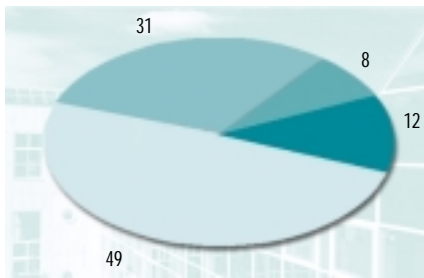


MÜHLBAUER GROUP IN FIGURES

BUSINESS FIGURES		US-GAAP Dec. 31, 1999 audited	US-GAAP Dec. 31, 1998 audited
Earnings per product group	EUR thousand	71,026	53,910
Card Automation	EUR thousand	34,984	23,226
Semiconductor Backend	EUR thousand	22,159	17,880
Board Handling	EUR thousand	5,421	7,336
Precision Parts	EUR thousand	8,597	5,203
other	EUR thousand	-135	265
Earnings per region	EUR thousand	71,026	53,910
Germany	EUR thousand	27,244	25,098
Other Europe	EUR thousand	23,559	11,992
Africa	EUR thousand	53	2,807
North America	EUR thousand	5,598	4,126
South America	EUR thousand	1,324	1,362
Asia	EUR thousand	13,356	8,242
Australia	EUR thousand	27	18
other	EUR thousand	-135	265
Employees		898	756
Full-time staff		688	595
Trainees and part-time staff		210	161
Earnings before tax ¹⁾	EUR thousand	17,493	10,727
Net income	EUR thousand	13,824	8,533
Balance sheet total	EUR thousand	128,791	125,480
Current assets	EUR thousand	85,849	81,201
Financial assets	EUR thousand	9,819	13,100
Fixed assets	EUR thousand	31,903	29,837
Intangible assets	EUR thousand	1,220	1,342
Current liabilities	EUR thousand	20,665	24,746
Long-term liabilities	EUR thousand	13,297	13,593
Capital ownership	EUR thousand	94,829	87,141
Investment in fixed and intangible assets	EUR thousand	7,825	11,627
Depreciation	EUR thousand	5,443	5,133

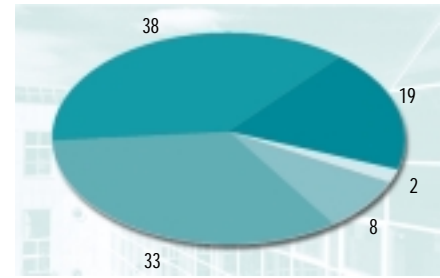
1) including the share in the profit and loss of the personally liable shareholder

1999 TURNOVER BY PRODUCT GROUP
IN % (1998 IN PARENTHESIS)



- Card Automation 49 (43)
- Semiconductor Backend 31 (33)
- Board Handling 8 (14)
- Precision Parts 12 (10)

1999 TURNOVER BY REGION
IN % (1998 IN PARENTHESIS)



- Germany 38 (47)
- Africa 0 (5)
- South America 2 (3)
- Other Europe 33 (22)
- North America 8 (8)
- Asia 19 (15)

KEY FIGURES

		US-GAAP Dec. 31, 1999 audited	US-GAAP Dec. 31, 1998 audited
Earnings	EUR thousand	71,026	53,910
Production costs of earnings	EUR thousand %	39,061 55.0	31,402 58.2
Operational costs of earnings	EUR thousand %	19,185 27.0	14,211 26.4
Operational results of earnings	EUR thousand %	12,780 18.0	8,297 15.4
Other returns and expenditures of earnings	EUR thousand %	4,713 6.6	2,430 4.5
EBT ¹⁾ of earnings	EUR thousand %	17,493 24.6	10,727 19.9
Tax on earnings of earnings	EUR thousand %	3,669 5.1	2,194 4.1
Net income of earnings	EUR thousand %	13,824 19.5	8,533 15.8
Simplified cash flow of earnings	EUR thousand %	19,325 27.2	13,695 25.4
Capital ownership capital ratio	EUR thousand %	94,829 73.6	87,141 69.4
return on equity	%	14.6	9.8
Working Capital	EUR thousand	65,184	56,455
EBIT ²⁾	EUR thousand	15,184	10,792
EBITDA ³⁾	EUR thousand	20,627	15,925
Earnings per share ⁴⁾	EUR	0.68	0.36

1) Earnings before tax
 2) Earnings before interest and tax
 3) Earnings before interest, tax, depreciation and amortization
 4) according DVFA/SG

Boards

OF THE MÜHLBAUER HOLDING AG & CO. KGAA

Mühlbauer Holding AG & Co. KGaA

Malaysia
Mühlbauer Sdn.
Bhd.
Melaka

Mühlbauer AG

USA
Mühlbauer Inc.
Newport News

Rommel
GmbH

ABOS
GmbH

ASEM
GmbH

MANAGEMENT BOARD

Josef Mühlbauer
Hubert Forster
Ulrich Schwab

CEO
CFO
COO

SUPERVISORY BOARD

Herbert Geißler
Peter Drexel
Wolfgang Brückl

Senior Civil Servant, Chairman
Dipl.-Ing., Member of the Board of Directors at Siemens AG
Head of Worldwide Service

The following details refer to the group. The separate report for the Mühlbauer Holding AG & Co. KGaA can be obtained from the company.

The English translation is for the convenience of the reader only.
The original German version is the legally binding text.

ANNUAL REPORT CONTENTS

2	Foreword
4	Mühlbauer's Shares
	Mühlbauer-Machines Make...
6	...SmartLabels + Light Emitting Diodes
8	...Multimedia-Cards + Dual Interface Cards
	The Product Groups
10	Card Automation
11	Semiconductor Backend Automation
12	Board Handling
13	Precision Parts
14	The Employees
16	Research and Development
18	The Environment
20	Management Report
27	Report of the Supervisory Board
28	Glossary
29	Financial Statements

FOREWORD

"WE GO OUR WAY - PURPOSEFUL AND EFFICIENT"



Dear shareholders, employees, customers and friends of our organisation,

The 1999 business year was an extraordinary year for our company. In the meantime, all possible varieties of Smart Cards shape the high tech markets of today and tomorrow. As the market leader in this area we set a worldwide standard with our technology for manufacturing Smart Cards.

Driven by the vision which lead us to standardize the assembly techniques for manufacturing Smart Cards ten years ago, we have further developed our leading position in a fast growing market with an above-average increase in turnover against the market and the competitors of 51 percent in this field in 1999.

The fact that until now the demand for Smart Cards mainly concentrated on the European market with a population of around 800 million or only 14 percent of the world population of 5.8 billion espe-

cially motivates us to further increase our core-competencies and leadership in these fields.

The results we achieved in 1999 surpassed our expectations and further strengthened our basis. Our efforts are in line with the goal of creating values for our shareholders, our customers and our employees. In fact, our results emphasize the enterprise's success:

- group's turnover increased by 32 percent to 71 million Euro
- group's income before taxes increased by 63 percent to 17.5 million Euro over-proportional
- earnings per share almost doubled from 0.36 to 0.68 Euro.

But the actual value of our enterprise is the strategic increase of our core-competencies and market-leadership in the fields of technology relevant for us, especially in the Smart Card and Smart Tag areas. Furthermore we see ourselves as the "preferred partner" of our

customers in newly developing and growing markets. Because of that, in the further development of the enterprise we are relying in the extreme on research and development, investments, on the adaptation of the range of products to the demands of the market of the future, and on our power of distribution.

With the completion of a new technology center in Dresden and an R&D rate of 8.6 percent of the turnover, we invested more than ever in future projects during the year under report. With the increase of our technological competence and the expansion of our worldwide presence we got a step ahead. With the strategic expansion of the Roding location planned for the year 2000, we will further expand our leadership in the world markets. We will set standards in new products and create new markets.

New fast growing markets are offering a great potential for our products and services worldwide. Our growth demands

continuous innovation in the development of our corporate culture, the integration of new employees and the continuation of our internalization.

The needs of our customers are our priority. To understand, satisfy and anticipate their requirements demands continuous lining up of every Mühlbauer employee to meet customers' needs. I can state with thanks that our loyal and

committed employees and management are implementing Mühlbauer's strategy. We achieve maximum performances for our customers by flexibility, determination for performance and the preparedness of our highly qualified employees. Their commitment is the base for our common success.

The management board will achieve its goals with spirit, determination and

strong motivation, like it has done in past. To do this it needs the help of the supervisory board and of the employees, shareholders, customers and friends of the organisation. A great deal of confidence was brought to this in the last business year. For this I would like to thank for my colleagues from the management board.

Roding, February 2000



Josef Mühlbauer
Chief Executive Officer of Mühlbauer AG

MÜHLBAUER'S SHARES

THE SOLID CHANCE TO PARTICIPATE IN OUR SUCCESS

Market-oriented key figures ¹⁾		1999	1998
Offering price Jan. 1 - Dec. 31			
High	EUR	50.00	46.53
Low	EUR	26.00	25.75
Close Dec. 31	EUR	41.00	33.52
Number of shares			
	Thousand shares	3,874	3,880
Number of shares (diluted)	Thousand shares	3,891	3,890
Market capitalization ²⁾ Jan. 1 – Dec. 31			
High	EUR thousand	733,844	682,915
Low	EUR thousand	381,599	377,930
Close Dec. 31	EUR thousand	601,752	491,969
Values per share			
Earnings after DVFA/SG ³⁾ (new)	EUR	0.68	0.36
Dividend ⁴⁾	EUR	0.30	0.23
Dividend payout / net income available to common shareholders ⁴⁾	%	44.30	64.90
Dividend payout incl. tax credit / net income available to common shareholders ⁴⁾	%	63.30	92.80

¹⁾ all figures ex split
²⁾ Total number of common shares and capital share of the personally liable shareholder
³⁾ German Financial Analysts Association / Schmalenbach-Gesellschaft
⁴⁾ Proposal at Annual General Meeting

The performance of Mühlbauer shares was above the NEMAX All-Share Index throughout the first quarter of 1999. The share reached a new high of EUR 49.50 on January 29, 1999. Following the publication of the annual report at the end of March, our share price performance on the stock exchange fell somewhat short of expectations in comparison to the overall market trend. In view of the low share price, the authority to repurchase shares issued on the occasion

of the Annual General Meeting on May 6, 1999 was exercised and a total of 24,800 shares was repurchased via the stock exchange in October 1999. At the end of the year, the offering price for Mühlbauer's shares was 22 % higher than at the same time a year ago.

Our share price reached an all-time high of EUR 70.00 on January 28, 2000. Compared to the fiscal year-end, stock prices rose by more than 70 %. The share was

relieved of some of its value following the 1:2 share split effected on February 1, 2000, and became significantly more attractive.

INVESTOR RELATIONS: A TOP PRIORITY AT MÜHLBAUER

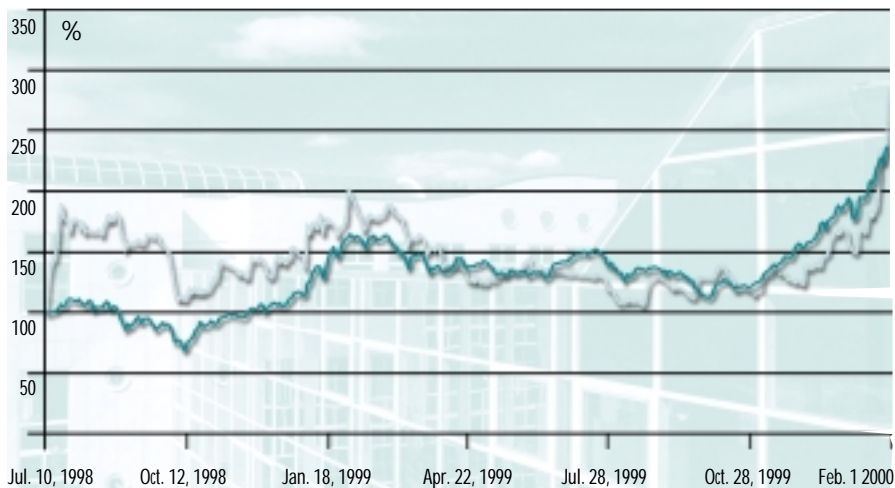
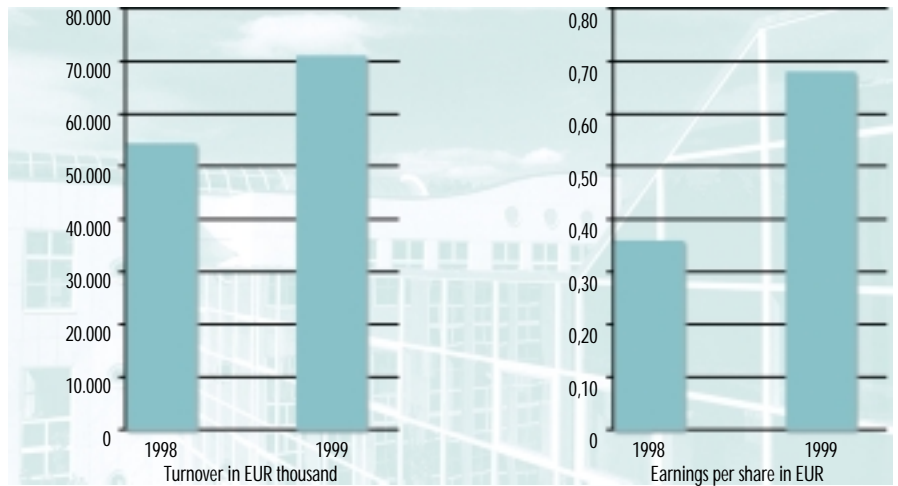
We have enhanced our "Investor Relations" division to satisfy more fully the requirements of our current and potential shareholders as well as the analysts. Besides regular detailed quarterly financial reports, ad-hoc and regular press reports, we have assigned top priority to personal meetings with institutional investors and financial analysts. Road shows were held once again in 1999 at the leading international financial markets as a platform for the dissemination of information on current business developments and the main tenets of our corporate strategy to institutional investors and financial analysts. The extraordinarily close observation of Mühlbauer by the capital market, particularly in the second half of the year, was a special challenge to us. This observation was performed in response to the very positive increase in the incoming orders. A range of corporate presentations and road shows are already planned for 2000 to further enhance enduring interest in Mühlbauer.

Selected research addresses

The following banks published detailed studies pertaining to Mühlbauer:

- Dresdner Kleinwort Benson
- BHF-Bank
- Bayerische Hypo- und Vereinsbank
- SchmidtBank
- DG-Bank

To the best of our knowledge, all studies were awarded the recommendations "above-average" or "buy". We will be delighted to forward copies of these stu-



■ Mühlbauer
■ NEMAX-Index

dies on request to any shareholders who would like to examine the financial analyst assessments:

Mühlbauer Holding AG & Co. KGaA
Investor Relations
 Werner-von-Siemens-Straße 3
 D-93426 Roding
 Phone : + 49-(0)-94 61-95 26 53
 Fax : + 49-(0)-94 61-95 21 18
 e-mail: investor-relation@muehlbauer.de

MÜHLBAUER'S MACHINES MAKE SMARTLABELS

WHEN ITEMS "SPEAK" AND OBJECTS GET AN IDENTITY

SmartLabels compete with the zebra stripes of barcodes. The barcode system for identifying objects now has a smart and convenient cousin. Minimal usage costs are a reason for the success of SmartLabels, but the actual advantage of electronic labels compared with the conventional barcode is fast and precise reception of data, even across long distances. With a chip and a flexible antenna the



SmartLabel sends and receives data. Extremely thin and flexible, this inexpensive object will become a product that earns millions.

The variety of shapes is as infinite as the applications are. The SmartLabel, for example, may hide in a trouser button - labeled clothing will become 100 percent identifiable. Or chip and antenna are built into a ski - and as if by magic the barrier at the lift opens. Almost daily new task fields emerge. The common denominator in every field is that an optical contact between the carrier of information and the reader is no longer necessary. Gone are the days when you had to swipe a barcode laboriously over the reader.

