



*building the future*

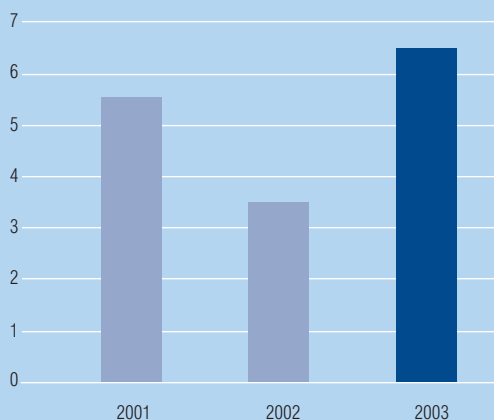
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## Summary of Selected Financial Data (US-GAAP)

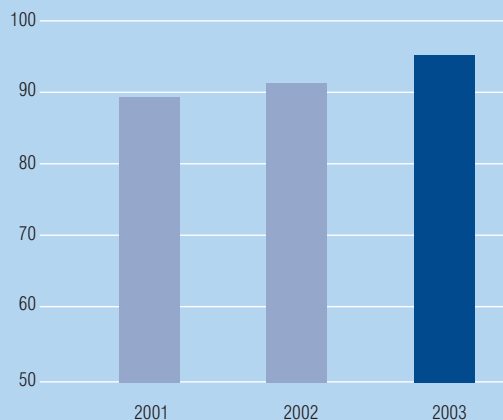
<b>Mühlbauer Group</b>		<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>From Consolidated Statements of Income</b>							
Sales by Applications	<b>TEUR</b>	<b>95,204</b>	<b>91,317</b>	<b>89,422</b>	<b>110,322</b>	<b>71,026</b>	<b>53,910</b>
Smart Identification	TEUR	39,335	50,651	47,781	48,552	34,984	23,226
Semiconductor related products	TEUR	35,619	22,103	24,464	42,427	22,159	17,880
Traceability	TEUR	5,679	6,641	7,366	8,616	5,421	7,336
Precision parts & systems	TEUR	14,680	12,085	10,116	10,981	8,597	5,203
Other	TEUR	(109)	(163)	(305)	(254)	(135)	265
Sales by Regions	<b>TEUR</b>	<b>95,204</b>	<b>91,317</b>	<b>89,422</b>	<b>110,322</b>	<b>71,026</b>	<b>53,910</b>
Germany	TEUR	45,316	43,369	38,059	33,545	27,244	25,098
Other Europe	TEUR	21,175	26,799	24,422	41,482	23,559	11,992
Africa	TEUR	2,380	179	947	1,410	53	2,807
North America	TEUR	4,221	3,392	2,545	6,478	5,598	4,126
South America	TEUR	403	852	3,740	2,592	1,324	1,362
Asia	TEUR	21,676	16,766	19,479	25,016	13,356	8,242
Australia	TEUR	142	123	535	53	27	18
Other	TEUR	(109)	(163)	(305)	(254)	(135)	265
<b>From Consolidated Balance Sheets</b>							
Total Assets and Liabilities	<b>TEUR</b>	<b>125,556</b>	<b>129,432</b>	<b>137,942</b>	<b>144,934</b>	<b>128,791</b>	<b>125,480</b>
Total Current Assets	TEUR	72,418	79,835	83,626	93,293	85,849	81,201
Total Financial Assets	TEUR	9,241	7,383	7,749	10,762	9,819	13,100
Total Fixed Assets	TEUR	41,333	41,189	45,169	38,870	31,903	29,837
Total Intangible Goods	TEUR	877	1,025	1,398	2,009	1,220	1,342
Other Fixed Assets	TEUR	1,687	0	0	0	0	0
Total Current Liabilities	TEUR	17,724	20,254	23,138	27,344	20,665	24,746
Total Long-Term Liabilities	TEUR	9,898	10,925	12,980	13,275	13,297	13,593
Total Shareholders' Equity	TEUR	97,934	98,253	101,824	104,315	94,829	87,141
Fixed Assets							
Capital Expenditures	TEUR	6,224	2,338	13,099	14,137	7,825	11,627
Depreciation and Amortization	TEUR	6,190	6,656	7,319	6,216	5,443	5,133
<b>From Consolidated Statements of Cashflow</b>							
Cash provided by (used for) Operating Activities	TEUR	16,054	23,398	15,159	15,307	(6,037)	(949)
Cash used for Investing Activities	TEUR	(7,344)	(1,864)	(9,872)	(4,701)	(751)	(37,412)
Cash provided by (used for) Financing Activities	TEUR	(8,921)	(10,243)	(6,840)	(8,558)	(6,335)	52,402
Net Increase (Decrease) in Cash and Cash Equivalents <sup>1)</sup>	TEUR	(211)	11,291	(1,553)	2,048	(13,123)	14,041
<b>Human Resources</b>							
Number of Employees	<b>Number</b>	<b>1,262</b>	<b>1,274</b>	<b>1,299</b>	<b>1,206</b>	<b>898</b>	<b>756</b>
Skilled Workers	Number	515	521	574	542	392	345
Executives	Number	484	484	464	403	296	250
Trainees and Part-Timers	Number	263	269	261	261	210	161
<b>Mühlbauer Holding AG &amp; Co, KGaA</b>							
Total Stock Capital <sup>2)</sup>	TEUR	18,811	18,811	18,811	18,805	18,786	18,765
Total Issued and outstanding Shares <sup>3)</sup>	Thousand	14,696	14,696	14,696	14,692	14,677	14,660
Dividend	EUR	<sup>4)</sup> 0.35	0.30	0.30	0.35	0.30	0.23
Stock Price (Year-End Close)	EUR	20.50	10.30	29.60	84.00	41.00	33.52
Market Capitalization (Year-End Close) <sup>3)</sup>	TEUR	301,268	151,369	435,004	1,234,128	601,757	491,403

- 1) Less Increase of Foreign Exchange Rate changes in 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

### Net earnings in Mill. EUR



### Sales in Mill. EUR



### KEY FIGURES

		2003	2002	2001	2000	1999	1998
<b>from consolidated statements of income</b>							
Sales	TEUR	95,204	91,317	89,422	110,322	71,026	53,910
Gross margin of sales	TEUR %	32,197 33.8	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 %	14,736 15.5	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 %	8,546 9.0	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 %	9,491 10.0	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 %	6,514 6.8	<sup>4)</sup> 3,506 3.8	5,551 6.2	17,697 16.0	13,824 19.5	8,533 15.8
Total personal costs	TEUR	39,922	38,093	37,888	39,236	27,984	23,116
Earnings per share	EUR	0.41	0.20	0.35	1.02	0.68	0.36
Return on equity (before tax)	%	9.7	4.9	6.4	24.0	18.4	12.3
Return on Capital Employed <sup>5)</sup>	%	10.2	6.8	8.0	24.3	18.4	13.4
<b>from consolidated balance sheets</b>							
Working capital <sup>6)</sup>	TEUR	39,624	45,260	59,215	57,776	49,321	27,166
Working capital intensity <sup>7)</sup>	%	41.6	49.6	66.2	52.4	69.4	50.4
Capital employed <sup>8)</sup>	TEUR	83,521	87,474	105,782	98,656	82,444	80,500
Net debt	TEUR	9,659	9,099	(5,202)	(3,493)	(7,937)	4,483
Equity ratio	%	78.0	75.9	73.8	72.0	73.6	69.4
<b>from consolidated statements of cash flows</b>							
Free cash flow of sales	TEUR %	10,590 11.1	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

# FOCUSING HIGH-POTENTIAL FUTURE MARKETS



**Ladies and gentlemen,  
shareholders, employees, partners  
and friends,**

after the world-wide economic crisis that has continued in the meanwhile for three years and difficult framework conditions in the technology sector there are increasing positive signs of a gradually recovering world economy. We have exploited these weaknesses and made solid investments in the extension of our production capacities. Parallel to this we have developed new technological solutions which extend from the acquisition of biometric data in the personalisation of passports and as a consequence have broadened our technological basis yet again. The result is a world-wide best positioned company platform and an improved fundamental basis which allows us to accompany the expected long lasting recovery in all business sectors and to profit directly from the subsequent possible growth.

Our expectations are supported by market increase in demand for technological solutions since the beginning of the year 2002 from the *Semiconductor Related Products* business sector and the persistent growth in the *Precision Parts & Systems* business area. As a consequence the given increase in orders in the *Semiconductor Related Products* area for allied products following a deficit of over 55% as a result of the economy compared with the year 2000, was 3.6% in 2002 and 73.3% in 2003. In the *Precision Parts & Systems* product area we booked a growth of 45.6% (2002) and 30.8% (2003), in each case measured on the comparable period of the previous year. Moreover, compared with the previous year a growth of 13.0% could be recorded also within the *Smart Identification* product range headed by the core *chip card* sector.

As a consequence, the world-wide continuing standardization processes, more especially, however, due to the worldwide security standards passed in very recent times by the ICAO (International Civil Aviation Organization), have been responsible for the fact that almost no decisions were made for any ID card projects in the report year. To be added to this is that the planning, implementation and introduction of state projects require a lead-in time that is not without significance as is well known. It also by this development was the smart label technology, which is used in ID documents on the one hand depends on the realization of such ID projects. But on the other side the thoughts being made by world-wide trading concerns in respect of providing goods with RFID technology will still continue to partial extent.

Our strategy, the intermeshing of the different sectors in the concern and the industries has been confirmed repeatedly in the past business year. The growth in turnover of over 60% in the *Semiconductor Related Products* area confirms not only the overproportional demand that is directly before us not only due to the slowly recovering markets for our technologically sophisticated top technologies. With these technologies we are also in the position to react quickly and flexibly to a delayed demand development in our core business - the business which was the case in the year 2003, we were able to continued to build up and improve our profit despite a difficult environment.

However, the biggest growth driver is and remains the smart ID market. Never before in history was there such a great demand for innovative ID solutions for more security in the identification of both the human being and product. Many new chip based security-oriented applications will be able to assure more security in life in the future. Although the realization and introduction of major products calls for a great deal of patience to some extent, but the potential given is also a challenge for us to establish and position ourselves throughout the world.

Today Mühlbauer is present on the world market with a broad, attractive range of products. It is thanks to the confidence placed in us by our shareholders, customers and business friends that we are able to extend the strategic direction of the company and continue to go forward worldwide which, in turn, is also a commitment for the complete team to work also at high power to achieve our aims in the future.

We will continue to realize our company strategy with all consequences and furthermore continue working in the future on achieving our company aims to justify the confidence placed in us.

Roding, February 2004

Your sincerely,

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

Josef Mühlbauer  
Chief Executive Officer (CEO)

# One chip safeguards

# 775,000,000,000 EURO

775 billion EURO. This sum was turned over by 1.23 billion customers for the world-wide leading card counting system in 2002. By 2005 the majority of conventional magnetic strip credit cards will be replaced by forgery safe chip cards. A project to the value of billions of dollars in the name of security.



Asia is to make the start. 190 million credit cards are to be equipped completely with a chip by 2008. Global replacement is to be completed by 2010. Many competitors are following this example. The reason for the billion US Dollar expensive action is the reversal in the liability clauses in the credit card business as from the year 2005 onwards. And, what is more in view of the dramatic increase in the number of credit card frauds in recent years.

As sole supplier Mühlbauer offers a complete system solution for the production of Smart Cards world-wide, everything from the silicon to the final personalization. In this last step the operating system is recorded first on the chip - a highly specialized minicomputer - and finally the ID data of the card holder is added. The software stored on the chip is coded and protects the background customer data.

In this case the entire production process calls for maximum security standards. This is a head start which is very important: in many countries throughout the world Mühlbauer has already a market share of over 50 percent. And the lead continues to grow.

However, credit cards are but only one variant. The revolution in the plastic card trading world is imminent. In the future the chip of a Smart Card will be able to count the gained bonus points in an incentive program. By means of biometric recognition features these ID cards provide protection against fraud. They determine the vehicle data in the registration papers. They store the case history of the owner in the health pass as well as incompatibility in the case of specific medicines and for using a simple handy at mobile bank cash points.





# 24 second long eternity

In goods logistics 24 seconds are sometimes a little eternity. A real revolution is that now only 5 seconds instead of the previously 29 seconds are needed for clearing a pallet complete with goods. This can also mean billions of EURO extra turnover. Smart labels could be the key to this.



An every day situation in the warehouse: The ready-to-buy customer appears. But the product he wants has just gone out of stock. Another chance of making a sale and turnover is lost. However, a trade chain has calculated that it could realize one billion dollar in turnover every year if the shelves in the warehouse were full to 100 percent instead of just 99 percent.

One possible solution: RFID. Radio Frequency Identification brings more speed into goods acquisition. A small chip with antenna and the Smart Label ensures contactless data transfer. According to a study a well-known European retailer has reduced the time for clearing a pallet from 29 to 5 seconds by means of RFID.

Others are aiming to more clearly reduce sold out shelf goods with the help of RFID technology or to use RFID technology to close the "inventory gap" caused by loss or theft. There are also first large

supermarkets where RFID self scanning systems automatically take over the money taking operation.

However, not only the retail trade but also companies such as the various European air travel companies, underground railways or well-known automobile sub-contractors are making use of these new technologies. One leading company consultant has calculated a 4 billion US Dollar turnover for the RFID branch in 2006. Mühlbauer is well-equipped for this. Today the concern is already supplying efficient complete solutions for the production of the most various kinds of labels.



# 6,374,859,000

hope for good health

At the present point in time some 6.4 billion people are living on this earth. At least almost every one of them will also be patient once in their life time. The quality of modern medicine depends on how reliable electronic equipment works amongst other things. Machines from Mühlbauer make a decisive contribution in this respect.



The handling of high by sensitive pressure measuring sensors as are used for measuring blood pressure or in dialysis call for highest quality and safety standards. In this case is a IC module based on semiconductor technology such as used in chip cards, for example is also the key element.

Maximum precision is also the key factor for the configuration and installation of all the parts in the housings. All steps as well as functionality are controlled by optical, mechanical and electronic systems before and after production.

At Mühlbauer the "semiconductor related products" business field fulfils maximum quality and security demands. On the one hand the latest technologies ensure higher machine capacities but on the other hand, also greater precision in production.

The so-called flip-chip process accelerates the handling of the silicon cube "die" the size of a grain of salt attached to a carrier foil. Afterwards these silicon cubes are subject to different tests. This is all carried out on an assembly line. Moreover, some of the machines used in conventional production lines are even made superfluous as a result.

In the "Semiconductor Related Products" business field Mühlbauer also supplies customers from such sensitive sectors such as the aircraft and space travel industry besides medical equipment manufacturers as well as the consumer goods and automobile industry. Mühlbauer supplies sophisticated technologies for a large number of applications that already meet tomorrow's demands today.



# 57,800,000 dreams of security

The dream of individual travel is also a dream of maximum possible security when travelling. Over 57 million vehicles are bought year-in year-out world wide. Trend increasing. At the same time the number of electronic safety components per vehicle are on the increase. Mühlbauer supports the growing demands for safety with sophisticated technological solutions and ensures maximum transparency in workflow.



## Traceability

Electronic components in vehicles are experiencing a boom. Whereas these electronic components account for 22 percent of the value of a vehicle it will have reached 35 percent already by 2010 according to an estimate made by one management consultant.

This complex technology, which is produced by a difficult to control chain of sub-contractors is already worrying the automobile manufacturers. The callback actions over the last 10 years have more than doubled in the branch. The German manufacturers alone pay hundreds of millions every year just for reworking.

Avoidable costs. According to a current study 50 percent could be saved with the aid of ID systems like "Traceability". Because of special marking and reading systems the traceability of components is possible. Traceability has two significant effects: on the one hand it helps the manufacturer to remove

faulty parts from production. On the other hand it enables cost-saving callbacks.

The Rommel GmbH, a Mühlbauer subsidiary company, makes machines for complete traceability and handling of printed circuit boards. These machines ensure precise label marking using inkjet printing or laser technology. This includes the reading systems and scanning stations, software and the symbology - the simple logistics for marking. As a result of this the automobile manufacturers are ensured a high degree of reliability in respect of sub-contractors on location.



# A question of **0.002** millimeters

Safe flying does not begin on the runway. The production of parts for air and space travel technology calls for maximum precision and absolutely perfect quality. Specialists in the precision parts business division produce components accurate to 0.002 millimeters for the international aerospace industry.



## Precision Parts

Maximum precision in the handling of exotic, high tensile materials: Mühlbauer faces this challenge in the service of the aerospace industry. As a consequence assemblies are produced at the Stollberg and Roding locations for use in satellites or space transportation as well as parts for suspension devices on helicopters. Moreover, also systems to supply drinking water in large jet aircraft. This also includes components for space rockets or the space station ISS.

Specially developed tools, diamond tipped millers and an investment in new technologies to the amount of 7 million EURO in the last 3 years have made Mühlbauer one of the most demanded partners for technical safety sensitive branches today. And includes such technologies for medical equipment, racing cars and the semiconductor industry as well as the aerospace industry.

No untested part leaves the production centers. Even the slightest deviations from the desired parameters are not tolerated. Each and every employee ensures perfect quality with own signature. The permanent and further education of highly qualified skilled employees as well as an appointment faithfulness and efficient order handling has gained Europe-wide reputation for Mühlbauer.

This limit is going to extend Precision Parts internationally. The highly qualified team of 472 employees will be making the precision parts for all Mühlbauer products in the year 2004 to own works standards and to meet customer order specifications. This team is the dependable backbone of Mühlbauer on a world-wide market.





# Research & development

## **Shorter innovation cycles call for intensive research and development**

Research and development is the source and essential condition for the success of a company like the technology concern Mühlbauer. This is particularly true in times when the innovation cycles are becoming ever shorter and when the increasing development work is becoming more and more important for strategic partnerships. We cooperated with other companies to form strategic partnerships and work together with countless institutes, universities and organizations on an international level if it makes sense. As a result of this we are able to strengthen our worldwide technological position in the markets and present future-oriented solutions. The investments reflect the importance of this sector: in the past business year the Mühlbauer Group invested 11.4 million EUR (previous year: 10.8 million EUR) and as a result some 12% of the turnover in research and development.

## **Concentration on security oriented ID solutions**

A personalization system for the modern generation was developed in the form of SCOPE 5400 ("Smart Card Office Personalization Equipment") in the year 2003 and was presented to a wide public for the first time in March 2003 at the CeBIT. This unique solution makes it possible for the customer to provide up to 1,500 smart cards with specific data decentrally and so to speak in the own office in one hour. The smaller brother, the MIDGET 540, is likewise one of the new developments of the last year. As full personalization concept even this office solution makes fast and effective card processing possible and is suitable for decentral implementation of biometric data more especially where low volumes are concerned.

The IDENTIFIER 5400 was developed on the base of SCOPE 5400 in the course of the last business year. This plant makes the personalization of travel documents possible to comply with the highest possible security standards. By means of this system passports can be provided with specific data by means of electronic personalization, which

means to say implementation of data on a chip and through optical personalization with the help of a laser. The Mühlbauer Group is best equipped to meet future demands for this new concept.

