

Annual Report 2008



Key Figures

		2008	2007	Change %
Sales	TEUR	172,575	159,134	8.4
Research and development expenses	TEUR	22,731	20,280	12.1
EBIT ¹	TEUR	24,237	26,411	(8.2)
Pretax profit margin	%	14.1	17.9	(3.8)
Net earnings	TEUR	18,274	19,114	(4.4)
Earnings per share	EUR	1.24	1.31	(5.3)
Free cashflow	TEUR	6,331	16,394	(61.4)
Working capital ²	TEUR	53,748	46,077	16.6
Working capital-intensity ³	%	31.1	29.0	2.1
Gross capital expenditures without capitalized development costs	TEUR	8,999	6,908	30.3
Equity ratio	%	77.5	81.2	(3.7)
Dividend per share ⁴	EUR	1.00	1.00	0.0
Share price (Year-End-Close)	EUR	17.40	24.19	(28.1)
Market Capitalization (Year-End Close)	TEUR	255,712	355,498	(28.1)
Employees (Average per year)	number	1,841	1,710	7.7

¹ Earnings before interest and tax

² Non interest short-term assets - non interest current liabilities

³ Working capital/Sales

⁴ Subject to the approval of the AGM

Mühlbauer – Worldwide at home



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To our shareholders, business partners and employees



Ladies and Gentlemen

The 2008 financial year was characterized by a difficult environment. The turbulent financial market and the distinct dampening of the real economy as of mid-2008 resulted in generalized insecurity. Despite this, 2008 was a successful year for Mühlbauer: Not only did we achieve new record high in sales, we also came one step closer to establishing the Mühlbauer Group as a one-stop provider of solutions and system partner among our customers, globally.

*Management Board of
the Mühlbauer AG (I.t.r.):
Thomas Betz
Josef Mühlbauer
Hubert Forster
Karl-Heinz Plank*



No other company currently holds the same range of technology and software solutions for the intelligent identification market as Mühlbauer. Wherever people identify themselves via innovative cards and documents or where flows of goods and logistics are identified via RFID – Mühlbauer can provide the corresponding expertise. Our unambiguous strategy is "One-stop solutions" and this pertains to the entire process chain – starting with precision parts to systems that process minute dice and through to large government-related ID applications or RFID Smart Label factories. Mühlbauer takes on the project planning, the provision of hardware and software

Our strategy:
"One-stop solutions"



solutions and, on request, the production support including service and support to governments, public authorities and several other customers. Irrespective of how high customer requirements may be, we are able to take full responsibility for a project as a system partner. In the year under review we proved this once again: Mühlbauer was awarded a large order for the complete realization of a government ID project for a European country. Overall, our reference list already includes more than 100 ID projects – clear signs of confidence, which will offer support for future project awards.

Global development of our basis

With regard to Mühlbauer's strategic basis, in 2008 we focused on pushing ahead the expansion of the Mühlbauer Group to a global group by developing independent technology centers. The technology center in Malaysia is not only developing to become an independent semiconductor back-end platform, which will in future also provide customers with innovative expertise in the carrier tape and die sorting sectors at the usual Mühlbauer quality. Thanks to its strategic positioning, the site is also increasingly proving its worth as a hub for the entire Asian business. Additionally, investments are being made in the further development of our sites in Slovakia and USA. While the state-of-the-art customer center constructed in the USA already commenced operation at the beginning of 2009, research, construction and production will be kicked off in a state-of-the-art building at the Slovakian technology site Nitra in the first quarter of 2009. Through our global expansion and our independent technology and production centers we have taken important steps to strengthen Mühlbauer's position on the global market for Smart Identification sustainably.

A focus on our employees

Personnel development has always played a major role at Mühlbauer. In the course of the internationalization of the Mühlbauer Group and the associated rise of requirements towards our staff, we, however, once again pushed this issue distinctly ahead in the 2008 financial year. Our executives, in particular, increasingly received training through customized qualification measures and were prepared to meet the new intercultural challenges. We also remained true to ourselves with regard to our trainee and apprentice recruitment policy: In the year under review we once again enabled numerous young people to commence a trainee- or apprenticeship with us. This allows us to form a powerful team on the basis of our corporate culture, which can push Mühlbauer ahead long-term.



A glance to our company's key figures proves that we have taken the right track with our strategy. We ended the 2008 financial year with record sales of EUR 172.6 million. This corresponds to an increase of 8.5%, year-on-year. Against this background we want to retain our reliable dividend policy, even in respect of the year that was disappointing for many investors, and will propose the payment of a dividend of EUR 1.00 per share to the Annual General Meeting.

On the right track

The economic dampening brought about by the international financial market crisis will particularly impact the global economy in 2009 and put the capacity of many companies to a severe test. The Mühlbauer technology group considers itself up to this challenge: We hold innovative technology and market expertise for a growing market dealing with intelligent identification and have consistently worked hard at strengthening our entire basis globally – year for year. Thanks to our liquidity reserves we have a wide radius and scope of action, even in more difficult times. Additionally, we regularly put our organization and processes to the test, in order to guarantee the economic stability of our company sustainedly. Even though 2009 will not be an easy year, in view of the current framework conditions and upcoming uncertainties: we will do everything to continue the successful development of the Mühlbauer Group. Focused fully on our markets it is our goal to consistently pursue our strategy as a one-stop provider and utilize our potential for a positive development of business. Be assured that our entire team is working towards this goal and is fully dedicated to this task. I look forward if you accompany us in future. Thank you for your confidence.

Confidently into the future

Your sincerely

Josef Mühlbauer
Chief Executive Officer (CEO)

Competence and expertise – a healthy basis for further growth

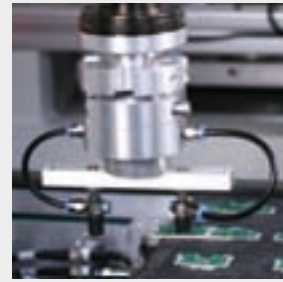
- Manufacture of production equipment for the semi-conductor backend industry



- Opening of the first sites abroad (France, USA)



- Mühlbauer goes public (IPO)
- Acquisition of ROMMEL GmbH with Boardhandling and Traceability



1981

1986

1988

1991

1996

1998

2000



- Foundation of the company
- Production of precision parts for the aerospace industry



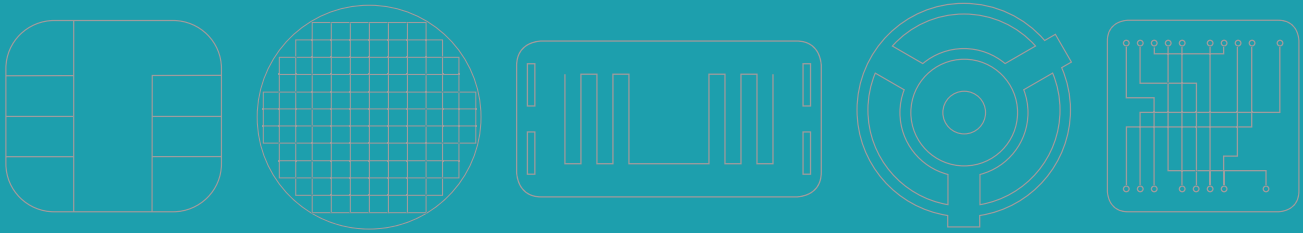
- First turnkey production solutions for the manufacture of plastic cards and Smart Cards



- Start of the development and production of Smart Label systems
- Opening of the Malaysian site