Mühlbauer has a piece of a stormy developing market. We built the first machine line to produce SmartLabels worldwide. And in the summer of 2000 we will introduce a new version with a throughput five times as high as today's version. Our solutions are complete and ready for use - true to our slogan "Turn-key Solutions Worldwide!".

The label is able to do what its chip can do. SmartLabels are read across distances. Data transfer is unbelievably fast and the data capacities of the chips are growing rapidly. Until now data has been read passively, the SmartLabel is taken in an electric reading field. But the



latest developments are going in the direction of equipping the SmartLabel with a battery foil. It could send data actively then, and the distances between the label and the reader could be much greater.

The possibilities of applications can hardly be overviewed. Everything dealing with logistics is a possible task field for the SmartLabel-developers: parcel servi-

VISION

SmartLabel

The supermarket of tomorrow: SmartLabels on all goods. You stroll along the shelves, putting corn flakes, milk cartons, yogurt cups and much more in your cart. There are no cash registers. Instead, there is a reading zone that you simply pass. As you pass by, all goods are read. SmartLabels on the packages transmit their data. No waiting in line, no errors in typing or reading by the cashier. You confirm the bill with one touch on the fingerprint sensor only. The bill is debited from your account.

The supermarket of tomorrow? Mühlbauer delivers the technology today!

ces, forwarders, wholesale and retail. Libraries manage their collections, and monitor books being checked in and out using SmartLabels on every book. SmartLabels make high-priced products secure against counterfeiting and create a hard life for car thieves because a vehicle can be identified in every case. SmartLabels are opening doors and barriers after identifying the person - in the office, in the VIP-lounge at the airport, or in the museum. Car drivers no longer have to stop at tollbooths. A reading unit identifies them and their cars. After filling the gas tank a fingerprint is enough to confirm the bill.

Market forecasts predict a growth rate of demand of at least 50 percent by the year 2002 for SmartLabel systems. Mühlbauer will profit from this...

MÜHLBAUER'S MACHINES MAKE LIGHT EMITTING DIODES LEDS - THE SMALL, VERSATILE DESCENDANTS OF THE LIGHT BULB

VISION

White Light Emitting Diodes
Light tomorrow: a new generation of illumination. Small, cold, and energy saving - and even brighter than light bulbs. In essence, the white Light Emitting Diode (LED) is a microchip. Completely new applications become possible: thin, aesthetic lighting surfaces within the living area made of many single diodes. Design knows no more limits. A flashlight, as small as a Smart Card. Or outdoors: displays, which shine in daylight too. Lights and security signs in traffic - if one diode fails, hundreds of others will shine.

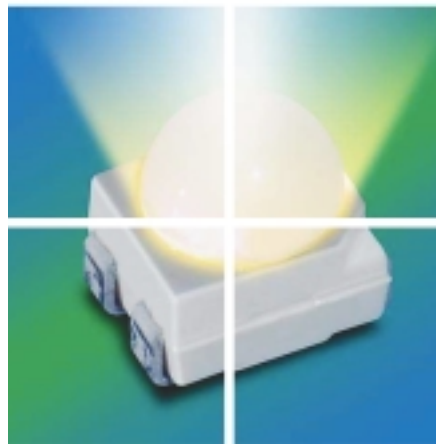
Light tomorrow? Mühlbauer delivers the technology today!

The light bulb is 120 years old, and its descendant, the LED, comes to market with unbelievable innovative power. Mühlbauer's machines produce Light Emitting Diodes (LEDs). The diode is nothing more than an extremely small chip - and is therefore made for processing with Mühlbauer's machines. We have developed future-guiding equipment for the mass-production of LEDs in close cooperation with the market-leaders of the semiconductor and illumination industries. We thereby especially introduced our experiences in the die bonding and encapsulation fields.

Colored diodes have existed for some years - in instrument panels of cars, in electric devices, and in sports-stadium displays for example. And still, you can see the as-yet-untapped potential that lies in this unassuming little device. Some facts explain it: conventional lights

have a maximum life expectancy of 8000 hours; an LED has a maximum life expectancy of 100.000 hours. Light bulbs have an efficiency of around eight-percent; LEDs can reach 30 percent. LEDs have almost no loss of heat. That means that you get greater light power compared with conventional light bulbs while expending less energy.

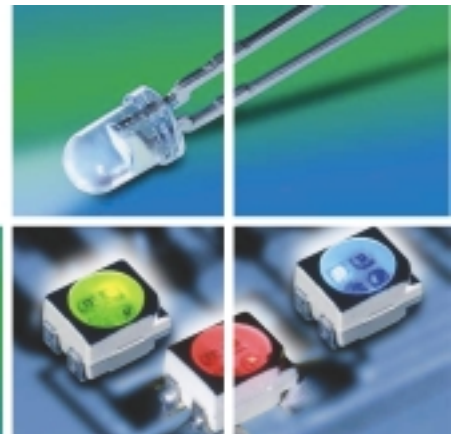
Because of these advantages, the LED is bound to take the place of the light bulb in many everyday applications. Because the body of the LED is small, many diodes are needed for large illumination equipment. In California diodes are shi-



ning in more than 60,000 traffic lights. In New York, Dow Jones is converting its huge stock market display at Times Square. You find LEDs in systems for traffic guidance, interior signs, emergency lighting, and car brake lights.

The white LED is brand new. It will revolutionize the illumination technology in many fields. In buildings for example, extremely flat lamps become possible, spread over the whole room.

White diode-light was a technical problem until now. You could only get it with the costly additive mixture of the basic colors of red, green and blue. That meant that three chips in one housing had been necessary. Now, with the white LED, the light of an ultraviolet diode is changed to white light by the thin layer of a luminescent transducer.



An industry leader characterizes the evolutionary course of the light bulb to the Light Emitting Diode as "We are in the year 1 or 2 of a ten-year process". Today, the white diode stands immediately before breakthrough. Market analysts compare the role of its development with the step from the valve to the transistor. We have been there from the very beginning with our production equipment.

Market forecasts predict LEDs a growth rate of demand of 52 percent until the year 2003. The demand for white LEDs shall grow 2000 percent in this time. Mühlbauer will profit from this...

MÜHLBAUER'S MACHINES MAKE MULTIMEDIA CARDS

75,000 BOOK PAGES IN YOUR POCKET, 400 PHOTOS ON A THUMBNAIL

As memory chips become more and more powerful, so do card modules. The capacity of today's memory component, the size of a thumbnail, is almost 20 Megabytes. Ten years ago this capacity was just reached by the hard disk of a respectable PC.

True, the multimedia card doesn't come near the power of today's hard disks and CD-ROMs. However, there is no reason it should. We know that the multimedia



card will never beat its big sisters at the memory capacity game. Instead, the card has other strengths. It is small, handy and most importantly: the card does not need a mechanical drive to be read. Mühlbauer clearly recognized this potential and has been there from the very beginning when it came to multimedia cards. Mühlbauer AG offers the complete solution for the whole manufacturing process.

Even in 1999, you could hardly imagine what would fit on a multimedia card: 400,000 telephone numbers for example, 9,600 book pages, 3,200 pages of a pdf file, 360 minutes of a radio program, 30 minutes of CD-quality music, or 50 high-quality photos. By the year 2001 these numbers shall be eight times as high.

Even today, you can foresee applications in the fields of mobile computers, telecommunication equipment such as mobile phones, pagers and similar devices, the entertainment industry and electronic games. Teddy bears that tell a hundred fairy tales are already a reality.

For multimedia cards the number of



VISION

Multimedia Cards

The chipcard of tomorrow: data storage in your pocket. By 2001 128 megabytes will already fit on the module of a Multimedia Card. What you can do with it? You can carry all the information you like quickly and easily from point A to point B. For example data from a computer, or the Mahler-symphony you enjoyed so much at your friend's place. Or maybe a hundred photos of superb quality. Or the latest television news show. But maybe you want spend your evening without all this electronic media-poppcock? Then simply load down a virtual book out of the literature terminal of your municipal library. On your card...

The chipcard of tomorrow? Mühlbauer delivers the technology today!

conceivable applications is almost infinite. What seems like pie in the sky today can become a market of billions tomorrow. Mühlbauer AG is a part of this market.

Market forecasts predict Smart Cards a worldwide growth rate of 325 percent until the year 2004 (source: Frost & Sullivan). The growth rates for Multimedia Cards will increase much more. Mühlbauer will profit from this...

MÜHLBAUER'S MACHINES MAKE DUAL INTERFACE CARDS FAST, EFFORTLESS AND SECURE DATA TRANSFER: A GENIUS AMONG SMARTCARDS

VISION

Dual Interface Cards

The Smart Card of tomorrow: The number of applications is unlimited. The card itself bears more and more functions. The Dual Interface Card really is a genius. With a single card you can board the bus (the fare is paid automatically), punch the time clock at your business, or make telephone calls from every phone booth worldwide. Your personalized card can do more. With highly secure functionality it is an identification card and bankcard in one, it stores your personal data and even your fingerprint. And if you have to work at a strange computer: your Smart Card tells the PC which configuration you prefer. The computer will comply.

The Smart Card of tomorrow? Mühlbauer delivers the technology today!

The Smart Card becomes more and more of a small everyday-life computer that fits in your wallet. Conventional computers demand attention - you have to operate them. In comparison, Smart Cards open a number of new services imperceptibly, in passing. The requirements for this are increasingly powerful microchips and a built-in antenna within the card, which enables data transfer between chip and the reader.

With its production systems Mühlbauer AG helped the contactless card along the road to success. Now we are taking the

next step. The Dual Interface Card combines the advantages of conventional and contactless Smart Cards.

That means that on the one hand Dual Interface Cards include the functions of conventional Smart Cards. You take the cards and insert them into the ATM machine or telephone, and you get the service you expect. On the other hand, for additional applications the Dual Interface Card sends data quasi "out of



pocket" - without contact. Appropriate readers identify the card and its user. Dual interface - using one and the same card for fast "wireless" data transmission and for highly secure data transfer authorized by PIN-number or fingerprint.

Examples include the time clock at work, public transportation, and access control - all are well suited to the contactless, fast and effortless function of the

Dual Interface Card. On the other hand, for all applications where sensitive personal data is handled, the Dual Interface Card becomes a "safe": as a cash card for example, or at bank transactions, or as



an identity card or as a fingerprint bearer.

We know what a high level of responsibility is necessary for the handling of safety-relevant data. Because of this, our Card Automation Product Group handles the prerequisites for the manipulation-secure manufacturing of individualized Smart Cards right at the conception and at the realization of its production equipment. The customers honor this sense of responsibility. Card manufacturers, who handle information concerning money or protected data demand absolutely trustworthy, powerful and sound partners. Mühlbauer AG fulfills those expectations.

CARD AUTOMATION PRODUCT GROUP

A SOLUTION IS MORE THAN JUST DELIVERING MACHINES. WE CREATE MARKETS!

We have global vision! For us that means that we act world-wide, and for our Card Automation Product Group that means we offer turnkey solutions. By this we mean real turnkey solutions - everything customers need: large and



small machines, specialized or standard processes, proofed concepts or such, for those whose markets are developing.

For many years we have developed, built and sold production systems for the card industry. The range of products includes four fields: module production, card production, personalization (programming of the module) and packing of finished cards.

The Mühlbauer name is impossible to ignore in the Smart Card manufacturing industry. We offer the fastest and most powerful machines world-wide for many production steps. And in many fields we have reached the market leadership. But

that is not enough for us. "A solution is a lot more than offering machines." That sentence shows the potential we will make use of in the coming years.

"A lot more than offering machines" means that the development of new processes with, and above all for, the customers is of steadily increasing importance. The service aspect of our business rises in importance. In our philosophy, service is an indispensable part of the turnkey solution triad: the fundamental research



and development on the product/process/machine levels, the perfect manufacturing of production equipment and world-wide fast and reliable service.

We take part in the creation of new markets. Our huge knowledge base makes this happen more and more often. The machines for almost futuristic card applications already exist on our drawing boards. At the same time, we optimize

conventional processes and machines. We have almost doubled the throughput of our high-end equipment in 1999. For the "low end" field - a fast growing market, especially in developing countries - we have created special solutions. Central processes, such as the personalization of the card module, have been improved at the basic level.

130 engineers and technicians make this evolution possible, and a flat and absolutely product-oriented organisation contributes to it - just as the synergies between the Card Automation and Semiconductor Backend Automation product groups do. A widespread net for delivery and service in Europe, Asia and America ensures close contact with our customers. Our motto remains: "Turn-key Solutions World-wide!". To this motto we will add the term "Best..." in the coming years.

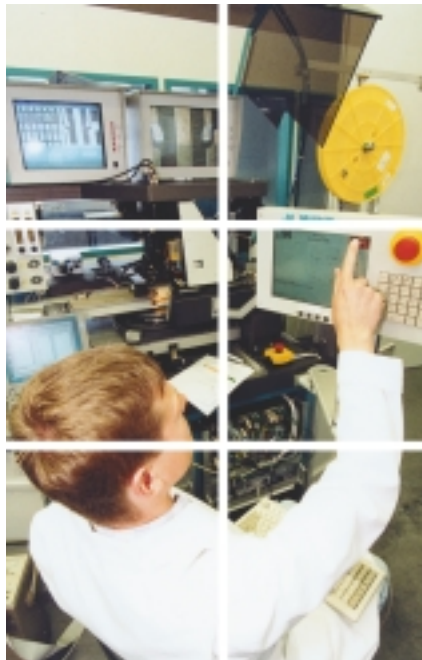
SEMICONDUCTOR BACKEND AUTOMATION PRODUCT GROUP RECOGNIZING NICHE MARKETS, GROWING IN NICHE MARKETS

We recognize niche markets. This is especially important for the livelihood of the Semiconductor Backend Automation Product Group. One of the advantages of this Mühlbauer branch is that it is not subjected to the heavy fluctuations of the semiconductor mass-market. The philosophy: we use our remarkably broad spectrum of technology for niche products and grow with the niche markets.

The strong representation of Mühlbauer AG in all continents enables quick and purposeful recognition of new markets. We have earned the reputation of bravely and purposefully following new developments. In the meantime the customers know Mühlbauer is the first address, when it is necessary to co-develop new products and create the technological basis for their mass-production. Our machine systems produce components whose demand curve is at the beginning of a steep rise right now. SmartLabels and LEDs are two examples of this.

This strategy pays off. Forward-looking products, that we have dedicated entrepreneurial courage to over the past few years, are now consistently coming into the phase of standardization and mass-production. The millions of their success in the markets of the world are also the success of Mühlbauer AG.

Traditionally the Semiconductor Backend Automation Product Group has included the assembly & packaging, testing & packing and carrier tape production task



fields. Systems for the fabrication of power and discrete devices have been successfully produced around the world for years. Our production systems for SmartLabels and LEDs get through new markets. Mühlbauer machines cover the whole process chain of backend automation: from die- and wire bonding to the encapsulation of the chip, to testing and packing of the component. Like the other Mühlbauer product groups the Semiconductor Backend Automation Product Group also identifies itself as a manufacturer of integrated turn-key solutions and notes an increasing demand for complete systems for all processes.

The carrier tape production department was developed in 1999. Besides the permanent optimization of the equipment for manufacturing of carrier tapes for the semiconductor production we successfully brought new machine concepts into realization. Systems with linear forming stations produce tapes with large and deep cavities. This allowed new areas of applications to emerge. More and more, carrier tapes are becoming the standard packing medium for the automated electronics assembly. Today our tapes are the ideal solution for more than just semiconductor components. The variety of products reaches from the "naked" chip to large electromechanical components - for example, parts of the housing of mobile phones - which can be packed into carrier tapes quickly, safely and automation-friendly.

The Semiconductor Backend Automation Product Group went into the year 2000 with a huge basis of market-proven machine systems and a promising spectrum of forward-looking new developments. Some systems of the product group are outstanding worldwide. The fastest die-bonder DB 200 is an example of this. SmartLabel and "Bare Die on Flex" are two key words for technologies that we push in close cooperation with our customers. Technologies that all market-analysts say are experiencing a tremendous rise. The market knows: Mühlbauer's Semiconductor Backend Automation Product Group has stood for solutions for the future for years. We will continue to extend this lead.