In the smart label division the Mühlbauer Group has developed unique concepts for the production of so-called inlets, electronic tickets, labels as well as packaging equipped with RFID and application has been made for several patents to this end.

## **The customer as focal point in thinking and acting**

Mühlbauer understands itself to be a competent partner for its customers. The demands of these customers are an incentive for the concern to offer new technologies and optimal solutions. In strategic workshops, the trends in technology are analyzed, assessed and new products are subsequently identified. An essential task in this respect is the premature integration of pilot customers to be able to develop solutions for the given application. The synergy potential at the different locations is utilized optimally in this case. An efficient project management ensures the realization of tasks for best quality. One of the strengths of the Mühlbauer concern is the parallel integration of the mechanics, electronics, software and optical sectors in highly efficient systems in this case.

## **The basis: high-qualified employees**

More than 200 engineers and technicians work in the research center at the German locations on the development of efficient products and production sequences in the Smart ID, Semiconductor Backend and Traceability sectors. The quality of the research and development works stands and falls with the qualification of our employees. This qualification is adjusted to specific personnel measures such as project management training schemes as well as external further education measures and in internal workshops but always with due consideration to state-of-art knowledge.



# Service & Support

## **The customer is focal point of attention**

Satisfied customers over all continents are decisively a matter of course for Mühlbauer as global player. For Mühlbauer the worldwide, reliable and fast service and support provided is an absolutely essential part of the company's responsibility to the customer. This begins at very early stage: The high level which determines the standard in our production is also continued in the quality assurance phase. No product leaves our works without being accepted by the service team. After that we are concerned about the faultless efficiency of the plants.

## **Worldwide service network ensures fast maintenance, servicing and repair**

Highly qualified system technicians ensure quick assistance and reliable elimination of faults all around the globe at any time at the subsidiary service companies. Last year we successfully extended the services we offer and strengthened the teams throughout the world. The trouble free delivery of wear and spare parts in all continents is ensured by own specialist department. These components are produced on production equipment at two locations which is continually adjusted to the latest state-of-art technology.

## **Efficient training increases the rentability of investments**

To be able to ensure optimal maintenance, repair and servicing of systems our employees undergo specific training schemes. Essential in this case is the called for close to practice training and professionalism but above all at all the training units for our customers which form the focal point of our endeavors. Experienced trainers, the use of most modern media as well as international implementation makes for optimal introduction to our complex technology. The training program is tailored individually to the demands and needs of our customers.

## **Production support increases profitability and machine availability**

The consulting team accompanies the customer right from the outset in the selection in the processes for the respective materials. After this phase the possibility is given to become familiar with the plant through specimen production in our works. As a consequence the start to ensure troublefree and reliable production sequences. A special feature of our customer service is the production assistant who supports the customer should this be required even after the installation of the plants directly on location. If necessary we ensure reliable, troublefree sequences in production all over the world. Together with the customer we develop customer concepts which make for optimal utilization of our systems and at the same time help to realize optimal productivity. For example by using the services of personnel from the Mühlbauer works. Everywhere - whether in Germany, USA, Australia or China.

## **Increased production reliability through various maintenance contracts**

Different service packages ensure our customers that they achieve best possible availability for their plants. Together we draw up a long-term maintenance plan and as a result ensure continuous servicing of the system with full awareness of our responsibility. In the year 2003 we extended the products in offering the service field in the form of modular service contracts. As a result we are able to offer customer specific performances depending upon individual demands. The threads of the service network throughout the world are gathered together and coordinated at the company central office in Roding, Germany. Here the focus is on individual consultancy, process and plant servicing and providing the worldwide, fast and reliable service. Moreover, the foundation stone has been laid here for customer satisfaction all over the world.



# Employees

## **Dedicated employees - a decisive factor for our company's success**

One focus point of our personnel policy is the further development of perhaps a really unique company structure outstanding for enthusiasm, flexibility, initiative and dedication reflected in all employees working at own responsibility. The emphasis in this respect is on the furthering of entrepreneur thinking and handling at all levels and in all sectors. The innovative spirit and internationalness, consequent customer orientation and the employee awareness of high costs and quality are the outstanding features of our company. We want to achieve our set strategic aims with this human capital: to be the world-wide leading supplier of innovative technology solutions for the entire value creating chain of the SmartCard and SmartLabel production.

## **Furthering entrepreneur thinking means growth assurance**

Through the employee participation programs practiced for years the employees of the Mühlbauer Group have the exclusive opportunity as shareholders and as a consequence as entrepreneurs within the company to be active and participate in this way in the success of the company. Last year more than half of our employees took advantage of this opportunity to buy employee shares at attractive terms. With the "Identification 2003" share option program directed towards the operative and strategic aims of a technology concern employers are also offered the chance to participate directly in the success of the Mühlbauer Group through share options and performance-oriented premiums once they have achieved agreed individual success aims. The company management will also continue such programs in the future to strengthen the identification of employees with the company and the company aims.

## **Training and further education - an investment in the future**

The customized recruiting of skilled labor is a significant basis for the production of high quality products and our survival against national and international competition. As a consequence Mühlbauer has been attaching great importance to the young support for more than 20 years. At the Roding and Stollberg training centers young recruits are offered extensive possibilities for vocational training, the aim of which is to qualify these recruits as skilled workers. The company maintains its position as future-oriented and stabler employer through different initiatives. As a consequence Mühlbauer created further 13 training vacancies within the framework of the "Bavarian Training Offensive" scheme. Even after training the willingness to continue to learn is of central significance for the success of the company.

Mühlbauer supports the dedication of employees through countless opportunities for further training and education. Through special programs for young executives but also through management and executive seminars the company invested some 118 EUR altogether in the year 2003 to promote individual motivation and team responsibility and moreover to ensure high standard qualifications. Through this the best premises for the receipt and the increase of the corporate value are created. Great willingness to work and the personal dedication of the employee is a significant basis for the entire success of the Mühlbauer Group. The board of the Mühlbauer AG thanks all employees for their untiring dedication to the company and their work.



# Corporate Governance

## **Dedicated high standard and responsible company management and control are firmly anchored in own Mühlbauer codex**

The internationally used term "Corporate Governance" describes the management and control of the company more especially with a view to increasing the value of the company in the long term. This is to be achieved, for example, by protecting the rights of shareholders and a comprehensive information policy as well as by means of regulations to avoid conflicts in interests.

In the year 2003 the Mühlbauer Holding AG & Co. KGaA passed its own company specific corporate governance codex that goes well beyond the legislative demands which to the greatest extent takes into consideration the recommendations and suggestions of the "Government Commission of German Corporate Governance Codex", which in turn has been adapted to the specific needs of the Mühlbauer Holding AG & Co. KGaA. The company's own codex has been approved by both the personally liable shareholder and the supervisory board. Over and above this all members of the board of the operative active Mühlbauer corporation have committed themselves in personal declarations made to the company to maintain the respective current version of the German Corporate Governance Codex as well as the company's own codex. In addition a permanent officer has been appointed for internal controlling. The company's own codex is accessible to the general public through Internet ([www.muehlbauer.de](http://www.muehlbauer.de)).

The "Government Commission of German Corporate Governance Codex" published in May 2003 a modified codex incorporating national and international recognized standards for high quality and responsible company management. In December 2003 the Mühlbauer Holding AG & Co. KGaA in this context also made the appropriate declaration provided for under § 161 Federal German Corporation Act [AktG] (which is likewise available to the general public through Internet ([www.muehlbauer.de](http://www.muehlbauer.de))). According to this the Mühlbauer Holding AG & Co. KGaA in their legal

form complies with all recommendations of the "Government Commission of the German Corporate Governance Codex" but with the following exceptions:

Own reservations in the case of D&O insurance: At the present point in time own reservations are relinquished in the case of D&O insurance since such would restrict the possibilities for members with wide extensive entrepreneur experience to acquire for the management since this would otherwise involve liability risks also in the case of negligence and own reservations at management level are still unusual (Chapter 3.8, Paragraph 2).

Management recompensation and individual declaration of recompense: Unlike the German Corporate Governance Codex (Chapter 42.3, Section 2, Sentence 4) sees no possibilities of making any restrictions in the share option program passed by the annual general meeting in the case of extraordinary, unforeseeable developments. However, share options were neither issued to the personally liable partners nor to members of the company management.

Mühlbauer sees no necessity for stipulating any restrictions since the distribution of share options is also planned for the future every year and on an individual basis and only in small tranches.

The principles of the share option plan passed by the annual general meeting on May 4th 2000 is to be explained in the business report. Over and above this the basis of the recompensation system, the share option plan concept or details as to value of share options are neither to be made known on the Internet page nor are to be explained in the business report (Chapter 4.2.3, Paragraph 3). Likewise no information is to be provided at the annual general meeting by the supervisory board chairman on the principles of the recompense system and its amendments (Chapter 4.2.3., Section 4). The contents of the share option plans and the recompense systems are the results of intensive discussions within the concern. By publishing details the risk of enticing specific key persons to leave the company would increase the details on the recompense structure would then also be transparent to the competitor.

Since the entire management is responsible for managing the company no individual details are to be given about management recompensation as addendum to the concern statement (Chapter 4.2.4, Paragraph 2).

Formation of committees in the supervisory board: Due to appointment of three members on the supervisory board no inclusions in any form are acceptable (Chapter 5.2, Sentence 2; 5.3.1, Sentence 1, 5.3.2, Sentence 1).

Structure and remuneration of members of the supervisory board: Mühlbauer relinquishes stipulating an age limit for members of the supervisory board (Codex, Chapter 5.4.1, Sentence 2), because the age of a member can never be any indication that he is unable to serve in this office. Remuneration for the members of the supervisory board is laid down in the articles of association of the Mühlbauer Holding AG & Co. KGaA and provides solely for a fixed remuneration. No endeavors are being made to introduce variable recompensation because to the mind of the company, this would not lead to any considerable improvement in the attractiveness of the office (Chapter 5.4.5, Paragraph 2, Sentence 1).

Since its appropriate declaration in December 2002 the Mühlbauer Holding AG & Co. KGaA goes conform with the recommendations of the German Corporate Governance Codex in the version from November 7th 2002 with following deviations:

There is no own reservation for the organ members in the case of D&O insurance (Chapter 3.8, Paragraph 2).

No supervisory board committees were formed (Chapter 5.2, Sentence 2 and Chapter 5.3).

The supervisory board is also not recompensed with orientation on success (also not partially) (Chapter 5.4.5, Paragraph 2, Sentence 1).

Recompensation for personally provided services of members of the supervisory board are stated in the appendix to the annual balance sheet without going into any detail (Chapter 5.4.5, Paragraph 3, Sentence 2).

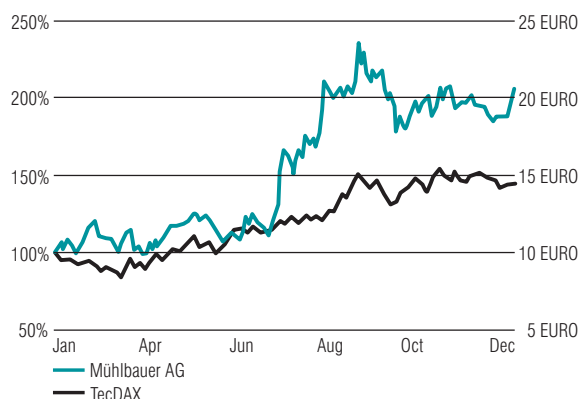
### **Continuous reviewing of the codex and public relations**

Own Corporate Governance Codex presents the directives already applied in the company in a still more transparent way to the outside. Company management continuously examines these principles and if necessary adapts same pertinent to new knowledge and needs as well as the legislative demands. Information and communication with the general public capital market through the corporate governance in the company is a significant integral part of our policy and a matter of course for Mühlbauer. As a consequence detailed information about the company is available at any time in Internet under [www.muehlbauer.de](http://www.muehlbauer.de) and can be called up under "Investor Relations" on this homepage. All information is continuously updated and extended.



# The Mühlbauer shares

- Mühlbauer shares gained 100% in the report year - TecDax by 42%
- Market capitalization increase to 301.3 million EURO<sup>1)</sup>
- Increase in dividends<sup>2)</sup>



## Capital market environment in upward trend

The world economy, which was already marked in the previous year by sinking company profits and great hesitation to invest and is also reflected the problems experienced at the beginning of the business year 2003 and, moreover, there were no signs of any recovery on the world-wide share markets. In spring 2003 the DAX fell to its lowest level since 1997 with 2,202.96 points, the Dow Jones likewise almost reached its previous year low level of 7,591.90 points in spring and stood at 7,891.10 points. The change on the capital market commenced with the first positive economic trends. Since the low levels in spring the Nikkei index has gained by approx. 38%, the Dow Jones by some 40% and the DAX by even 79%.

## Mühlbauer shares are developing better than the market

From the end of the year with 10.30 EUR the Mühlbauer share recovered following the obvious increase in yield from the middle of the year onwards and after the peak of 24 EUR during the year developed a new base at 20.00 EUR in September 2003. As a result the rate increased by nearly 100% during the year. With this increase in market price Mühlbauer has impressively outperformed the TecDAX in the current year. Although the development in the first months of the year was almost parallel to this Mühlbauer drew away from TecDAX and with a growth in value of nearly 100% is clearly above the mean value development of the TecDAX of approx. 42%.

## Clearer increase in market capitalization

The market capitalization of the Mühlbauer Holding AG & Co KGaA amounted to 301.3 million EUR at the end of the year. It was 151.4 million EUR in the previous year. With a free float of 20.3%<sup>1)</sup> the relevant free flow market capitalization to calculate indices amounted to 61.1 million EUR. Some 2.11 million share were negotiated throughout the entire year. The average daily trading volume amounted to 8,343 shares in the year 2003 compared with 13,000 shares in 2002.

## Mühlbauer increases dividends by 15%<sup>2)</sup>

In 2003 net earnings of 6.5 Mill. EUR (previous year 3.5 million. EUR) is available to the share holders for dividends. This is equivalent to a yield of 0.41 EUR per share (previous year 0.2 EUR). The personal liable shareholder and as a consequence the supervisory board will be proposing the payment of a dividend to the amount of 0.35 EUR (previous year 0.30 EUR) at the annual general meeting and as a consequence continue the yield oriented dividend policy of the company. A shareholder who bought his shares on January 2nd 2003 at the rate of 11.00 EUR at that time will have had a return on his investment of 2.73% for 2003.

Development of Mühlbauer Share and Indices	In 2003	Since IPO on July 10, 1998
Mühlbauer Share	+ 99.5 %	- 16 %
TecDAX	+ 42 %	n.a.
Nemax 50	+ 42 %	- 79 %

Key Figures	2003	2002
<b>Share Price (Xetra)</b>		
Annual High (in EUR)	24.00	37.00
Annual Low (in EUR)	9.75	9.25
Year End (in EUR)	20.50	10.30
<b>Market Capitalization<sup>1</sup></b>		
Annual High (in TEUR)	352,704	543,752
Annual Low (in TEUR)	143,286	135,938
Year End (in TEUR)	301,268	151,369
<b>Values per Share</b>		
Earnings (in EUR)	0.41	0.20
Dividend (in EUR) <sup>2</sup>	0.35	0.30

### Share call-back program also continued in the year 2003

The empowerment to buy own shares in accordance with § 71, Paragraph 1, No. 8, Federal German Corporation Act [AktG] passed by the annual general meeting on April 29<sup>th</sup>, 2003, has been utilized by the company to acquire 51,711 own shares at an average rate of 14.08 EUR. 18,371 shares were sold to employees. On December 31<sup>st</sup>, 2003 the company held 203,765 own shares (previous year: 170,425), this being equivalent to a share in the capital stock of 3.2% (2.7%).

### Continuously dialogue with investors and analysts

As a result of the listing in the "Prime Standard" quality segment the Mühlbauer Holding AG & Co. KGaA has also continued its commitment to meet highest German transparency demands put on public companies. As a consequence Mühlbauer publishes reports every quarter and offers a broad forum for the capital market with an annual analyst conference. In the year 2003 this event was held at the world's largest Computer Fair CeBIT in Hannover, Germany. Both the presented products and the shares attracted great interest. With road shows in the USA, Great Britain, Switzerland and Germany, as well as numerous individual contacts with analysts, investors and the financial press, the company also continued successful public investor relations in 2003.

The NEMAX 50 was replaced in the wake of the new segmentation of the German share markets.

The newly founded TecDAX since that time contains the thirty largest technology for market capitalization shares. Until now Mühlbauer is not amongst these but the company ranked number 41 in the TecDAX listing at the end of the year. Nevertheless, the company has lost none of its attraction even after the restructuring of the share indices. Above all through the successful approach to small and medium-sized capital investors it has been possible to more than compensate the loss of index-oriented institutional investors. The free float of the company spread over the respective shares is on a solid basis comprising private and institutional investors. Internal and external calculations reveal that approx. 40% of institutional investors are from outside Germany especially from Switzerland, Great Britain and USA. The Secura Vermögensverwaltungs GmbH continues to hold 52.5% of the share capital. This has not changed. You will find further details in the investor relations column on the Homepage ([www.muehlbauer.de](http://www.muehlbauer.de)).

### Financial Calendar

March 16th, 2004:	Balance Sheet Press and Analysts' Conference, Frankfurt
April 28th, 2004:	Quarterly Report I / 2004
April 29th:	Annual General Meeting, Roding
August 5th, 2004:	Quarterly Report II / 2004
November 4th, 2004:	Quarterly Report III / 2004
March 2005:	Annual Report 2004

### Contact Investor Relations:

Mühlbauer Holding AG & Co. KGaA  
Werner-von-Siemens-Str. 3  
93426 Roding  
Germany  
Investor Relations  
E-Mail: [investor-relations@muehlbauer.de](mailto:investor-relations@muehlbauer.de)  
Phone: +49 (9461) 952 -653  
Fax: +49 (9461) 952 -8520

1) In relation to total capital  
2) Subject to approval of the general meeting  
3) Total from extra trade and floor trade in Frankfurt a.M.

## PREFACE CHIEF FINANCIAL OFFICER



### **Ladies and gentlemen, shareholders, analysts, employees, partners and friends,**

the Mühlbauer Group has been able after two rather restrained previous years to increased its yield power again in the business year 2003 and improved its perspectives. Despite an altogether still subdued world economy in the report period we were able to assert ourselves well and clearly increase our profits with a slight increase in turnover.

Our strategy to build up our company on four different pillars has proofed itself yet again. Above all the *Semiconductor Related Products* and *Precision Parts and System* sector came off very well. Whereas the allied *Semiconductor Related Products* sector was able to profit from its strong technology position and the gradual recovery of the semiconductor industry and was able to increase its share in turnover by 61.2% to 35.6 million EUR, the strong demand for high-quality precision parts and systems for sensitive industries such as the aircraft and space traveled industry, medical technology and formula one racing led to a further increase in turnover in this segment by 21.5% to 14.7 million EUR.

