER 31, 2001)
<b>DR. HERMANN ORTH</b>			
CHAIRMAN (SINCE MARCH 14, 2002)	50	2003	SOLICITOR AND ACCOUNTANT EXTERNAL MANDATES: MEMBER OF THE SUPERVISORY BOARD • HL TECHNIK BERATUNGS- UND VERWALTUNGS AG, MUNICH (CHAIRMAN) • INNOMOTIVE BETEILIGUNGS ( AG, MUNICH (CHAIRMAN) • HL TECHNIK AG BERATENDE INGENIEURE, MUNICH COMPANY MANDATES: MEMBER OF THE SUPERVISORY BOARD • MÜHLBAUER AKTIENGESELLSCHAFT, RODING (CHAIRMAN) (SINCE FEBRUARY 28, 2002)
<b>DR. PETER DREXEL</b>			
VICE CHAIRMAN	58	2003	MEMBER OF THE EXECUTIVE BOARD SIEMENS DEMATIC AG EXTERNAL MANDATES: MEMBER OF THE SUPERVISORY BOARD • MUEHLBAUER BETEILIGUNGS AG, RODING, (VICE CHAIRMAN) COMPANY MANDATES: MEMBER OF THE SUPERVISORY BOARD • MÜHLBAUER AKTIENGESELLSCHAFT, RODING (VICE CHAIRMAN)

	AGE	END OF PERIOD	MEMBERSHIP IN OTHER SUPERVISORY COUNCILS AND OTHER COMPARABLE CONTROLLING COMMITTEES
<b>WOLFGANG BRÜCKL</b> (UP TO APRIL 26, 2002)	38	2003	HEAD OF WORLD-WIDE SERVICE NETWORK OF MÜHLBAUER AKTIENGESELLSCHAFT COMPANY MANDATES: MEMBER OF THE SUPERVISORY BOARD · MÜHLBAUER AKTIENGESELLSCHAFT, RODING
<b>CARL-FRANZ VON QUADT, MBA</b> (SINCE APRIL 26, 2002)	56	2003	MASTER OF BUSINESS ADMINISTRATION EXTERNAL MANDATES: MEMBER OF THE SUPERVISORY BOARD • MÜHLBAUER BETEILIGUNGS AG, RODING (CHAIRMAN) (SINCE MARCH 11, 2002) • ROI COMPUTER AG, KRALLING (CHAIRMAN) • VUD GmbH, MUNICH (CHAIRMAN) • GMX AG, MUNICH (UP TO SEPTEMBER 14, 2002) • DOING-FINE MEDIEN AG, MUNICH • FINEX AG, FORSTINNING (SINCE MAY, 23, 2002)

IN THE BUSINESS YEAR UP TO DECEMBER 31, 2002 THE TOTAL SALARIES OF THE SUPERVISORY BOARD WERE 8 TEUR (FIXED COMPONENTS 8 TEUR, VARIABLE COMPONENTS 0 TEUR AND REIMBURSEMENTS FOR PERSONALLY PAID EXPENSES 0 TEUR). IN THE COMPARABLE PERIOD OF THE PREVIOUS YEAR THE FIXED COMPONENTS TOTALLED 7 TEUR.

### (33) STOCK PORTFOLIO OF THE MANAGEMENT AND SUPERVISORY BOARD

THE NUMBER OF OWN NON-PAR VALUE SHARES, HELD BY THE PERSONNEL LIABLE SHAREHOLDER AS AT DECEMBER 31, 2001 IN QUANTITY OF 3,296,852, WERE BROUGHT INTO THE SECURA VERMÖGENSVERWALTUNGS GMBH ON OCTOBER 07, 2002 (SEE NOTE NO. 20). AT THE YEAR-END OF THE REPORTING YEAR THE PERSONALLY LIABLE SHAREHOLDER DIRECTLY HELD ZERO SHARES, INDIRECTLY FURTHER ON 3,296,852 SHARES OF THE COMPANY. THIS IS EQUAL TO AN INTEREST OF 52.50 % OF THE CAPITAL STOCK.