BOARD HANDLING PRODUCT GROUP

NEW MARKETS, NEW PRODUCTS, NEW THINKING - SYNERGY AT WORK

1999 has shown that Board Handling Product Group Rommel GmbH has developed into an integral part of the current operation (one year after the take-over by Mühlbauer). The expectations of both sides have been fulfilled. Rommel's products supply Mühlbauer's systems, and Mühlbauer's world-wide

that the European market opens for Rommel products. Suppliers for the big semiconductor-groups are doing their production in low-wage countries, and Rommel and Mühlbauer are involved. A representation in Hungary serves customers on the spot with individual solutions - quickly, confidently and precisely.

tion process, such as the encapsulation, or the packing and sending of finished products. Rommel's automated solutions for those steps are already in the works.

Greater efficiency of new developments is one sign of the successful integration of Rommel GmbH within the Mühlbauer-group. Rommel and Mühlbauer use common development systems and databases. Rommel's quality assurance system has reached operation standard. Common meetings and training sessions are required. One thing is evident: the integration of Rommel GmbH as Mühlbauer's Board Handling Product Group has taken place not only on paper, but also in the minds of the people who work for Mühlbauer.



Rommel's delivery time was significantly reduced in 1998 to a maximum of three to four weeks between receipt of order and delivery. The range of products also became wider. Three product lines enable customer-oriented flexibility. Their



distribution system opens new markets for Rommel.

In Ehingen (near Ulm, Germany) Rommel has developed and manufactured additional systems for the fabrication of printed circuit boards for the past 20 years. These include loading/unloading stations; systems for changing, buffering and turning; transport units; and print and label stations. The results of this long-lasting, successful work history are now flowing into Mühlbauer systems.

two basis-platforms guarantee reliability, safety for further development and an unbeaten relationship between price and performance.

The year 2000 will become a year of new business lines for the newest Mühlbauer offshoot. There are many manual steps within the printed circuit boards fabrica-

That's one aspect of the Mühlbauer-Rommel synergy. The other aspect is

PRECISION PARTS PRODUCT GROUP UNCONDITIONAL QUALITY AND PRECISION - FROM A SINGLE PART TO THE COMPLETE SYSTEM

Our precision parts and systems fly into space, make Formula 1 race cars faster, and help locate kidney stones painlessly and precisely. As a historic base and a strategic factor of the success of Mühlbauer AG, the Precision Parts Product Group obtained an outstanding dynamic in 1999.

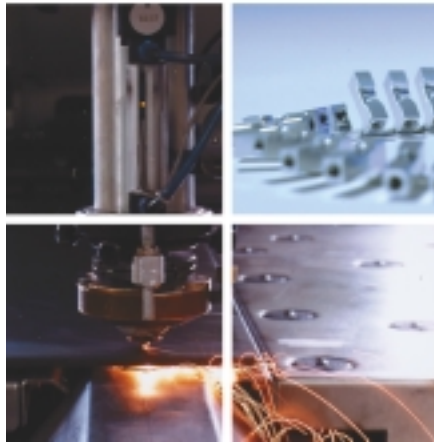
There are some reasons for the rapid increase in incoming orders at the end of '99 compared to the prior year. One of the reasons is that we take the phrase "overnight production" literally. Ordering in the morning, developing and constructing during the day, manufacturing during the night, and delivering the next day. This is the rule at Mühlbauer's, not the exception.

There is another reason for our success during the last twelve months. We, from the Precision Parts Product Group, have proven that we can manufacture complex systems as precisely, quickly, and with as much flexibility as we can manufacture single parts. For example, this includes complete cleaning-equipment for silicon-wafers. Our customers appreciate this and they place subsequent orders for high numbers of units. Many powerful new customers have taken advantage of this chance for outsourcing in 1999.

Our creed: unconditional quality not only for our customers but also for the other departments within the organization. 90 percent of the parts used within

the machines of the other Mühlbauer product groups come from our product group. The result: an outstanding level of quality and flexibility.

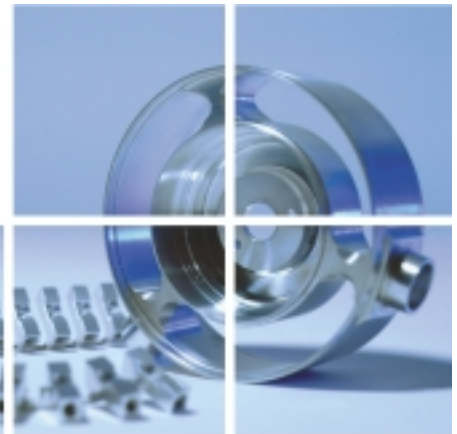
We are very well prepared for the emerging dynamic expansion. 300 employees are working for the Precision Parts Product Group at the locations in Roding



and Stollberg (Saxony). At the production center in Stollberg alone we increased the number of employees by 30 percent in 1999. Like they do at the Roding location, the personnel in Stollberg work in three shifts (under a working year system). At both locations we are building our staffing level - quantitatively and qualitatively.

Our technical capacities continue to expand impressively. A large part of the investment of 5 million Euro has been made already, with the total investment to be made by 2001. Four new high-

speed rotary grinders are working in Stollberg around the clock, and another



of these systems was just put into operation in Roding.

We welcome the year 2000 as a chance to extend the partnership to our customers on a stable economic basis. Excellent new contacts and acquisitions with great potential strengthen our belief in this.

OUR EMPLOYEES

YOUNG, AMBITIOUS, POWERFUL - JUST LIKE THE MACHINES THEY BUILD

Mühlbauer is more than machines, walls, and people. Mühlbauer has a life of its own. And Mühlbauer lives because of its staff of motivated and team-oriented employees. We are very aware that

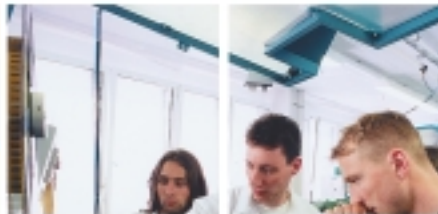


our organization's success is dependent on the willingness and the ability of our employees.

We are doing a lot regarding to this. Our main focus is on education and training. Every motivated and capable employee can build a career with our organization (and this concept almost sounds „American“). From a mechanic to a member of the supervisory board - maybe not representative, but we have even an example of such a career within our organization.

A corner stone of our training is the comparatively very early transfer of responsibility. Trainees in the mercantile, as in the industrial trade sector, are soon in

situations in which they have to prove the ability to take responsibility and show that they are team oriented. This motivates the employees and the superiors honor this. As a result, the loyalty of the employees to the organization is extraordinary strong. There are many examples of members of the middle- and top-management level, who started their professional career at Mühlbauer's and came back into the organization after often some measures of training.



Our global thinking and actions mean that our employees are soon brought into contact with international customers. Because of that, Mühlbauer sets great store in preparing the staff members for international and intercultural contacts. This starts with language and rhetoric programs and extends to short trainee programs, which are completed in one of our numerous foreign representations by motivated globally minded employees.

This international outlook, combined with the professional challenges and salary tied to efficiency, has made Mühlbauer an attractive option for graduates of German universities. Although we already have a good reputation at southern German academies and universities, we will continue to develop our specific recruiting efforts at universities. This includes many internships and dissertations, with which future graduates are drawn to our organization. And this means more intensive participation in university recruiting conventions and fairs. In 1999 we have had especially good results from this kind of recruiting.

The development of a young staff has turned out to be a strategic factor for our success. The average age in our organization is less than 30. Young employees especially bring with them the high motivation and the desire to create, which has a strong influence on our products: products that are as young, ambitious and powerful as the people who manufacture them.

A part of our philosophy is to turn employees into co-entrepreneurs by giving them a share in the capital and outcome of the organization. A profit-sharing plan highlights the success of a business and the considerable contributions of the staff. At our initial public offering more than 80 percent of the employees bought Mühlbauer stocks. We offered another participation program in

February 2000, and it was a great success. Almost every employee who was eligible to buy took advantage of the program and showed their solidarity with the company. With a highly motivated staff who also has a vital interest in the success and further development of the Mühlbauer concern, we are sure to create the markets in the future.

Maximum performance for our customers can only be achieved with the skill, productivity and enthusiasm of our highly qualified and loyal employees. Their commitment is the basis for our common success. The management board wants to thank all employees for their continued commitment and their achievements during the last business year.



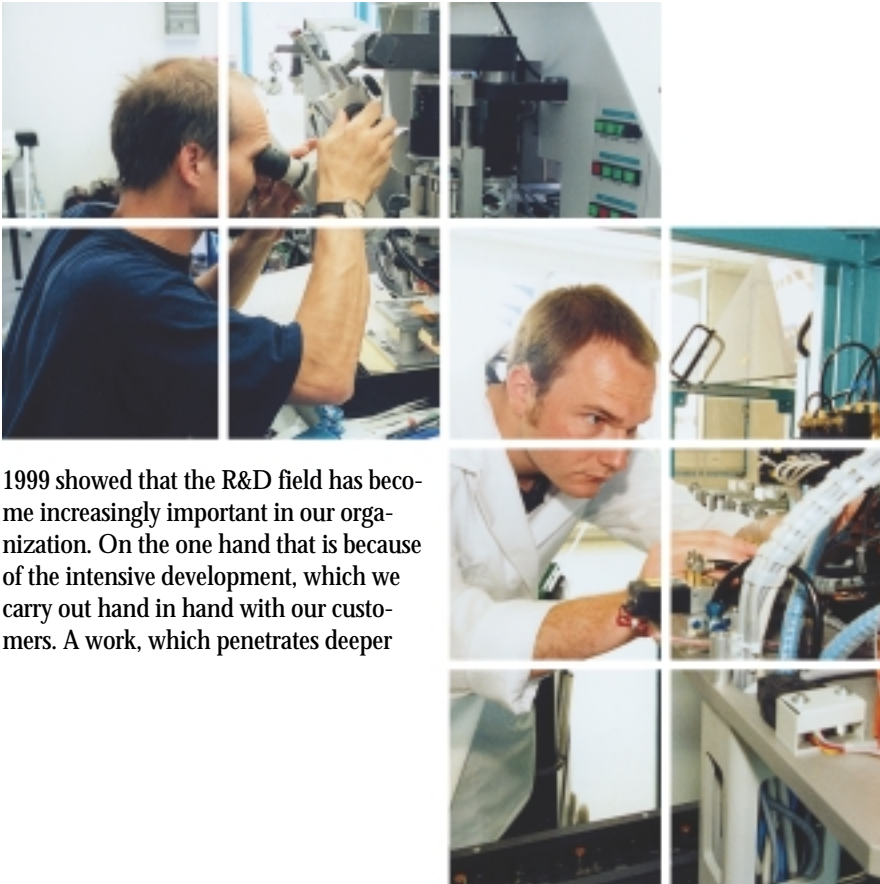
RESEARCH AND DEVELOPMENT

WE STANDARDIZE INNOVATION - AND: WE MAKE INNOVATIONS!

"We standardize innovations" has been our slogan for years. Now we are going a step further: we not only set the standards for innovation - we make the innovation itself!

and deeper into the creation of the actual finished product, Smart Card or semiconductor component. On the other hand, that is because of the consistent continua-

tion of our program: Mühlbauer's generations of machines have to be ready for assembly before the market begins to be interested in the products that will be manufactured with the machines.



1999 showed that the R&D field has become increasingly important in our organization. On the one hand that is because of the intensive development, which we carry out hand in hand with our customers. A work, which penetrates deeper

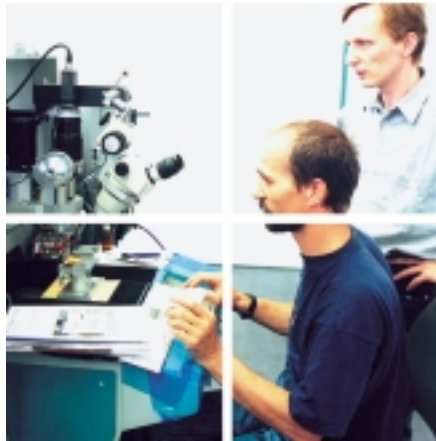
Because of the increasing importance of R&D, we have steadily widened our capacities. At the beginning of the new year we moved into our new 3000 square meter capacity R&D facilities in Dresden. We are also building out the other locations at Roding and Oberhaching (Munich). More than 150 engineers and technicians - 15 percent more than in 1998 - are part of the R&D field. Cooperation exists between all the renowned research centers in southern and eastern Germany, often within the framework of state-run research programs.

Throughout all product groups, we direct special attention to the principle of "mechatronics". "Mechatronics" literally means nothing other than the methodical fusion of the areas of mechanics, electronics and computer science. This shows pioneering results for our research and development. Machines that are developed according to the principles of mechatronics stand out due to high modularity. This consequently ensures

high reliability and improves the ease with which the machines can be serviced.

The mechatronic principles have much stronger impact on the speed of machine development: The lead-time becomes dramatically shortened, and "time to market" becomes considerably shorter. One reason for this is the improved possibility to simulate processes within the machine on the basis of a software platform. The "virtual prototype" is already a reality at Mühlbauer's. And this helps to save time and money because test runs can be completed before the construction of the "real" prototype. It helps to save material because the virtual test runs take care of decisions about single system components and much less material has to be wasted in real test runs.

We are conscious of the outstanding depth of our technological know-how. We know that it is the basic requirement for our lasting success within the highly complex automation equipment market for the production of Smart Cards and



semiconductor-backends. We will do everything in our power to further develop this know-how.

MÜHLBAUER AND THE ENVIRONMENT

UNWAVERING QUALITY - FOR OUR LIVING CONDITIONS AS WELL

We fulfill all the legal requirements and emission limits laid down at all locations. Particularly today, this is unfortunately no longer self-evident. Some factors are

We use bicycles for the traffic at our plant. We separate waste. We use solvent-free paint. More and more, we avoid wasting energy and materials by using computer

simulation of test procedures. These activities arise from the widespread environmental consciousness in the minds of the employees across the board - from apprentices to the top management.



helping us in this. One of them is our dynamic. Because more than 80 percent of our facilities are less than five years old, Mühlbauer has had no problems with contamination left from the past and no need to renovate existing buildings due to environmental issues. At all construction projects, all environmental-related parts are designed in accordance with the latest state of technology.

Already now there are many single activities in the environmental protection field.

Now we want to go a further step. The multiple activities become bundled and extended as planned. A task group has already formulated environmental guidelines. An environmental program will follow. It shows concrete aims for continuous improvement of the company's environmental activities and describes the further activities. Gradually environmental guidelines and environmental program will flow together for complete environmental management.

Our environmental guidelines are:

- * Fulfilling legal requirements and decrees is regarded as a basic premise. We want to do more and follow stronger internal standards concerning the protection of the environment. For us, the guideline for that is always the current state of technology.
- * We save raw material and energy. As much as possible we use all ways of recy-

cling and avoiding waste in the context of an optimized protection of resources.

* Regarding the development of our products, we strive for efficiency, safety and environmental quality. We also convey this thinking to our suppliers.

* Employees, who shall actively contribute to the company's efforts for environmental protection, need special knowledge. We make specific training sessions possible for them.

* We also keep an open dialogue with the public and the appropriate administrations in the environmental protection field.

* For optimal factory safety we take active care to avoid accidents and disruptions. We protect our employees from

health problems and from the reduction of environmental quality in our surroundings.

We strive for the optimum. For our products. For our service. And for our environment as well.



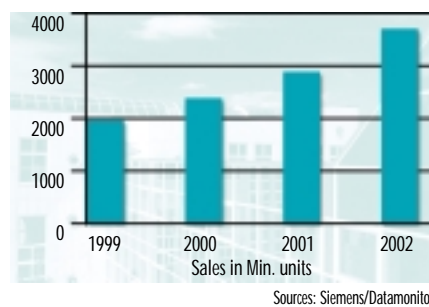
MANAGEMENT REPORT

ECONOMIC ENVIRONMENT AND INDUSTRY DEVELOPMENT UNBROKEN MARKET GROWTH

Forecasts indicate that the world economy should grow by 3.5 % in 2000, after 3 % growth in 1999. After 2.1 % growth in 1999, European markets are expected to grow by 2.9 %. With that, Europe becomes an economic driver for the year 2000. After growth rates of 4 % one expects a growth loss of scarcely a percent for the US economy. In 2000, economic indicators for all development regions of Asia are also pointing to a high growth rate of 5 %. Experts also agree on Latin American forecasts. The Brazilian economy is expected to grow between 3 and 4 % in 2000.