With an increase in turnover of a total of 4.3% to 95.2 million EUR Mühlbauer as a consequence clearly increased its result after tax by a high two digit figure namely by 85% to 6.5 million EUR. In the meantime our turnover returns were again at 10.0% - following 5.2% in the previous year. At the same time the company invested more than ever before in future technologies with expenditure for research and development to the amount of 11.4 million EUR (previous year: 10.8 million EUR).

The earnings per share has been continuously improved by us from quarter to quarter. With 41 Cent this value reached the double rate of the previous year value for the report year. Due to this good performance and the yield oriented dividend policy practice for years we are putting forward a proposal of the annual general meeting for payment of a dividend of 35 Cent.

In the year 2002 as already reported in the previous year we strongly and aggressively continued our free cashflow management in the report year. In result the operative cashflow mounted to 16.1 million EUR or 16.9% of the consolidated turnover. The free cashflow also wandered in the report year despite investments to the amount of 6.2 million EUR made at 10.6 million EUR at a very high level; this is the second year that the free cashflow was higher than the earnings. As a result of reducing the short term liabilities and at the same time reducing the current assets to an overproportional extent the working capital measured on turnover was reduced by 49.6 % in the previous year to 41.6 % in the report year.

The return on capital employed as quota from EBIT and the capital employed increased to 10.2 % following 6.8 % in the previous year and confirm the value-oriented management; however, this is still an expression of yield power and improved profitability and the continued rather conservative investment policy and the efficiency in working capital management.

The company were classified as a prime standard investment by the Deutsche Börse AG (German stock exchange) and passed its own company specific Corporate Governance Codex without being committed to do this by legislation in the year 2003 and made this codex accessible worldwide to the public in Internet. As a consequence the technology concern already reflects the applied practice of a value-oriented company management as well as making this transparent to the outside. The personal liable shareholder, management and supervisory board ensure that our corporate governance codex is actively followed in the company. Over and above this the codex is studied and developed further at regular intervals.

The confidence of investors contributed to the fact that the Mühlbauer share clearly developed positively following the increasing yield growth as from the middle of the year to then an impressively outperform TecDAX. In the meantime almost all of our employees number amongst our investors. By means of annual share programs we are strengthening the identification of our company on a broad foundation of employees. For a long time now Mühlbauer has been known as a company that has developed own high standards for honesty and reliability. Some 1,300 employees work intensively and hard every day to justify the confidence of the shareholders, business partners, customers and employees. Moreover, these employees make the company what it is - an enthusiastic culture landscape.

Roding, February 2004

Yours sincerely,

A handwritten signature in black ink, appearing to be 'H. Forster', written over a large, stylized circular flourish.

Hubert Forster  
Chief Financial Officer

## STRATEGY

### Strategic position strengthened

With our strategy we follow a clear target. We want to design the future of the smart ID market in such a way to enable our customers long lasting benefits.

In the last two years the demands put on our company in the smart card market have been subject to strong changes. The reason for this being the increasing extension of the traditional fields of application to include applications for security oriented systems.

We recognized this development in the early stages and appropriately adjusted our company strategy to this development: We support our customers in directing their efforts to the entire value creation chain through the production of innovative and broad-safe identification card and identification systems for the entire market and for security-oriented configuration by providing our customers with everything they need to be successful. The basis for these solutions are top of the line future-oriented technologies which are being continuously developed by Mühlbauer. Our offer covers the entire value creating chain of the customers because we are represented in almost all process stages with our own products and as a result are able to exploit synergy effects in an excellent way. We integrate the technical components, software and services and offer matching and integrated production processes oriented on the individual needs of the customers and therefore ensure an optimized creation of value.

By making the most modern machine lines for the entire value creation chain for smart card production we have been able to achieve worldwide market leadership and, moreover, have also been able to strengthen our position in the worldwide market for digital identification and security with the market launch of the tag assembly line (TAL). The need for biometric and contactless identification is tremendous more especially for security oriented applications. It is particularly true in this specific area of market and we are in a very good position with our complete, technological sophisticated solution offer. Moreover, we will be able to consequently build up our worldwide market leadership in this sector. Innovative and customer-oriented technological solutions will also top our list to ensure maximum qualification for our customers and as a consequence ensure the decisive contribution in value for the Mühlbauer Group. We want to continue our company strategy and open up this growth market to enable us to continue to develop our range of offers in allied branches.

## MAIN DEVELOPMENTS DURING THE BUSINESS YEAR 2003

### Squarely facing a difficult year

Despite the retardant development in demand by our customers in the report year in the *Smart Identification* sector we were able to slightly increase the company turnover due to our strong technology position and, as a result the first signs of a gradually recovery of the semiconductor industry more especially in the

"*Semiconductor Related Products*" sector. The weak yield situation in the two previous years could be clearly improved in the report year as a result of strict cost management. Below, we are providing a short overview of the main developments in the business year 2003:

- Over proportional increase net earnings from 3.5 million EUR in the previous year by 85% to 6.5 million EUR in report year
- Earnings per share more than doubled at 0.41 EUR compared with previous year (0.20 EUR)
- Continuing high demand for semiconductor allied products led to an obvious increase in the sales in the Asiatic area of 16.8 million EUR in the previous year by 29.3% to 21.7 million EUR in the report year
- Continuation of a dividend policy oriented on the consistent earning power of the company by payment of a dividend of 30 Cent per share ranking for dividend to the shareholders.
- Build up of the net cash to 9.7 million EUR (previous year: 9.1 million EUR); Gross-Cashposition 25.3 million EUR (previous year: 22.8 million EUR)
- Consistent high free cashflow 10.6 million EUR (previous year 20.5 million EUR) despite expenditure in investments to the amount of 6.2 million EUR (previous year: 2.6 million EUR) by further optimization of the working capital position of 45.3 million EUR in the previous year by 12.6% to 39.6 million EUR in report year
- Continued investments in research and development and extension of our range of products with personalization solutions for the digital office and passport sector.
- Publication of a company specific Corporate Governance Codex as basis for a value-oriented and transparent company management

## ECONOMIC ENVIRONMENT

### Commencing recovery of the world economy

Compared with the forecast the first half of the year 2003 was in the light of the weak **world economy** marked by political uncertainties in Iraq and the worries as to the spreading of the SARS virus diseases. Only in the second half of the year were there faint signs of any recovery in the economy worldwide.

Clear impulses came from the **USA** in this respect where the economy grew dynamically in summer as a result of tax reductions and higher defense expenditure to such an extent the like of which had not been experienced since early 1984. After 2.7% in growth in 2003 the US economy experts are even prophesying an economic growth of 3.6% for 2004.

**Japan** is reporting similar positive news. The reconstructions, improved prospects of making profits and an ex-

pansive money policy ensured an increase in growth of 2.7% in 2003 and a return to the level as experienced in the boom year 2000. A similar growth as experienced in 2003 is expected for 2004. Reasons for this are the further good exports to Asia and the USA as well as a lively demand on the German home market. **China** is the greatest supporting factor in the economic development in Asia and this country has already overcome the negative economic effects of the SARS lung disease. China's economy is booming. A slight decline in the growth rate to 8% is expected for 2004 after a growth of 8.5% in the year 2003.

A different picture is given in the **EURO area** which only achieved an average growth rate of 0.5% in 2003. As far as this is concerned some countries like Germany, Italy and the Netherlands experienced minus growth rates at some time. Numerous indicators are indicating that exports will be stimulated in the year 2004. These exports declined in 2003 due to the weak world trade and the strong EURO. This also includes an increasing demand on the domestic market. The IWF has estimated a growth of 2.5% in the EURO area for 2004.

In **GERMANY** the economy stagnated in the year 2003 as was also the case in the previous year. Decisive for this were, on the one hand, the unfavorable framework conditions for foreign trade. The continuing evaluation of the EURO dampened the demand from countries abroad and led to a depression as far as exports were concerned. On the other hand, the stagnation was a result of the weak demand on the domestic market which, in turn, could be put down to the increasing tax load and the actual situation on the labor market. However, since the middle of the year the first signs of an economic recovery could be seen. Leading business institutes are expecting a moderate growth of 1.7% for the year 2004. However, this increase can be also contributed to the higher number of working days in comparison with 2003.

## **THE MARKET FOR DIGITAL SECURITY AND CONTACTLESS IDENTIFICATION**

### **Increased security demands call for new technologies**

At the latest since September 11, 2001 the security demands have been drastically increasing. Biometric systems are the much discussed subject in this connection. The US government has demanded that all so-called visa free countries incorporate biometric data in the passports by October 2004. From this point of time onwards entry into the USA without visa will be only permitted for visitors who can present a machine-readable passport with biometric data.

The market for contactless identification systems is growing continuously and is extending traditional areas of application for smart cards and smart labels to an ever increasing extent. With the future profit bringing applications of the so-called RFID technology (Radio Frequency Identification) it will be possible to design the most varied of processes with increased flexibility and greater security. As a consequence worldwide trading concerns are testing the use of this system in the meanwhile in complete

process chain systems for complete stock control, for example. This includes monitoring production sequences and sorting goods in the logistics and warehouse sector. The pilot projects are indicating that as a result of this, sequences can be designed more effectively and at more favorable cost. Equipping goods with RFID labels makes for higher customer loyalty and customer satisfaction, prevents missing quantities and as a result allows turnovers to be increased due to the savings in costs. A study by the Forrester Research market research company reveals that some 5 billion consumer products (consumer packaged goods) will be equipped with RFID<sup>1)</sup> by the year 2005. However, this technology has also been used in other areas: for example, the first completely equipped library with RFID chips (Radio Frequency Identification) went into operation in Australia last year. The people living in a town to the North West of Sydney now only requires their membership card when borrowing and returning books to the library. Even this area for the use of ID card applications is a guarantee for high potential growth. The Mühlbauer Group adjusted to the demands of the market at a very early stage and can now offer complete turnkey high-tech systems for the smart card and smart label industry.

## **RESEARCH AND DEVELOPMENT**

### **Innovative ideas become practical solutions**

Mühlbauer stands out for great innovativeness and high technological competence in the research and development sector. Close involvement of customers in the development process, cooperation with technical colleges and universities and established research institutes as well as the utilization of potential synergies assured by the Mühlbauer Group locations are decisive factors for the creation of new and innovative product ideas.

An average 203 highly qualified specialists were working in the research centers in Dresden, Oberhaching near Munich, Roding and Stollberg on the development of efficient products and production sequences in the report year. The Mühlbauer Group invested 11.4 million EUR in research and development in the year 2003 not only to be able to stand up to competition but also have an edge on the market in the decisive sectors. This, as a result reflects the increase in expenditure in research and development by 5.6% compared with the same period of the previous year (10.8 million EUR).

One focal point in the research and development work is increasing the efficiency of already existing products. In the year 2003 it was possible to clearly increase the capacities of TAL (tag assembly line) systems (for example TAL 4000 to TAL 5000 or TAL 8000 to TAL 10000). These machines work on the direct chip assembly principle and the chips are integrated directly with the label. As a result of the modular construction of the line the customer is ensured maximum flexibility for specific adaptation of the given machine configuration.

A new possibility for label production has been developed by processing prefinished Flip Chip modular bands by means of the TMA 6000 tag modular inserting system. The system calls for no special knowledge on the part of the user and it is easy to operate and offers simple, cost effective and a reliable start in smart label production.

1) Forrester Research, Inc. Source: RFID: "The Smart Product Revolution", August 2002

In the Semiconductor Backend sector the DS 8000 has been developed based on the experience gained in the development of the market tested DS 6000 and as a consequence it has been possible to increase the speed in production. Both systems are outstanding for their modular machine concept, high speed, precision and maximum process stability.

In the last business year Mühlbauer developed a unique connection technology for the production of dual interface cards in the Smart Card business field and application has made for patenting this development. The "flexible bump" technology allows reliable connection of chip and antenna by means of a special conductive compound even in the case of cards subject to extreme stress. Moreover, the functionality of the card inspection system, power inspection PI36000, has been extended to a decisive extent. With this system the smallest defects in any card can be checked during the inspection process without the travelling cards having to be stopped. In this way up to 36,000 cards can be checked per hour.

Mühlbauer is equipped for the replacement of conventional travel documents by so-called "e-passports" now being considered by different nations. These passports also provide the biometric data of the holder on an integrated chip. In the year 2003 the group has developed solutions which extend from the acquisition of biometric data to the personalization of travel passports. The identifier 5400 has been developed on the basis of the Scope 5400, a personalization system for smart cards. This system makes it possible to implement biometric data for ID documents in passport format through electronic and optical personalization meeting maximum security standards.

The patent sector was also developed further in the report year 2003 and as a result of specific patent research the Mühlbauer Group has gained important information on the trends in technology and as a result has reduced the risk of patent conflicts. The development of own patent portfolio has been successfully taken forward in this way.

**SALES**  
**Growth of emerging markets**

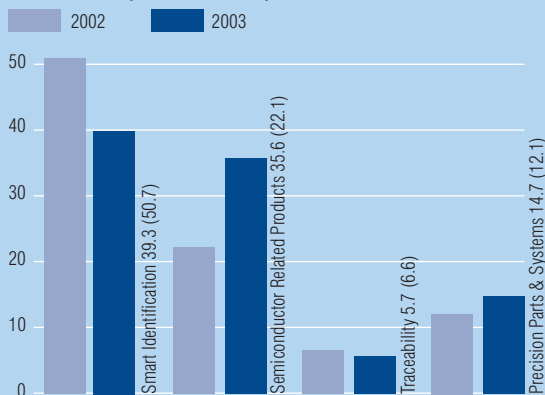
In the business year 2003 the Mühlbauer group achieved a slight increase in sales yield compared with the same period in the previous year due to the increased constant interest being shown more especially in the *Semiconductor Related Products* sector. Consolidated sales increased by 4.3 % to 95.2 million EUR in comparison with the year 2002 (91.3 million EUR).

The *Smart Identification* core business area with a sales of 39.3 million EUR which was 22.3 % below the record figure of the previous year to the amount of 50.7 million EUR. Although in this case the traditional areas of application were concerned, above all due to the weak market in Europe, the new security oriented applications only suffered as from the middle of the year onwards as a result of the ICAO stipulated worldwide security standards for biometrical applications and due to the subsequent delay in security projects.

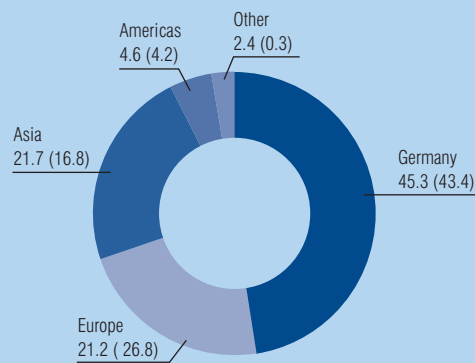
The *Semiconductor Related Products* business area on the other hand has achieved an increase in sales of 61.2% to 35.6 million EUR which is reflected in a clearly better performance compared with the comparable period of the previous year (22.1 million EUR). Apart from the several positive signs in the semiconductor market this area could profit from the new developed top technologies in particular which as a result of "yield" and "foot-print" were outstanding.

The *Traceability* sector resulting out of the classical "board handling" sector contributed to the turnover of the group with 5.7 million EUR and suffered as a consequence a loss of 14.5 % compared with the same period in the previous year (6.6 million EUR). Reason for this negative development is now as before the reluctance of the weak electronic branch to make investments following the traditional board handling systems which could not be compensated despite thoroughly positively developed new creative product line for the production of lettering systems.

**Sales Development by Applications in Mill. EUR (Previous Year)**



**Regional Breakdown of Sales in Mill. EUR (Previous Year)**



The *Precision Parts & Systems* business area, the manufacturer of high precision single parts and assemblies for technical security sensitive branches once again achieved a record turnover with 14.7 million EUR and exceeded the turnover of 19.4% achieved in the previous year (12.1 million EUR) by a further 21.5%.

The graphic presentation alongside shows the turnover spread by regions and clearly reveals the shift in the shares of the different markets, last but not least due to the overall economic framework conditions: Although Europe, despite a reduced year in turnover of 5.3% from a total 66.5 million EUR was also a regional focal point in sales although both the business year (70.2 million EUR) and in the sector the turnover outside Germany obviously slackened off from 26.8 million EUR by 21.0% to 21.2 million EUR. On the other hand the Asian area was able to profit from the first signs of a lively semiconductor market and the increasing demand for allied semiconductor product which was able to book a growth in turnover from 29.3% to 21.7 million EUR (previous year: 16.8 million EUR). The yield in turnover in North and South America at 4.6 million EUR was 9.0% higher than the figure for the same period in the previous year (4.2 million EUR). Clearly higher turnover yields were realized in the report period which were the result of the project business. The increase in share by 0.3 million EURO to 2.4 million EUR and this growth was particularly due to the turnover in Africa which increased from 0.2 million EUR in the previous year to 2.4 million EUR in the year 2003.

### INCOMING ORDERS AND ORDER BACKLOG Incoming orders increased by 15.6%

The consolidated booked order income of the Mühlbauer group reveal a positive development. These orders to a value of 99.3 million EUR reflect the positive development and exceeded the figures achieved in the two preceding business years by 15.6% (2002) and 6.1% (2001), respectively.

Whereas the *Smart Identification* sector could make up ground with 41.1 million EUR in the comparable period of the previous year (43.7 million EUR) the *Semiconductor Related Products* area profited from the increase in demand for semiconductor product solutions and achieved

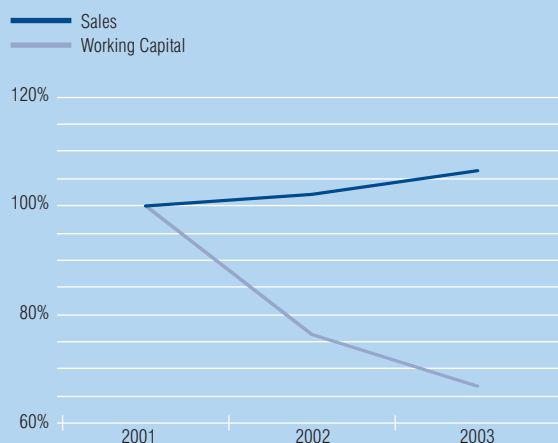
a volume of 39.3 million EUR in the report period. Compared with the previous year (22.7 million EUR) this was equivalent to an increase of 73.3%. The orders booked for the *Traceability* sector at 4.3 million EUR were 47.9% under the high previous year figures of 8.3 million EUR. On the other hand the *Precision Parts & Systems* sector showed a very positive development compared with the year 2002 and the incoming orders of 11.2 million EUR reflected an increase in the report year compared with the previous year of 30.8% to 14.6 million EUR. The outstanding order backlog recorded to the December 31, 2003 at 27.8 million EUR were 4 million EUR less than to the December 31 of the previous year (31.8 million EUR).