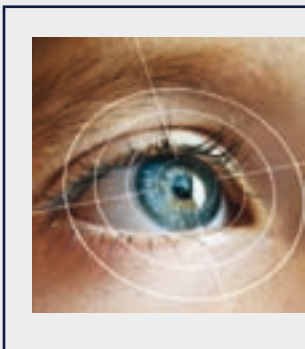
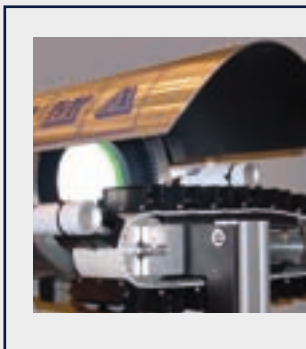
- First high-speed personalization system for healthcare, ID or bank cards



- Takeover of TEMA GmbH for the purpose of extending the company's competence in industrial image processing (vision)

- Mühlbauer is the first company to provide laser and inkjet personalization solutions for electronic passports
- Presentation of initial biometric data enrollment and border crossing solutions

- Extension of the RFID portfolio to a complete RFID Smart Label Factory
- As world market leader intensely involved in more than 100 ID projects around the globe
- Expansion of its US American site
- Number of employees climbs to 1,900



2002

2003

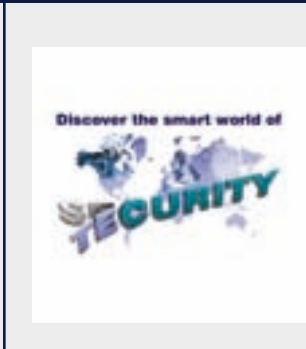
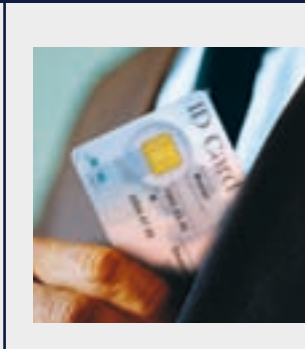
2004

2005

2006

2007

2008



- Mühlbauer positions itself in the areas of government security and biometry

- Kick-off of the market claim "TECURITY" (**T**echnology meets **S**ecurity)
- Mühlbauer is already involved in numerous government projects as a technology partner

- Global orientation and internationalization of the company is being pushed ahead
- New technology sites in Malaysia and Slovakia

Intelligent one-stop identification



Document printing

In document printing Mühlbauer offers additional equipment for the mounting of various security applications on cards or passports. These include hologram or KINEGRAM®, microprinting, hidden images and rainbow printing. These features are required to meet the high security requirements towards modern ID documents.

Production

Mühlbauer offers machine solutions for every step in the process of manufacturing Smart Cards, electronic passports or RFID labels. Milestones here are the production of the passport booklet, the card body and the chip module and, with regard to contactless applications, systems for the integration of the RFID inlet into the card or passport. For the manufacture of contactless readable RFID labels, Mühlbauer not only provides flexible assembly lines for the mounting of antennas, but also converting systems, which collate paper and inlay fully automatically, thus creating a self-adhesive label or Smart Ticket that is ready for use.

As a provider of complete solutions for smart identification, Mühlbauer is the only company that holds the necessary expertise to support its customers along every step of the digital security and contactless identification process. With regard to cards and ID projects, the portfolio ranges from technologies for data capturing to card production and personalization, through to fully automatic border crossing procedures – including software solutions. For the contactless identification of goods and flows of goods, Mühlbauer manufactures systems for the production of RFID inlays and for the subsequent conversion to self-adhesive RFID labels or RFID tickets.



getID, a software solution specifically developed by Mühlbauer, in combination with hardware systems such as IDMobile or IDTower, facilitates the capturing and processing of personal and biometric data in accordance with ICAO requirements. These data are required for the subsequent personalization of ID documents.

Data capturing

Mühlbauer systems personalize all types of cards or passports by applying personal data using laser or re-transfer/thermo printing or chip coding. Depending on the customer's requirements, up to 60 different security features can be applied. This renders a mass product an individual, unique document.

Personalization

Mühlbauer already holds the hardware and software for the comparison of persons and ID documents, required for fully automatic access control. These systems can also be used for the automation of border crossing processes.

Verification

Technology for a flexible world



Government / ID

Documents such as passports, ID cards, healthcare cards or driver's licenses are currently undergoing significant transformation. Many states worldwide are replacing their conventional documents with new, innovative and secure ID solutions. In more than 100 ID projects Mühlbauer has already made technologies available to governments and public authorities as a partner, e.g. for the introduction of electronic passports or innovative ID documents. The market is, however, still in the early stages of its development. In particular for ID cards and electronic passports market research companies anticipate a strong demand and high growth rates.

Payment transactions

The EMV chip for credit and debit cards is the new technological standard for communication between chip cards and terminals when processing EC or credit card transactions. The new EMV cards are therefore chip based and offer greater security against misuse. Worldwide, the large-scale migration to the international standard for chip-based payment transaction cards is proceeding, so that in 2008 alone, more than 600 million Smart Cards for financial services were requested – and the trend is rising. Mühlbauer not only provides its customers with the technology for the production of chip cards for payment transactions with different security features but also assists its customers in gaining the necessary certification, e.g. for bank card production.

In a world, which is interlinked across many borders, travel, cashless payment transactions and wireless telecommunications are usual and quite frequently indispensable. The technology and expertise of the Mühlbauer Group can be found in many of these applications that have become common to us. Here the quality standard is particularly high, as sensitive data must be handled safely. The competence of the Mühlbauer technology group in the card sector is based on 20 years of experience. On this basis, we support numerous governments, public authorities, banks and card producers as an independent partner.

The sustained high demand for SIM and telephone cards is still unbroken. Mobile telephones, laptops, PDAs and many other applications require intelligent GSM/UMTS cards to enable modern, unlimited communications. The continuous spread of telecommunications systems in developing and newly industrializing countries results in an additional stimulus for demand. According to calculations by the industry expert Eurosmart, demand for telecom and SIM cards increased to more than 3.5 billion in 2008. In this market sector Mühlbauer exactly meets the requirements of its customers with its high-speed systems.

Telecommunications



Designing tomorrow today

Supply chain management

The introduction of RFID labeling is being pushed ahead in a united effort by retail groups such as Metro, Tesco and Wal Mart. Metro already uses the RFID technology throughout Germany in all its wholesale stores and in more than 100 department stores. Delivery times decreased and error rates dropped in stores using RFID. The retail group, in cooperation with DHL, has therefore been extending the use of RFID throughout Europe since 2008. Even the suppliers of the retail groups are now under the obligation to convert their boxes or pallets to RFID.



In 2008, the RFID market grew to a volume of more than USD 5 billion, worldwide. In so doing, China and the USA were the by far largest regional markets, followed by the UK, Japan and Germany. Mühlbauer solutions repeatedly hit upon newly originating markets that are at the outset of a promising development. This applies, in particular, to the subject of contactless identification and RFID. Mühlbauer systems are already being used for the production of RFID inlays and their subsequent conversion to self-adhesive labels or RFID tickets.



Forge-proof RFID tickets are increasingly frequently used in areas that were previously dominated by magnetic stripe cards. Since the 2006 FIFA World Cup the RFID ticket for major events is no longer a novelty. Recently, however, public transport has also moved into the focus of RFID applications. In Moscow, for example, the subway line that transports more than seven million persons a day was equipped with a RFID ticketing system. And in China, the operator of the Chinese railroad system, with a passenger volume of three billion people a year, also introduced RFID tickets. With the new contactless RFID tickets, passengers not only have more rapid access but also benefit from the greater reliability of their tickets.