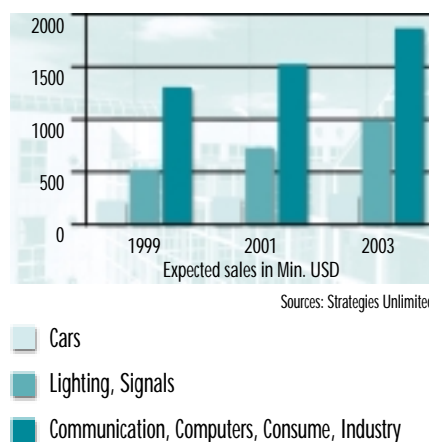
Mühlbauer was established early-on with sales and service addresses in all important markets. By intensive participation in all important trade fairs we have a worldwide overview of market happenings and are able to react rapidly to market changes. With flexible and custom-made solutions for all conceivable applications of Smart Cards, Mühlbauer captured the lead worldwide in a rapidly growing market. In Germany alone approximately 70 to 80 % of the machines and production systems for the production of the Smart Cards originate from Mühlbauer.

Our innovative manufacturing solutions for the production of LEDs, SmartLa-



bels and Multimedia Cards have captured the pole position worldwide again in developing, rapidly growing markets.

Light Emitting Diodes (LEDs) rank among the most important applications for compound semiconductors today. Whether in traffic signals, instrument panels or pocket calculators: where strong colours and great luminosity under continual stress are needed, optoelectronic microchips are supplanting



LCD crystals and the classical bulb. The pending revolution of the lighting system is comparable with the quantum transition of the tube to the transistor. For the year 2000, one counts on a worldwide sales volume of about 23 billion pieces with an average growth rate of 17 % per annum. Mühlbauer has positioned itself with solutions for the production of LEDs at an opportune time in this promising market.

We are also well prepared for the breakthrough of SmartLabels, or "electronic stamps" as they are called in industry terms. At the heart of these "intelligent labels" is a microchip that acts as a storage medium for the most diverse information. Whether SmartLabels are in use at airports monitoring worldwide logistics or are used to help organize libraries, they are more reliable and easier to handle than conventional bar codes, making them enormously competitive in the future. As a system supplier of complete solutions we make crucial gains from the competitors and profit from dynamic market growth.

Still smaller yet promising area applications of the Multimedia Card appear. With rising storage capacities the application possibilities will increase enormously. From today to tomorrow we are able to offer production lines for the production of Multimedia Cards.

RESEARCH AND DEVELOPMENT
TURN-KEY SOLUTIONS FOR THE
21ST CENTURY

With an R&D ratio of 8.6 % of total sales, in the year being reported on, Mühlbauer invested more than ever before in future projects. That corresponds to an increase in relation to the previous year by 95 % (previous year: EUR 3.1 million).

At our R&D locations in Roding, Oberhaching and Dresden we employ about 150 highly qualified workers. The R&D work takes place peripherally in the respective product sectors and is supported and coordinated via intensive co-operation of the high-level personnel. This structure enables us to develop in a customer-oriented manner, to use synergies and to quickly bring the innovations to production stage. Beyond the development within our own organisation, we strengthen co-operation with research institutes, universities and friendly undertakings.

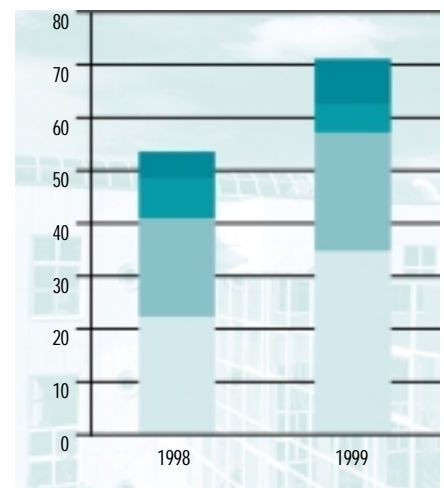
We invested the majority of the assigned means in the fiscal year into code projects. These serve as protection for the future and substantially contribute to the fact that we continue to develop our top positions in the technology fields relevant to us.

SALES
STRONG GROWTH OF 32 %
BROUGHT A NEW RECORD YEAR

In the fiscal year 1999 the company once again posted record sales. With about EUR 71 million the group registered for the fiscal year a higher conversion than expected, around EUR 3 million, (EUR 68 million). In relation to the previous year (EUR 53.9 million) this corresponds to an increase in sales of 32 %. The strong turnover rise results exclusively from organic growth and the consistent development of market position.

Almost all product areas contributed to the growth of proceeds with to two point growth rates. The production equipment for Smart Cards contributed with EUR 35 million (previous year: EUR 23.2 million) 49 % (previous year: 43 %) of total sales. EUR 22.2 million (previous year: EUR 17.9 million) and with this over 30 % (previous year: 33 %) obtained the semiconductor section of the company, which manufactures e.g. equipment for the production of LEDs and SmartLabels. The Board Handling area obtained EUR 5.4 million (previous year: EUR 7.3 million), which corresponds to a turnover proportion of 8 % (previous year: 14 %). With the production of precision parts and complete modules, bundled in the Precision Parts product group, the company gained EUR 8.6 million (previous year: EUR 5.2 million) or relatively

Sales development by product sectors in millions Euro
(Changes compared with previous year in %)



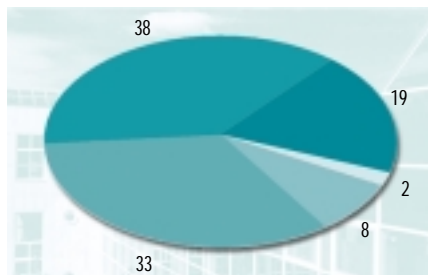
- Smart Card 35 (+ 51%)
- Semiconductor Backend 22,2 (+ 24%)
- Board Handling 5,4 (-26%)
- Precision Parts 8,6 (+ 65%)

12 % (previous year: 10 %) to the company turnover.

The strong expansion of sales goes back to the positive development of all important market regions. So despite high increases in the previous years the inland business could again expand around 8.6 % (previous year: 5.5 %) on EUR 27.2 million (previous year: EUR 25.1 million). The central European region reflec-

ts the sales development of the Mühlbauer group - the most favorable development with a sales increase of 96.5 % (previous year: -16.4 %) and reflects a sales proportion of EUR 23.6 million (previous year: EUR 12 million). In North America the company could obtain again clear increases in sales. Growth around 35.7 % (previous year: 39 %) on EUR 5.6 million (previous year: EUR 4.1 million) is essentially due to the gratifying growth of the Smart Card business in this region. One expressed positive increase also registered from the Asian continent. Here the conversions rose by 62.1 % to EUR 13.4 million (previous year: EUR 8.2 million).

1999 sales by region
% (Previous year in parenthesis)



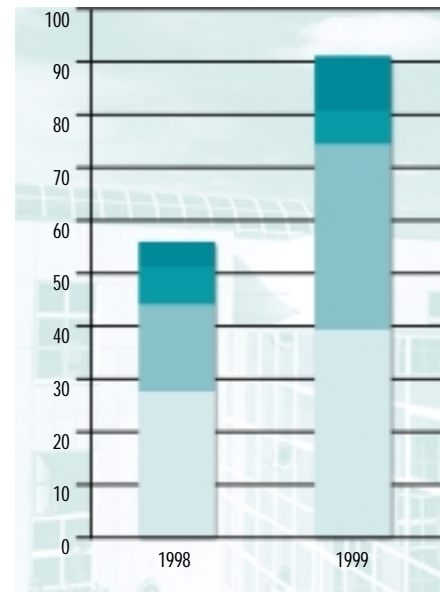
- Germany 38 (47)
- Africa 0 (5)
- South America 2 (3)
- Other European countries 33 (22)
- North America 8 (8)
- Asia 19 (15)

ORDERS FILLED ORDER INCREASE OF OVER 63%

Customer confidence in the high quality of the products and services of the Mühlbauer group showed up in high incoming orders, which was clearly established with 63.3 % over the previous year. The endeavor participated with an increase in orders from 46 % to EUR 39.5 million (previous year: EUR 27.1 million) super-proportionally to the high demand for the production lines for Smart Cards. Numerous product program renewals and consistently providing turn-key solutions for the production of semiconductor products supported this development. Beyond that, the reorganisation of the worldwide sales activities had an extremely positive effect: Mühlbauer could clearly increase the market saturation. In the Semiconductor Backend area, within which assembling and handling systems (among other highly automated items for the production of LEDs and SmartLabels) are manufactured, doubled the volume of business with EUR 35.1 million in relation to the previous year (EUR 17.1 million). The Board Handling area was with EUR 6.1 million by 13.6 % under the reference value of the previous year (EUR 7.0 million). Due to an extraordinary demand push the consistent development of the core authority within the Precision Parts area leads. However in this segment a job increase of 124 % in relation to the previous year with EUR 11.5 million (EUR 5.1 million) is recorded.

Due to the extremely positive gains in incoming orders, the order backlog has increased for the end of the fiscal year over 85 % on EUR 30,6 million (previous year: EUR 16.5 million).

Incoming orders in EUR million
(changes against previous year in %):



- Smart Card 39 (+ 46%)
- Semiconductor Backend 35 (+ 105%)
- Board Handling 6 (-14%)
- Precision Parts 12 (+ 124%)

PROCUREMENT QUALITY AND PRICE PROTECTION

Trusting and co-operating with our suppliers are important prerequisites for the fact that we can fulfill our absolute requirements in quality and price. In the fiscal year 1999 worldwide goods in the value of about EUR 19 million were purchased.

The target is located at the center of our activities in the procurement area to remove our technical projection. In order to be able to implement beyond that reduction of cost potentials, we centralized the purchasing area of the company.

The procurement responsibility contributes, apart from price reductions due to bundling effects, to an extended procurement market knowledge and thus to more efficient solutions. By directed preventative quality assurance measures we could reduce the quality costs substantially and lower the complaint rate with delivery parts.

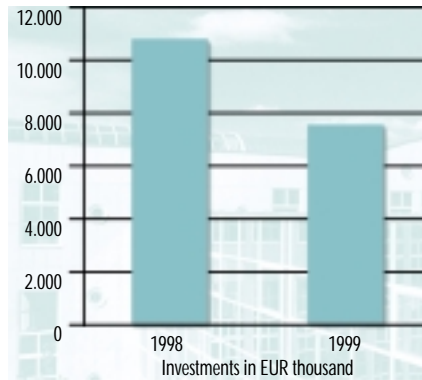
INVESTMENTS
NEW PRODUCTS, FASTER SERVICE

The faster the market changes, the more innovative products and service win. By direct investments over the entire creation of value chain we will strengthen the enterprise to meet the challenges of the future.

In the run fiscal year the company without financial investments invested EUR 7.8 million. Thus the investments achieved a proportion of 11 % of the company turnover (previous year: 20 %).

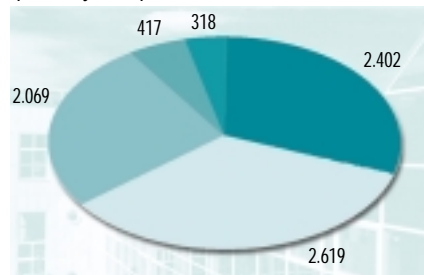
We transacted approximately a third of our material assets investments at the Stollberg location. Emphasis of the investment activity was the extension of the production capacities by newest equipment in the area of the machine cutting manufacturing. Through the strategic development of manufacturing the precision parts needed for the production of high-complex machines and systems can be produced "overnight".

The single investment in the Dresden technical park north with a volume of about EUR 3 million, largest in the year under report, was the building of a technology center. With a starting crew of 28 workers to 3000 square meters work surface over three floors, innovative total



conceptions for the production of intelligent labels are developed. A further investment of EUR 1.2 million is planned in the new research and development place by year's end. With the extension of the R&D capacities the company will also further protect itself as the technology leader in its expansive business fields.

Composition of the investments 1999 (previous year in parenthesis)



- Land and buildings 2.619 (3,394)
- Technical systems and machines 2.402 (4,529)
- Other systems, BGA 2.069 (2,309)
- Downpayments and systems in construction 318 (59)
- Immaterial property 417 (522)

PERSONAL
THE EMPLOYEES AS JOINT CONTRACTORS

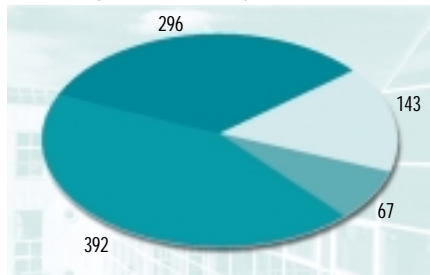
For lasting entrepreneurial success Mühlbauer is dependent on highly qualified, motivated and loyal workers. Their vocational development as well as the customer proximity and orientation is equally a prerequisite for us for economic success as social obligation. Therefore during the personnel development, consistent customer orientation is the focus of everything for our high-level personnel and workers.

We go a step further and make co-workers "co-owners" too. Since the initial public offering in 1998 the worker participation in their enterprise has held. With our new employee profit sharing program we repay their loyalty and give to all employees the possibility of taking part in the success of the enterprise and its future growth.

At the end of the fiscal year 1999 the company employed 994 workers. Thus the number of our workers increased in relation to the previous year by 92 people. 959 co-workers are busy in Germany, 6 at locations in the rest of Europe as well as 4 in North America and 25 in the Pacific rim. The personnel expenditure rose from EUR 23.1 million in the previous year by 21.2 % to EUR 28 million in the year under report.

Highly qualified workers are not resources that can be quickly acquired. Therefore the organisation invests heavily in building out its employee base and in further training. In the year under report alone, about 60 interns had decided to make their occupational start with

Personnel arrangement after employees, skilled workers, part time workers and trainees
1999 average values (Previous year in parentheses)



- Employees 296 (250)
- Skilled workers 392 (346)
- Trainees 143 (121)
- Part time workers 67 (40)

Mühlbauer. From the USA, Great Britain, Malaysia, China and Taiwan, young Mühlbauer workers came to Germany for three to six months and were trained as skilled workers and service mechanics. In this way the organisation helps ensure today that its personnel needs will be met for tomorrow.

EARNINGS, BALANCE AND FINANCES

PROFIT GROWTH - PROFITABILITY INCREASED BY 63%

The favorable outcome of the business process has been clearly settled. In the year 1999, Mühlbauer obtained a result of EUR 17.5 million before controls. In relation to the comparable value for 1998 of EUR 10.7 million that is a rise of around 63 %. The yield on turnover before controls moves along with 24.6 % (previous year: 19.9 %) further on a high level and clearly shows the above average profitability of the Mühlbauer group.

The financial result in the company could surely be increased by EUR - 0.1 to + 2.3 million. The substantial reason

for this lies in the increase of the stock share within the total assets and the resulting profits on exchange in the fourth quarter.

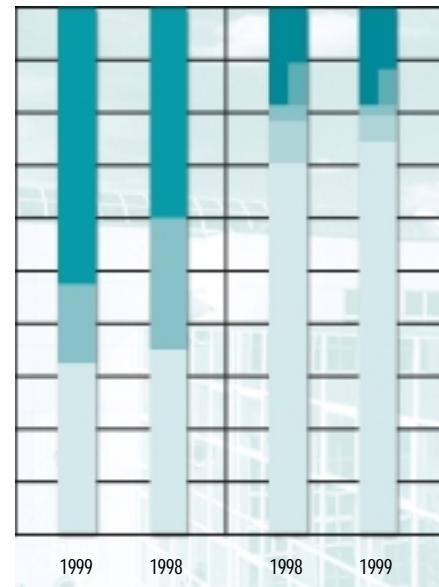
Due to the favorable result development we will recommend a dividend of EUR 0.30 for the financial year 1999 for each share at the general meeting taking place on May 4, 2000 (previous year: to pay EUR 0.23).