### RESULTS, ASSETS AND FINANCIAL POSITION Earnings per share more than doubled – gross cash position further extended

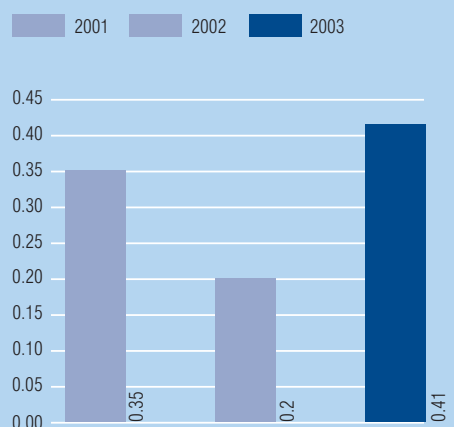
In the report year the Mühlbauer Group brought in earnings before income taxes (EBT) to the amount of 9.5 million EUR and as a result almost doubled the previous year earnings of 4.8 million EUR. Consolidated by the special effects of the share-oriented and compensation programs the EBT increased even by 108.9%. The achieved sales yield before taxes achieved in the report year amounted to 10.0% (previous year: 5.2%). Contributing to this is a higher productivity and a clearly positive interest result to the amount of +0.9 million EUR compared with the previous year (-1.2 million EUR). Moreover, there were expenditure reducing effects as a result of the abolishment of the accruals formed for process risks in the previous year. The earnings after income taxes (EAT) increased in the group to 6.5 million EUR following 3.5 million EUR in the previous year. Consolidated by the extraordinary gain in the earnings after income taxes of the previous year from the initial consolidation of the TEMA GmbH, this is reflected in a growth of 123.2%.

The growth in sales of 4.3% is against an under proportional increase of the cost of sales of 61.4 million EUR in the previous year by 2.7% to 63.0 million EUR in the report year. The sales, general and administration costs at 16.6 million EUR are almost constant compared with the previous year (16.7 million EUR). Although the sales

### Development Sales versus Working Capital



### Development Basic Earnings per Share in EUR



costs at 10.7 million EUR are slightly reduced in comparison with the previous year (11.0 million EUR) the general and administration costs are especially due to the reconstruction of the existing pension plans of 5.7 million EUR in the previous year by 0.2 million EUR to 5.9 million EUR in the report year. The cost item for the completed stock exchange launch in the business year 2002, which was not given in the previous year, had an expenditure reducing effect due to conversion of part of the fixed capital with the 2,000,000 shares given in the share capital as well as the abolishment of the accruals for threatened losses.

The expenditure for research and development again moved to a high level and increased in the report year by 5.9% to 11.4 million EUR (previous year: 10.8 million EUR); if viewed relative to the sales this is equivalent to an increase of 12.0% following 11.8% in the previous year.

The other income increased by 4.4 million EUR (previous year: 3.5 million EUR). This income includes an income to the amount of 1.1 million EUR (previous year: 0.05 million EUR) as a result of the increasing the plan assets for financing pension plan as well as an income to the amount of 0.6 million EUR (previous year: 0.3 million EUR) from the abolishment of the accruals formed in the previous year.

Through the positive development on the capital markets the financial result increased from -1.2 million EUR in the previous year to +0.9 million EUR in the report year. Although the positive ordinary interest result at 0.3 million EUR achieved in 2003 is equivalent to that of the previous year, the balance from the realized gains and losses from available-for-sale securities was 0.6 million EUR. In the previous year there was a balance to the amount of -1.5 million EUR from the realized gains and losses from trading and available for sale securities as well as from the unrealized gains and losses from trading securities.

In the report year we have booked income taxes to the amount of 3.0 million EUR compared with 1.9 million EUR in the previous year. This is equivalent to a tax rate of 31.4% (previous year: 39.1%). The different tax rates

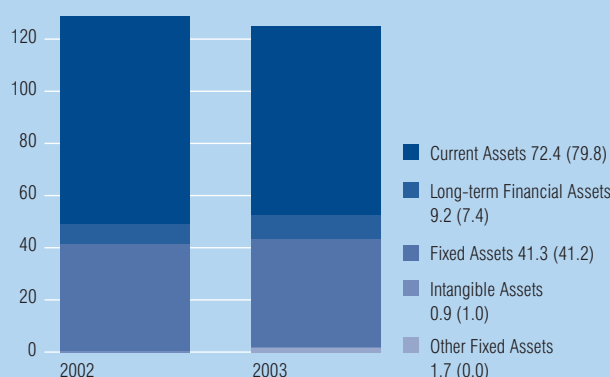
result mainly from earnings free of tax realized in the report year through the sale of securities and the thus preceding tax regression. In the previous year the result was burdened with losses incurred through the sales of such securities with the losses which could not be deducted from tax.

In the report year the balance sheet total of the Mühlbauer Group was reduced from 129.4 million EUR by 3.0% to 125.6 million EUR.

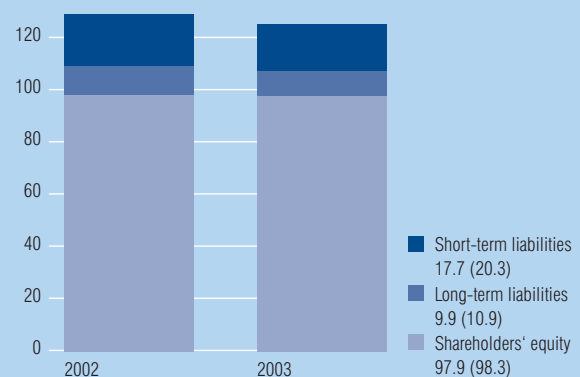
Reflected on the assets side are our efforts in respect of the current assets to systematically reduce the operative capital employed: In this case the inventories in particular were reduced by depreciations and sell offs by 9.1 million EUR to 34.2 million EUR (previous year: 43.3 million EUR). The plant and equipment assets increased in the report year by 7.2% to 53.1 million EUR (previous year: 49.6 million EUR). Although in this case financial assets as accounting item, increased mainly by increasing the security share to 1.9 million EUR, although the tangible assets and intangible assets remained constant and with due consideration to the new investments were balanced out with retirements and depreciations compared with the previous year (42.2 million EUR). The other assets revealed the amount of 1.7 million EUR for the first time and include the plan assets for financing pension plans to the amount of 1.3 million EUR as well as the long-term share of the accounts receivable of 0.4 million EUR.

On the liability side the short-term liabilities were reduced from 20.3 million EUR in the previous year by 12.5% to 17.7 million EUR in the report year. Both accounts payable and down payments received from orders were reduced by 2.3 million EUR or 1.3 million EUR, respectively. The other short term liabilities were reduced by 0.3 million EUR. The long term liabilities were reduced by 10.9 million EUR in the previous year by 9.4% to 9.9 million EUR in the report year. The main cause is to be seen in the planned repayment of long term financial liabilities to the amount of 1.1 million EUR. On the other hand there was a increase in accruals for pension by 0.3 million EUR, whereby these were not balanced with the budgeted assets in comparison to the previous year due to the packing regain declarations. The resulting diffe-

**Balance Sheets Structure in Mill. EUR (Prev. Year)**  
**Assets**



**Balance Sheets Structure in Mill. EUR (Prev. Year)**  
**Liabilities and Shareholders' Equity**





rence of 1.0 million EUR resulting from the retrospective plan amendment will be spread over a period of 54 months beginning on January 01, 2004.

Shareholders equity amounted to 97.9 million EUR to December 31, 2003 (previous year: 98.3 million EUR). Equity yield is at 78.0 % and has improved by a further 2.1 percent points compared with the previous year (75.9 %). Compared with other companies the Mühlbauer Group accordingly continues to have above average market equity source.

The cashflow from operating activities moved on a higher level despite the missing once only effect of tax reimbursements to the amount of 5.0 million EUR compared with the previous year and amounted to +16.1 million EUR (previous year: +23.4 million EUR) in the report year 2003. The positive financial economic result resulted primarily from the clear increase in earnings and at the same time expresses our efforts to reduce the capital employed. As a result the working capital was reduced from 45.3 million EUR in the previous year to 39.6 million EUR in the report year. Parallel to this the intensity of the working capital declined by 49.6 percent to 41.6 percent. The cashflow from investing activities increased compared with the previous year (-1.9 million EUR) to -7.3 million EUR and includes apart from the net outflow from securities out of the long-term financial assets and current assets (-1.3 million EUR) the primarily expenditure for setting up a own company competence centre for high security identification card systems as well as equipping both production locations with rational production technologies (-6.2 million EUR), that this was balanced out with the payments made from the sale of plant assets (+0.2 million. EUR). The cashflow from the financing activities was reduced from -10.2 million EUR in the previous year by 1.3 million EUR to -8.9 million EUR. The main outflow resulted primarily as a result of the scheduled redemption of long-term credits (-1.1 million EUR), and the balance from the acquisition and sale of own shares (-0.6 million EUR), the dividends paid in the report year (-6.0 million EUR) as well as the percentage occurring tax additional amounts to the personal liable shareholder (-1.2 million EUR).

## ACQUISITIONS

### Project company for complete solutions founded

In the course of the report year the Mühlbauer Group was strengthened by a further company. From the newly founded Mühlbauer ID Services GmbH the technology concern attends to accompany potential customers in the conception and realisation right through to turnkey realization of ID projects according to their requirements for the production of innovated and forgery safe identification and passport systems for security-oriented applications with a dynamic and professionally set up project team on the concern allegiance. As a result the new company profits from the long years of experience and competence of the Mühlbauer Group in the production of innovated top technologies and the worldwide distribution and service network as well as from the high strength of the capital of the concern in the financing of larger projects. The large selection of high-carat experts from the concern allegiance ensure in addition competent consultancy and support.

## PROCUREMENT

### Further optimisation of purchasing and logistics

In the procurement sector we were again able to increase our efficiency in the year 2003. Decisive in this connection was the cooperation with our suppliers on a partnership.

The loyalty and the ability to supply our suppliers could be improved further through location overlapping coordination in our procurement through the further extension of the consignment warehouse both at the suppliers as well as in our own works and in addition through the increased standardization of our bought-in parts and optimised matching with external suppliers. In this way it was possible to increase procurement reliability and avoid bottlenecks in supply.

The procurement of production materials and investment goods are made worldwide at the most favorable terms. In this case our purchasing strategy is determined by the group purchasing department. The appropriate buying conditions are negotiated centrally, checked regu-

### Cashflow in Mill. EUR from



larly and readjusted as and when required. Procurement is carried out by local procurement organizations with due consideration to economic aspects.

The quality of the bought-in products has been clearly improved in the report period.

Furthermore, we have involved our suppliers to an increasing extent in the development of new products. This has accelerated the processes and contributed to improved quality of the product portfolio and effectively supports the high innovation power of the concern.

Altogether 25.4 million EURO (previous year: 22.3 million EURO) were spent on services taken and the procured raw materials, supplied and purchase merchandise.

Despite closer cooperation with our suppliers we are dependent to the greatest extent for the procurement of our goods from other business partners. Nevertheless, we attach particular importance to the cooperation with our suppliers on a confidential basis.

## INVESTMENTS

### Strengthening worldwide distribution through the "personalization" competence center

In the report year we invested a total of 6.2 million EUR (previous year: 2.3 million EUR) in fixed assets; this is equivalent to 6.5% (previous year: 2.5%) of the group sales. With 2.4 million EUR, priority was given to setting up our own company competence center for live demonstration of the latest processing techniques for the production of contact and contactless high-security passport systems and the equipping of the systems with optical and biometrical security features. Further investments were made for equipment in the "Precision Parts & Systems" sector at the Roding and Stollberg production locations with rational production techniques. As a result of this we expect even greater efficiency and higher quality in the production of highly sensitive parts and systems for the most varied of industries.

## EMPLOYEES

### Training important factor for success

The factors creativeness, willingness to work and motivation of employees are decisive factors in the success of a company. To realize this successfully the employees are intensively integrated as significant resources. As a consequence the Mühlbauer Group also concentrated on the establishment on its position as attractive employer and to building up this position further and as a consequence offer employees optimal framework conditions in the business year 2003, too.

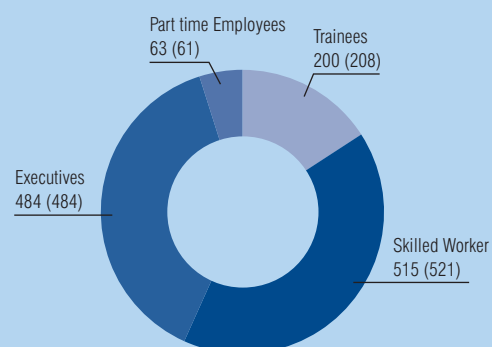
On year-end the Mühlbauer group had a workforce of 1,283 employees, which was 18 employees more than on December 31, 2002. An employee participation program makes it possible for employees of the Mühlbauer Group to buy employee shares on favorable conditions also in the report year and as a consequence participate in the company as well as in the success of the shares. In the business year 2003 more than half of the employees utilized this opportunity. Under the "Identification 2003" share option program worldwide selected employees and executives were given the opportunity to participate in the success of the Mühlbauer shares by means of options which were also linked with the achievement of personal aims. Such programs make a considerable contribution to the successful implementation of a value-oriented company management.

The training in own works made possible by Mühlbauer enables tailor-made qualification of skilled workers. On year-end 224 young people had a training relationship in the Mühlbauer Group (previous year: 226). The young people are trained in all areas of the group. They can choose from more than 10 different training vocations at Mühlbauer. Over and above this there are completely new vocations to be found at Mühlbauer, for example, that of the mechatronicer or the IT system electronicer.

Even after successful training the continuous qualification of employees is of great significance for obtaining and increasing the value of the company. Over the past business year Mühlbauer invested 118 TEUR in further training and education.

In the year 2003 the expenditure for personnel of the

### Average Annual Staff Structure in 2003 (Prev. Year)



Mühlbauer Group amounted to 39.9 million EURO and as a result is 4.8% higher than in the previous year (38.1 million EURO). Wages and salaries account for 32.9 million EURO (2002: 31.5 million EURO). Social securities at 6.9 million EURO were as a result 5.3% above the figure for the year 2002 (6.6 million EURO). Mainly the first consolidated TEMA GmbH and the first complete integration to October 1, 2002 had an influence on the increase in expenditure as well as the reorganization of existing pension plans.

## **SUPPLEMENTARY REPORT**

No procedures of particular significance were given at the end of the business year.

## **RISK MANAGEMENT**

### **Chances and risks in permanent focus**

Due to its international activities in highly innovative markets the Mühlbauer Group is confronted with a number of most varied risks. In this case the matter to hand is to identify these in good time to assess same conservatively and to keep these specifically under control.

By means of company wide implementation and the integrated chance and risk management system in the main core processes all risks are incorporated in a continuous monitoring process. This responsibility in the case of all operative units and in the group sectors are integrated firmly in the risk management process. The identified risks are updated at regular intervals and these are assessed according to possible occurrence and extent of damage criteria. As basis for the classification in risk categories is the earnings before interest and taxes (EBIT) of the respective previous year; reporting limits to the risk committee to the group are defined uniformly.

The bottom-up process is organized in this way and the risks are directly eliminated on location and later sealed. The responsibility for a reasonable assessment and the reasonable handling of risks is always at carried highest management level of each unit. The risk committee functions as central communication and coordination agency and draws up a risk report for the board and supervisory board on the basis of regular risk analysis. The world wide implemented and the adhoc report accessible through Intranet also makes certain that unexpected occurring risk can be reported directly to the board.

The already successfully practiced chance and risk management system at the Mühlbauer company is also to be found as manual in Intranet. As a result of this it is ensured that all members worldwide have the necessary information and assistance for the handling of risks. The efficiency of our risk management process is regularly checked within the company. Over and above this the auditor reviews the system within the annual general balance sheet audit.

• **Market and economy risks:** To counteract the altogether still retardant development in the semiconductor market specific organizational and personal measu-

res have been realized such as the extension of the strategic distribution system and the forming of strategic project teams. Only as a result on time and correct recognition of occurring market trends is it possible to keep the risk of fluctuations in the market caused by the economy at a reasonable and controllable level. Through detailed market observations the risk has been kept continuously in focus and as a result it is ensured that reaction is possible to short term trends according to the given situation.

• **Technology risks:** To ensure future competitiveness of the technology highlighted Mühlbauer Group permanently and to extend this competitiveness the selection of the right basic technology is of central significance. Risks are to be seen in a particular extent in the drive technology, software, process and electronic sectors. Intensive market and competition observance as well as cooperation with research institutes and companies in industry strengthen our knowledge on periphery technologies as well as the development of core competence and as a result contribute to continuous minimization of risks. More than ever before it is a matter of utilizing over proportional potential chances in this case and as a result being able to control given risks with full awareness of the situation.

In highly innovative companies the immanent risk of new product developments are also to be given special consideration. The continuous demand of the market for new, high-quality and customer specific products and services is of central significance also in this case. In this connection there is the risk that customer requirements are not adequately considered when aiming for standardization of products. On the other hand sole orientation on customers involves the risk that the competition will realize the market demands more quickly and as a result is better positioned on the market place. To keep risks at a traceable level without reducing the potential chances of newly developed products at the same time diverse measures have been defined to minimize risks. The formation of a project team, the drawing up of strategic road maps and holding regular workshops are to ensure that these risks are kept under control.

In the recently taken strategic direction towards so-called major projects the Mühlbauer Group is confronted with a completely unique and demanding potential for chances and risks. The solid financing, commercial coordination and control as well as on time technical realization are a central risk as far as this is concerned. We restrict the financing risk in such a way that the only large orders are put to book when the financing of the respective major project has been adequately safeguarded. The minimized risks incurred through on time technical realization are assured by intensive project management within a special project team comprising members from different function areas.

• **IT risks:** The worldwide increasing demand for computer center and data security are also of central significance for Mühlbauer. Risks occurring in the information technology sector such as data misuse, data loss as well as unauthorized access to data are minimized by taking diverse measures. An improved authorization management ensures for confidentiality and data security with

continuous updates to ensure the latest versions of fire-wall and virus protecting software, daily backup files and the out posting of all company data as well as continuous improvement of the ability of the network are all seen to be measures to keep this risk at a controllable level.

- **Personnel risks:** The continued retardant economic situation forces us to keep to a conservative personnel policy and as a result minimize the personnel risk. The internal measures such as improvement of personnel planning combined with increasing employee flexibility will provide the helpful support to overcome external and economic caused influences.

- **Other risks:** The risk of detrimentally influencing business activities through external influences in the form of storm, water or fire are safeguarded by the Mühlbauer Group by insurances and a power supply system which is to the greatest extent an independent system.

The company counteracts risks of losses in receivable by a tight receivable management. In addition this procedure is supported by target-oriented and transparent reporting.

As international active company Mühlbauer is confronted with currency risks which we counteract by own currency assurance measures.

External influences which could damage the image of the company are counteracted by the company with the assistance of professional partners and experts. The internal patent management is available for matters of patent right infringements.

In no time could a risk in the risk landscape of the Mühlbauer Group be judged to be hazardous to existence or be identified in the core of the business year that could threaten the continuation of the Mühlbauer Group.