Ticketing

The growing number of projects that have been successfully implemented, new pilot measures that have been kicked off and the active interest in ever new application areas for RFID imply great potential. Pharmaceutical companies and distributors are for example interested in issuing drugs with RFID tags to prevent product piracy and protect patients, while the use of luggage tags at airports optimizes luggage sorting and loading and prevents loss of luggage. Demand for RFID is, however, also strongly boosted by government-related applications. The RFID-based electronic passport is becoming a standard and RFID is being extended to further ID documents. RFID will find its way into all applications where contactless identification can optimize processes or increase security. The industry expert IDTechex is therefore assuming that the value of RFID market will grow by more than 20% p.a. over the next few years.

Further applications



Intelligence and precision as basis

Intelligence from the beginning

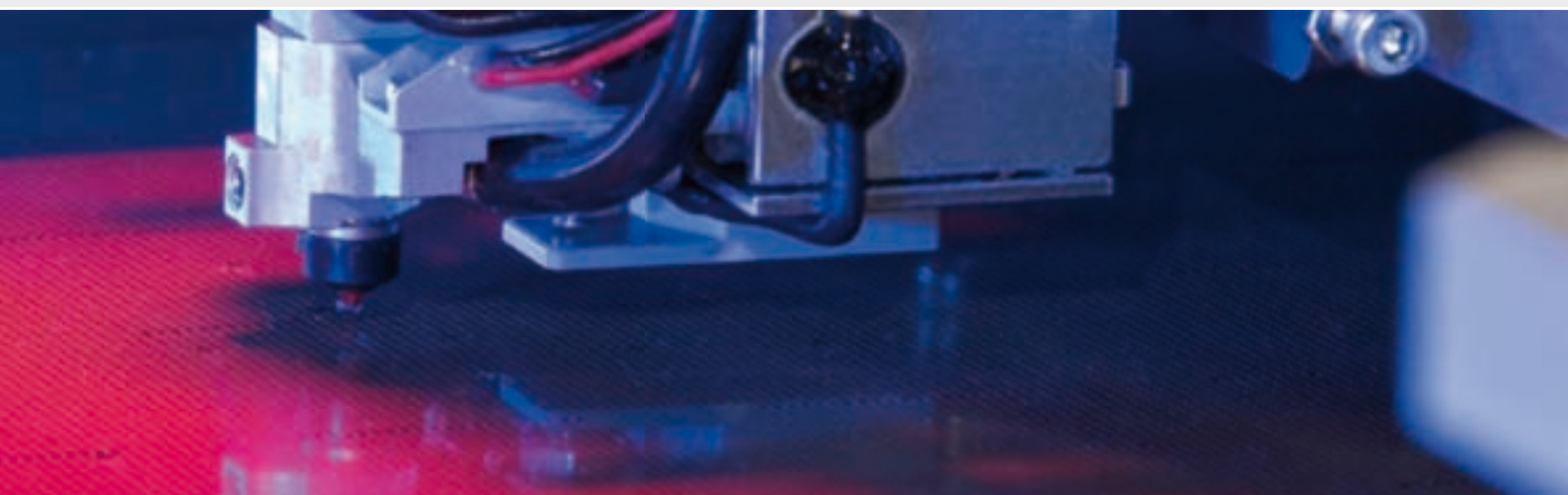
Our product portfolio comprises carrier tape systems for the punching, cutting and winding of carrier tapes, die sorting systems that sort dice into different packaging forms such as carrier tape, waffle pack or gel pack, and systems for flip chip bonding, a particularly effective procedure in which the chip is turned 180 degrees and bonded with the carrier. To Mühlbauer it is not important whether the mounting of the chips is to be effected directly or whether the strap technology is requested. The company has suitable assembly concepts to meet all needs.

System solutions in the semiconductor sector are more than merely an additional niche area. The company's specialization on particularly small and thin elements and semiconductors represents an important basic component within its own technology platform. After all, even intelligent identification, the company's core business, is ultimately based on the microchip as a storage medium – for example in the IC module of a contact-based card, in the contactless inlay of an electronic passport or in the intelligent label of a paper ticket.

Without microchips, our modern world would not function. Everyday it generates a flood of data that need to be processed, as microchips are incorporated into devices that are used on a daily basis, such as Smart Cards, Smart Labels, mobile telephones, PCs and consumer electronics as well as in highly complex technical systems for the aerospace industry. However, all these different end products have one thing in common: Mühlbauer technology is incorporated into them right from the start. After all, with its semiconductor-related product solutions, Mühlbauer focuses on the assembly and processing of minute dice – the intelligence.

The ongoing miniaturization trend – not only in the semiconductor industry – places the highest demands on the precision and quality of our systems. Not least for this reason, Mühlbauer manufactures precision parts at its own modernly equipped production centers. After all, quality starts off as a minute element, which can end up impacting complex processes. We therefore not only produce complete systems, but also all associated individual parts and components. For this purpose, we manufacture in the sectors material cutting, CNC milling, turning, toolmaking and surface technology within cycle time. As a result, we can guarantee a constant high level of quality, from the very first to the very last step in production. Even customers from the motor sports, aerospace, medical technology and semiconductor industries benefit from this.

Quality – the decisive factor



Responsibility from the beginning

ID Project

Implementation

Verification Software

Access Control Systems & Border Crossing

Maintenance

Planning & Design

Softwarebased Data Management

Production & Personalization

Production Support

Identification of Customer Needs

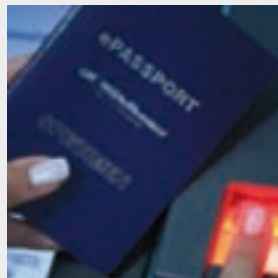
Data Enrollment (getID)

Data Enrollment

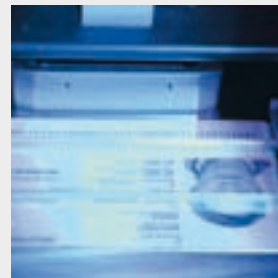
First Level Support



Consulting



Software



Hardware



Service

It is our goal to offer our customers solutions and products along the entire process chain from a single source – starting with precision parts to systems for the processing of minute dice through to large complex ID applications or complete factories. At the request of our customers we will take over the entire planning of the project, the implementation of hardware and software and the final support of production, including service and support. Those who interpret the term complete solution as comprehensively as this, hold responsibility from the word “go”. Numerous discerning customers from sensitive industries, who need to ensure that technology and expertise fully meet their requirements during every stage of their project already benefit from this interpretation.

The way Mühlbauer interprets this responsibility becomes clear using a major contract as an example that comprises the entire technology transfer for the production of electronic ID documents for a country. In a first step, Mühlbauer analyses the requirements of the ID project together with its customer and then plans its technological implementation in a targeted manner. Consultation is provided at an early stage, for example with the planning of highly secure production facilities with access control system and building monitoring, taking into consideration all stringent state requirements, and continues with the identification of the technologies required for the production of the documents.

Consulting

The actual technological realization of the project commences on completion of the planning stage. Depending on the requirements of the respective customer, Mühlbauer will provide the entire equipment, including the necessary raw materials for production and personalization of the electronic ID documents. The overall volume of the project comprises production systems for the manufacture of the ID document as well as centralized and decentralized personalization systems. On the one hand, these systems optically apply personal data on the document; on the other hand, they code the chip by storing biometric data. Furthermore, Mühlbauer provides the technology for the complete data capturing and generates software-based interfaces for reconciliation with existing national databases.

Project realization & support

After start-up we provide our customers with production support. We will recruit suitable staff, execute the training of our customer's employees, provide assistance during production and help out in the event of staffing bottlenecks. Comprehensive service and support is offered throughout the period our system solutions are utilized. Sites on all continents enable Mühlbauer to react extremely rapidly and allow for close customer proximity.