Mühlbauer's balance emphasizes the lasting soundness of the company. The material assets intensity as quotient of the material assets value and the balance sheet total amounts to 24.8 %. The supplies are proven in the company balance with EUR 40.1 million. Their proportion of the balance sheet total remained almost unchanged with 31.2 %. The growth of the demands from supplies and performances results from the rapid turnover rise in the fourth quarter. The liquid means and securities of the circulating capital achieved by December 31, 1999 were about EUR 18.9 million and were thereby around EUR 12.8 million under the value of the previous year (EUR 31.7 million).

The equity capital ratio is situated with 73.6 % by 4.2 % over the value of the previous year (69.4 %). The long-term liabilities were reduced due to the regular repayment of long-term bank debts by EUR 1.3 million on EUR 6.4 million. The short-term liabilities took off due to the payments of taxes carried out on EUR 20.7 million (previous year: EUR 24.7 million) in the year 1999.

The cash flow from the current operational business activity amounted to - EUR 6.0 million in the year under report (previous year: - EUR 1.0 million). A decisive factor in this was the substantial increase of the capital freeze for

Balance structure in EUR million (1999/1998):



- Current assets
- of that: Liquidity
- Fixed assets
- Liabilities
- of that: Financial liabilities
- Deferred taxes
- Reserves
- Capital ownership

demands from supplies and performances around EUR 14.1 million, as well as the use of means for the repayment of taxes at a value of EUR 4.8 million. In the context of the investment activity we made EUR 16.8 million altogether. The investments in fixed assets and intangible assets amounted to EUR 7.5 million. By the re-sale of shares we obtained an influx of funds at a value of EUR 6.5 million, balanced with investments.

A central discharge of EUR 6.4 million resulted from the financing activity. The majority of it concerned the shareholders of the Mühlbauer Holding AG & Co. KGaA paid dividend. Furthermore the cash flow was influenced still with EUR

0.8 million by the share buy-back program. Additionally, we erased financial debts at a value of EUR 1.3 million.

INTRODUCTION OF THE EURO UNIFORMLY COMPANY-WIDE

After the bilateral rates of exchange between the currencies of the eleven participating countries had been determined by the European Council of the heads of states and governments at the beginning of May, 1998, the Euro was officially introduced as common currency starting January 1, 1999. Due to the global adjustment, we welcome this step, since we sell goods and services in the European area and the productivity increases will no longer be reduced by fluctuations in exchange rates.

We already introduced the Euro on January 1, 1999 as company-wide local currency and replaced the Deutsche Mark as a unit of calculation. Our accounting and reporting systems were changed over to the Euro for this purpose.

RISK MANAGEMENT AND RISKS OF FUTURE DEVELOPMENT CONSISTENT EVALUATION AND SECURITY

Our worldwide and innovative activities in unsettled markets bring business risks. By consistent risk management and a constant development of instruments for the prevention of risk in all relevant areas we can identify and avoid profoundly high-risk activities.

The starting point of risk management is the identification and evaluation of the different types of risk and profiles. Mühlbauer's Controlling Department

monitors and controls the risks of the business and creates current status reports for the executive committee and divisions. Global operational planning with clear target declarations and agreements is an important item.

In order to take advantage of middle- and long-term chances and to identify risks, Mühlbauer introduced a system of strategic planning. All relevant areas are combined in the strategy identification process.

Risks which develop from fiscal, competition, patent, trust and environmental legal regulations and laws, already fall under the apron of decision making by the integration of our own experts and external specialists. Quality assurance measures limit product and environmental protection risks. In addition certifying our activities according to international standards, the constant improvement of systems and procedures, and new products or the advancement of existing products fall under this category.

At present, we do not see risks of future development due to the constant observation of the relevant markets, the continuous advancement of our products, and the adjustment to the needs of existing and potential customers.

The continuation of the business endangering risks were recognizable neither in the reporting period nor for the future.

STRATEGY VISION WITHOUT CONDITIONS

We have a clear vision of our future. We know where we are, where we want to be, and how we can achieve our goals.

One of our goals is it to maintain and further develop our role as the core authori-

ty and worldwide market leader portion in the Smart Card / SmartLabel business. Beyond that, we want to open new growth markets of the future with new technologies. Therefore we will constantly sustain our innovation energy and continue to increase the rate. Winners in the competition are the businesses, which are not afraid of the speed of change, but embrace it. At Mühlbauer's there are many examples of the strength of innovation. The results in the yield underscore how our fast response directly contributes to the entrepreneurial success.

The customer is always the focus of our thoughts and concerns. It has always been like that and will always remain that way. Customer satisfaction is the only benchmark for Mühlbauer. We want to fulfill and exceed the expectations of our customers worldwide.

We aligned the business to the growth potentials of the future. Reorganisation within the product area, clear declarations and agreements to turnover, profitability of the sub-ranges and configuration of the responsible persons with authority will clearly increase the pulse of the business.

For many that is perhaps unusual. We call it sport. We know that together with our shareholders we will transfer the perhaps singular potential of this enterprise in the long term into profit growth and yield strength.

OUTLOOK

NEW MARKETS WITH HIGH POTENTIAL

The turnover and gain planning of Mühlbauer designates a further clear increase for 2000 in relation to the year under report. It is based particularly on that continuously growing demand for turn-key solutions for all conceivable applications for Smart Cards. Experts count on an annual growth of the smart card market of 30 % on average. We expect the strongest demand in volume to come from the USA. At present the high value of the US Dollar and the historically low tax levels support the purchasing power in this region. Beyond that we are confident to profit from the decentralization in the Smart Card industry, which can be registered worldwide. Ever more countries decide to produce their Smart Cards in their own country. An example: after a decision of Turkey regarding their require-

ment to produce calling cards in their own country, we were able to import the largest special order in firm history on Mühlbauer's books with EUR 5,8 million.

The revolution in lighting systems, which is released by the new-developed white and multicolored LEDs, will bring a further demand thrust. By the increased storage capacity of the Multimedia Chips in the future as yet undreamed-of possibilities open for the Multimedia Card. Mühlbauer will therefore extend the manufacturing capacities, will create additional qualified workstations and continuously strengthen the worldwide service.

The turnover and result goals planned for the subsequent year appear realistic and attainable in this light, particularly because on the balance sheet date an order backlog valued at over EUR 30 million was already present.

DISCLAIMER

This business report contains arranged predicates, which are based on acceptance and estimations of Mühlbauer management into the future. Although we assume that the expectations of these forecasted predicates are realistic, we cannot guarantee for a fact that these expectations will prove correct. The acceptance can involve risks and uncertainties, which can lead to the actual results deviating substantially from the forecasted predicates. To the factors which can cause such deviations, belong among other things: modifications in the economic and business surrounding field, rate of exchange and interest fluctuations, introduction of competitor's products, lack of acceptance of new products or services and changes of the business strategy. Updating of the forecasted predicates by Mühlbauer is neither planned, nor is Mühlbauer obligated to update any predicates.

SUPERVISORY BOARD REPORT

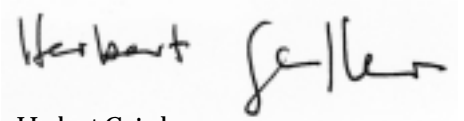
The supervisory board was kept informed about the business of the association and important individual processes by regular reports of the executive committee as well as in four sessions. The board was convinced of the correctness of the management. The subject of the meeting was in particular the company's earnings and financial situation, the structuring and optimization of the individual divisions and personnel matters such as the extension of the executive committee.

The supervisory board chairman discussed the company's earnings and financial situation with the auditor in a balance sheet audit.

Record keeping, the year-end procedure for the fiscal year 1999 and the report on the situation were verified by the elected auditor SUSAT & Partner OHG, Munich. The authentication in accordance with article 322 of German Commercial Code (HGB) was given without restriction. After its own check the supervisory board took the knowledge of the audit results and the suggestion of the executive committee for the use of the balance profit on March 3, 2000, approving and raising no objections. The supervisory board therefore suggests to the general meeting tightening the year-end procedure of the Mühlbauer Holding AG & Co. KGaA to December 31, 1999 in the submitted version.

The supervisory board expresses its thanks to the executive committee and the staff and its acknowledgment for the work carried out in the business year.

Roding, in March 2000



Herbert Geissler
Chairman

GLOSSARY

Assembly & packaging	Assembly and packaging of semiconductors
Bare die on flex	Technology of producing semiconductor components by attaching dice on to flexible carrier material
Carrier tape	Packaging strap especially for transporting electronic components
Cavity	Sinking a bed into a chipcard before placing the chip
Chip on board	Attaching and/or wiring dice on to carrier material such as circuit boards
Chip on flex	See bare die on flex
Contactless cards	Cards in which the transfer of energy and/or data is carried out by means of electromagnetic fields
Credit cards	Cards in which credit limits are not paid in advance. Payment is carried out after receipt of goods or services.
Die bonding	Positioning a small silicon chip on carrier material
Die, Dice	Silicon crystal with a single semiconductor-type microcontroller
Discrete Devices	Semiconductor products, like transistors or diodes, which are run at low voltage
Dual-interface card	Type of card uniting the functions of contact and contactless card technologies
Epoxy die bonding	Attaching dice on to carrier material using an adhesive process (epoxy process)
Flip-chip technology	Process of turning dice 180 degrees either for further processing or attaching on to carrier material
GSM cards	Chipcards with a special normed size for use in mobile telephones. The "Global System for Mobile Communications (GSM)" is an international, terrestrial mobile telephone system.
Implantation	Embedding a chip in a plastic card
(Adhesive film) Laminates	Attaching a heat-activated adhesive film on to the reverse side of a module
Magnetic strip card	Card with magnetic strip which acts as carrier of data
Mechatronics	New technological principle combining elements coming from mechanics, computer sciences, and electronics. Mechatronics have positive influences on modularity, planning and developing of machines and systems – and also on relevant job outlines.
Module	Carrier material for a die with prepared contact elements
PC board	Printed circuit board or printed card with inserted semi-conductor components
PC board handling	Transport system for printed cards
Personalization	Process of allocating data to a card by entering personal data on to a chip, magnetic strip or card surface
Plug-in	A small format chipcard used particularly in GSM-telephones
Plug punching	Pressing out a small chipcard from a normal-sized card for use in mobile telephones
Power Devices	Semiconductor products, like transistors or diodes, which are run at high voltage
Pre-personalizing	Loading on the operating system on a chip
Printed circuit board production	Space-saving technology in printed board component insertions
Smart card	Chipcard, a plastic card with a chip module
SmartLabel	Contactless identification system
Smartmedia / Multimedia card	Card application used particularly in digital cameras or as a means of storing music
Spilling	Protection for the chip and its wire tie by applying a sealing compound on the reverse side of the chip
Testing & packing	Testing, labelling and packing semi-conductors for further processing
Turn-key solutions	Ready-to-use, total solutions
Wafer	Very thin semiconductor disc or plate made of silicon from which many separate chips can be produced. The wafers are sliced, thereby defining the so-called dice.
Wire bonding	Fully automatic process of wiring a die to carrier material



CONSOLIDATED FINANCIAL STATEMENTS CONTENTS

30	Income Statements
31	Balance Sheets
32	Cash Flows
33	Shareholders Equity
34	Fixed Capital Assets
36	Notes
54	Independent Auditor's Report

**CONSOLIDATED INCOME STATEMENTS AS AT DEC. 31, 1999
OF MÜHLBAUER AG & CO. KGAA**

	Notes	US-GAAP Jan. 1. - Dec. 31, 1999 audited		US-GAAP Jan. 1. - Dec. 31, 1998 audited	
		EUR thousand	%	EUR thousand	%
1. Sales	3, 4, 20	71,026	100.0	53,910	100.0
2. Cost of sales		39,061	55.0	31,402	58.2
3. Gross margin		31,965	45.0	22,508	41.8
4. Operating expenses					
a) Sales and general administration expenses		13,093	18.4	11,094	20.6
b) Research and development expenses	3	6,092	8.6	3,117	5.8
5. Operating income	4	12,780	18.0	8,297	15.4
6. Other income and expenses					
a) Interest income	3, 5	3,792	5.3	869	1.6
b) Interest expenses	3, 5	1,483	2.1	934	1.7
c) Other income	3, 13	2,404	3.4	2,495	4.6
7. Income before taxes on income		17,493	24.6	10,727	19.9
8. Taxes on income	3, 11	3,669	5.1	2,194	4.1
9. Net income for the year, including profit share of personally liable shareholder		13,824	19.5	8,533	15.8
10. Profit share of personally liable shareholder	4, 15, 16	11,197	15.8	7,158	13.3
11. Net income	1, 3, 4, 16	2,627	3.7	1,375	2.5
Earnings per common share in EUR					
basic			0.68		0.36
fully diluted			0.68		0.35
Weighted average of common shares outstanding					
basic			3,873,800		3,880,000
fully diluted			3,891,257		3,890,428

The following notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS AS AT DEC. 31, 1999 OF MÜHLBAUER AG & CO. KGAA

	Notes	US-GAAP Dec. 31, 1999 audited EUR thousand	US-GAAP Dec. 31, 1998 audited EUR thousand
ASSETS			
Current assets			
Liquid assets	3, 16	1,451	14,574
Marketable securities	3, 5, 16	17,449	17,153
Trade receivables	3, 6	21,179	7,110
Inventories	3, 7	40,124	39,171
Prepaid expenses		215	195
Other current assets		5,431	2,998
		85,849	81,201
Financial assets			
Marketable securities	3, 5, 16	9,819	13,100
		9,819	13,100
Tangible assets			
Land	3, 8	1,328	1,017
Buildings		20,183	18,905
Factory and office equipment		10,392	9,915
		31,903	29,837
Intangible assets			
Goodwill	3, 9 4	643	723
Software and licenses		577	619
		1,220	1,342
		128,791	125,480
EQUITY AND LIABILITIES			
Short-term liabilities			
Short-term loans	10, 16	1,683	1,050
Short-term portion of long-term loans	16	1,302	1,334
Trade payables	3	5,040	5,449
Downpayments received on orders		2,119	923
Shareholders loans		52	54
Other short-term liabilities	3	3,249	3,258
Accruals for taxes on income	3, 11	2,618	7,387
Deferred taxes	3, 11	1,409	2,832
Other accruals for pensions	3	3,193	2,459
		20,665	24,746
Long-term liabilities			
Convertible bonds	16	71	76
Long-term loans	12, 16	6,351	7,653
Investment grant received	3, 13	4,922	4,336
Deferred taxes	2, 3, 11, 13	1,712	1,345
Accruals for pensions	3	241	183
		13,297	13,593
Shareholders equity			
Share capital	15, 16		
(par value EUR 1,28; 4,000,000 common shares authorized; 3,855,200 common shares issued and outstanding as at Dec. 31, 1999)		4,935	4,960
Fixed capital contributions		66	51
Additional paid in capital		58,203	58,440
Retained earnings		32,077	23,323
Unrealized gains and losses on marketable securities, net of taxes		-452	367
		94,829	87,141
		128,791	125,480

The following notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS AS AT DEC. 31, 1999 FOR MÜHLBAUER HOLDING AG & CO. KGAA