## OUTLOOK

### Clear strategies and targets

The Mühlbauer group has reacted to the technological challenges of the past two years and directed our technology group towards the worldwide changing market demands. Worldwide discussions for innovative ID solutions for more identification of persons and products and thus the following increase in security standards in every day life determine the markets of the future. We want to utilize these chances by creating added value for our customers with technological sophisticated product solutions for chip based, security-oriented ID solutions and ensure more security all over the world. Above all, even when we only just supply components we understand ourselves to a supplier of complete system solutions. As a result we plan and supply complete factories to order and support our customers in the production of innovative end products. As a result we will not change our strategy but continue to accompany customers with complete solutions in the future. Furthermore, we will not change our own attitude towards customers. The customer is always the central figure.

The company has gone forward a fair step as far as mar-

ket penetration is concerned and has yet again firmly established its position in the hard fought markets. The confidence of our customers – who accept us as competence system partner for the smart card and smart label solutions – have been honored by us with further acceleration in our speed in development. New developed and integrated high-security systems for the acquisition of individual security features such as, for example, laser engraving or chip coding of biometric data on ID cards and travel documents for national ID applications could assist our worldwide customers in the launching of security-oriented ID solutions and ensure in this way assure more security and individuality.

Our target is very simple: To become more efficient and more professional every day and continue to develop new ideas which create added value for the customer and assure the competitive advantages of the Mühlbauer Group. We do not overlook the burden we bear in an economic difficult environment. But we understand this burden to be a challenge to be different and increase the pace to successfully open up the offered potential given on the market places.

To achieve this target we are building on the unique company culture, innovation power and closeness to the customer. These are the main basis for long-lasting and profitable growth.

## 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 STATEMENTS OF INCOME (US-GAAP)  
FROM JANUARY 01 TO DECEMBER 31, 2003  
OF MUEHLBAUER HOLDING AG & CO. KGAA**

	Notes	01.01.-31.12.03		01.01.-31.12.02	
		TEUR	%	TEUR	%
1. Sales	(5), (28)	95,204	100.0	91,317	100.0
2. Cost of sales		(63,007)	(66.2)	61,370	(67.2)
<b>3. Gross profit</b>		<b>32,197</b>	<b>33.8</b>	<b>29,947</b>	<b>32.8</b>
4. Operating expenses					
a) Selling, general and administrative		(16,616)	(17.4)	16,682	(18.3)
b) Research and development		(11,392)	(12.0)	10,761	(11.8)
<b>5. Operating income</b>		<b>4,189</b>	<b>4.4</b>	<b>2,504</b>	<b>2.7</b>
6. Other income and expenses					
a) Interest income		1,673	1.8	1,101	1.2
b) Interest expenses		(728)	(0.8)	2,290	(2.5)
c) Other income	(7)	4,357	4.6	3,475	3.8
<b>7. Income before income taxes</b>		<b>9,491</b>	<b>10.0</b>	<b>4,790</b>	<b>5.2</b>
8. Income taxes	(8)	(2,977)	(3.1)	(1,871)	(2.0)
<b>9. Ordinary income net of tax</b>		<b>6,514</b>	<b>6.9</b>	<b>2,919</b>	<b>3.2</b>
10. Extraordinary gains		0	0.0	587	0.6
<b>11. Net earnings</b>		<b>6,514</b>	<b>6.9</b>	<b>3,506</b>	<b>3.8</b>

**Earnings per common share**

Basic		
Ordinary income net of tax	0.41	0.18
Extraordinary gains	0.00	0.02
Net earnings	0.41	0.20
Fully diluted		
Ordinary income net of tax	0.41	0.18
Extraordinary gains	0.00	0.02
Net earnings	0.41	0.20

**Weighted average of common shares**

Basic	6,099,342	6,206,620
Fully diluted	6,099,342	6,207,436

The accompanying notes are an integral part of these Consolidated Financial Statements.

**CONSOLIDATED BALANCE SHEETS (US-GAAP) AS AT DEC. 31, 2003  
OF MUEHLBAUER HOLDING AG & CO. KGAA**

	Notes	31.12.03 TEUR	31.12.02 TEUR
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		12,597	13,110
Marketable securities	(9)	3,498	2,261
Trade accounts receivables, net	(10)	20,348	19,161
Inventories	(11)	34,227	43,345
Deferred income taxes	(8)	201	804
Prepaid expenses		165	176
Other current assets	(12)	1,382	978
		<b>72,418</b>	<b>79,835</b>
<b>Investment and long-term financial assets</b>			
Marketable securities	(9)	9,241	7,383
		<b>9,241</b>	<b>7,383</b>
<b>Fixed assets</b>			
Land	(13)	1,586	1,581
Buildings, net	(13)	28,409	30,044
Technical and other equipment, net	(13)	11,298	9,539
Buildings and equipment in progress	(13)	40	25
		<b>41,333</b>	<b>41,189</b>
<b>Intangible assets</b>			
Goodwill	(14)	468	468
Software und licenses	(14)	409	557
		<b>877</b>	<b>1,025</b>
<b>Other fixed assets</b>			
	(15)	1,687	0
		<b>1,687</b>	<b>0</b>
		<b>125,556</b>	<b>129,432</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Short-term debt	(17)	986	1,010
Trade accounts payables		4,751	7,038
Downpayments received on orders		329	1,604
Shareholders' loans		39	40
Other current liabilities	(18)	4,959	5,312
Accrued income taxes	(8)	2,135	760
Other accruals	(19)	4,525	4,490
		<b>17,724</b>	<b>20,254</b>
<b>Long-term liabilities</b>			
Convertible bonds		0	37
Long-term debt	(20)	1,913	3,001
Investment grants received	(21)	5,993	5,832
Deferred income tax	(8)	1,274	1,681
Postretirement and postemployment benefit liabilities	(22)	718	374
		<b>9,898</b>	<b>10,925</b>
<b>Shareholders' Equity</b>			
Ordinary share capital (par value 1.28 EUR; 6,380,000 ordinary shares authorized; 6,279,200 ordinary shares issued; (thereof 6,075,435 ordinary shares outstanding)	(24)	8,038	8,038
Own shares	(24), (26)	(261)	(219)
Fixed capital contributions	(24)	(2,980)	(2,980)
Additional paid-in capital	(24)	57,901	58,351
Retained earnings		34,204	34,907
Other comprehensive income	(25)	1,032	156
		<b>97,934</b>	<b>98,253</b>
		<b>125,556</b>	<b>129,432</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF CASHFLOWS (US-GAAP)  
OF MUEHLBAUER HOLDING AG & CO. KGAA**

	<b>01.01. - 31.12.03 TEUR</b>	<b>01.01. - 31.12.02 TEUR</b>
<b>Operating activities</b>		
1. Income before income taxes including profit of the personally liable shareholder	9,491	4,790
2. Consolidated net income including profit of the personally liable shareholder	6,514	3,506
<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	61	(217)
4. +/- Extraordinary expenses (income) from acquisitions	0	(587)
5. +/- Depreciations/(appreciations) to		
- fixed assets	5,632	6,057
- software and licenses	558	599
6. -/+ (Gains)/losses from the sale of objects from the assets	(174)	(5)
7. -/+ Currency differences from the transition of assets	13	15
8. -/+ Realized net (gains)/losses from marketable securities and long-term financial assets	(599)	497
9. -/+ Unrealized (gains)/losses from marketable securities (trading papers)	0	668
10. - Purchase in marketable securities (trading papers)	0	(2,822)
11. + Sales of marketable securities (trading papers)	0	1,913
12. -/+ (Increase)/decrease of trade accounts receivables	(44)	(1,193)
13. +/- Increase/(decrease) of value adjustments for trade accounts receivables	(1,143)	2,030
14. -/+ (Increase)/decrease of inventories	4,491	5,625
15. + Value adjustments for inventories	4,627	3,456
16. -/+ (Increase)/decrease of deferred income tax assets	603	456
17. -/+ (Increase)/decrease of prepaid expenses	11	(54)
18. -/+ (Increase)/decrease of other current assets	(404)	5,494
19. -/+ (Increase)/Decrease of other fixed assets	(1,686)	0
20. +/- Increase/(decrease) of trade accounts payables	(2,287)	1,286
21. +/- Increase/(decrease) of downpayments received on orders	(1,275)	(3,030)
22. +/- Increase/(decrease) of other liabilities	(352)	385
23. +/- Increase/(decrease) of accrued income taxes	1,375	543
24. +/- Increase/(decrease) of deferred income taxes	(407)	(332)
25. +/- Increase/(decrease) of other accruals	35	(53)
26. +/- Increase/(decrease) of investment grants received	162	(889)
27. +/- Increase/(decrease) of pension liabilities	343	50
28. = Cash provided by (used for) operating activities	16,054	23,398
<b>Investing activities</b>		
29. + Payments received from disposals of objects of the assets	200	25
30. - Purchase in fixed assets	(5,814)	(2,078)
31. - Purchase in software and licences	(410)	(222)
32. - Purchase in Participation in companies (net of cash)	0	(313)
33. - Purchase in marketable securities (available-for-sale-papers)	(2,885)	(2,437)
34. + Sales of marketable securities (available-for-sale-papers)	1,026	3,161
35. + Sales of trade marketable securities (available-for-sale-papers)	11,801	0
36. - Disbursements of sales of marketable securities (available-for-sale-papers)	(11,262)	0
37. = Cash provided by (used for) investing activities	(7,344)	(1,864)
<b>Financing activities</b>		
38. - Repayment of long-term debts	(1,112)	(1,174)
39. +/- Increase/(Decrease) of short-term debts	0	(2,308)
40. +/- Increase/(Decrease) of Shareholder-Loans	(1)	(3)
41. - Exercise/Repayment of Convertible Bonds	(37)	(2)
42. - Purchase of own shares	(697)	(2,293)
43. + Sales of own shares	143	276
44. - Dividends paid	(6,046)	(4,739)
45. - Tax Withdrawal personally liable shareholder	(1,171)	0
46. = Cash provided by (used for) financing activities	(8,921)	(10,243)
47. +/- Increase/(Decrease) of currency exchange rate changes	(302)	(387)
48. = Net Increase/(Decrease) in Cash and Cash equivalents (Total of Lines 47, 46, 37 und 28)	(513)	10,904
49. + Cash and cash equivalents on January 1	13,110	2,206
50. = Cash and cash equivalents on December 31	12,597	13,110
<b>Additional cash flow information:</b>		
Tax paid	2,549	3,373
Interest paid	343	357

**Non-cash transactions:**

In 2003 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.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (US-GAAP) OF MÜHLBAUER HOLDING AG & CO. KGAA

	Notes	Number of Shares	Ordinary Share Capital 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, 2002</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>
Net earnings		-	-	-	-	3,506	-	-	3,506
Other Comprehensive Income (Loss)	(25)	-	-	-	-	-	(387)	283	(104)
Total Comprehensive Income (Loss)		-	-	-	-	3,506	(387)	283	3,402
Deferred Compensation	(23)	-	-	-	(217)	-	-	-	(217)
Purchase of own Shares	(24), (26)	(168,368)	(216)	-	(1,775)	(302)	-	-	(2,293)
Sale of own Shares	(24), (26)	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>
Net earnings		-	-	-	-	6,514	-	-	6,514
Other Comprehensive Income (Loss)	(25)	-	-	-	-	-	(312)	1,188	876
Total Comprehensive Income (Loss)		-	-	-	-	6,514	(312)	1,188	7,390
Deferred Compensation	(23)	-	-	-	61	-	-	-	61
Purchase of own Shares	(24), (26)	(51,711)	(66)	-	(631)	-	-	-	(697)
Sale of own Shares	(24), (26)	18,371	24	-	120	-	-	-	144
Tax withdrawal personally liable shareholder	(24)	-	-	-	-	(1,171)	-	-	(1,171)
Dividends		-	-	-	-	(6,046)	-	-	(6,046)
<b>Balance Dec. 31, 2003</b>		<b>6,075,435</b>	<b>7,777</b>	<b>(2,980)</b>	<b>57,901</b>	<b>34,204</b>	<b>(440)</b>	<b>1,472</b>	<b>97,934</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.



# NOTES

## A. BASIC PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS

### (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 turnkey solutions for the manufacture of

- smart cards - chip cards, contactless cards, dual-interface cards, smartmedia/multimedia cards;
- smart labels - intelligent labels for contactless data transfer;
- semiconductor products for a variety of micro-electronic applications.

Additional segments of activity are the manufacturing of production lines and handling systems for the electronic

industry, manufacturing industrial image processing systems for several industries as well as the production of precision parts. Mühlbauer's range of services also encompasses the development and production of systems for the manufacture of carrier tapes for electronics industry.

The company has production plants located in the Germany cities of Roding and Stollberg. Mühlbauer also operates a network of international sales and service offices in France, Belarus, China, Shanghai, Taiwan, Australia, Mexico and Brazil in addition to independent sales and service companies in USA and Malaysia. In addition, the company uses the services of commercial agencies in various countries.

### (2) BASIS OF PRESENTATION

The Initial Public Offering of the company took place on July 10th 1998. The shares are listed at the Prime Standard of the Frankfurt Stock Exchange.

The consolidated financial statements 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 statements based on the accounting regulations of the HGB. According to § 292a HGB a consolidated financial statements according to German law are not required if a consolidated financial statement based on international principles such as US-GAAP is submitted. With the present consolidated financial state-

ments, 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 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, 2003, the consolidated companies include - besides the Mühlbauer Holding AG & Co. KGaA - seven (previous year: five) German and two foreign subsidiary companies listed below as well as the special fund.

#### German companies:

Name and registered office	Interest in %	Equity capital in TEUR	Result of the year in TEUR
Mühlbauer Aktiengesellschaft, Roding	100	57,910	2,428
ASEM Präzisions-Automaten-GmbH, Dresden	100	1,032	240
Rommel GmbH, Ehingen	100	3,869	268
systronic Systemlösungen für die Elektronikindustrie GmbH, Flein	100	575	(71)
Tema GmbH, Schwelm	100	1,565	(252)
Mühlbauer ID Services GmbH, Roding <sup>1)</sup>	100	(326)	(351)
MB ID2 GmbH, Roding <sup>2)</sup>	100	25	0
Special fund (separate assets) <sup>3)</sup>	100	14,210	420

1) Initial consolidation to July 31, 2003

2) Initial consolidation to July 31, 2003

3) Financial year from Dec. 01 to Nov. 30

### Foreign companies:

Name and registered office	Interest in %	Equity capital in TEUR <sup>1)</sup>	Result of the year in TEUR <sup>2)</sup>
Mühlbauer, Inc., Newport News, Virginia	100	616	94
Mühlbauer Sdn. Bhd., Melaka, Malaysia	100	1,674	299

1) Conversion to exchange rate at reference date Dec. 31, 2003

2) Conversion to average exchange rate from Jan. 01, 2003 to Dec. 31, 2003

Further information on the companies listed can be found in the notes to the financial statements for these companies accessible at the commercial registration office of the city of Regensburg, register No. HRB 7036.

## (3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### PRINCIPLES 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. The equity method is applied as far as Mühlbauer has the opportunity to exert a decisive influence on the business operations of these companies.

Any material transactions between the consolidated companies are eliminated from the consolidated financial statements.

### 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 in respective current value. A remaining positive difference (goodwill) after disclosure of hidden reserves and debts found, is applied 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 accounted for as an extraordinary gain affecting the result.

### FOREIGN CURRENCY TRANSLATION

The functional currency of the subsidiary companies in foreign countries is in each case the local currency at locality of the subsidiary company. With the exception of shareholders' equity, which is converted at historical rates, the assets and liabilities quoted in foreign currencies are converted at the rate on the balance sheet day. The items of the statement of income of Mühlbauer 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. Conversion differences resulting therefrom are listed separately as items of shareholders' equity without affecting the result.

Shown in the following are the rates or exchange used for drawing the consolidated financial statement in accordance with SFAS No. 52 "Foreign Currency Translation":

Currency:		Rate on closing date		Mean average rate	
		December 31, 2003 EUR	December 31, 2002 EUR	2003 EUR	2002 EUR
Malaysia	100 MYR	21.0018	25.0914	23.2385	27.9009
USA	1 USD	0.7964	0.9539	0.8833	1.0606

Foreign currency transactions are each translated with the valid daily rate and foreign currency gains and losses are posted under the operational earnings or expenses as affecting the operating results.

## NOTES

### SALES RECOGNITION

Sales are indicated less customer premium 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. Accruals for guarantee 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.

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:

	2003 Quantity	2002 Quantity
Weighted average of shares for calculation of the "Basic Earnings per Share"	6,099,342	6,206,620
Dilutive effect of stock options and convertible bonds	0	816
Weighted average of shares for calculation of the "Diluted Earnings per Share"	6,099,342	6,275,246

### 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

Customer liabilities with maturity period of up to one year are booked at the nominal amount, customer liabilities with maturity period of over one year are booked as interest paid value. Discernible risks are allowed for 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 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

### EARNINGS PER SHARE

In calculating the earnings per share, all effects from rights of conversion into stockholder's equity are included, in accordance with SFAS No. 128 "Earnings per Share". When this dilution is applied, two categories are to be indicated for 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.

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 gains 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; but are indicated as changes in equity capital which did not result from transactions with shareholders ("Other Comprehensive Income") and with due consideration to latent taxes.

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 and held-to-maturity 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 quoted 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 the 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. In connection with the introduction of SFAS No. 142 the company carried out an investigation to see, whether there was any reasons for believing that the goodwill resulting from the acquisition of Rommel GmbH was affected unfavorably 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 at the time of conversion, and compared this with the book-value. After completion of the audit in June 2002 there were no signs given that the value of the business and company of the business unit needed to be consolidated at the point in time of the conversion.

Pursuant to SFAS No. 142 goodwill assets are not to be depreciated, but will be examined in accordance with the instructions of SFAS No. 142 at least once a year for any depreciation. The company carried out the annual audit in June 2003. Should the book value of the business unit including the goodwill exceed the market value there is a reduction in value as a result of the difference between the book value of the goodwill and the market value of goodwill. The audit did not cause any extraordinary unplanned depreciation.

### 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. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" 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 by applying 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 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, the calculation of which is 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 accruals 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 realisability and depreciated, if necessary.

As far as the 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, 2003.

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. The amounts of tax to be added and considered in the case of the personally liable shareholder are offset against tax accruals and charged against his variable capital (cf. also note (24)).

### 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 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.

## NOTES

### 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 statements 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.

### NEW FINANCIAL REPORTING REGULATIONS

In January 2003 the FASB published the SFAS No. 46 "Consolidation of Variable Interest Entities". This interpretation defines when a company is to be seen as "Variable Interest Entity" - "VIE" and when such a variable interest entity is to be taken into consideration in the concern balance sheets.

In April 2003 the FASB published the SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". These adjustments of the SFAS No. 133 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" concern the definition of deviates and a few decisions of the "Derivative Implementation Group". Apart from the definition of derivative financial instruments for the FASB it is also a matter of ensuring a transparent presentation of financing or debiting instruments in the case of embedded derivatives. This declaration is to be applied for all derivatives which were concluded or amended, respectively, after June 30, 2003. 35 implementation factual contents of the "Derivative Implementation Group" were adjusted. The regulations are to be applied prospectively with the exception of those contents, for which implementation regulations have already been published. The original indicated dates shall apply in these cases.