To us, responsibility from the beginning means: we support our customers from the initial planning stage through to the successful production of complete ID documents – and more. This often results in longstanding partnerships.

**Mühlbauer:
a long-term partner**

Security through individuality

Security through Cards & TECURITY®

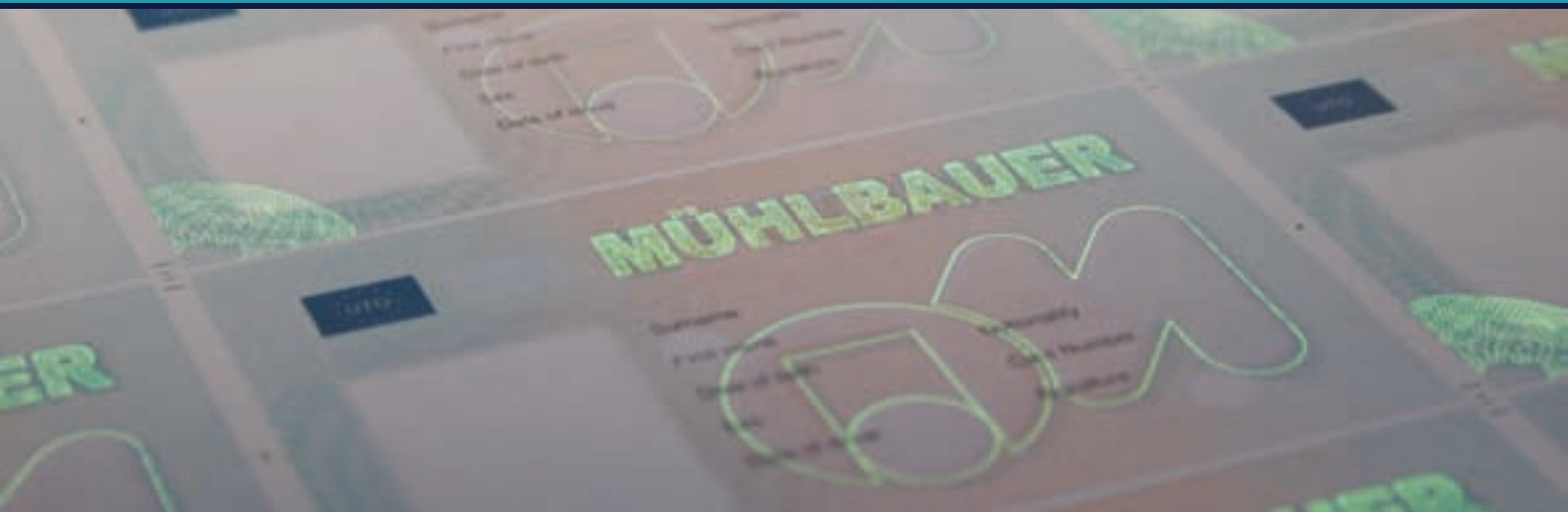
These days we use cards to identify ourselves, be it as a person, a customer or, in general, as an authorized person. Smart Cards must therefore be as individual as their owners. For that reason, cards are personalized and furnished with biometric data because nothing is as individual as one's own biometry. Different security features provide additional protection against forgery. However, the verification systems that read our cards must also be secure, so that data are interpreted correctly and do not fall into the wrong hands. All these processes are covered by Mühlbauer systems: security through Cards & TECURITY®.



Security through Traceability

However, security through individuality does not only commence with a Smart Card or an intelligent label, but often far earlier: Namely during production. The marking of electronic components and modules allows for the tracking of the manufacturing process, even in respect of complex end products. The causes of errors can be identified more rapidly and damage can be prevented in time. Transparency and the opportunity to rapidly intervene are important elements on the path to greater product security. Mühlbauer is a specialist for marking and board handling systems – security through Traceability.

Mühlbauer technology ensures individuality and thus greater security. This relationship becomes clear if one takes into consideration that our modern life consists of a multitude of processes that can only function if we make the right allocations: e.g. person and ID document, accounting process and account holder, goods and storage locations or product and manufacturer. However, only items or persons can be precisely allocated that were previously marked as distinctly as possible.



Smart Labels ensure a clear marking of goods and services. The benefits that arise from this are varied. Flows of goods can be tracked or controlled, the monitoring of inventory is virtually automatic and stocktaking is faster and more secure. Smart Labels also represent an electronic certificate of authenticity that protects name-brand products, while preventing theft at the same time. As Smart Tickets, they enable contactless access control, thus providing protection against the misuse and abuse of services. As global market leader in the RFID sector, Mühlbauer supports all procedures for the production of Smart Labels, across the entire spectrum of applications – security through Smart Labels.

Security through Smart Labels



Treading new paths in technology

Advance through research

More than 340 researchers and developers currently work for the Mühlbauer Group – a figure that proves how important R&D is to us. Our high level of development potential provides us with the opportunity not only of reacting but of actively pushing ahead changes. This way Mühlbauer not only secures its lead in global competition but can in fact tread new paths with its technologies.

However, it is still our primary objective to provide a full range of complete solutions for intelligent identification across all steps of a process. To this end, we are continuously extending our product portfolio and developing new procedures. The introduction of the electronic passport, for example, will entail fully automatic border crossing solutions involving biometric reconciliation, which we can already supply. And, with regard to the manufacture of ID cards, we have extended the end of the process chain by fully automatic CardMail systems for the mailing of cards.

Using synergies

Furthermore, we hold the strength and the potential to open up additional areas. Where are new markets developing and in which additional sectors can our technology be used? Traceability marking systems are meanwhile being used in the solar sector and our vision-based inspection systems are being used in different areas. We become involved wherever synergies arise and new potential for growth is recognized.

To familiarize public authorities and governments with our technology we have not only set up comprehensively equipped demo rooms in our technology centers. We also send our system solutions directly to customers. Our TECURITY truck, fitted with data capturing, card production and personalization systems, will travel the globe for demonstration purposes, to render technology tangible.

Within the Mühlbauer Group, innovation begins with the early identification of new opportunities and trends; and ends with the rapid implementation of solutions in practice. More than 20 years ago Mühlbauer was the first company to develop and install turnkey production solutions for the manufacture of Smart Cards. Over ten years ago the company launched the first Smart Label systems on the market. When developing new systems, it is decisive to us what our customers need and will need in future. That is the focus of our R&D activities – irrespective of whether we are considering basic technologies for completely new markets or customer-specific solutions.



The Mühlbauer Share

Stock markets in the grip of the financial crisis

Contrary to initial expectations, share prices did not increase in 2008 but actually dropped sharply. In particular the intensification of the financial market crisis, which became already apparent in 2007 and reached a temporary climax in September 2008, with the insolvency of the US American investment bank Lehman Brothers, as well as the economic deceleration that developed in the course of the year, exerted a distinct negative impact on stock markets. While the DAX recorded a year-on-year decline of around -40%, other important benchmark indexes also turned down: the Dow Jones dropped -34% year-on-year, the Euro Stoxx -44% and the Nikkei slumped -42% over the same period.

Development of the Mühlbauer Share

In this extremely difficult year, which was accompanied by some serious fluctuations on the stock markets, the Mühlbauer share managed comparatively well. While the Mühlbauer share still followed the strong downward trend of the TecDAX and the industry index DAXsector Technology, which projects all technology shares of the Prime Standard, in Q1, it managed to positively remove itself from both indexes in mid-March, following the publication of the financial figures in the context of the balance press conference. During the interim recovery period,

the Mühlbauer share climaxed in April, at EUR 26.18, before continuing with a volatile lateral development. At the end of September the support for the Mühlbauer share waned significantly, resulting in the all-year low of EUR 15.55 in December. The reason for this was primarily the insecurity among investors as a result of the intensification of the financial market crisis, which impacted stock markets worldwide. It was not until the last two weeks before the year-end that the share recovered slightly, so that the Mühlbauer share ended the year at EUR 17.40. This amounts to a year-on-year decline of -28.1%.