AS AT DECEMBER 31, 2002, MEMBERS OF THE SUPERVISORY BOARD HELD NON-PAR VALUE SHARES OF MÜHLBAUER HOLDING AG & Co. KGaA TOTALLING 3,246 (PREVIOUS YEAR: 4,835). THIS IS EQUAL TO AN INTEREST OF 0.05 % OF THE CAPITAL STOCK.

## REPORT OF THE SUPERVISORY BOARD

IN THE FINANCIAL YEAR OF 2002 THE SUPERVISORY BOARD LOOKED AFTER THE TASKS THAT ARE ITS DUTY ACCORDING TO THE LAW AND THE CONSTITUTION, AND HAD FOUR ORDINARY MEETINGS IN WHICH IT GAINED INFORMATION ABOUT THE SITUATION AND THE DEVELOPMENT OF THE COMPANY, THE STRATEGIC CORPORATE PLANNING, AND THE MOST IMPORTANT BUSINESS EVENTS. BY MEANS OF REGULAR REPORTS IN SPEECH AND IN WRITING FROM THE PERSONALLY LIABLE SHAREHOLDER, COMPREHENSIVE INFORMATION WAS GUARANTEED AT ALL TIMES. MEASURES, WHICH REQUIRED THE APPROVAL OF THE BOARD, WERE PRESENTED AS BASIS OF DECISIONS. ALL DECISIONS WERE CARRIED OUT WITH ALL VOTES. CONFLICTS OF INTEREST OF THE SUPERVISORY BOARD MEMBERS (PARTICULARLY ACCORDING TO OF THE CORPORATE GOVERNANCE CODE) DID NOT ARISE.

FOR THE BOARD MEETING ON MARCH 12, 2003 CONCERNING THE BALANCE SHEETS, THE ANNUAL FINANCIAL STATEMENT AND THE GROUP STATEMENT OF MÜHLBAUER HOLDING AG & Co. KGAA AS WELL AS THE INSPECTION REPORTS OF THE PwC DEUTSCHE REVISION AG, COMPANY OF AUDITORS, MUNICH, ON BOTH STATEMENTS WERE AVAILABLE. THE AUDITOR WAS PRESENT AT THE SUPERVISORY BOARD'S DISCUSSION OF THE ANNUAL FINANCIAL STATEMENTS AND THE GROUP STATEMENT, AND REPORTED EXTENSIVELY ON THE COURSE AND THE IMPORTANT RESULTS OF HIS EXAMINATION, AND WAS AVAILABLE TO GIVE FURTHER INFORMATION. THE DOCUMENTS WERE DISCUSSED IN DETAIL. WITH REGARD TO THE PRESENT SYSTEM FOR THE EARLY DETECTION OF RISKS, THE AUDITOR STATED, THAT THE PERSONALLY LIABLE SHAREHOLDER HAS TAKEN THE MEASURES NECESSARY PURSUANT TO § 91 (2) CORPORATION LAW (AktG), AND THAT THE CONTROLLING SYSTEM CAN FULFIL ITS TASK. THE CONFIRMATION NOTE PURSUANT TO § 322 COMMERCIAL CODE (HGB) WAS GIVEN WITHOUT RESTRICTIONS EACH TIME. AFTER HAVING EXAMINED THE ANNUAL FINANCIAL STATEMENTS AND THE GROUP STATEMENT, THE REPORT ON THE PRESENT SITUATION, THE REPORT ON THE GROUP SITUATION, AND THE SUGGESTION FOR THE USE OF THE DECLARED PROFIT, THE BOARD APPROVED THE RESULT OF THE AUDITOR'S INVESTIGATIONS. FOR THIS REASON THE SUPERVISORY BOARD SUGGESTS TO THE ANNUAL GENERAL MEETING, THAT THE ANNUAL STATEMENT FOR MÜHLBAUER HOLDING AG & Co. KGAA UP TO DECEMBER 31, 2002 SHOULD BE APPROVED IN THE VERSION PRESENTED. THE BOARD ENDORSED THE SUGGESTION MADE BY THE PERSONALLY LIABLE SHAREHOLDER FOR THE USE OF THE DECLARED PROFIT.