	Jan. 1 - Dec. 31, 1999 audited EUR thousand	Jan. 1 - Dec. 31, 1998 audited EUR thousand
Cash flows from operations		
1. Net income for year, including profit share of personally liable shareholder	13,824	8,533
2. +/- Profits/expenses invalid on liquidity (stock based compensation)	+ 311	+ 0
3. + Depreciation and amortization on tangible and intangible assets	+ 5,443	+ 5,133
4. -/+ Gain/Losses from sale of assets	-78	-166
5. -/+ Realized net gains/losses from marketable securities	-377	+ 72
6. -/+ Unrealized gains/losses from trading securities	-916	+ 68
7. - Securities purchased (trading securities)	-7,858	-2,339
8. + Proceeds from sale of (trading securities)	+ 4,791	+ 330
9. -/+ Increase/Decrease in stocks	-953	-11,691
10. -/+ Increase/Decrease in trade receivables	-14,068	+ 881
11. -/+ Increase/Decrease in other current assets	-2,434	-2,594
12. -/+ Increase/Decrease in other assets	+ 0	-18
13. -/+ Increase/Decrease in prepaid expenses	-20	-72
14. +/- Increase/Decrease in deferred taxes	-1,056	-4,918
15. +/- Increase/Decrease in trade payables	-409	+ 2,200
16. +/- Increase/Decrease in other accruals	+ 734	+ 762
17. +/- Increase/Decrease in accruals for taxes on income	-4,769	+ 2,207
18. +/- Increase/Decrease in pension accruals	+ 58	+ 29
19. +/- Increase/Decrease in investment grants received	+ 587	+ 1,596
20. +/- Increase/Decrease in other liabilities	-10	-64
21. +/- Increase/Decrease in downpayments received on order	+ 1,196	-772
22. +/- Increase in bills payable	+ 0	-125
23. = Net cash used by operations	-6,004	-949
Cash-flow from investing activities		
24. + Proceeds from sales of tangible assets	+ 175	+ 302
25. - Acquisition of Rommel	+ 0	-895
26. - Investments in tangible and intangible assets	-7,452	-8,802
27. - Investments in securities	-9,377	-33,742
28. + Proceeds from sales of securities	+ 15,903	+ 5,724
29. = Net cash used in investing activities	-751	-37,412
Cash-flow from financing activities		
30. +/- Increase/Decrease in long-term financial liabilities	-1,302	-2,494
31. +/- Increase/Decrease in short-term financial liabilities	+ 633	-291
32. +/- Increase/Decrease in short-term portions of long-term loans	-31	+ 0
33. +/- Increase/Decrease in shareholder loans	-2	-5,001
34. +/- Convertible bonds issued/collected	-5	+ 76
35. -/+ Gains/losses from currency conversion	-32	+ 0
36. - Shareholder withdrawals	+ 0	-1,753
37. + Proceeds from initial public offering	+ 0	+ 61,866
38. - Acquisition of own shares	-779	+ 0
39. - Dividend distribution	-4,849	+ 0
40. = Net cash provided by financing activities	-6,367	+ 52,402
41. = Increase in cash and equivalents (Total of lines 40, 29, and 23)	-13,123	+ 14,040
42. + Liquid funds on January 1.	+ 14,574	+ 534
43. = Liquid funds on December 31.	+ 1,451	+ 14,574
Additional cash flow information:		
Tax payments	5,779	5,066
Interest	655	934
Transactions with no impacts on cash flows of funds		
Acquisition of land and buildings through debt assumption	0	2,232
Unrealized gains/losses (-) (marketable securities)	-583	367

The following notes are an integral part of the consolidated financial statements.

| | | | |

COMPOSITION AND DEVELOPMENT OF SHAREHOLDERS EQUITY AS AT DEC. 31, 1999 FOR MÜHLBAUER HOLDING AG & CO. KGAA

	Notes	Individual shares	Share capital EUR thousand	Fixed capital EUR thousand	Additional-paid-in capital EUR thousand	Retained earnings EUR thousand	Other comprehensive income EUR thousand	Total EUR thousand
Balance Jan. 1, 1997 (unaudited)		-	1,534	51	-	12,647	-	14,232
Consolidated net income		-	-	-	-	8,951	-	8,951
Dividends to shareholders	16	-	-	-	-	(5,055)	-	(5,055)
Balance Dec. 31, 1997 (unaudited)		0	1,534	51	0	16,543	0	18,128
Consolidated net income		-	-	-	-	8,533	-	8,533
Unrealized gains and losses on securities, net of taxes		-	-	-	-	-	367	367
Total comprehensive income	2	-	-	-	-	8,533	367	8,900
Shareholder withdrawals (previous years)	16	-	-	-	-	(1,753)	-	(1,753)
Shares issued in connection with the initial public offering	1, 15, 16	3,880,000	3,426	-	62,347	-	-	65,773
Costs of share issue		-	-	-	(3,907)	-	-	(3,907)
Balance Dec. 31, 1998 (audited)		3,880,000	4,960	51	58,440	23,323	367	87,141
Consolidated net income		-	-	-	-	13,824	-	13,824
Unrealized gains and losses on securities, net of taxes		-	-	-	-	-	(819)	(819)
Total comprehensive income	2	-	-	-	-	13,824	(819)	13,005
Deferred compensation		-	-	-	311	-	-	311
Acquisition of own shares	15, 17	(24,800)	(32)	-	(541)	(206)	-	(779)
Re-capitalization	15	-	7	15	(7)	(15)	-	0
Dividends	15	-	-	-	-	(4,849)	-	(4,849)
Balance Dec. 31, 1999 (audited)		3,855,200	4,935	66	58,203	32,077	(452)	94,829

The following notes are an integral part of the consolidated financial statements.

DEVELOPMENT OF THE FIXED CAPITAL ASSETS AS AT DEC. 31, 1999 FOR MÜHLBAUER HOLDING AG & CO. KGAA

audited	State at Jan. 1, 1999 EUR thousand	Currency changes EUR thousand	Acquisition costs / Production costs		State at Dec. 31, 1999 EUR thousand
			Additions EUR thousand	Disposals EUR thousand	
Goodwill	804	0	0	0	804
Concessions, patents and similar claims and values as well as licenses in such claims and values	2,337	0	417	0	2,754
Intangibles	3,141	0	417	0	3,558
Land, as-land-claims and buildings including buildings on foreign land	25,630	0	2,619	0	28,249
Technical systems and machines	22,749	29	2,402	(T) 486	24,694
Other systems, factory and office equipment	10,076	73	2,069	481	11,739
Advanced payments and systems under construction	59	0	318	(T) 373	3
Tangibles	58,514	102	7,408	1,340	64,685
Investments	12,680	0	9,377	11,655	10,402
Financial assets	12,680	0	9,377	11,655	10,402

Note: (T) = Transformation

The following notes are an integral part of the consolidated financial statements.



State at Jan. 1, 1999 EUR thousand	Currency changes EUR thousand	Depreciation		State at Dec. 31, 1999 EUR thousand	Book values	
		Current year EUR thousand	Disposals EUR thousand		State at Dec. 31, 1999 EUR thousand	State at Dec. 31, 1998 EUR thousand
80	0	81	0	161	643	723
1,719	0	458	0	2,177	577	619
1,799	0	539	69	2,338	1,220	1,342
5,708	0	1,030	0	6,738	21,511	19,922
16,678	8	2,095	419	18,362	6,332	6,070
6,291	62	1,780	451	7,682	4,057	3,786
0	0	0	0	0	3	59
28,677	70	4,905	870	32,782	31,903	29,837
-420	0	1,265	262	583	9,819	13,100
-420	0	1,265	262	583	9,819	13,100

Notes

(1) THE COMPANY

Mühlbauer develops, produces and markets turn-key solutions for the manufacture of semiconductor products. With flexible and tailored comprehensive solutions for all possible Smart Card products, the company has captured the leading position in one of the world's strongest grown markets.

The production facilities are located at the company's Head Office in Roding and at the Stollberg i. Erzgebirge branch. The company also has a worldwide network of distribution and service facilities, some as legally independent subsidiaries (Malaysia, USA) and others as operational facilities (France, Scotland, China, Taiwan). The central administration is also located in Roding. Further research and development activities are carried out by various subsidiaries in Germany.

Up until now, the consolidated financial statements have been established and published in

German marks ("DM"). In light of the introduction of the Euro on January 1, 1999, Mühlbauer has decided to establish the consolidated financial statements in Euros ("EUR"). Accordingly, the comparison periods are represented on the basis of the conversion rate of 1 EUR = 1.95583 DM established on January 1, 1999.

On February 1, 2000, a two-for-one share split was performed in accordance with the resolutions authorized by the shareholders at the General Meeting held on May 6, 1999. As a result of the share split, the number of no-par value shares issued and outstanding increased from 1,940,000 to 3,880,000. An amount equal to par value of the shares of common stock to be issued was transferred from additional paid-in capital to the common stock account. All share and per share disclosures have been restated to reflect the share split.

(2) BASIS OF PRESENTATION

The consolidated financial statement were prepared using "United States Generally Accepted Accounting Principles" ("US-GAAP").

The consolidated financial statements include the following wholly owned domestic and foreign subsidiaries, all of whom are under the legal or factual control of Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien:

- Mühlbauer Aktiengesellschaft, Roding

- ABOS Automation, Bildverarbeitung, Optische Systeme GmbH, Oberhaching
- ASEM Präzisions-Automaten GmbH, Dresden (previously Roding)
- Rommel GmbH, Ehingen (previously Altheim)
- Mühlbauer Inc., Newport News, Virginia, USA
- Mühlbauer Sdn. Bhd., Melaka, Malaysia

The shareholders' of the ELTEST Elektronische Testautomaten GmbH voted in favor of a merger with Mühlbauer AG at a meeting

held in July 1999; the merger was filed at the Commercial Registry in August 1999 with commercial effect on January 1, 1999. Under the terms of the merger, Mühlbauer AG took over the entire assets of ELTEST with all rights and obligations. This move did not impact earnings for the year 1999.

The integration of Rommel GmbH in 1998 was governed by German accounting laws. Comparative figures for the previous year

testify the inclusion of the company as soon as right to participate in profits was acquired. This deviates from US-GAAP, according to which the company would have to be included in consolidation as from the date at which factual control over the company was actually assumed (September 28, 1998). This deviation is described in Note 4.

Intercompany transactions have been eliminated.

(3) SUMMARY OF MAIN ACCOUNTING PRINCIPLES

FOREIGN CURRENCY TRANSLATION

Foreign currencies were converted according to Financial Accounting Standard (FAS) No. 52, the assets and liabilities of foreign subsidiaries were translated using the exchange

rates applicable on the balance sheet date, while the income statements were translated using annual average rate of exchange. Translation adjustments are included in accumulated other comprehensive income and do not impact net income.

The exchange rates on which foreign currency translations were as follows:

Currency:		Middle rate on the balance sheet date		Annual average rate of exchange	
		Dec. 31, 1999	Dec. 31, 1998	1999	1998
		EUR	EUR	EUR	EUR
Malaysia	100 MYR	26.2467	22.4968	24.6828	23.1002
USA	1 USD	0.9954	0.8554	0.9383	0.8995

Gains and losses from transactions denominated in foreign currencies were included in determining the income.

REVENUE RECOGNITION

Revenue is recognized upon delivery of goods or completion of the agreed performance, adjusted for customer bonuses and rebates.

EXPENDITURE ON RESEARCH AND DEVELOPMENT

Expenditure on research and development is recorded as it is incurred and is included in determining net income.

EARNINGS PER SHARE

Earnings per share is computed in accordance with SFAS 128 "Earnings per share". Under SFAS 128, presentation of basic and diluted earnings per share is required. Basic earnings per share excludes dilution and is computed by dividing consolidated net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share takes into account not only the actual number of weighted common shares outstanding but also the potential dilutive effect of options

which are convertible into common shares.

The pro forma per share amounts in 1998 reflect the earnings per share as if the shares issued in connection with the initial public

offering (see Note 15) had been outstanding since January 1, 1998. Earnings available to common shareholders are net earnings minus the profit shares of the general partner (see Note 15).

A reconciliation of the weighted-average outstanding of common shares used to compute earnings per share:

	1999	1998	pro forma 1998
	number	number	number
Weighted average shares used in computing basic earnings per share	3,873,800	1,860,278	3,880,000
Dilution impact due to exercising of stock options	17,457	10,428	10,428
Weighted average shares used in calculating diluted earnings per share	3,891,257	1,870,706	3,890,428

COMPREHENSIVE INCOME

Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated other comprehensive income, as presented on the accompanying consolidated balance sheets, consists of the changes in unrealized gains and losses on securities and foreign currency translation adjustments.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

TRADE RECEIVABLES

Where necessary, appropriate specific allowances were recorded to cover the probable risk of default, in addition to general allowance cover general credit risk.

INVENTORIES

Raw materials, consumables and supplies are valued at the lower of purchase cost – using weighted average unit cost – or market value. Finished products and work in progress, including development work associated with particular orders, comprise direct costs of production, as well as a proportionate share of overhead expenses for materials, production and production-related administration.

MARKETABLE SECURITIES

Marketable securities are valued in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" at their quoted or market price on the balance sheet date. Unrealized gains and losses on trading securities are included in the determination of net income. Fluctuations in the value of marketable securities that are classified as available-for-sale securities are excluded from earnings and included in accumulated other comprehensive income.

TANGIBLE ASSETS

Tangible assets are valued at purchase cost or manufacturing cost minus straight line or

accelerated depreciation. Write-downs and special items based exclusively on fiscal regulations have not been rewarded.

The applicable estimated useful lives are as follows:

Buildings	25 years
Technical equipment and machinery	5 – 10 years
Other equipment, factory and office equipment, including computer equipment	2 – 10 years

INTANGIBLE ASSETS

Acquisitions of intangible assets are shown at purchase cost less straight line amortization over their three-year service lives. Goodwill is capitalized and amortized on a straight line basis over a period of ten years.

Pensions" (SFAS 87). Net periodic pension costs were EUR 57.9 thousand and EUR 10.3 thousand in 1999 and 1998, respectively. A net pension liability of EUR 240.4 thousand and EUR 183.5 thousand was recorded at December 31, 1999 and 1998, respectively for the amount that the Accumulated benefit obligation exceeded the plan assets. The computation was based on the following assumptions: an average life expectancy of 76.41 years and interest rate of 6 %.

LIABILITIES AND ACCRUALS

Liabilities are shown at their redemption values. Accruals are set up for expenses likely to be incurred in forthcoming business years in the form of tax settlements, outstanding compensation for overtime, vacation backlogs, guarantees and payments based on profits.

DEFERRED TAXES

The company discloses taxes on earnings for temporary differences arising from different methods of assessment (accounting basis and tax basis) pursuant to Financial Accounting Standard No. 109, "Accounting for Income Taxes" (FAS 109). Deferred taxes are computed using the statutory rate of taxation in effect when the differences are expected to reverse.

ACCRUALS FOR PENSIONS

The company has a defined benefit pension plan for the management board . Under the plan, the management board receives either
 - a fixed monthly pension upon reaching the age of 65
 - or a pension based on the CEO's number of years of service upon reaching the age of 60. This pension is based on the average fixed remuneration paid over the three years preceding retirement.

GRANTS OBTAINED

Grants awarded from public funds by particular Bundesländer (federal states) in Germany and by the European Union with the aim of supporting certain investment projects are set up initially as liabilities and amortized into income over the depreciable life of the related asset purchased or manufactured with the received grants. Government subsidies for

Pension cost is determined in accordance with Statement of Financial Accounting Standards No. 87 "Employers' Accounting for

research and development work in connection with innovative products and processes are included in income in the same period as the related research expenses.

STOCK-BASED EMPLOYEE COMPENSATION PLAN

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). It applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the variable stock options issued to employees under the stock-based employee compensation plan. Accordingly, compensation expense for the employee stock issue plan is measured by the intrinsic method. Under this method, if, on the grant date and on each balance sheet date, the quoted market value of the stock exceeds the amount the employee must pay to acquire the stock, compensation is recognized over the expected life of the option.

ESTIMATES

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the assets and liabilities shown in the balance sheet, the disclosure of contingent liabilities as

at the balance sheet date and the disclosure of revenues and expenditures during the reporting period. The actual amounts may deviate from these estimates.

RECLASSIFICATIONS

Certain amounts in prior years have been reclassified to conform with classifications used in 1999.

RECENT ACCOUNTING PRONOUNCEMENTS

In September of 1998 the Financial Accounting Standards Board issued SFAS 133 "Accounting for Derivative Instruments and Hedging Activities," which will be effective for the Company's fiscal year 2000. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments imbedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The Company currently does not participate in any hedging activities. However, the Company will assess the impact of this new statement on any future transactions.