To the year-end, the market capitalization of Mühlbauer Holding AG & Co. KGaA amounted to EUR 255.7 million (PY: EUR 355.5 million). In the same period the average amount of shares traded on a daily basis dropped sharply from 10,821 to 5,630, due to the general strong decline in share investments. Nonetheless, Mühlbauer improved its ranking on the lists of Deutsche Börse relevant to the composition of the TecDAX, with regard to market capitalization (rank 42; PY: 58) and stock market sales (rank 66; PY: 70).

Stable dividend policy

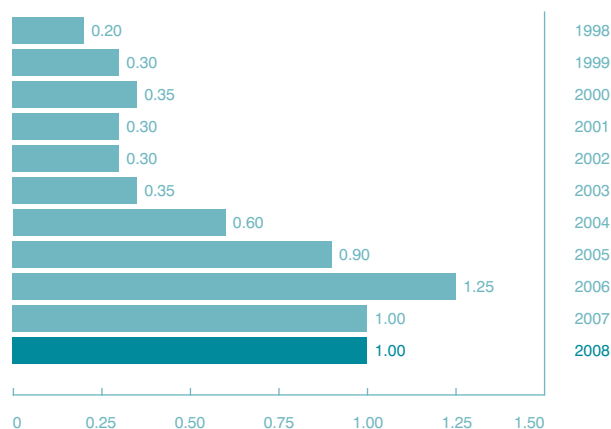
Mühlbauer is one of few technology companies that has been implementing an extremely reliable dividend policy since its IPO in 1998. The personally liable shareholder and the Supervisory Board want to retain this stable dividend policy for the 2008 financial year and therefore propose to the Annual General Meeting the payment of a dividend of EUR 1.00 per share. On the basis of the closing price for the year of EUR 17.40, this amounts to an above-average dividend yield of 5.7%.

Ratios	2008	2007
Share price (Xetra)		
Annual high (in EUR)	26.18	37.50
Annual low (in EUR)	15.55	21.51
Year end (in EUR)	17.40	24.19
Market capitalization¹		
Annual high (in EUR thousand)	384,743	551,103
Annual low (in EUR thousand)	228,524	316,113
Year end (in EUR thousand)	255,712	355,498
Share values		
Earnings (in EUR)	1.24	1.31
Dividend (in EUR)	1,00 ²	1,00
Trading volumes (in share certificates)³		
Average per trading day	5,630	10,821
Whole year (in million share certificates)	1.4	2.7

With our Investor Relations work we have continued our policy of transparent and timely reporting, as well as our continual communication with the financial market. In so doing, the Mühlbauer Group places great value on an open and personal dialog with investors, analysts, private shareholders and representatives of the financial and business press. In the year under review, in the context of roadshows and capital market conferences in London and Frankfurt, as well as in numerous one-on-one meetings at the company's headquarters in Roding, the management of the Mühlbauer Group provided information on the development and strategy of the company. Furthermore, not only did institutional investors and analysts increasingly utilize the opportunity to visit the company and participate in a tour of the premises in order to acquaint themselves with Mühlbauer's unique technology first-hand, but also private investors and other interested parties. The interest in the Annual General Meeting of the Mühlbauer Group also rose – more than 300 (PY: 260) shareholders and visitors participated in the Annual General Meeting in the year under review. In our endeavor to provide comprehensive and timely information to all target groups, we have made corporate information available on our internet presence. Interested parties will find detailed information on the company and its products at www.muehlbauer.de. Furthermore, the Investor Relations section contains all Annual and Quarterly Reports, presentations, press releases and ad hoc messages, as well as directors' dealings and Corporate Governance disclosures. Interested parties thus rapidly gain an up-to-date overview of important events in the company's development and can find contact data, should they have any further questions.

Transparency through Investor Relations

Dividend development
in EUR



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12 March 2009 Balance press and analysts' conference, Roding
28 April 2009 Quarterly Report I/2009
29 April 2009 Annual General Meeting, Roding
30 July 2009 Quarterly Report II/2009
29 October 2009 Quarterly Report III/2009
March 2010 Annual Report 2009

Financial Calendar

Corporate Governance

On 26 February 2002, the government committee German Corporate Governance Codex presented a code of conduct for the Management Boards and Supervisory Boards of publicly listed companies (German Corporate Governance Codex, subsequently also referred to as the 'Codex'). The Management and the Supervisory Boards of companies that are publicly listed in Germany are legally obliged to provide a Declaration of Conformity once a year to the effect that the current code of conduct was and is observed or which recommendations of the Codex were or are not applied.

Above and beyond legal requirements Mühlbauer Holding AG & Co. KGaA passed its own Corporate Governance Codex (subsequently also referred to the 'Internal Codex'). The personally liable shareholder and the Supervisory Board have agreed to the company's own Corporate Governance Codex, which is largely based on the version dated 06 June 2008. Additionally, all members of the Management Board of Mühlbauer Aktiengesellschaft (hereinafter referred to as "Management") voluntarily and individually declared their compliance with the provisions set out in its Codex.

Amendments added to the German Corporate Governance Codex on June 2008 were, after being discussed in the Supervisory Board with the personally liable shareholder and the Management, integrated in the internal Corporate Governance Codex.

In March and December 2008, the personally liable shareholder and Supervisory Board issued the Declaration of Conformity for 2008 and posted it to the company's Internet site (www.muehlbauer.de) for public access. The Declaration states which provisions of the German Corporate Governance Codex the company corresponded and corresponds with, and which recommendations of the Codex were or are not applied.

Mühlbauer Holding AG & Co. KGaA meets most target provisions of the Codex in its legal form. However, the personally liable shareholder and the Supervisory Board have also decided that the company will not conform to several provisions contained in the recommendations of the German Corporate Governance Codex in the version of 14 June 2007 ("Codex 2007") since the Declaration of Conformity valid from 20 March 2008 to 8 August 2008 and subsequently the new version of the recommendations of the German Corporate Governance Codex of 6 June 2008 ("Codex 2008"). The provisions that were not conformed to in the past and will not be conformed to in future are presented in the following section, including the reasons for non-conformity:

No deductible has been agreed in respect of the D&O insurance. A deductible would restrict opportunities for acquiring management staff with extensive entrepreneurial experience, as these would have to take into account liability risks, even in the event of negligent conduct. Apart from that, the agreement of deductibles in the management area is still uncommon (Codex 2007 and Codex 2008 Figure 3.8 para. 2).

Deductible on D&O insurance

As opposed to the German Corporate Governance Codex (Codex 2007 and Codex 2008 Figure 4.2.3 para. 3 clause 4), the stock option plans resolved by the Annual General Meeting in the past do not include any cap for extraordinary, unforeseeable developments. Irrespective of the fact that a stock option plan does not currently exist at Mühlbauer Holding AG & Co. KGaA, stock options have so far neither been issued to the personally liable shareholder nor to members of management.

Remuneration, individualized details and disclosure of management's remuneration

The company does not consider there to be a necessity to determine a cap as the future distribution of stock options is scheduled to be effected on an individual basis and at the most in small tranches.

The Chairman of the company's Supervisory Board will not provide the Annual General Meeting with information on the basic principles of the remuneration system and their amendment (Codex 2007 and Codex 2008 Figure 4.2.3 para. 6).