THE MEMBERS OF THE SUPERVISORY BOARD WISH TO EXPRESS THEIR THANKS TO THE PERSONALLY LIABLE SHAREHOLDER, THE MANAGERS OF THE COMPANIES, AND ALL THE MEMBERS OF THE COMPANY STAFF FOR THEIR DEDICATED WORK DURING THE FINANCIAL YEAR OF 2002.

RODING, MARCH 2003

THE SUPERVISORY BOARD



DR. HERMANN ORTH  
CHAIRMAN



## INDEPENDENT AUDITOR'S REPORT

WE HAVE AUDITED THE ACCOMPANYING CONSOLIDATED BALANCE SHEET OF MÜHLBAUER HOLDING AG & Co. KGAA AND SUBSIDIARIES AS OF DECEMBER 31, 2002, AND THE RELATED CONSOLIDATED STATEMENT OF INCOME, STATEMENT OF CHANGES IN EQUITY AND CASH FLOWS AS WELL AS NOTES FOR THE YEARS THEN ENDED.

THESE CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ARE THE RESPONSIBILITY OF THE GENERAL PARTNER. OUR RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE CONSOLIDATED FINANCIAL STATEMENTS BASED ON OUR AUDIT.

WE CONDUCTED OUR AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH GERMAN AUDITING REGULATIONS FOR THE AUDIT OF FINANCIAL STATEMENTS PROMULGATED BY THE INSTITUT DER WIRTSCHAFTSPRÜFER IN DEUTSCHLAND (IDW). THOSE STANDARDS REQUIRE THAT WE PLAN AND PERFORM THE AUDIT TO OBTAIN REASONABLE ASSURANCE ABOUT WHETHER THE CONSOLIDATED FINANCIAL STATEMENTS ARE FREE OF MATERIAL MISSTATEMENT. THE AUDIT INCLUDES EXAMINING, ON A TEST BASIS, EVIDENCE SUPPORTING THE AMOUNTS AND DISCLOSURES IN THE FINANCIAL STATEMENTS.

THE AUDIT ALSO INCLUDES ASSESSING THE ACCOUNTING PRINCIPLES USED AND SIGNIFICANT ESTIMATES MADE BY THE GENERAL PARTNER, AS WELL AS EVALUATING THE OVERALL PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS. WE BELIEVE THAT OUR AUDIT PROVIDE A REASONABLE BASIS FOR OUR OPINION.

IN OUR OPINION, BASED ON OUR AUDIT THE CONSOLIDATED FINANCIAL STATEMENTS REFERRED TO ABOVE PRESENT FAIRLY, IN ALL MATERIAL RESPECT, THE NET ASSETS AND FINANCIAL POSITION OF MÜHLBAUER HOLDING AG & Co. KGAA AS OF DECEMBER 31, 2002, AND OF ITS RESULT OF OPERATIONS AND ITS CASH FLOW FOR THE YEAR THEN ENDED IN CONFORMITY WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

OUR AUDIT, WHICH ACCORDING TO GERMAN AUDITING REGULATIONS ALSO EXTENDS TO THE GROUP MANAGEMENT REPORT PREPARED BY THE GENERAL PARTNER FOR THE BUSINESS YEAR FROM JANUARY 01 TO DECEMBER 31, 2002, HAS NOT LED TO ANY RESERVATIONS.

IN OUR OPINION, ON THE WHOLE THE GROUP MANAGEMENT REPORT PROVIDES A SUITABLE UNDERSTANDING OF THE GROUP'S POSITION AND SUITABLY PRESENTS THE RISKS OF FUTURE DEVELOPMENT.

IN ADDITION, WE CONFIRM THAT THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT FOR THE BUSINESS YEAR FROM JANUARY 01 TO DECEMBER 31, 2002 SATISFY THE CONDITIONS REQUIRED FOR THE COMPANY'S EXEMPTION FROM ITS DUTY TO PREPARE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT IN ACCORDANCE WITH GERMAN ACCOUNTING LAW.