In May 2003 the FASB published the Statement SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" which regulates how emittents of specific financial instruments with liability as well as also own equity character are to be classified and assessed. It demands that an emittent financial instrument, which up to now has frequently been classified as own capital, is to be indicated as liability (or under specific circumstances as assets). Furthermore, it regulates the classification of specific financing instruments, which includes the commitment to issue own shares. The changes in this statement lead to comprehensive presentation of liabilities and own capital of a company and helps investors and creditors to estimate the value, point in time and the probability of possible future money drains and issuance of own shares. The statement is to be applied for financing

instruments, which were given or amended after May 31, 2003 and is to be applied for the first interim report period after June 15, 2003 except for financing instruments with compulsory repayment of not listed companies. The Emerging Issues Task Force (EITF) achieved a concluding concense on the EITF Paper No. 03-5 "Applicability of AICPA Statement of Position 97-2 (SOP 97-2) in July 2003 for non-software shares of a delivery (EITF 03-5). It was agreed that SOP 97-2 is applicable to the non-software share of a delivery if the delivery contract includes software and the software is essential for the functionality of the non-software share.

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 December 2003 the FASB published a new version of the SFAS No. 132 "Employer's Disclosures about Pensions and Other Postretirement Benefits". This standard replaces the hitherto SFAS No. 132 "Employer's Disclosures about Pensions and Other Postretirement Benefits" and has effects on SFAS No. 87, 88 as well as 106. It demands extended compulsory revelation commitments in connection with pension and other welfare plans and regulates more especially the commitment to provide information on budget assets put into pension funds as well as the pension commitments. Accordingly, transition of the pension commitments or the budget assets from the beginning to the end of the business year is no longer to be made. To be stated rather more is the final status of the budget asset as well as the pension commitment. The statement is to be applied for the first time in business years that end after December 15, 2003.

Mühlbauer will be applying the new version of the SFAS No. 132 at the beginning of the business year 2003.

#### (4) ACQUISITIONS

On July 31, 2003 the company founded the MB ID1 GmbH with its head office in Roding as so-called stock company and renamed this company as the Mühlbauer ID Services GmbH after the company took up its activities on December 17, 2003. Object of the Mühlbauer ID Services GmbH is the conception, implementation and turnkey realization of ID projects according to customer demands for the production of innovative and forgery-safe passport and identification systems on the basis of plastic cards or as paper-based documents, the providing of services for such

ID projects as well as all other consequently related legal activities. Over and above this the Mühlbauer ID Services GmbH has the right to do any business which is suitable and directly or indirectly in the interest of the business purpose and to further the same.

On July 31, 2003 the company founded the MB ID2 GmbH with its head office in Roding as so-called stock company. Object of the MB ID2 GmbH is the management of own assets.

### B. EXPLANATIONS ON THE PROFIT AND LOSS ACCOUNTING OF THE COMPANY

#### (5) SALES

Shown is the breakdown in sales by segments and regions under Section (28). The reductions in sales

mainly comprise cash payment productions by customers for short-term payments.

#### (6) PRODUCT MARKETING AND ADVERTISING

The expenditures included mainly in the sales expenses for product marketing and advertising in the report year

amounted to 1,007 TEUR (2002: 601 TEUR).

#### (7) SUPPLEMENTARY DETAILS ON OPERATIVE EXPENDITURES AND OTHER INCOME

Material expenditure for the business year comprises the following:

	2003 TEUR	2002 TEUR
Costs for raw materials, supplies and purchased merchandise	23,365	20,527
Costs for services taken	2,059	1,760
<b>Total</b>	<b>25,424</b>	<b>22,287</b>

Personal costs for the business year comprise the following:

	2003 TEUR	2002 TEUR
Wages and salaries	32,943	31,458
Social insurance contributions	6,869	6,521
Pensions	110	114
<b>Total</b>	<b>39,922</b>	<b>38,093</b>

The other operative income for the business year comprise the following:

	2003 TEUR	2002 TEUR
Earnings from plan assets	1,096	48
Investment grants	876	975
Reversal of accruals	623	336
Foreign country gains	396	503
Reversal of evaluation accruals on accounts receivables	352	246
Motorized vehicle utilization	212	185
Investment premiums	195	30
Canteen sales	189	175
Gains/(loss) from the retirement of intangible property	175	13
Insurances and other indemnifications	61	591
Rent sales	0	42
Miscellaneous	182	331
<b>Total</b>	<b>4,357</b>	<b>3,475</b>

## NOTES

The foreign currency gain and loss has been determined for the business year as follows:

	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
Foreign currency losses	(436)	(405)
Foreign currency gains	396	503
	<b>(40)</b>	<b>98</b>

### (8) TAXES FROM INCOME AND YIELD

The costs (earnings) from taxes from income and taxes were as follows for the business year ending on 31 December 2003 and 2002 were as follows:

	<b>December 31</b>	
	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
German corporation tax	1,403	765
German solidarity surcharge	70	41
German trade tax	1,242	925
Foreign yield tax	55	103
<b>Current taxes</b>	<b>2,770</b>	<b>1,834</b>
Latent tax expenditure (yield)	207	37
<b>Total</b>	<b>2,977</b>	<b>1,871</b>
Of which		
Germany	2,864	1,777
Abroad	113	94

The following table shows the transit calculation of the expected tax expenditure to be indicated. To determine the tax expenditure to be expected the valid effective corporation tax rate of 27.9575% (previous year: 26.375%) valid in the business year 2003 has been multiplied with the result after trade taxes.

	<b>December 31</b>		<b>December 31</b>	
	<b>2003</b>	<b>in</b>	<b>2002</b>	<b>in</b>
	<b>TEUR</b>	<b>%</b>	<b>TEUR</b>	<b>%</b>
Earnings before Tax	9,491	100.0	4,790	100.0
Trade tax expenditure	(1,334)	(14.1)	(885)	(18.5)
<b>Result after trade taxes</b>	<b>8,158</b>	<b>85.9</b>	<b>3,905</b>	<b>81.5</b>
Expected corporation tax expenditure (including solidarity surcharge)	(2,281)	(28.0)	(1,030)	(26.4)
Back duty previous years	(127)	(1.6)	0,0	0.0
Tax difference, foreign	(91)	(1.1)	(60)	(1.5)
Tax profit on intermediate gain elimination	(61)	(0.7)	300	7.7
Non-tax-deductible Expenditures	(50)	(0.6)	(283)	(7.3)
Other	(3)	(0.0)	(11)	(0.3)
Production of tax on dividends	0	(0.0)	(394)	(10.1)
Deductible taxes	123	1.5	125	3.2
Tax-exempt earnings	209	2.5	70	1.8
Corporation tax expenditure (including solidarity tax)	(2,281)	(28.0)	(1,283)	(32.9)
<b>Tax expenditure before tax reduction from profit share of the personal liable shareholder</b>	<b>(3,615)</b>	<b>(38.1)</b>	<b>(2,168)</b>	<b>(45.3)</b>
Tax relief on earnings share of the personally liable shareholder	638	6.7	297	6.2
<b>Indicated tax expenditure</b>	<b>(2,977)</b>	<b>(31.4)</b>	<b>(1,871)</b>	<b>(39.1)</b>

The tax relief on the earnings share of the personally liable shareholder originates due to the fact that 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 (38.1 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 45.3 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:

- 14.76% <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 of the report year contains a taxation expense for previous years of 330 TEUR. The total tax burden was reduced by the return of previously paid taxes amounting to 86 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 (1,129 TEUR) – notwithstanding changes in legislation – can be carried forward without limitations. In previous year they totaled 414 TEUR.

The deferred tax assets and liabilities as at December 31, 2003 and 2002 break down as follows:

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
Trade accounts receivable	17	0
Inventories	0	538
Securities	25	9
Investment grants	1,311	1,378
Pension obligations	23	92
Intermediate gain elimination	1,097	1,377
Tax losses carried forward	1,129	414
Unrealized gains and losses from currency differences	0	244
Other	0	44
	<b>3,602</b>	<b>4,096</b>
<b>Total deferred tax assets</b>	<b>1,271</b>	<b>1,368</b>
Inventories	371	0
Securities	322	368
Fixed assets	7,034	7,590
Investment grants	799	0
Unrealized gains and losses from currency differences	131	287
Other	1	42
	<b>8,658</b>	<b>8,287</b>
<b>Total deferred tax liabilities</b>	<b>(2,344)</b>	<b>(2,245)</b>
<b>Net amount of deferred taxes</b>	<b>(1,073)</b>	<b>(877)</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:

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
Short-term deferred tax liabilities	(272)	(203)
Short-term deferred tax assets	473	1,007
	201	804
Long-term deferred tax liabilities	(2,072)	(2,042)
Long-term deferred tax assets	798	361
	<b>(1,073)</b>	<b>(877)</b>



## NOTES

### C. EXPLANATIONS ON THE COMPANY BALANCE SHEETS

#### (9) 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, 2003				December 31, 2002			
	Acquisition costs	Unrealized gain	loss	Exchange/market value	Acquisition costs	Unrealized gain	loss	Exchange/market value
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
<b>Trading</b>								
Shares	-	-	-	-	3,242	5	(986)	2,261
Decrease due to reallocation	-	-	-	-	(3,242)	(5)	986	(2,261)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Available-for-sale</b>								
Debt instruments	8,919	349	(27)	9,241	7,015	368	(0)	7,383
Shares	3,347	608	(457)	3,498				
Increase due to reallocation	-	-	-	-	2,261	-	-	2,261
<b>Total</b>	<b>12,266</b>	<b>957</b>	<b>(484)</b>	<b>12,739</b>	<b>9,276</b>	<b>368</b>	<b>(0)</b>	<b>9,644</b>
	<b>12,266</b>	<b>957</b>	<b>(484)</b>	<b>12,739</b>	<b>9,276</b>	<b>368</b>	<b>0</b>	<b>9,644</b>

The share instrument hitherto listed under the "trading" securities by December 31, 2002 were recognized into "available-for-sale" securities at the market value at the end of the previous business year.

The following table presents the costs of acquisition and the market price of the debt instruments at the end of the year the residual term:

	December 31, 2003		December 31, 2002	
	Acquisition costs	Exchange/market value	Acquisition costs	Exchange/market value
	TEUR	TEUR	TEUR	TEUR
Debt instruments due within one year	0	0	0	0
between 2 and 5 years	4,631	4,772	2,254	2,365
between 6 and 10 years	4,288	4,469	4,265	4,516
after 10 years	0	0	496	502
	<b>8,919</b>	<b>9,241</b>	<b>7,015</b>	<b>7,383</b>

The actual due-dates can vary from the contractual residual term due to selling or repayment rights.

The gains from the decrease of the debt instruments and money market securities were 9,893 TEUR (2002: 3,161 TEUR). The gains realized therefrom in the year of the report were 69 TEUR (2002: 32 TEUR), the losses were 41 TEUR. Profits from the sales of shares in the reported year were 2,950 TEUR (2002: 1,913 TEUR). The gains realized therefrom were 919 TEUR (2002: 198 TEUR)

and the losses realized were 366 TEUR (2002: 686 TEUR). The market values of the debt instruments contain unrealized profits to the value of 349 TEUR (2002: 368 TEUR and unrealized losses to the value of 27 TEUR (2002: 0 TEUR). The unrealized gains from present shares were 608 TEUR (2002: 5 TEUR) and the unrealized losses were 457 TEUR (2002: 986 TEUR).

### (10) TRADE RECEIVABLES

Trade receivables as at December 31, 2003 and 2002 break down as follows:

	<b>December 31, 2003 TEUR</b>	<b>2002 TEUR</b>
Gross value of the trade receivables	22,591	22,945
less value adjustments	(2,243)	(3,784)
	<b>20,348</b>	<b>19,161</b>

All trade receivables have a residual term of less than one year. Due to the broad basis of customers and the spread of the different branches and countries world-wide the risk of business concentration and a

consequently resulting loss is to be considered to be less than likely in the case of the company. Either in the year 2003 or in the previous year was the turnover with one single customer 6% or more of the total turnover.

### (11) INVENTORIES

The inventories as at December 31, 2003 and 2002 break down as follows:

	<b>December 31, 2003 TEUR</b>	<b>2002 TEUR</b>
Raw materials, auxiliary and operating materials	5,180	5,640
Unfinished products	22,806	21,905
Finished products	6,241	15,800
	<b>34,227</b>	<b>43,345</b>

In the business years 2003 and 2002 the company adjusted the value of inventories for the amount of 4,627 TEUR and 3,456 TEUR.

### (12) OTHER CURRENT ASSETS

The other current assets as at December 31, 2003 and 2002 break down as follows:

	<b>December 31, 2003 TEUR</b>	<b>2002 TEUR</b>
Investment and technology grants	718	411
Interest demands	229	188
Investment premiums	195	30
Pre-payments paid	89	171
Tax accruals	26	59
Other	125	119
	<b>1,382</b>	<b>978</b>

## NOTES

### (13) FIXED ASSETS

The breakdown of the fixed assets as at December 31, 2003 and 2002 is presented in the following overview:

	Land, land similar rights and buildings including buildings on foreign properties TEUR	Technical plant and machines TEUR	Other plant, works and business equipment TEUR	Laid down payments and plants under construction TEUR	Total TEUR
<b>Acquisition costs</b>					
01.01.2003	42,749	32,031	16,278	25	91,083
Currency adjustments	-	-	(59)	-	(59)
Additions	36	2,449	3,314	608	6,407
Retirements	-	(621)	(423)	(593)	(1,637)
<b>31.12.2003</b>	<b>42,785</b>	<b>33,859</b>	<b>19,110</b>	<b>40</b>	<b>95,794</b>
<b>Cumulative depreciations</b>					
01.01.2003	11,124	26,146	12,624	-	49,894
Currency adjustments	-	-	(47)	-	(47)
Additions	1,666	2,297	1,669	-	5,632
Retirements	-	(600)	(418)	-	(1,018)
<b>31.12.2003</b>	<b>12,790</b>	<b>27,843</b>	<b>13,828</b>	<b>-</b>	<b>(54,461)</b>
<b>Net booking value 31.12.2003</b>	<b>29,995</b>	<b>6,016</b>	<b>5,282</b>	<b>40</b>	<b>41,333</b>
Net booking value 31.12.2002	31,625	5,885	3,654	25	41,189

Any restraints on disposal arise from note 29.

### (14) INTANGIBLE ASSETS

The breakdown of the intangible assets as at December 31, 2003 and 2002 is presented in the following overview:

	Concessions, trade protective rights and similar rights and values as well as licenses in such rights and values TEUR	Business or company value TEUR	Total TEUR
<b>Acquisition costs</b>			
01.01.2003	4,442	785	5,227
Currency adjustments	-	-	-
Additions	410	-	410
Retirements	-	-	-
<b>31.12.2003</b>	<b>4,852</b>	<b>785</b>	<b>5,637</b>
<b>Cumulative depreciations</b>			
01.01.2003	3,885	317	4,202
Currency adjustments	-	-	-
Additions	558	-	558
Retirements	-	-	-
<b>31.12.2003</b>	<b>4,443</b>	<b>317</b>	<b>4,760</b>
<b>Net booking value 31.12.2003</b>	<b>409</b>	<b>468</b>	<b>877</b>
Net booking value 31.12.2002	557	468	1,025

In accordance with SFAS No. 141 "Business Combinations" the company did not execute scheduled depreciations neither in the report nor in the previous year. See also note 3 on the depreciation of goodwill.

### (15) OTHER FIXED ASSETS

The other fixed assets as at December 31, 2003 and 2002 break down as follows:

	<b>December 31, 2003 TEUR</b>	<b>2002 TEUR</b>
Plan assets	1,306	0
Long-term share of accounts receivable	381	0
	<b>1,687</b>	<b>0</b>

The long-term share of accounts receivable has been discounted at a factor of 3%. The provisional maturity period is as follows:

	<b>TEUR</b>	<b>TEUR</b>
2005	373	0
2006	8	0
	<b>381</b>	<b>0</b>

### (16) 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 21,900 TEUR and 34,000 TEUR by December 31, 2003 and 2002, respectively, and are unsecured. Of these, 17,346 TEUR and 31,335 TEUR were available by December 31, 2003 and 2002, respectively.

The total sum of interest payments for short-term credit claims was 9 TEUR and 74 TEUR, in 2003 and 2002, 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 3.80 % and 5.10 % on December 31, 2003 and 2002, respectively.

### (17) SHORT-TERM SHARE OF LONG-TERM FINANCIAL LIABILITIES

The short-term share of long-term liabilities have the following maturities:

	<b>2003 TEUR</b>	<b>2002 TEUR</b>
1st quarter	7	19
2nd quarter	486	486
3rd quarter	7	19
4th quarter	486	486
	<b>986</b>	<b>1,010</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 20.

### (18) OTHER CURRENT LIABILITIES

The other current liabilities as at December 31, 2003 and 2002 break down as follows:

	<b>December 31, 2003 TEUR</b>	<b>2002 TEUR</b>
Wages and salaries	2,057	2,026
Social security contributions	1,336	1,268
Income tax on salaries and wages	762	740
Taxes	348	392
Grants	165	553
Wealth creation	52	47
Prepaid expenses and deferred charges, liabilities	8	0
Commissions	0	76
Other	231	210
	<b>4,959</b>	<b>5,312</b>

## NOTES

### (19) OTHER ACCRUALS

The other accruals as at December 31, 2003 and 2002 break down as follows:

	December 31, 2003 TEUR	2002 TEUR
Personnel and social security obligations	1,680	1,420
Guarantees	1,242	1,264
Legal costs	557	589
Services yet to be performed	468	227
Third-party services	355	248
Commissions	59	136
Taxes	0	457
Other	164	149
	<b>4,525</b>	<b>4,490</b>

### (20) LONG-TERM DEBTS

The long-term debts as at December 31, 2003 and 2002 break down as follows:

	December 31, 2003 TEUR	2002 TEUR
Syndicated loan from the SchmidtBank AG (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 installment 2,556 TEUR, interest 5.71 % (fixed through 30.06.2006) 2nd installment 2,556 TEUR, interest 5.74 % (fixed through June 30, 2006) 3rd installment 2,557 TEUR, interest 5.76 % (fixed through June 30, 2006)	2,397	3,355
Loan from the Sparkasse Ehingen Fixed value 614 TEUR, annuity repayment with monthly payment of 5.1 TEUR Interest rate 7 % (fixed through April 30, 2006)	502	528
Loan from the Stadtparkasse 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 Sept. 30, 2007)	0	64
Loan from the Stadtparkasse 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 Sept. 30, 2007)	0	64
<b>Loans</b>	<b>2,899</b>	<b>4,011</b>
less debts maturing within one year	986	1,010
<b>Long-term debts</b>	<b>1,913</b>	<b>3,001</b>

The maturity of the long-term debts to financial institutions can be taken from the following chart:

	December 31 2003 TEUR
2004 (short-term)	986
2005	988
2006	925
	<b>2,899</b>

The total amount of assured debts as at December 31, 2003 and 2002 was 2,899 TEUR (thereof 2,397 TEUR secured debts and 502 TEUR registered land debts) and 4,011 TEUR (thereof 3,355 TEUR secured debts, 528

TEUR registered land debts as well as 128 TEUR transfers by way of security and assignments). Of these 986 TEUR (2002: 1,010 TEUR) are allocated to the maturing within one year.