On principle, no details other than those required by law are provided in respect of the personally liable shareholder's remuneration as well as the remuneration of the corporate bodies and the management of the company (Codex 2007 and Codex 2008 Figure 4.2.4 and 4.2.5).

The overall remuneration paid to the management for its perception of responsibilities pertaining to Mühlbauer Holding AG & Co. KGaA and its subsidiaries is only shown as a total in the notes to the consolidated financial statements. It is shown by results-independent and results-related components as well as components with a long term incentive and/or in accordance with the regulations of the international financial reporting standards. (Codex 2007 and Codex 2008 Figure 4.2.4).

The remuneration and an explanation of the remuneration system are not disclosed in a remuneration report (Codex 2007 and Codex 2008 Figure 4.2.5 para. 1).

An explanation of management's remuneration components, information on the value of stock options (where relevant), the annual allocation of pension provisions and the main features of potential future stock option plans to be resolved by the Annual General Meeting, are provided in the notes. A more extensive disclosure and explanation of the remuneration system, the illustration of the concrete design of stock option plans, material contents of agreements in the event that a member of management retires as well as details on the fringe benefits paid by the company are not provided in the form of a remuneration report (Codex 2007 and Codex 2008 Figure 4.2.5 para. 2 and 3).

The remuneration system and the contents of possible stock option plans are the result of confidential discussions within the Supervisory Board and conversations by the Supervisory Board with the personally liable shareholder and management. The publication of details in excess of those legally required would increase the risk of a targeted solicitation of executives, as details of the remuneration structure would subsequently also be transparent to competition.

Formation of committees on the Supervisory Board

Due to the fact that the Supervisory Board consists of only three members, no committees are formed (Codex 2007 and Codex 2008 Figure 5.2 clause 2, 5.3.1 clause 1, 5.3.2 clause 1, 5.3.3).

Composition of the Supervisory Board and remuneration of its members

Mühlbauer refrains from defining an age limit for the members of the Supervisory Board (Codex 2007 and Codex 2008 Figure 5.4.1 clause 2). In the opinion of the company, the age of a person is not an indication as to whether the person is able to observe a mandate adequately or not.

With regard to the composition of the Supervisory Board, the primary objective of the company is the provision of professional consultation to and monitoring of management. Members of the Supervisory Board can also be suitable for this if they do not meet the criteria for independence within the meaning of Figure 5.4.2 clause 1 of the German Corporate Governance Codex (Codex 2007 and Codex 2008 Figure 5.4.2).

The appointment of the previous representative of the personally liable shareholder or a member of the Management Board of Mühlbauer Aktiengesellschaft to the Chair of the Supervisory Board or the Chair of a Supervisory Board committee is not excluded. Instead, such staffing issues shall be decided on an individual case basis. In contrast to the German Corporate Governance Codex, there are no plans to justify a corresponding intention to the Annual General Meeting (Codex 2007 and Codex 2008 Figure 5.4.4).

The remuneration for the members of the Supervisory Board is defined in the Articles of Association of Mühlbauer Holding AG & Co. KGaA and only provides for a fixed remuneration component. The introduction of a variable remuneration component is not planned as the company does not believe that such a component would generate additional incentive (Codex 2007 Figure 5.4.7 para. 2 clause 1 and Codex 2008 Figure 5.4.6 para. 2 clause 1).

In the year under review, the members of the Supervisory Board received the following remuneration:

	Fixed remuneration in EUR
Composition of the Supervisory Board as per 31 December 2008	
Dr. Thomas Zwissler ¹⁾	12,000
Prof. Dr. Kurt Faltthäuser ^{1) 2)}	6,100
Steffen Harlfinger ^{1) 2)}	3,600
Former members of the Supervisory Board	
Dr. Peter Drexel ^{1) 3)}	600
Dr. Frank Scholz ³⁾	400

¹⁾ The remuneration is based on the positions held with Mühlbauer Holding AG & Co. KGaA and Mühlbauer Aktiengesellschaft

²⁾ Newly appointed to the Supervisory Board with effect of the close of the Annual General Meeting of Mühlbauer Holding AG & Co. KGaA on 29 April 2008

³⁾ Retired from the Supervisory Board with effect of the close of the Annual General Meeting of Mühlbauer Holding AG & Co. KGaA on 29 April 2008

Dr. Thomas Zwissler, Chairman of the Supervisory Board is also an attorney and partner of the international law firm Zirngibl Langwieser. The company occasionally provides legal consultation to the Mühlbauer Group. The fees for such services amounted to TEUR 36 (PY: TEUR 38) in the year under review.

As per 31 December 2008, the personally liable shareholder held a total of 3,296,852 shares in his sole participation in SECURA Vermögensverwaltungs GmbH. The ownership represents 52.50% of the shares issued by Mühlbauer Holding AG & Co. KGaA. The Supervisory Board held 150 shares (which corresponds to 0.00%) and the management of Mühlbauer Aktiengesellschaft 282,264 shares (which corresponds to 4.50%). Neither the personally liable shareholder, the Supervisory Board nor the management of Mühlbauer Aktiengesellschaft held options or other derivatives as per 31 December 2008.

The personally liable shareholder is responsible for drawing up the half-year and quarterly reports in accordance with the respective legal provisions. They are drawn up within a tight schedule. For this reason, the personally liable shareholder and the Supervisory Board, on principle, do not discuss such reports prior to publication (Codex 2008 Figure 7.1.2 clause 2).

Before presenting the recommendation for the appointment of the external auditor, the Supervisory Board obtained a statement from the external auditor explaining to what extent relationships exist between the external auditor, his corporate bodies, the audit manager of the company or its corporate bodies. There were no doubts as to the independence of the external

Transparency

Accounting and audit of the financial statements

auditor. In addition, the Supervisory Board came to an agreement with the external auditor, in accordance with Figure 7.2.3 of the Codex, that the external auditor shall immediately report all events and findings made in the course of the audit, that are relevant to the responsibilities of the Supervisory Board.

The Supervisory Board also determined that the auditor shall inform the Supervisory Board or make a note in the audit report if he detects any deviations to the Declaration in respect of the Codex, provided by the personally liable shareholder and Supervisory Board.

Mühlbauer Holding AG & Co. KGaA

The personally
liable shareholder

The
Supervisory Board

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Management Report

IMPORTANT NOTICE

The gradual realization of Mühlbauer's strategic objective from a technology supplier to a system partner for the complete transfer of technology and expertise on the production of electronic ID documents, has prompted the company to adjust its business areas SmartID and Semiconductor Related Products to this development at 1 April 2008. While the company's previous core business area *SmartID* will, from this point in time, focus exclusively on the transfer of technology and expertise for the production of all kinds of card and ePassport applications, under the name of *Cards & TECURITY®*, the product line Smart Label, which was previously managed under *SmartID*, will be allocated to *Semiconductor Related Products*. This financial report was drawn up in accordance with the new structure. Further details on the reclassification can be found in the notes at "D. Segment Reporting".

OVERVIEW OF THE 2008 FINANCIAL YEAR

In the year under review, the Mühlbauer technology group came closer to fulfilling its vision, namely of becoming the leading global system partner in the Cards & TECURITY® sector, responsible for the complete transfer of technology and expertise concerning the production of electronic ID documents for its customers. While the company reinforced its local presence in the eastern European area by opening up new sales and service sites in Russia and Serbia, and moving into the technology and production building built in the Slovakian city of Nitra in autumn, Mühlbauer now also possesses a state-of-the-art showroom in the USA, following the completion of its technology and customer center in the US American city of Newport News. The Group has thus not only gained a new strategic position but simultaneously generated important conditions for the continuation of its profitable and successful course of growth in future.