MUNICH, FEBRUARY 21, 2003

### PwC Deutsche Revision

Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



(HARTMANN)  
WIRTSCHAFTSPRÜFER



(PPA. SCHWARZFISCHER)  
WIRTSCHAFTSPRÜFER

## GLOSSARY

ASSEMBLY & PACKAGING	ASSEMBLY AND PACKAGING OF SEMICONDUCTOR COMPONENTS
BARE DIE ON FLEX	TECHNOLOGY FOR THE MANUFACTURE OF SEMICONDUCTOR COMPONENTS BY ATTACHING DICE TO FLEXIBLE CARRIER MATERIALS
BIOMETRIC PROCEDURE	PROCEDURE OF REGISTERING INDIVIDUAL ATTRIBUTES OF A PERSON (E.G. FINGER PRINT, IRIS, FACE GEOMETRY); DATA PRODUCED BY BIOMETRIC PROCEDURES ARE USED FOR UNIQUE IDENTIFICATION OF MAN
BOARD HANDLING	PROCESSES AND SYSTEMS FOR THE TRANSPORT OF BOARDS DURING THE INDUSTRIAL MANUFACTURING AND SHAPING, E.G. LOADING AND UNLOADING STATIONS, BUFFER SYSTEMS, FLIP-/TURN UNITS AND CONVEYORS
CARRIER TAPE	PACKING STRAP MADE OF PLASTIC FOR THE TRANSPORT AND LOADING OF ELECTRONIC COMPONENTS CAVITY SINKING A BED INTO A CHIP CARD BEFORE PLACING THE MODULE
CHIP ON BOARD	APPLICATION AND/OR WIRING OF DICE TO CARRIER MATERIAL, SUCH AS PRINTED CIRCUIT BOARDS
COATING AND DRYING	PROCESS IN MÜHLBAUER'S PROCESS CHAIN CONSISTING OF ROLLER COATING, BOARD DRYING AND BOARD CLEANING
CONTACTLESS CARD	CARD IN WHICH THE TRANSFER OF ENERGY AND DATA TAKES PLACE WITHOUT CONTACT, I.E. BY MEANS OF ELECTROMAGNETIC FIELDS
CREDIT CARD	CARD FOR WHICH THE CREDIT LIMIT IS NOT PREPAID; PAYMENT TAKES PLACE AFTER RECEIPT OF GOODS OR SERVICES
DIE BONDING	PLACING OF A SMALL SILICON CHIP ON CARRIER MATERIAL
DIE SORTER	MACHINE THAT PACKAGES "GOOD COMPONENTS" IN ANOTHER MEDIUM
DIE, DICE	SILICON CRYSTAL CONTAINING A SINGLE MICROCONTROLLER DESIGNED WITH SEMICONDUCTOR TECHNOLOGY
DUAL-INTERFACE CARD	CARD TYPE THAT UNITES THE FUNCTION OF CONTACT AND CONTACTLESS CARD TECHNOLOGIES
EPOXY DIE BONDING	APPLICATION OF DICE ON CARRIER MATERIAL BY MEANS OF AN ADHESIVE PROCESS (EPOXY PROCESS)
FLAT MODULE PRODUCTION	SPACE-SAVING TECHNOLOGY IN BOARD ASSEMBLY
FLIP-CHIP TECHNOLOGY	FLIPPING OF THE DICE BY 180 DEGREES FOR APPLICATION TO THE CARRIER MATERIAL
GSM CARD	CHIP CARD WITH A SPECIAL STANDARD SIZE FOR USE IN MOBILE TELEPHONES; THE "GLOBAL SYSTEM FOR MOBILE COMMUNICATIONS" IS AN INTERNATIONAL TERRESTRIAL MOBILE TELEPHONE SYSTEM
ID CARD	IDENTIFICATION CARD
IMPLANTATION	EMBEDDING A CHIP IN A PLASTIC CARD
INDUSTRIAL IMAGE PROCESSING SYSTEM	OPTICAL INSPECTION MODULE FOR SECURITY, DOCUMENTATION AND OPTIMIZATION OF THE PRODUCTION PROCESS
(ADHESIVE FILM) LAMINATION	APPLICATION OF A HEAT-ACTIVATED ADHESIVE FILM TO THE REVERSE SIDE OF THE MODULE
MECHATRONICS	A NEW TECHNOLOGICAL PRINCIPLE THAT UNITES ELEMENTS OF MECHANICS, INFORMATION TECHNOLOGY AND ELECTRICAL ENGINEERING. MECHATRONICS HAS A POSITIVE EFFECT ON THE MODULARITY, PLANNING AND DEVELOPMENT OF MACHINES AND SYSTEMS — AND ALSO RELEVANT JOB OUTLINES
MODULE	CARRIER MATERIAL FOR A DIE WITH CONTACT ELEMENTS
PERSONALIZATION	"PROGRAMMING" OF A CHIP CARD MODULE WITH INDIVIDUAL DATA