## (21) 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, 2003 and 2002 break down as follows:

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
As at the beginning of financial year	5,832	6,721
Investment grants received during the financial year	1,037	86
	6,869	6,807
Depreciation for financial year analogous to corresponding assets	876	975
<b>As at end of financial year</b>	<b>5,993</b>	<b>5,832</b>

## (22) POSTRETIREMENT AND POSTEMPLOYMENT BENEFIT LIABILITIES

The company grants members of business management performance oriented promises of pension. The amount of the promised pensions are measures in the individual case according to the period of activity as member of the business management and the average income over the last three years before retirement. It covers claims to old age, disablement, widow and orphan pensions. For the financing of the commitments rising out of these pension promise are the pension obligations covered by the assets in external

restricted asset pensions and life insurances ("fund assets" or plan assets").

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 following table shows the change in the future interest cash value with respect to the projected benefit obligation (PBO), shown in detail in the previous and report year:

	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
PBO at beginning of the financial year	609	492
Service cost	80	66
Interest cost	18	30
Prior service cost	1,038	0
Retrospective plan adjustment through amendment of pension promises		
Actuarial losses/gains	1	21
<b>PBO at the end of financial year</b>	<b>1,746</b>	<b>609</b>

The following table makes clear the development of the fund assets in the previous and report year.

	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
Market value of the fund assets at beginning of business year	248	202
Actual expenditure from the fund assets	(53)	8
Reinvestments	(35)	0
Employer contributions (special endowment)	570	0
Employer contributions (normal)	576	38
<b>Market value of fund assets at the end of business year</b>	<b>1,306</b>	<b>248</b>

The financing status of the plan assets and the transition from financing status to the amounts indicated as net in the consolidated financial statement are as follows:

	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
Market value of fund assets	1,306	248
Qualification cash value with due consideration to future increases in salaries (PBO)	(1,746)	(609)
Financing status	(440)	(361)
Actuarial loss	9	8
Prior service cost	1,038	0
Transition assets	(19)	(21)
<b>Balance sheet amount</b>	<b>588</b>	<b>(374)</b>

## NOTES

In the reporting year the projected benefit obligation was not netted with the plan assets since the essential share of the fund assets was not pledged to the pension

qualifying persons due to the increasing of the capital sum required as cover at the end of the report year.

The period-related net pension expenditure comprises as follows in the profit and loss statement:

	<b>2003</b>	<b>2002</b>
	<b>TEUR</b>	<b>TEUR</b>
Expenditure for the pension claims gained in the business year ("service costs")	80	33
Interest expenditure ("interest costs")	18	15
Amortization are still not realized commitments	(1)	(1)
<b>Period-related net pension expenditure</b>	<b>97</b>	<b>47</b>

The calculation of the actuarial values is based on the following assumptions:

	<b>2003</b>	<b>2002</b>
Interest rate	5.5 %	6.0 %
Salary trend	3.0 %	3.0 %
Pension trend	1.5 %	2.0 %

Based on the details given in the new ordinance under SFAS No. 132 "employers disclosure about pensions and other postretirement benefits" and the resulting extended commitment to exposure have been relinquished since in the case of the plan assets this is not a matter of a pension fund in the sense of the regulations.

### (23) STOCK COMPENSATION PLANS

Based on a decision of the annual general meeting of June 25th, 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 issued of up to 120,000 shares in stock issued to the owner (Limited Capital I). By decision of the annual general meeting of May 4th, 2000, the earmarking of the Limited Capital 1 was changed by the amount of 84 TEUR (corresponding to 66,000 shares in stock issued to the owner), so that the Limited Capital 1 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 following table reflects the development of the number of share option rights granted in the course of the financial years 2003 and 2002:

	<b>2003</b>	<b>2002</b>
	<b>Quantity</b>	<b>Quantity</b>
January 1	28,920	30,520
Granting of new options	-	-
Conversion	-	-
Decline of subscription rights	-	(1,600)
Expiration of conversion period	(28,920)	-
<b>As at December 31</b>	<b>0</b>	<b>28,920</b>

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 Markt 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 conversion price of the individual stock options corresponds to the sales price per share in stock (24.54 EUR) achieved within the IPO. In the period from January 1st, 2003 up to and including July 4th, 2003 (last point in time for effective conversion) none of these share options fulfilled the conditions for practicing the conversion rights. Conversion right subscriptions not practicable or exercised after July 4th, 2003 were paid back to the loan creditors on July 11th, 2003.

In the business year 2002, share-oriented deferred items (capital reserve) for the amount of 217 TEUR were

effectively allocated for this plan. In the business year 2003 this had no effect on the balance sheet.

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 statements 2002:

		<b>2002</b>
<b>Net income</b>		
as reported	TEUR	3,506
pro forma	TEUR	3,257
<b>Earnings per share</b>		
<b>Basic</b>		
as reported	EUR	0.20
pro forma	EUR	0.12
<b>Diluted</b>		
as reported	EUR	0.20
pro forma	EUR	0.12

#### 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 subscription, if certain individual results and teams as well as group targets are not achieved.



## NOTES

The following table reflects the development of the number of stock option rights granted in the course of the business year 2003:

	<b>Tranche 2003/I</b>
Date of issue	23.12.2002
Subscription	11.79
End of the deadline for reaching agreed success targets	31.12.2003
Subscription rights granted	40,000
Expired subscription rights	(40,000)
<b>December 31st</b>	<b>0</b>

### Employee share program

The company offers employees and trainees as from the second year of training (hereinafter called "employees") the opportunity to obtain shares within the given deadline at most favorable conditions. To qualify to participate the employees must have been working as a matter of principle at least six months in a working relationship not under notice to leave before the share offer and to the point in time of the appropriation of the shares. Moreover, the purchase of shares is subject to

restrictions in respect of the numbers of share which the employees can sign. In all participating companies in the concern in Germany there is a uniform restrictive blocking period up to 31 July each year. The shares are freely disposable after elapse of the restrictive blocking period. The number of shares distributed through this offer amounted to 12,867 in the business year; the difference between the exercised and market price to the amount of 61 TEUR has been booked under personal expenditure.

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

### Number of issued shares

The number of non-par-value shares issued by Mühlbauer Holding AG & Co. KGaA on December 31st, 2003 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 5th, 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 5th, 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 4th, 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 9th, 2001.

Based on the resolution of the company annual general meeting of June 7th, 2001, the personally liable shareholder is authorized by means of a charter amendment, in fulfillment 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 7th, 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 5th, 2001.

In a written statement of November 26th, 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 27th, 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 1st, 2001. The entry in the commercial register took place on December 14th, 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 4,432 TEUR (previous year: 4,213 TEUR), resulting from the profit share for the report year to the amount of 5,603 TEUR less the tax given addable amounts incurred on the profit share to the amount of 1.171 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.

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### Own shares

The development of the own stock portfolio is presented below:

	Quantity	Par val in EUR
As at December 31st, 2002	170,425	218,144
<b>Purchase of own shares</b>		
from the authorization to purchase own shares as defined in § 71 Par. 1 Nos. 2 and 8 AktG	51,711	66,190
<b>Sales of own shares</b>		
as so-called employee shares as defined in § 19a EStG of the Mühlbauer Group	(12,867)	(16,470)
payments for variable amounts	(5,504)	(7,045)
<b>As at December 31st, 2003</b>	<b>203,765</b>	<b>260,819</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 4th, 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 th, 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 th, 2000 and June 7th, 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 th, 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 th, 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 interest.

The share ownership of the limited share capital is presented below:

Name	December 31, 2003		December 31, 2002	
	TEUR	%	TEUR	%
SECURA Vermögensverwaltungs GmbH	4,220	52.50	4,220	52.50
Free float	3,556	44.25	3,599	44.79
	7,776	96.75	7,819	97.29
Company-owned shares	261	3.25	218	2.71
	<b>8,037</b>	<b>100.00</b>	<b>8,037</b>	<b>100.00</b>

#### 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 th, 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 th, 1999 was posted as a debit to the additional paid-in capital.

The development of the additional paid-in capital is presented below:

	TEUR
Premium for the 2,680,000 individual share certificates of 23.26 EUR ("ex split") 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	(2,251)
Sales price exceeding the face value of sold shares	723
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)	1,000
As at December 31, 2002	58,351
Premium on the purchase of company-owned shares	(632)
Sales price exceeding the face value of sold shares	121
Increase of compensation (reserves for expenditures connected with the employee share program in accordance with APB no. 25)	61
<b>As at December 31, 2003</b>	<b>57,901</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	9,269
+ Corporation tax expenditure (including tax amounts on the corporation tax) <sup>1)</sup>	364
+ Expenditure for other taxes and duties affecting only the share capital	78
Assessment basis	9,711
Profit or loss based on share of personally liable shareholder of total capital <sup>2)</sup>	5,603

1) after deduction of the tax addable contributions occurring for the personal liable shareholder to the amount of 493 TEUR

2) of which 178 TEUR were for the previous years

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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 29 th, 2003 to distribute a dividend of 0.30 EUR for each share qualifying for dividends for the financial year 2002. Altogether, 1,833 TEUR were distributed. The profit share allocated to the personally liable shareholder was 4,213 TEUR. The personally liable shareholder recommends the distribution of a dividend of 0.35 EUR for financial year 2003 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 23,082 TEUR as of December 31st, 2003 (previous year: 23,722). An additional possible distributable volume of 2,036 TEUR (previous year: 2,556 TEUR) results from existing unappropriated earnings.

### (25) AMENDMENTS IN OWN CAPITAL NOT RESULTING FROM TRANSACTIONS WITH SHAREHOLDERS (OTHER COMPREHENSIVE INCOME)

The changes in the other comprehensive income for the financial years 2003 and 2002 are presented below:

	before taxes TEUR	2003 Tax effect TEUR	Net TEUR	before taxes TEUR	2002 Tax effect TEUR	Net TEUR
Difference from currency translation	(312)	-	(312)	(387)	-	(387)
Unrealized gains/(losses) from the market assessment of securities:						
Change in the unrealized gains/(losses)	578	22	600	377	(87)	290
Realized gains/(losses)	599	(11)	588	(9)	2	(7)
Unrealized gains/(losses), total	1,177	11	1,188	368	(85)	283
<b>Cumulative changes in the other comprehensive income</b>	<b>865</b>	<b>11</b>	<b>876</b>	<b>(19)</b>	<b>(85)</b>	<b>(104)</b>

### (26) PURCHASE OF OWN SHARES

The annual general meeting decided on April 29th, 2003 to cancel the authorization of the personally liable shareholder to purchase own shares, limited up to September 30th, 2003 in accordance with the resolution of the annual general meeting of April 26th, 2002 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 or an associated 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 29th, 2003 and is valid through September 30th, 2004

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 2003 the company exercised the authorization granted on April 26 th, 2002 to purchase a total of 18,647 shares from the market in the report year. Furthermore, in the year 2003 the company exercised the authorization granted on April 29 th, 2003 to purchase a total of 33,064 shares from the market. Of these, the company still owned 203,765 shares (previous year: 170,425) or 3.25 percent (previous year 2.71 %) of the share capital as of December 31st, 2003. The price for the shares purchases in the reported year totaled 697 TEUR. In the context of the sale of shares, 144 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 24.

## D. FURTHER EXPLANATIONS

### (27) BALANCE SHEET AND RESULTS BOOKING OF FINANCING INSTRUMENTS

	December 31, 2003		December 31, 2002	
	Book value TEUR	Market value TEUR	Book value TEUR	Market value TEUR
<b>Assets</b>				
Cash and cash equivalents	12,597	12,597	13,110	13,110
Securities under current assets	3,498	3,498	2,261	2,261
Accounts receivables	20,758	20,729	19,161	19,161
Other current assets	1,382	1,382	978	978
Securities under financial assets	9,241	9,241	7,383	7,383
<b>Liabilities</b>				
Short-term share of long-term financial liabilities	986	986	1,010	1,010
Convertible loans	0	0	37	37
Long-term financial liabilities	1,913	1,913	3,001	3,001

In the case of cash and cash equivalents and short-term financial liabilities the book value is equivalent to the market value from the cut-off date. The accounts receivable indicated in the book value includes a long-term portion to the amount of 410 TEUR at a market value of which has been appropriately discounted (see hereto also note 15). The other accounts receivable are solely short-term receivables. As a consequence their book values correspond approx. to their market values. The long-term proportion of the finance liabilities have

been subject to interest at the usual market interest rates. There were no longer any convertible bonds in the book to December 31st 2003. In the previous year the market value of the convertible bonds given by the company were determined regularly by the internal value (rate of the Mühlbauer share less added payment for conversion). To December 31st, 2002 non-nominal share of the company was 58% under the subscription price. Therefore the market value of the bonds corresponded with the book value at this given point in time.

### (28) 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.

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The additional information required by SFAS No. 131 as of December 31st, 2003 and December 31st, 2002 appeared as follows:

<b>Sales by application</b>	<b>2003 TEUR</b>	<b>2002 TEUR</b>
Smart Identification	39,335	50,651
Semiconductor related products	35,619	22,103
Traceability	5,679	6,641
Precision Parts and Systems	14,680	12,085
	<b>95,313</b>	<b>91,480</b>
Detraction in earnings	(109)	(163)
	<b>95,204</b>	<b>91,317</b>

<b>Sales by regions</b>	<b>2003 TEUR</b>	<b>2002 TEUR</b>
Germany	45,316	43,369
Rest of Europe	21,175	26,799
Asia	21,676	16,766
North America	4,221	3,392
Africa	2,380	179
South America	403	852
Australia	142	123
	<b>95,313</b>	<b>91,480</b>
Detraction in earnings	(109)	(163)
	<b>95,204</b>	<b>91,317</b>

<b>Book value of intangible and fixed assets</b>	<b>2003 TEUR</b>	<b>2002 TEUR</b>
Germany	42,123	42,082
Asia	62	95
Rest of Europe	16	19
North and South America	9	18
<b>Total</b>	<b>42,210</b>	<b>42,214</b>

### (29) OTHER FINANCIAL COMMITMENTS

The contractual commitments of the company to third parties to December 31st, 2003 are as follows:

	<b>2003 TEUR</b>
Contractual commitments:	
Commitments from purchasing and maintenance contracts	3,034
Commitments from rental contracts	297
<b>Total contractual commitments</b>	<b>3,331</b>

The following table provides an overview of the maturities of the contractual commitments

	<b>TEUR</b>
2004	3,257
2005	63
2006	10
2007	1
<b>Total</b>	<b>3,331</b>

The following possible commitments of the company to third parties existed to December 31st, 2003 without possible commitments arising out of legal disputes.

	<b>2003 TEUR</b>
Possible commitments:	
Guarantees, warranties and contracts	4,192
Restricted grants of public authorities <sup>1)</sup>	9,193
<b>Total of possible commitments</b>	<b>13,385</b>

1) Restricted grants of public authorities offered to the previously received amounts which are in connection with the setting up the amounts which are in connection with the setting-up and financing of specific production shops and are not guaranteed otherwise and if necessary have to be reimbursed should the mentioned authoritative project demands not be fulfilled.

The following table provides an over of the maturities of possible commitments.

	<b>TEUR</b>
2004	5,226
2005	2,146
2006	1,177
2007	772
2008	783
and afterwards	3,281
<b>Total</b>	<b>13,385</b>

### **(30) NUMBER OF EMPLOYEES**

The average number of employees was as follows:

	<b>2003 Number</b>	<b>2002 Number</b>
Skilled workers	515	521
Executives	484	484
	999	1,005
Trainees and part-time workers	263	269
	<b>1,262</b>	<b>1,274</b>

The number of employees by regions for the financial year is as follows:

	<b>2003 Number</b>	<b>2002 Number</b>
Germany	1,218	1,227
Asia	28	31
North / South America	11	11
Rest of Europe	5	5
<b>Total</b>	<b>1,262</b>	<b>1,274</b>

### **(31) 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, § 202a 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.

#### **Classification regulations:**

The balance sheet classification in accordance with US-GAAP is oriented on the planned liquidation of assets and the expiration of debts within the usual business



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activities. The balance sheet classification for German legislative trade purposes is defined as matter of principle for capital companies in § 266 Federal German Commercial Code [HGB]. The classification in this case is oriented on the band holding period of the assets or financial sources such as debts and own capital in the company.

### **Turnover realization:**

The turnover realization follows in accordance with the Federal German Commercial Code [HGB] and US-GAAP in principle according to the same principles in so far as the performance has been given and payment has followed. Differences can occur in respect of the point in time of payment if the performing company is taken over further financial operative or performance related commitments for the performance receiving company or the agreed amounts are not adequately objected.

### **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. Unrealized 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 data. Unrealized gains and losses are treated as effective for "trading" securities. Unrealized gains and temporarily unrealized 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.

### **Company and business value:**

In accordance with SFAS No. 141, capital consolidation in connection with SFAS No., 142, business and company values and other intangible assets under US-GAAP, the business and company value in the case of capital consolidation by application of the procurement method after June 30, 2001, is no longer to be appreciated but to be checked every year as to its retained value. Under the Federal German Commercial Code [HGB] the company or business value is to be

written off over the period of the service to be expected.

### **Deferred taxes:**

According to German accounting principles, favorable deferred taxation items that result from a tax loss carried forward, are not assessed. Only favorable deferred taxation items resulting from the assessment differences between trade law and tax regulations can be assessed. For unfavorable 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 favorable deferred taxes are reported on the balance sheet, only if their realization can be deemed to be probable. After calculating the favorable 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.

### **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.

### **Accruals for pensions and similar 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 unrealized gains and losses from the market assessment of securities (available-for-sale securities) and differences resulting from the translation of foreign currency.

**Stock option plans:**

For stock option plans in the consolidated 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.

**Costs for increasing capital:**

In accordance with the Federal German Commercial Code [HGB] the expenditure in direct connection with going on the stock exchange are to be booked as expenses. According to US-GAAP these expenses are to be off-set against reserved capital.

**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.

**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. Unrealized 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 unrealized losses are shown in the balance sheet.

**Consolidated income statement:**

According to US-GAAP the income statement is to be prepared according to the cost-of-sales method.

**(32) INFORMATION PURSUANT TO § 160 (8) CORPORATION ACT (AKTG)**

The MicroValue AG, Zurich, Switzerland, has informed the company pursuant to § 21 (1) Securities Trading Act that their proportion of the voting rights in the company

was below the threshold of 5 % on July 9th, 2003 and is now 4.60 %.

**(33) STATEMENTS IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GERMAN CORPORATE GOVERNANCE CODEX**

Article 5.4.5:

The recompensation of the supervisory board is laid down according to a proposal of the personal liable shareholder and supervisory board at the annual general meeting and regulated under § 16 of the articles of association of the

Mühlbauer Holding AG & Co. KGaA. The cash compensation comprises apart from the reimbursement of cash expenditure solely of a fixed share whereby the chairman of the supervisory board receives double the amount and the deputy chairman one and a half times the amount of a supervisory board member.