Major developments in the 2008 financial year:

- Mühlbauer continually deepened and revised its product portfolio, in order to permanently extend its technological expertise, and supplemented the existing product range by new basic technologies. The new technology for the fully automatic production of the covers of electronic passports with contactless chip inlays (eCoverLine), a new eGate with greater access protection for use on airports and border crossings, the new high speed solution GSM 5000 for the personalization of GSM/UMTS and Pay TV cards, as well as efficiency and performance increases in inlay production solutions, were among the most important innovations in the year under review.

- Against the background of the sustained worldwide demand for technology and software solutions for the production of electronic ID documents, sales rose EUR 13.5 million or 8.5% to EUR 172.6 million (PY: EUR 159.1 million). At the same time, Mühlbauer qualified as system partner of additional states with its comprehensive range of solutions in the Cards & TECURITY® sector.
- While the gross profit margin of 40.3% improved moderately to 41.0%, EBIT adjusted for the special effect from the setting up of a provision for legal fees in connection with the defense of patent infringement suits was 3.4% higher year-on-year, at EUR 27.3 million (PY: EUR 26.4 million), which can be considered satisfactory, in view of other impacting factors. These impacting factors include the further increase in research and development expenses, as well as the higher risk provisions in respect of trade accounts receivable. This corresponds to an adjusted EBIT margin of 15.8% - after 16.6% in the previous year. With the inclusion of the special effect of EUR 3.1 million, the EBIT achieved during the reporting period totals EUR 24.2 million or 14.0% of sales.
- In the year under review, EBIT, impacted by the special effect, and the declining interest income caused by the spread of the financial crisis, largely resulted in the fact that earnings before taxes of EUR 24.4 million lagged the previous year's figure by EUR 4.0 million (PY: EUR 28.4 million). Taking into consideration the tax reduction of EUR 3.2 million from the 'Corporate Tax Reform 2008', net earnings of EUR 18.3 million (PY: EUR 19.1 million) were recorded, which corresponds to a 4.2% decline, year-on-year. This amounts to earnings per share of EUR 1.24, after EUR 1.31 in the previous year.
- The inflows from operating activities burdened from higher expenditure for the development of complete production lines in showrooms at national and international sites, were EUR 3.6 million lower year-on-year, at EUR 22.0 million (PY: EUR 25.6 million). Taking into consideration the higher outflows from investment activities primarily in respect of payments for fixed assets for the extension of national sites and the scheduled development of internationally sites, free cashflow dropped from EUR 16.4 million to EUR 6.3 million. Total liquidity, including the longer-term deposits and securities, totaled EUR 35.1 million to the end of the reporting period, against EUR 42.0 million in the previous year.
- In the course of its internationalization strategy, new companies were founded in the Serbian city of Belgrade and the Russian city of Moscow, both of which act as sales, trading and service companies for the Group's technology portfolio. Furthermore, the Group founded "Muehlbauer America LP" and "Muehlbauer America Management Corporation" at its US American site of Newport News. While the former is establishing a technology and customer center that it leases to the organizational unit, the latter is responsible for the management of this company.

- In the year under review, the technology group invested EUR 10.4 million in intangible and fixed assets – after EUR 9.1 million in the previous year. In so doing, investments were primarily made into the extension and refurbishment of machinery for the Stollberg production center, into the establishment of a sales and customer center for Traceability solutions and into the extension of the property in the Malaysian city of Melaka. Including the additional funds of EUR 5.0 million spent during the reporting period in respect of the sites in Slovakia and the USA, currently under development, the investment rate amounts to 8.9%, after 5.8% in the previous year.
- In the course of the company's orientation to the global challenges of the world market, the focus in the year under review was once more on global personnel development. On the basis of our corporate culture, the recruitment of junior staff was again driven ahead, while executives received systematic further training through customized international personnel development and individual qualification measures.
- The personally liable shareholder and the Supervisory Board intend to continue their dividend policy of recent years and will make a proposal to the Annual General Meeting to pay an unchanged dividend of EUR 1.00 per no-par value share in respect of the 2008 financial year.
- The Mühlbauer technology group – as a worldwide unique system partner for the complete transfer of technology and expertise for the manufacture of electronic ID documents – is retaining its long-term growth strategy. Due to its unique position as a provider of one-stop solutions, the internationally active company is assuming that it will be able to increase its attractiveness on the market even further and benefit increasingly from the global transformation process. From the current point of view, the Mühlbauer Group is therefore expecting to at least be able to compensate the temporary weakness in demand for products for semiconductor-related sectors, Traceability solutions as well as Precision Parts and Systems. Overall, we expect sales and earnings to develop stably in the 2009 financial year and to achieve further growth in the following year.

THE COMPANY AND FRAMEWORK CONDITIONS

The company



Mühlbauer Holding AG & Co. KGaA was formed in May 1998, from what was originally a one-man-business, founded in 1981 by Josef Mühlbauer. The Mühlbauer Group can look back on history of 27 years that is characterized by pioneering achievements in mechanical engineering and plant construction. The technology group has since become a global and independent consultant and manufacturer of technologically innovative security solutions in a market segment the company refers to as the TECURITY® market. With more than 1,900 employees, development and production sites in Germany, Malaysia and Slovakia, and a worldwide sales and service network, the Mühlbauer Group is the leading system partner for the complete transfer of technology and expertise pertaining to the production of electronic ID documents.

It is our goal to achieve sustained profitability and to constantly increase the value of the company. In so doing, we want to further extend our global lead and grow more rapidly than our competitors. For this purpose, Mühlbauer is pursuing a strategy of earnings-oriented growth. It is based on technology and market competence and is driven by continuous innovations in our range of products. Hereby, we focus on rapidly growing and future-oriented areas of our market, which is why we are extending our presence globally, without neglecting our primary market in Europe. As the leading provider of solutions worldwide, with far more than 100 different standard and customized products, Mühlbauer offers a comprehensive range from a single source. In so doing, intelligent software solutions support the production process and ensure the utmost in quality and manufacturing efficiency. This ensures that we can continuously extend our position in the globalized markets of the TECURITY® and Smart Label industries.

Satisfied customers are a prerequisite for Mühlbauer's growth: we want our customers to see Mühlbauer as their most efficient and reliable partner on the markets relevant to us. We have therefore oriented our business policy on increasing their competitiveness with the assistance

of our products and services. Our technological competence and our market expertise, which are part of our most valuable assets, form the basis for this. We ensure the continued existence of our company through innovations, as we use them to open up new applications and can offer our customers better solutions and extend business contacts.

Resulting from the need to be close to customers worldwide, Mühlbauer has developed a network of sales and service locations from which sales engineers and technical experts provide customer care to our customers around the clock. This global network is constantly being extended.

Mühlbauer is the only company in the world to offer its customers the entire range of technologies and expertise for the provision of intelligent identification-related system solutions. Mühlbauer is system partner for the production of ID cards, ePassports, eVisa, contact and contactless cards, dual interface cards and multimedia cards. Apart from the hardware systems, Mühlbauer also offers software-based solutions for the capturing of data and the control of production, provides support to its customers with regard to the installation of comprehensive access control systems and assists their production processes. Mühlbauer provides the entire manufacturing technology for the production and converting of Smart Labels for the contactless identification of goods and flows of goods in the security, supply and textile industries as well as in retail. To identify electronic components, Mühlbauer develops and produces marking systems so that electronic components can be traced. The product range in this area also extends to the relevant reading devices and data management systems and handling machines to circuit boards. The basic element within Mühlbauer's own technology platform is its specialization on sophisticated processes as well as particularly small and thin components and semiconductors. Mühlbauer therefore develops, produces and sells innovative technology solutions for specific niche application in the backend area of the semiconductor industry. To meet the highest requirements towards quality and precision, Mühlbauer produces highly precise individual parts at two independent production centers in Germany and at the production cell affiliated with the research and development center located in the Slovakian city of Nitra, and supports sales of its high-quality products with its longstanding competence in production. Further manufacturing capacities are utilized for security and safety-sensitive industries such as the aerospace industry, motor sports and the medical technology industry.