(4) ACQUISITIONS

In 1998, Mühlbauer AG acquired a 100-percent share in Rommel GmbH using the purchase method. The purchase price for Rommel GmbH was EUR 3,127 thousand. Of that amount, EUR 895 thousand was payable immediately for the acquired holdings. EUR 2,232 thousand represented the assumption of debt for a factory site and related buildings. In accordance with the appli-

cable German accounting laws, the operating result of the company was included in the consolidated financial statements as soon as a right to participate in profits was acquired. This deviates from US-GAAP, according to which the company would have to be included in consolidation as from the date at which control over the company was actually assumed (September 28, 1998).

If Rommel GmbH were consolidated in accordance with US-GAAP as from October 1, 1998, the following differences would have resulted:

	1998 as reported	Adjustment	Presentation according to US-GAAP
	EUR thousand	EUR thousand	EUR thousand
Sales	53,910	-4,865	49,045
Net income available to common shareholders	1,375	-41	1,334
Profit share of the personally liable shareholder	7,158	-216	6,942
Earnings per share in EUR	0.74	-0.02	0.72
Earnings per share (diluted) in EUR	0.73	-0.02	0.71
Earnings per share in EUR pro forma	0.36	-0.01	0.35
Earnings per share (diluted) in EUR pro forma	0.35	-0.01	0.34

Initial consolidation resulted in goodwill amounting to EUR 803 thousand, which is depreciated using the straight line method over ten years.

By way of comparison, the annual financial statements of the year 1997 are presented as if Rommel GmbH had been acquired in 1997:

	1998 EUR thousand	Jan. 1 - Dec. 31 unaudited pro forma 1997 EUR thousand
Sales	53,910	53,997
Operating income	8,297	13,248
Net income for the year including profit share of the personally liable shareholder	8,533	8,962

(5) MARKETABLE SECURITIES

The purchase costs and market value of the debt securities and marketable securities with equity interests identified under "Marketable securities" are composed as follows:

	Purchase costs EUR thousand	December 31, 1999			December 31, 1998			
		unrealized gain EUR thousand	loss EUR thousand	Quoted/ market value EUR thousand	Purchase costs EUR thousand	unrealized gain EUR thousand	loss EUR thousand	Quoted/ market value EUR thousand
Available-for-sale								
Debt securities from federal and state governments	10,402	0	583	9,819	12,680	420	0	13,100
Debt securities from corporations	11,028	3	9	11,022	15,256	105	39	15,322
Total	21,430	3	592	20,841	27,936	525	39	28,422
Trading								
Shares	5,618	860	51	6,427	1,899	0	68	1,831
Total	5,618	860	51	6,427	1,899	0	68	1,831
	27,048	863	643	27,268	29,835	525	107	30,253

The following table shows the purchase cost and the quoted or market price of the assets at the end of the year, grouped according to the remaining contractual term:

	December 31, 1999		December 31, 1998	
	Purchase costs EUR thousand	Quoted/ market value EUR thousand	Purchase costs EUR thousand	Quoted/ market value EUR thousand
Available-for-sale securities due within one year	10,243	10,246	5,249	5,212
between 2 and 5 years	5,369	5,177	14,615	14,805
between 6 and 10 years	5,100	4,727	7,387	7,685
after 10 years	718	691	685	720
	21,430	20,841	27,936	28,422

Realized gains for the sale of debt securities amount to EUR 243 thousand (previous year: EUR 54 thousand) compared to realized losses of EUR 177 thousand (previous year: EUR 16 thousand). The gains realized

from the sale of equity securities amount to EUR 893 thousand (previous year: EUR 1 thousand), compared to realized losses of EUR 242 thousand (previous year: EUR 111 thousand).

(6) TRADE RECEIVABLES

	December 31	
	1999 EUR thousand	1998 EUR thousand
Gross value of trade receivables	22,456	7,937
less		
Specific allowance	684	660
Several allowances	593	167
	21,179	7,110

All trade receivables have a residual term of less than one year.

(7) STOCKS

	December 31	
	1999 EUR thousand	1998 EUR thousand
Raw materials and supplies, including downpayments on stocks	5,251	4,877
Work in progress, including order-related development work	29,646	26,260
Finished goods	5,131	8,021
Payments made	96	13
	40,124	39,171

(8) TANGIBLE ASSETS

	December 31	
	1999 EUR thousand	1998 EUR thousand
Purchase cost		
Land	1,328	1,017
Buildings	26,921	24,691
Factory and office equipment	36,412	32,887
	64,661	58,595
Accumulated depreciation	32,758	28,758
of which included in income statement	4,843	4,679
	31,903	29,837

(9) INTANGIBLE ASSETS

	December 31	
	1999 EUR thousand	1998 EUR thousand
Computer software (derivative)	2,754	2,337
Goodwill	804	804
	3,558	3,141
Accumulated depreciation	2,338	1,799
of which included in income statement	539	454
	1,220	1,342

(10) SHORT-TERM LOANS

As at December 31, 1999 and December 31, 1998, the credit volume available to the company on the basis of agreed credit terms with various banks in Germany, Malaysia and the United States was EUR 37,566 thousand and EUR 39,983 thousand respectively. The loans are not secured and carried interest at

effective rates of between 3.62 % and 6 % as at December 31, 1999. The total amount of funds borrowed under the credit agreements as at December 31, 1999 and December 31, 1998 was EUR 1,683 thousand and EUR 1,050 thousand respectively.

(11) TAXES ON EARNINGS

The accruals for taxes on earnings, disclosed as liabilities in the balance sheet as at December 31, 1999, include the prospective amount of final tax settlements:

	December 31	
	1999 EUR thousand	1998 EUR thousand
Corporation tax	0	2,995
Solidarity supplement	0	281
Municipal trade tax	2,618	4,111
	2,618	7,387

According to US-GAAP, deferred tax assets or liabilities arise primarily from temporary differences in the computation of taxable income and the valuation of assets under financial versus tax base. A deferred tax liability was recorded by the Company as a result

of the elimination of special depreciation in accordance with specific laws on the support for peripheral regions (Zonenrandförderungsgesetz - ZRFG) and the Assisted Regions Act (Fördergebietsgesetz - FGG).

	December 31	
	1999 EUR thousand	1998 EUR thousand
Short-term (inventories and other)	1,409	2,832
Long-term (fixed assets)	1,712	1,345
	3,121	4,177

In the income statement, expenses incurred in the form of current and deferred taxes led to a total tax burden as follows:

	December 31	
	1999 EUR thousand	1998 EUR thousand
Germany	3,656	2,130
Abroad	13	64
	3,669	2,194

In accordance with the applicable tax law, retained corporate income is initially subject to a federal corporate tax of 40 % plus a solidarity surcharge of 5.5 % on federal corporate taxes payable, which results in an effective corporation tax rate of 42.2 %.. The corporate tax and solidarity surcharge when combined

with a municipal trade tax of 7.97 %, results in an effective statutory tax rate of 50.17 %. The corporate tax and solidarity surcharge is not levied on the general partner's share of the net earnings, resulting in an effective tax rate appearing on the statement of earnings to be lower than expected.

(12) LONG-TERM LOANS

Long-term loans comprised the following:

	December 31	
	1999	1998
	EUR thousand	EUR thousand
Loan from the Bayerischer Landesanstalt für Aufbaufinanzierung, interest rate 3.5 %, with semi-annual repayments of EUR 57 thousand on June 30 and December 30.	114	228
Loan from the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation), secured with certificated land charge amounting to EUR 772 thousand, interest rate 5.75 %, with semi-annual repayments of EUR 55 thousand on June 30 and December 30.	362	472
Syndicated loan from Schmidt Bank KGaA (5.1 million) and the Landesanstalt für Aufbaufinanzierung (2.6 million), secured with certificated land charge amounting to EUR 7,669 thousand, interest rate varying according to tranche 1st tranche 2.5 million, interest rate 5.71 % 2nd tranche 2.5 million, interest rate 5.74 % 3rd tranche 2.6 million, interest rate 5.76 % Semi-annual repayments of EUR 480 thousand on June 30 and December 30.	6,232	7,190
Loan from Sparkasse Ehingen, secured with certificated land charge, interest rate 7 %, monthly annuity of EUR 5.1 thousand	594	614
Loan from Sparkasse Ehingen, secured with certificated land charge, interest rate 5.85 %, monthly annuity of EUR 0.1 thousand	171	175
Various loans from Sparkasse Ehingen interest rate 6.20 % to 7.50 %, annuity payment	180	308
Loans	7,653	8,987
less short-term portion of long-term loans	1,302	1,334
Long-term loans	6,351	7,653

The minimum annual principal payments of long-term loans for the periods ending December 31 are as follows:

	December 31	
	1999	
	EUR thousand	
2000	1,301	
2001	1,152	
2002	1,127	
2003	1,021	
2004	992	
Afterwards	2,060	
	7,653	

(13) INVESTMENT GRANTS OBTAINED

	December 31	
	1999	1998
	EUR thousand	EUR thousand
Status at the beginning of the business year	4,336	2,949
Additions	1,202	1,738
	5,538	4,687
Reversals	616	351
Status at the end of the business year	4,922	4,336

(14) STOCK-BASED EMPLOYEE COMPENSATION PLAN

The Annual General Meeting held on June 25, 1998 authorized the personally liable shareholder to launch a stock-based employee compensation plan involving the issue of convertible bonds, provided the Supervisory Board granted its approval. The capital stock of the company was conditionally increased by EUR 153 thousand through the issue of up to 120,000 individual share certificates (contingent capital I). The contingent increase in capital stock, which serves the rights of conversion granted to the holders of the convertible bonds, is affected only to the extent that the holders of the issued convertibles exercise their rights to convert the bonds to stock.

The convertible bonds were offered for sale directly and indirectly to executive staff and other persons holding key positions within the Mühlbauer Group. Shareholders in the company were excluded from subscribing. In the first stage on July 10, 1998 non-interest bearing convertible bonds totaling EUR 71 thousand and expiring in 2003 were issued.

Each convertible bond has a par value of EUR 51.13 and entitles the bearer to convert the bond to an individual certificate for 40 shares in Mühlbauer Holding AG & Co. KGaA. The right of conversion can be exercised as follows: 30 % at the earliest two years after issuance (July 10, 2000), 60 % at the earliest July 10, 2001. Up to 100 % at the earliest four years after issuance (July 10, 2002) conditional on

the relative growth of the quoted price for the Mühlbauer share exceeding the relative growth of the New Market Index, and the return on sales exceeding 15 %. The price for converting bonds to stock corresponds to the selling price per share at the initial public offering (EUR 24.54).

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). It applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the variable stock options issued to employees. The fair value of the convertible bonds was estimated at the date of grant using the Black Scholes option-pricing model. The weighted average market value of the convertible bonds issued in 1998 was EUR 11.50 at the time of issue. This valuation was based on the following assumptions: volatility factor 67 %, expected dividend factor 0 %, risk-free interest rate 4.1 %, weighted average holding period 3 years.

Had compensation cost for the plan been determined based on the fair value of the convertible bonds at the date of grant, the net income reported by the Company would have been higher by Euro 189,000 or Euro .05 per share (basic) in 1999. The impact was insignificant in the 1998 business year.

(15) REGISTERED SHARE CAPITAL AND FIXED CAPITAL SHARE OF THE PERSONALLY LIABLE SHAREHOLDER

NUMBER OF SHARES ISSUED

The number of no-par value shares issued by Mühlbauer Holding AG & Co. KGaA on December 31, 1999 is 3,880,000, divided into 3,879,999 bearer shares and 1 registered share. The registered share entitles the bearer to nominate one third of all Supervisory Board members to the Supervisory Board. The nomination right does not apply if and as long as the bearer of the share granting nomination right is the personally liable shareholder, its personally liable shareholder or one of the members of the relevant Management Board. Each share represents a share in the capital stock in the amount of EUR 1.28, entitles the bearer to one vote at the Annual General Meeting and to a full dividend. The shares of the personally liable shareholder are excluded from any exercise of voting rights on matters relating to said shareholder or its control over the company.

DIVIDEND PAYOUT

The Annual General Meeting of Mühlbauer Holding AG & Co. KGaA held on May 6, 1999 recommended that a dividend of EUR 0.23 be paid out. The dividend was paid out on May 7, 1999.

SHARE CAPITAL INCREASE

At the Annual General Meeting held on May 6, 1999, the share capital was increased by EUR 7 thousand from EUR 4,960 thousand to EUR 4,967 thousand by converting a portion from the capital reserve and without the emission of new shares.

TREASURY SHARES

On May 6, 1999 the shareholders unanimously consented to the repurchase of up to 10 % of the Company's stock. The acquisition price per share cannot exceed the highest share price quoted by the Frankfurt Stock Exchange on the day of purchase and is limited to a price that is at least 25 % below the maximum price for the year. The timing of the stock purchases are made at the discretion of management. At August 30, 1999, the Company repurchased 24,800 or 0.6 % of the total authorized shares to be repurchased.

CONTINGENT CAPITAL

The share capital has been increased conditionally by up to EUR 153 thousand through the issue of up to 120,000 individual share certificates (contingent capital I). This contingent increase in capital is for granting conversion rights to the holders of convertible bonds, which the personally liable shareholder was authorized to issue by virtue of the resolution adopted at the General Meeting held on June 25, 1998. The contingent increase in capital is effected only to the extent that the holders of the issued convertibles exercise their rights to convert the bonds to stock. The new shares each participate in the profits of the company from the beginning of the year in which the right to convert bonds to stock is exercised. The share capital has been further increased by up to EUR 1,997 thousand through the issue of up to 1,560,000 individual share certificates (contingent capital II). The contingent increase in capital is effected only to the extent that the personally liable shareholder requests the conversion of capital share B into capital stock. The new shares participate in profits as from the beginning of the business year in which they are issued, following exercise of the conversion rights.

APPROVED CAPITAL

The personally liable shareholder is authorized to increase the share capital of the company on one or more occasions prior to June 30, 2003, with Supervisory Board approval, by issuing bearer shares against cash deposits, whereby the total increase shall not exceed EUR 2,301 thousand. The personally liable shareholder may, with the consent of the Supervisory Board, exclude shareholders from subscribing up to a nominal EUR 460 thousand, in order to issue the new shares at an issue price that is not significantly below the quoted price on the exchange and to exclude shareholders from subscribing in order to make the shares available for the conversion of general partner's capital. On the balance sheet date, KGaA shares were held by the following:

Name	EUR thousand	%
Mühlbauer Holding AG & Co. Verwaltungs KG	1,177	23.71
Widespread shareholdings	3,789	76.29
Total	4,966	100

PERSONALLY LIABLE SHAREHOLDER

The following capital accounts are kept for the personally liable shareholder:

- Capital account I, bearing no interest, on which a capital share of EUR 13,820 thousand is currently booked,
- Capital account II, bearing no interest, as a (capital) reserves account onto which a premium must be posted when the capital share is brought in and which currently displays no debit balance,
- Capital account III, bearing no interest, as a (revenue) reserves account onto which shares in earnings accruing to the personally liable shareholder but which cannot be withdrawn are posted, and which currently displays no debit balance,
- A carried-forward loss account, onto which the share in losses accruing to the personally liable shareholder are posted and which currently displays no debit balance, and
- A setoff account as a moveable account onto which withdrawable profit shares, withdrawals, emoluments, interest and other monetary transactions between the company and the personally liable shareholder is posted. The debit balance on the cut-off date for the annual financial statement was EUR 5,414 thousand. If permitted to do so by law, the personally liable shareholder may also, during the ongoing business year and without interest being charged to the setoff account, withdraw those amounts required in order to pay the personal taxes that it or its shareholders must pay in connection with its participation in the company. Otherwise, debit and credit balances on the setoff account bear interest at a rate of 2% higher than the basic interest rate of the relevant central bank.

The General Meeting may decide to convert the capital contribution of the personally liable shareholder to share capital. Conversion shall be effected in the form of an increase in share capital. The limited-liability shareholder may be excluded from subscribing. The nominal amount of the capital increase corresponds to the par value of the relevant capital held by the personally liable shareholder. If approved capital exists, the increase in share capital in order to convert the general partner's capital to shares shall be effected with the approved capital. If this is legally impossible, or if the approved capital is not sufficient, conversion shall be effected by means of a contingent increase in capital, provided that contingent capital is available. If this is legally impossible, or if the amount of capital increase through a contingent increase in capital does not suffice, then the General Meeting may establish the conditions for conversion by increasing the share capital. The limited-liability shareholder may be excluded from subscribing.