The members of the supervisory board have received the following total payments in the business year 2003 <sup>1)</sup>:

	Fixed supervisory board recompense TEUR	Fees for tax and legal consultancy TEUR	Total payments TEUR
Dr. Hermann Orth (chairman) <sup>2)</sup>	2	22	24
Dr. Thomas Zwissler (chairman) <sup>3)</sup>	4	11	15
Dr. Peter Drexel	5	-	5
Dipl.-Betriebswirt Carl-Franz von Quadt <sup>2)</sup>	1	-	1
Dr. Frank Scholz <sup>3)</sup>	1	-	1
	<b>13</b>	<b>33</b>	<b>46</b>

1) related to group  
2) up to April 29, 2003  
3) as from April 29, 2003

The members of the supervisory board received total payments of 53 TEUR for the business year 2002. Included in this amount are fixed components of 13 TEUR and recompensation for personal provided services of 40 TEUR.

## NOTES

Article 6.6:

The spread of the total possessions of the personal liable shareholder, management<sup>1)</sup> and members of the supervisory board received share to December 31, 2003 are as follows:

	Quantity	Share capital stock
Personally liable shareholder <sup>2)</sup>	3,296,852	52.50 %
Management	68,689	1.09 %
Supervisory board	5,446	0.09 %
<b>Total</b>	<b>3,370,987</b>	<b>53.68 %</b>

1) Member of the board of the Mühlbauer AG

2) Included in this value are 2,000,000 million non-par individual shares or 31.85% of the capital stock for which the SECURA Vermögensverwaltungs GmbH, a company held by the personal liable shareholder to 100% but has no voting rights. The personal liable shareholder is committed to the Mühlbauer Holding AG & Co. KGaA commencing as from 9 September 2002 not to use the voting rights for these shares of a period of 10 years for the share which he owns. Exceptions to this are solely those cases in which practising the right of voting or acting in the interests of participant right is necessary to prevent serious damage to the company or when the annual general meeting decides on assets which call for the majority of minimum 75% of the total existing stock capital of the company is necessary in accordance with the company articles of association.

Either the personal liable shareholder, management or members of the supervisory board receive options for other derivatives to December 31, 2003.

### **(34) DECLARATION OF CONFORMITY ACCORDING TO § 161 CORPORATION ACT**

The personally liable shareholder and the supervisory board of Mühlbauer Holding AG & Co. KGaA handed in the declaration of conformity on December 29th, 2003 pursuant to § 161 Corporation Act (AKTG) to the German

Corporate Governance Codex and made this permanently accessible to the shareholders in the Internet.

### **(35) RELATED PARTIES TRANSACTIONS**

The executive board of Mühlbauer Aktiengesellschaft received fixed salary components of 548 TEUR and 526 TEUR in the business years 2003 and 2002, respectively. The variable salary was 130 TEUR and 164 TEUR in the business years 2003 and 2002.

The companies of Mühlbauer Aktiengesellschaft and ASEM Präzisions-Automaten GmbH rent office premises from Mr. Josef Mühlbauer, who is the chairman of the executive board of Mühlbauer Beteiligungs AG, individually authorized to represent. The Mühlbauer Beteiligungs AG is the personally liable shareholder of Mühlbauer Holding AG & Co. Verwaltungs KG which, in turn, is the personally liable partner of Mühlbauer Holding AG & 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 256 TEUR in 2003 and 276 TEUR in 2002.

The Mühlbauer Aktiengesellschaft claims specific performances for the promotion of sales and personal development of a company which is governed by Mr.

Josef Mühlbauer. The Mühlbauer Aktiengesellschaft spent 12 TEUR for the performances in the report year.

In his capacity as sole member of the executive board of Mühlbauer Beteiligungs AG, which is itself the company-managing partner of the personally liable shareholder of Mühlbauer Holding AG & Co. KGaA, Mr. Josef Mühlbauer purchased in the reported year 2003 2,595 non-par individual share and on December 31st, 2003 holds 64,445 (previous year: 61,850) non-par individual share of the company.

Mrs. Anna-Antonie Mühlbauer, Mr. Josef Mühlbauer's wife, owns on December 31st, 2003 60,377 non-par individual share 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.

The children of the Mühlbauer married couple have acquired 6,000 non-nominal shares altogether in the report year and to December 31st, 2003, held a total of 6,000 non-nominal shares of the company.

### (36) MANAGEMENT AND SUPERVISORY BOARD AND REPRESENTATION OF THE COMPANY

The management and representation of the company are available to the personally liable shareholder, the Mühlbauer Holding AG & Co. Verwaltungs KG, Roding. Sole partner of the Mühlbauer Holding AG & Co. Verwaltungs KG is Mr. Josef Mühlbauer, personally liable

shareholder the Mühlbauer Beteiligungs Aktiengesellschaft, Roding. Sole shareholder and sole chairman of the executive board of Mühlbauer Beteiligungs Aktiengesellschaft is Mr. Josef Mühlbauer.

Appointed as supervisory board of the Mühlbauer Holding AG & Co. KGaA were the following gentlemen in the business year 2003:

	Age	End of period	Membership in other Supervisory Councils and other comparable controlling committees
<b>Dr. Hermann Orth</b> Chairman (up to April 29, 2003)	51	2003	Solicitor and Accountant  External mandates: Member of the supervisory board <ul style="list-style-type: none"> <li>• HL Technik Beratungs- und Verwaltungs AG, Munich (Chairman)</li> <li>• Innomotive Beteiligungs AG, Munich (Chairman)</li> <li>• HL Technik AG Beratende Ingenieure, Munich</li> </ul> Company mandates: Member of the supervisory board <ul style="list-style-type: none"> <li>• Mühlbauer Aktiengesellschaft, Roding (Chairman)</li> </ul>
<b>Dr. Thomas Zwissler</b> Chairman (as from April 29, 2003)	35	2008	Lawyer and partner of the legal attorney society Zirngibl Langwieser, Munich  External mandates: Member of the supervisory board <ul style="list-style-type: none"> <li>• Mühlbauer Beteiligungs AG, Roding (Chairman)</li> <li>• Going Public Media AG, Wolfratshausen (Chairman)</li> </ul> Company mandates: Member of the supervisory board <ul style="list-style-type: none"> <li>• Mühlbauer Aktiengesellschaft, Roding (Chairman)</li> </ul>
<b>Dr. Peter Drexel</b> Vice Chairman (as from April 29, 2003)	59	2008	Member of the board of Siemens Dematic AG  External mandates: Member of the supervisory board <ul style="list-style-type: none"> <li>• Mühlbauer Beteiligungs AG, Roding (Vice Chairman)</li> </ul> Company mandates: Member of the supervisory board <ul style="list-style-type: none"> <li>• Mühlbauer Aktiengesellschaft, Roding (Vice Chairman)</li> </ul>
<b>Dipl.-Betriebswirt Carl-Franz von Quadt</b> (up to April 29, 2003)	57	2003	Merchant  External mandates: Member of the supervisory board <ul style="list-style-type: none"> <li>• Mühlbauer Beteiligungs AG, Roding (Chairman)</li> <li>• ROI Computer AG, Krailling (Chairman)</li> <li>• VUD GmbH, Munich (Chairman)</li> <li>• GMX AG, Munich</li> <li>• Doing-Fine Medien AG, Munich</li> <li>• Finex AG, Forstinning</li> </ul>
<b>Dr. Frank Scholz</b> (as from April 29, 2003)	42	2008	Manager Corporate Information & Operations of Siemens SpA Italy

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of Mühlbauer Holding AG & Co. KGaA as of December 31, 2003 and the related consolidated statement of income, cash flow, changes in common shareholders' equity and notes for the year beginning January 1, 2003 and ending December 31, 2003. The preparation of the consolidated financial statements and the content therein are the responsibility of the company's General Partner. Our responsibility is to express an opinion whether the consolidated financial statements are in conformity with United States - Generally Accepted Accounting Principles (US-GAAP) based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with the generally accepted standards 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 such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements are detected with reasonable assurance. The effectiveness of the internal control system and the evidence supporting the disclosures in the consolidated financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation 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 provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position

and results of operations of the Group in accordance with United States - Generally Accepted Accounting Principles (US-GAAP) of proper accounting.

Our audit, whose scope also extends to the group management report by the General Partner for the period from January 1, 2003 to December 31, 2003, has not led to any reservations. On the whole the group management report provides a suitable understanding of the Group's position and suitable presents the risk of future development. Furthermore, we confirm that the consolidated financial statements and the group management report for the fiscal year beginning January 1, 2003 and ending December 31, 2003 fulfill the requirements for exempting the company from the necessity of preparing consolidated financial statements and a consolidated group management report according to German law.

Nuremberg, March 2004

Rödl & Partner GmbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft



Dr. Rödl  
Wirtschaftsprüfer



Baier  
Wirtschaftsprüfer

# SUPERVISORY BOARD REPORT

The last business year 2003 was marked by the effects of world political events on the economic environment of the company and the continuous adjustment of the business strategy to these changes. The supervisory board actively accompanied this process through consultancy and discussions with the personally liable shareholder and management. At the same time the supervisory board carried out its legislative commitments to supervise our business.

## Advisory board membership

After the termination of the period in office of the previous members of the advisory board on April 29th 2003 the advisory board was reelected at the annual general meeting of the same day and indeed to this end the gentlemen Dr. Peter Drexel and Dr. Frank Scholz were voted as members of the board and Thomas Zwissler was appointed as a further member of the supervisory board with effect of the same day by the holder of the share No. 1. After the annual general meeting on 29th April 2003 the supervisory board was reconstituted and appointed Dr. Thomas Zwissler as its chairman and Dr. Peter Drexel as his deputy.

## Supervisory board meetings

The supervisory board held 4 orderly meetings - on March 12th, June 30th, October 10th and December 19th and was informed in detail as to the position and development of the company as well as about the strategic company planning and the main business events. The supervisory board also passed resolutions outside these meetings likewise in close agreement with its members. Passing of resolutions followed in this case by telephone or by a circular procedure. Decisions which needed the approval of the supervisory board were presented to the board or passing a resolution. The respective resolutions were always passed unanimously. No conflicts of interest occurred between members of the supervisory board (more especially in the sense of the German Corporate Governance Codex).

## Committees

A view of the total number of members on the supervisory board no committees were formed.

## Accounts

As balance sheet auditor Messrs. Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Nuremberg, was selected by the annual general

meeting and appropriately commissioned by the supervisory board. The balance sheet auditor audited the annual final statement of the Mühlbauer Holding AG & Co. KGaA and the consolidated annual financial statement of the accounts to December 31st 2003 as well as the situation and concern situation report with reference to the bookkeeping and provided same with an unrestricted certificate of audit. Furthermore, the end of year balance auditor confirmed that the consolidated annual final statement and the concern situation report in accordance with US-GAAP fulfill the conditions for releasing the company from drawing up final statement of accounts according to German legislation. Over and above this the annual balance sheet auditor examined the existing early warning system risk of the company in accordance with § 317, Section 4, Federal German Commercial Code [HGB] and determined as result of his auditing that the stipulated legislative commitments of company management have been taken into account.

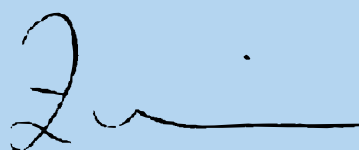
The balance sheet meeting of the supervisory board was held on March 9, 2004. The appropriate documents were submitted to the members of the supervisory board before the meeting. The final balance sheet auditor was present during the consultancy on the annual general balance sheet and consolidated final statement of accounts and reported in detail during the course of the meeting on the main results of the audit and was available for additional information.

After own examination of the annual balance sheet and the consolidated balance sheet, situation report and concern situation report, the supervisory board approved the results of the audits by the annual balance sheet auditor. As a consequence the supervisory board will propose that the annual final balance sheet of the Mühlbauer Holding AG & Co. KGaA to December 31, 2003, in the submitted version be approved at the annual general meeting.

The supervisory board also agreed with the proposal of the personally liable shareholder to use the balance sheet profit for payment of a dividend to the amount of Euro 0.35 per share on the dividend authorized capital stock of the company in the year 2003.

The members of the supervisory board thank the personally liable shareholder, management and all employees for their dedication to duty in the business year 2003.

Roding, March 2004



Dr. Thomas Zwissler  
Chairman of the Supervisory Board

# TECHNICAL GLOSSARY

<b>Assembly &amp; packaging</b>	Assembly and packaging of semiconductors.
<b>Bare die on flex</b>	Technology of producing semiconductor components by attaching dice on to flexible carrier material.
<b>Biometric procedure</b>	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
<b>Board handling</b>	Processes and systems for the transport of printed circuit boards during the industrial manufacturing and shaping, e.g. loading and unloading stations, buffer systems, flip/turn units and conveyors
<b>Carrier tape</b>	Packaging strap especially for transporting electronic components.
<b>Cavity</b>	Sinking a bed into a chip card before placing the chip.
<b>Chip on board</b>	Attaching and/or wiring dice on to carrier material such as circuit boards.
<b>Coating &amp; drying</b>	Roller coating, board drying and board cleaning
<b>Contactless cards</b>	Cards in which the transfer of energy and/or data is carried out without contact, i.e. by means of electromagnetic fields.
<b>Credit card</b>	Card for which the credit limit is not prepaid; payment is carried out after receipt of goods or services.
<b>Die bonding</b>	Placing of a small silicon chip on carrier material.
<b>Die sorter</b>	Machine that packages "good components" in another medium.
<b>Die, Dice</b>	Silicon crystal containing a single microcontroller designed with semiconductor technology.
<b>Dual-interface card</b>	Card type that unites the functions of contact and contactless card technologies.
<b>Epoxy die bonding</b>	Application of dice on carrier material by means of an adhesive process (epoxy process)
<b>Flat modlue production</b>	Space-saving technology in board assembly
<b>Flip-chip technology</b>	Process of flipping/turning dice 180 degrees either for further processing or attaching on to carrier material.
<b>GSM card</b>	Chip cards with a special normed size for use in mobile telephones; the "Global System for Mobile communications" is an international terrestrial mobile telephone system
<b>Implantation</b>	Embedding a chip in a plastic card.
<b>(Adhesive film) lamination</b>	Application of a heat-activated adhesive film onto the reverse side of a module.

<b>Mechatronics</b>	New technological principle that unites elements of mechanics, information technology and electric engineering; mechatronics has a positive effect on the modularity, planning and development of machines and systems - and also relevant job outlines
<b>Module</b>	Carrier material for a die with contact elements.
<b>Personalization</b>	"Programming" a chip card module with individual data
<b>Plug-in</b>	Small-format chip card especially used for GSM applications.
<b>Plug punching</b>	Punching/Pressing out a small chip card from a normal-sized card for use in mobile telephones.
<b>Pre-personalizing</b>	Loading an operating system onto a chip.
<b>Printed circuit board production</b>	Space-saving technology in printed board component insertions.
<b>Reel-to-reel process</b>	Process where material is taken from one reel and, after processing, is wound onto another reel
<b>RFID chips</b>	Radio Frequency IDentification; Components used in the high frequency range
<b>Secure Digital (SD) Card</b>	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.
<b>Smart card</b>	Chip card, i.e. plastic card with a chip module.
<b>Smart label</b>	Contactless identification system.
<b>Smartmedia/ Multimedia card</b>	Card application used especially for digital cameras or as a storage medium for music, etc.
<b>Spilling</b>	Protection of the chip and its wire tie by the application of a sealing compound on the reverse side of the chip.
<b>State-of-the-art</b>	Always using the best, highest and most current technological standard
<b>Testing &amp; Packaging</b>	Testing, labelling and packaging semiconductor components for further processing.
<b>Turn-key solutions</b>	Ready-to-implement total solutions.
<b>Vision technology</b>	Measuring and control of components by means of camera systems using corresponding software
<b>Wafer</b>	Very thin semiconductor disc made of silicon, from which many individual chips can be manufactured; the wafer is sliced, thereby defining the so-called dice.



# FINANCIAL GLOSSARY

<b>Balance sheets:</b>	A quantitative summary of a company's financial condition at a specific point in time, including assets, liabilities and net worth. The first part of a balance sheet shows all the productive assets a company owns, and the second part shows all the financing methods (such as liabilities and shareholders' equity).
<b>Gross cash position:</b>	Liquid assets plus securities of current and financial assets.
<b>Gross profit on sales:</b>	Pre-tax net sales minus cost of sales. Also called gross income.
<b>Cash flow:</b>	A measure of a company's financial health. Equals cash receipts minus cash payments over a given period of time; or equivalently, net profit plus amounts charged off for depreciation, depletion, and amortization.
<b>Earnings per share:</b>	EPS. Total earnings divided by the number of shares outstanding. Companies often use a weighted average of shares outstanding over the reporting term. EPS can be calculated for the previous year ("trailing EPS"), for the current year ("current EPS"), or for the coming year ("forward EPS"). Note that last year's EPS would be actual, while current year and forward year EPS would be estimates.
<b>EBIT:</b>	A measure of a company's earning power from ongoing operations, equal to earnings before deduction of interest payments and income taxes. For Mühlbauer this is the key figure to rate the operational profitability.
<b>EBIT margin:</b>	A key figure to appoint the earning power, which shows the EBIT proportional to sales.
<b>EBITDA:</b>	Earnings Before Interest, Taxes, Depreciation and Amortization. An approximate measure of a company's operating cash flow based on data from the company's income statement. Calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation, and amortization.
<b>Equity ratio:</b>	Shows the share in the equity of a company. This key figure describes the proportion of equity and total assets.

<b>Free cash flow:</b>	Operating cash flow (net income plus amortization and depreciation) minus capital expenditures and dividends. Free cash flow is the amount of cash that a company has left over after it has paid all of its expenses, including investments.
<b>German Corporate Governance Codex:</b>	Codex of the Government Commission of "German Corporate Governance Codex", which summarises the requirements and recommendations for a responsible company management and control for listed companies in Germany.
<b>Income statement:</b>	An accounting of sales, expenses, and net profit for a given period. It is a part of the consolidated financial statements.
<b>ROCE:</b>	Return on Capital Employed. A measure of the returns that a company is realizing from its capital. Calculated as profit before interest and tax divided by the difference between total assets and current liabilities. The resulting ratio represents the efficiency with which capital is being utilized to generate revenue.
<b>Working capital:</b>	Current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations.
<b>Working capital intensity:</b>	A key figure to appoint the proportion of working capital and sales.

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Mühlbauer

**Further Informations:**

This report refers 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.



## **Mühlbauer Holding AG & Co. KGaA**

### **Headquarters:**

Werner-von-Siemens-Strasse 3  
D-93426 Roding  
Germany  
Phone: +49-9461-952-0  
Fax: +49-9461-952-101

### **visit us on the web at:**

[www.muehlbauer.de](http://www.muehlbauer.de)

### **Contact Investor Relations**

e-mail: [investor-relations@muehlbauer.de](mailto:investor-relations@muehlbauer.de)  
Phone: +49-9461-952-653  
Fax: +49-9461-952-8520