PLUG-IN	SMALL-FORMAT CHIP CARD USED ESPECIALLY FOR GSM APPLICATIONS
PLUG PUNCHING	PUNCHING OF A SMALL CHIP CARD FROM A STANDARD CHIP CARD FOR USE IN MOBILE TELEPHONES
PRE-PERSONALIZATION	LOADING OF AN OPERATING SYSTEM ONTO A CHIP
PRINTED CIRCUIT BOARD PRODUCTION	SPACE-SAVING TECHNOLOGY IN PRINTED BOARD COMPONENT INSERTIONS
REEL-TO-REEL PROCESS	A PROCESS IN WHICH MATERIAL IS TAKEN FROM ONE REEL AND, AFTER PROCESSING, IS WOUND ONTO ANOTHER REEL
RFID (RADIO FREQUENCY IDENTIFICATION)	ALL SYSTEMS DESIGNED FOR CONTACTLESS IDENTIFICATION (SMART LABELS, MOBILE PHONES, CORDLESS PHONES, ANTITHEFT DEVICE, ETC.)
RFID CHIPS	COMPONENTS USED IN THE HIGH-FREQUENCY RANGE
SECURE DIGITAL (SD) CARD	SECURE MEMORY CARD SIMILAR TO THE MMC MULTIMEDIA CARD. CARD APPLICATION USED ESPECIALLY FOR DIGITAL CAMERAS OR AS A STORAGE MEDIUM FOR MUSIC, PDA, ETC.
SMART CARD	CHIP CARD, I.E. PLASTIC CARD WITH A CHIP MODULE
SMART LABEL	CONTACTLESS IDENTIFICATION SYSTEM
SMARTMEDIA/MULTI-MEDIACARD	CARD APPLICATION USED ESPECIALLY FOR DIGITAL CAMERAS OR AS A STORAGE MEDIUM FOR MUSIC, ETC.
SPILLING	PROTECTION OF THE CHIP AND ITS WIRE TIE BY THE APPLICATION OF A SEALING COMPOUND ON THE REVERSE OF THE CHIP
STATE OF THE ART	ALWAYS USING THE BEST, HIGHEST AND MOST CURRENT TECHNOLOGICAL STANDARD
TESTING & PACKING	TESTING, LABELLING AND PACKING OF SEMICONDUCTOR COMPONENTS FOR FURTHER PROCESSING
TRACEABILITY	ABILITY TO TRACE PROCESSES
TRANSPONDER	ANTENNA PLACED BETWEEN FLEXIBLE COATS WITHIN A SMART LABEL
TURN-KEY SOLUTIONS	READY-TO-IMPLEMENT TOTAL SOLUTIONS
VISION TECHNOLOGY	MEASURING AND CONTROL OF COMPONENTS BY MEANS OF CAMERA SYSTEMS USING CORRESPONDING SOFTWARE
WAFER	VERY THIN SEMICONDUCTOR DISC MADE OF SILICON, FROM WHICH MANY INDIVIDUAL CHIPS CAN BE MANUFACTURED; THE WAFER IS SLICED, DEFINING THE ELEMENTS KNOWN AS DICE
WAFER LEVEL PACKAGE	A FINISHED COMPONENT MANUFACTURED ON THE BASIS OF A WAFER THAT MUST BE FURTHER PROCESSED IN ORDER TO REPLACE SMT COMPONENTS
WIRE BONDING	FULLY AUTOMATIC PROCESS OF WIRING A DIE WITH THE CARRIER-MATERIAL

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