If the capital contribution held by the personally liable shareholder is converted to share capital, the personally liable shareholder shall withdraw as same from the company when the increase in share capital has been effected.

DISTRIBUTION OF PROFITS

The personally liable shareholder participates in the company's assets, including the hidden reserves, in the profit and loss of the company and in the liquidation proceeds according to the ratio between its capital share and total capital of the company.

The profit or loss of the company, on which basis the profit or loss accruing to the personally liable shareholder is computed, is the

annual result (net income or loss for the year) of the company, reduced by the profit share of the personally liable shareholder but not increased by his share in losses, plus the corporation tax (including taxes credited against same) disclosed in the profit and loss account and the expenses for other taxes and expenses relating to the share capital. The annual result must also be increased by the

corporation tax balance associated with income from participations if this has not been accounted for as revenue. The share in profits and losses accruing to the personally liable shareholder is reduced by the proportionate corporation tax balance for its share, if this amount is included when determining the basis for calculating the annual result.

In the reporting year, the share in profits accruing to the personally liable shareholder at Mühlbauer AG & Co. KGaA is calculated as follows:

	AG & Co. KGaA EUR thousand
Annual result (net income or loss for the year) before share in profits or losses by the personally liable shareholder	6,564
+ Corporation tax balance, if not already accounted for as revenue	0
+ Corporation tax expense (including taxes credited against same)	743
+ Other taxes and expenses relating only to the share capital	0
Basis for computation	7,307
Share in profit or loss based on the personally liable shareholder's participation in the total capital of the company (currently 73.56 %)	5,375

The share in profits accruing to the personally liable shareholder is used firstly to offset the carried-forward loss account, if such a carried-forward loss exists. Otherwise, the profit share of the personally liable shareholder is credited to capital account III, if and insofar as the profit accruing to the limited liability shareholders are placed in the revenue reserves. The amounts of accumulated profit credited to capital account III must be measured in such a way that they are in the same ratio to the amount placed in the revenue reserves as the ratio of the capital share of the personally liable shareholder to the share capital of the company. If the profit share of the personally liable shareholder does not have to be used to offset the carried-forward loss account and is not allocated to

capital account III, it is credited instead to the setoff account. The above rules apply accordingly if amounts are withdrawn from the revenue reserves.

The personally liable shareholder shall be reimbursed with all expenses it incurs in connection with its management activities.

Analogous to the distribution of profits deriving from the separate annual financial statement for Mühlbauer Holding AG & Co. KGaA, the profit share of the personally liable shareholder was compared in the consolidated annual financial statement on the basis of the consolidated annual result. Any deviations resulting from this are due to consolidation steps affecting income.

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

CASH AND CASH EQUIVALENTS

The carrying amount approximates fair value because of the short maturity of those instruments.

SHORT-TERM NOTES PAYABLE, LONG-TERM NOTES PAYABLE AND CONVERTIBLE BONDS

The carrying amount of short-term notes payable approximates fair value because of the short maturity of those instruments.

The carrying amount of long-term notes payable approximates fair value because the stated interest rates approximate fair value.

The fair value of the Company's convertible bond is estimated based on quoted market prices. At December 31, 1999, the Company's convertible bonds had a book value of Euro 71 thousand. Based on quoted market prices at December 31, 1999, the fair value of those convertible securities was estimated to be Euro 2,280 thousand.

MARKETABLE SECURITIES

The carrying amount approximates fair value because of the short maturity of those instruments.

(17) ACQUISITION OF OWN SHARES

The personally liable shareholder was authorized by the Annual General Meeting on May 6, 1999 to repurchase up to 10 percent of own shares by October 31, 2000. The acquisition price per share must not exceed the highest share price quoted by the Frankfurt Stock Exchange on the day of purchase.

The price may be up to 25 % lower than the quoted price. In exercising this right, the company has repurchased 24,800 or 0.6 % of the total quoted shares.

(18) VALUATION VARIANCES

The company did not exercise the retention option for valuations only permitted in accordance with tax law. The important resulting valuation variances for individual balance sheet items was as follows:

TANGIBLE ASSETS

The statutory write-downs made in the individual financial statements for the 1998 business year and in the six preceding business years, in particular special depreciations according to § 3 of the law on support for peripheral regions (Zonenrandförderungsgesetz - ZRFG) and § 4 of the Assisted Regions Act (Fördergebietsgesetz - FGG) were not taken into account in the consolidated financial statements.

SECURITIES

Securities disclosed in the individual financial statements are valued according to the nominal value principle. Unrealized losses are not taken into consideration, realized gains only impact net income after the realization of the security. Under the analogous terms of US-GAAP, securities are valued in the consolidated financial statements.

ted financial statements at their quoted or market price on the balance sheet date. Depending on the securities description, unrealized gains and losses are included in the determination of net income.

ACCRUALS FOR PENSIONS

The current-value procedure applied in accordance with the laws of Germany for valuing pension obligations does not take anticipated wage and salary increases into consideration. Under the obligatory terms of US-GAAP, anticipated wage and salary increases and the capital market interest applicable on the key date are taken into consideration using the projected unit credit method.

GRANTS

The amounts set up as liabilities are amortized into income over the depreciable life of the assets of the tangible asset supported by investment grants. By changing the write-

downs to tangible assets (see Tangible assets), the definition of grants changes in accordance with the modified depreciable life.

COMPREHENSIVE INCOME

The comprehensive income comprises the consolidated net income for the year, unrealized gains and losses from the market valuation of marketable securities and the difference from currency conversion and is disclosed within the shareholders' capital under the revenue reserves or in the comprehensive income.

DEFERRED TAXES

German law differs here with regard to the activation obligation for active deferred taxes from taxable carried-forward loss. Passive deferred taxes are computed on temporary differences, i.e. differences between the commercial and taxable balance sheet figure of assets and liabilities, that subsequently reverses.

(19) BREAKDOWN OF SHARE OWNERSHIP

	Level of participation in %	Shareholders' equity EUR thousand	Annual result in EUR thousand
Mühlbauer AG, Roding	100	19,148	8,917
Mühlbauer Inc., Newport News, Virginia, USA	100	554	61
Mühlbauer Sdn. Bhd., Melaka, Malaysia	100	1,114	448
Subsidiaries of Mühlbauer AG, Roding			
ABOS Automation, Bildverarbeitung, Optische Systeme GmbH, Oberhaching	100	1,009	50
ASEM Präzisions-Automaten-GmbH, Dresden	100	-280	-335
Rommel GmbH Apparate- und Anlagenbau, Ehingen	100	582	392

(20) BUSINESS SEGMENT REPORT

In 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which established reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by

the Company's senior management.

As shown below, the company operates in four different segments. For the purpose of reporting in accordance with SFAS No. 131, the company presents segment information relating to sales. All other financial information is reviewed and evaluated by senior management on a combined basis.

Business Units	1999	1998	unaudited 1997
	EUR thousand	EUR thousand	EUR thousand
Smart Cards	34,984	23,226	24,244
Semiconductor Backend Automation	22,159	17,880	21,770
Board Handling	5,421	7,336	-
Precision Parts	8,597	5,203	3,463
	71,161	53,645	49,477
Other	-135	+ 265	-
	71,026	53,910	49,477

Sales regions	1999	1998	unaudited 1997
	EUR thousand	EUR thousand	EUR thousand
Germany	27,244	25,098	19,598
Rest of Europe	23,559	11,992	14,047
Africa	53	2,807	-
North America	5,598	4,125	2,969
South America	1,324	1,362	-
Asia	13,356	8,243	12,863
Australia	27	18	-
	71,161	53,645	49,477
Other	-135	+ 265	-
	71,026	53,910	49,477

Under German accounting principles applied for the integration of Rommel GmbH in the preceding year (see Note 4), the company has included results of Rommel GmbH from January 1, 1998. Had Rommel GmbH been recorded in accordance with US-GAAP as from October 1, 1998, revenues from Board Handling would have been

reduced by EUR 4,865 thousand to EUR 2,471 thousand. In the sales regions, Germany would have decreased by EUR 4,518 thousand to EUR 20,580 thousand, the rest of Europe would have fallen by EUR 337 thousand to EUR 11,655 thousand and South America by EUR 10 thousand to EUR 1,352 thousand.

(21) TRANSACTIONS WITH RELATED PARTY

Several subsidiaries in the Group rent office premises from the personally liable shareholder. The tenancy is for an indefinite term and under German law may be terminated

at any time by either party. The rental costs amounted to EUR 279 thousand and EUR 252 thousand in 1999 and 1998 respectively.

(22) AGENTS

The Mühlbauer Holding AG & Co. KGaA is represented exclusively by the personally liable shareholder. The personally liable and managing shareholder of Mühlbauer Holding AG & Co. KGaA is Mühlbauer Holding AG & Co. Verwaltungs KG, Roding. This company's personally liable and mana-

ging shareholder is Mühlbauer Beteiligungs AG. The principal shareholder and CEO of Mühlbauer Beteiligungs AG is Mr. Josef Mühlbauer. The Mühlbauer Group business is essentially managed by Mühlbauer AG. The Management Board of Mühlbauer AG currently comprises the following members:

MANAGEMENT BOARD

Josef Mühlbauer
Chief Executive Officer

Hubert Forster
Financial Manager

Ulrich Schwab
Production Manager

SUPERVISORY BOARD

Assessor Herbert Geißler
Chairman

Peter Drexel
Deputy Chairman

Wolfgang Brückl

GROUP ASSIGNMENTS:
Mühlbauer Aktiengesellschaft
Aktiengesellschaft (Chair)

GROUP ASSIGNMENTS:
Mühlbauer Aktiengesellschaft
(Deputy Chair)

GROUP ASSIGNMENTS:
Mühlbauer Aktiengesellschaft

OTHER ASSIGNMENTS:
Supervisory Board:
Mühlbauer Beteiligungs AG
(Chair)

OTHER ASSIGNMENTS:
Supervisory Board:
Mühlbauer Beteiligungs AG
(Deputy Chair)

(23) STOCKS HELD BY THE MANAGEMENT AND THE SUPERVISORY BOARD

The Mühlbauer Holding AG & Co. Verwaltungs KG in function as the personally liable shareholder held 459,999 common shares per December 31, 1999.
The CEO of the operational Mühlbauer

Aktiengesellschaft held 2,456 shares per December 31, 1999.

The Supervisory Board held 900 common shares per December 31, 1999.

INDEPENDENT AUDITOR'S REPORT

To the shareholders and the personally responsible partner of Mühlbauer Holding AG & Co. KGaA, Roding.

We have audited the company conclusion of the Mühlbauer Holding AG & Co. KGaA, Roding, after United States General Accounting Principles (US-GAAP) by the personally responsible partner for the business year from January 1 to December 31, 1999. Likewise, we checked the documents released that were necessary for the assertion of a released company conclusion after article 292a HGB, set up after international accounting principles.

The assertion of the company conclusion and its expression is a company report on the situation of the arranged representation equivalent after article 315 HGB at the time of a management report. The company conclusion was released in accordance with article 292a HGB due to the use of US accounting principles and the regulations of the statute participation. Mr. Josef Mühlbauer is the personally responsible partner, represented by the executive committee of Mühlbauer AG, Roding. Our function is to deliver it on the basis of the audit executed by us after an evaluation of the company year-end and management report.

We completed our company final audit after article 317 HGB, considering the principles of regular final audit as determined by the institute of the chartered accountants (IDW). The purpose of the audit is to identify with sufficient confidence any errors and offences, that may have been on the management report, that through the company conclusion and the company report in accordance with article 315 HGB, so that the picture obtained of company fortune, finance and earnings is correct. During the definition of the audit procedures the knowledge of the business activity and of the economic and legal surrounding field of the company as well as expectations of possible errors is considered. In the context of the audit the effec-

tiveness of the internal control system as well as proofs for the specification in the company conclusion and management report are judged predominantly on the basis of samples. The audit covers the evaluation of the year-end procedures of the enterprises included in the company conclusion, the memorandum of the consolidation set, the applied balance and consolidation principles of the released documents necessary for a released company conclusion after article 292a HGB, and the substantial estimates of the personally responsible partner as well as the appreciation of the overall display of the company conclusion and the management report. We are of the view that our audit forms a sufficiently safe basis for our evaluation.

Our audit led to no objections.

After our conviction, the company conclusion (set up after the accounting principles of the US-GAAP) represents actual conditions corresponding to a picture for that of the fortune, financial and earnings of the company. The management gives altogether an applicable understanding of the position of the company and represents the risks of the applicable future development as reported. The management report contains the information prescribed for a company report in the situation after article 315 HGB and is equivalent in its force of expression to the one company report in the situation after article 315 HGB. The conditions for the assertion of a released company conclusion after article 292a HGB are fulfilled.

March 1, 2000
Munich

Susat & Partner OHG
Company of auditors

Dr. Kusterer Scherbauer
Certified accountant Certified accountant

Corporate Calendar 2000

April 4th	Final Results 1999, Press Conference
April 4th	Analyst Meeting in Frankfurt
May 4th	Annual General Meeting
May 16th	Quarterly Report as at March 31, 2000
August 16th.	Quarterly Report as at June 30, 2000
November 16th	Quarterly Report as at September 30, 2000

Mühlbauer - 20 Years of High Tech

1981	Mühlbauer starts the fabrication of precision parts in Munich.
1986	Getting into the semiconductor technology
1988	The first production lines for Smart Cards are built.
1991	First foreign sales office in France
1998	IPO at Neuer Markt and canvassing of Rommel GmbH
1999	New products like LEDs, SmartLabels and Smart-Media-Cards in production stage Further internationalization
2000	New technology center in Dresden Expansion of assembly facilities in Roding Every month a new machine or system is presented.

Mühlbauer Holding AG & Co. KGaA
Investor Relations
Werner-von-Siemens-Straße 3
D-93426 Roding
Phone: + 49 - (0) 94 61 95 26 53
Fax: + 49 - (0) 94 61 95 21 18
eMail: investor-relation@muehlbauer.de
Internet: <http://www.muehlbauer.de>

Mühlbauer Germany
Mühlbauer AG
Werner-von-Siemens-Strasse 3
D – 93426 Roding
Phone: + 49-9461-952-0
Fax: + 49-9461-952-101
eMail: info@muehlbauer.de

Mühlbauer Southern Europe
106 rue de la Liberté
F – 38180 Seyssins
Phone : + 33-4-7684-0861
Fax: + 33-4-7684-0886
eMail: mbse@muehlbauer.de

Mühlbauer UK
Suite S2
Phoenix House
Phoenix Crescent
Strathclyde Business Park
Bellshill
North Lanarkshire, ML4 3NJ
Scotland, UK
Phone: + 44-1698-501-100
Fax: + 44-1698-501-101
eMail: mbuk@muehlbauer.de

Mühlbauer Americas
Mühlbauer Inc.
725 Middle Ground Boulevard
Newport News,
USA – Virginia 23606
Phone: + 1-757-873-0424
Fax: + 1-757-873-0485
eMail: mbus@muehlbauer.de

Mühlbauer Asia Pacific
Mühlbauer Sdn. Bhd.
No. 22, Jalan Mutiara Melaka 2
Mutiara Melaka, Batu Berendam
MAL – 75350 Melaka, Malaysia
Phone: + 60-6-317-6380
Fax: + 60-6-317-6381
eMail: mbap@muehlbauer.de

Mühlbauer China
27F-G Yun Xiang Building
72-74 Xi Kang Road,
He Ping District
300074 Tianjin
Phone: + 86-2283-850013
Fax: + 86-2283-850010
eMail: mbrag@muehlbauer.de

Mühlbauer Taiwan
1F, No. 215 Kao-Shui Road
Kao-Fong Lii,
Hsin Chu
Taiwan R.O.C.
Phone: + 886-3563-1357
Fax: + 886-3563-1359
eMail: mbtaiwan@muehlbauer.de