Economic framework conditions

In 2008, the strong expansion of the world economy ended. The growth of gross domestic product (GDP) dropped significantly year-on-year (PY: 3.7%). The reasons for this are the severe crisis on the international financial markets, which reached its temporary climax in September and has since affected all sectors of the economy. At the year-end, in particular, the downturn increasingly gained momentum. While macroeconomic production in the USA continued to rise in the first half of the year under review, due to massive support measures by the government, it dropped substantially in the third quarter. This development was triggered by reduced consumer spending, strong declines in building investments as a result of the US American real estate crisis and a downturn in equipment investments. In 2008, even Japan and the newly industrializing countries experienced a slump in their economies. While the slide of sales and earnings and increasingly unfavorable financing conditions in Japan resulted in a considerable decline of corporate investment and exports markedly decelerated, the downturn in the newly industrializing countries was characterized by the decline in demand from industrialized countries and the deterioration of the financial market environment. Since Q3 2008, the momentum of the Chinese national economy has dampened substantially. The economic downturn on important sales markets and the resultant weaker development of export orders led to a significantly lower rate of expansion, in particular in industrial production. In the course of the year under review, the economies in India and the remaining newly industrializing countries of East Asia decelerated to the extent that all hopes of a decoupling of the economic decline from the recession trends in the industrialized countries have been shattered. The sluggish demand was particularly noticeable in the Asian Tigers, which specialize heavily on the manufacture of electronic products. In the second half of 2008 the economic performance in the euro zone turned down, after a significant increase in the first half-year. The economy was

World economy

The market for digital security and contactless identification

characterized by stagnation in consumption, a drop in investments and a deterioration of the foreign trade balance. Apart from the weaker global demand, other countries in the region were additionally negatively impacted by the sharp decline on the real estate markets. In Germany as well, gross domestic product decreased in the second half of the year under review. The moderate increase in domestic demand - in particular through state spending - was opposed by a sharp decline in international demand. The German economy is particularly hard hit by the weakness of the international economy, as demand for capital goods, which makes up the largest share of German exports, is sinking.

The prevailing interest of numerous states and public authorities to replace existing ID documents with new ID applications such as electronic passports or chip-based cards or to fit these with biometric data, once again characterized the Cards & TECURITY® market in the 2008 financial year. The main driver of this transformation process was and still is the opportunity to offer document holders greater security and flexibility for a host of processes, based on new standards. For this reason, the development of the industry has proved to be independent of economic trends. Worldwide, countries are introducing a new generation of ID documents, health cards and driver's licenses on the basis of Smart Cards, thus meeting the international requirements of the ICAO (International Civil Aviation Organization), the US Visa Waiver Program or European provisions and policies. The US Visa Waiver Program, in particular, provided critical impetus with regard to the introduction of the electronic biometric passport: Countries participating in the program undertake to introduce electronic passports featuring biometric data, so that their citizens can travel to the USA without requiring a visa. This possibility resulted in the fact that the number of participating countries increased successively. Apart from the 27 states that are already participating, a further seven countries were admitted to the program in 2008, as they introduced electronic passports. Greater demand for government ID solutions was discernible in Europe: Many European countries are planning to introduce a second-generation passport, to implement fingerprints and are, furthermore, replacing existing ID cards, driver's licenses or health cards with new innovative card applications. However, the growth of the Smart Card industry did not benefit solely from the implementation of government-related projects but also from the sustained move away from conventional magnetic stripe cards to chip cards in payment transactions (EMV) and from the high demand for SIM/UMTS cards in developing and newly industrializing countries. The industry expert Eurosmart therefore forecast shipments of 5.0 billion cards for the Smart Card market in 2008 (PY: 4.5 billion).

The more intensive use of the RFID technology underwent continual progress in the year under review. Having commenced the use of RFID throughout Germany in 2007, the Metro Group extended the use of the radio technology Europe-wide during the reporting period, in cooperation with DHL. In the year under review the two large enterprises commenced the comprehensive use of radio frequency identification in France. Since fall 2008, all deliveries to the 89 French Metro wholesale markets are fitted with RFID transponders and read out along the supply chain. Each year, around 1.3 million pallets are to be fitted with radio labels, to enable the contactless and automated control of the logistics chain. DHL and the Metro Group are thus realizing the largest-scale use of RFID in French trade logistics. The fact that the RFID technology has made its way from a pilot project to real applications is also confirmed by a survey performed in 2008 by the Research Institute for Telecommunications. Of 300 companies queried, around 37% either already actively uses RFID or its use in a corresponding application is imminent. The applications range from protection against replications to the tracking of containers and through to the settlement of cafeteria bills. Apart from the contactless identification of goods and flows of goods for the purpose of optimizing logistics processes, HF applications, e.g. RFID ticketing, therefore also gained further momentum. IDTechEx estimates the 2008 RFID market to have a volume of USD 5.3 billion (PY: USD 4.9 billion).

The general semiconductor market, within which Mühlbauer focuses on specific niches, was characterized by declining growth. According to information by the industry association SIA (Semiconductor Industry Association), the semiconductor industry already only recorded growth of 3.2% in 2007 - in 2008, the market dropped 4.4%, pursuant to information by the Gartner market research institute. Apart from the increasing price pressure on the storage chip market, industry experts believe the global economic slump to be the reason for the negative impact on sales of the semiconductor industry.

As of the middle of 2008, the development of the industry relevant for Traceability of the Mühlbauer Group, which has so far been dynamic, dampened. In particular in the automotive sector, which has so far been characterized by an increasing interest in marking and board handling systems, the readiness to invest has declined considerably as a result of economic trends. However, in the year under review, the trend by customers to shift production abroad was retained, so that investments will become necessary at the new sites medium-term.

Business development

In the 2008 financial year, the order volume of the globally active Mühlbauer technology group considerably exceeded the previous year's value (PY: EUR 167.5 million). Order income climbed 13.0%, to EUR 189.2 million. To the end of the year under review, order backlog rose 10.7%, to EUR 80.8 million (PY: EUR 73.0 million). Year-on-year, the national order backlog dropped from EUR 9.5 million to EUR 9.1 million, while the international share climbed to 88.7% (PY: 87.0%).

The growth of orders throughout the Group was borne by the strong rise in demand for Cards & TECURITY® solutions. Based on orders placed by the government sector, e.g. in respect of technologies for the manufacture of electronic passports as well as ID or health cards, orders for these underwent growth of 37.1% and thus climbed to EUR 125.7 million (PY: EUR 91.7 million). In this context the large order of a European country for the manufacture of electronic ID documents, received during the reporting period, bears particular mention. Mühlbauer qualified as a system partner for the entire ID project and supports the timely production and issue of the ID documents with its complete transfer of technology and expertise. Thus, Mühlbauer repeatedly succeeded in qualifying as a provider of complete solutions with overall responsibility for a government project and in further extending its market position as a competent and reliable partner for governments and public authorities. Even order backlog benefited from the distinct rise of order income: It increased year-on-year by 37.8% to EUR 67.4 million (PY: EUR 48.9 million).

The order income for Semiconductor Related Products totaled EUR 28.5 million (PY: EUR 39.2 million) to the year-end, thus dropping by 27.3% year-on-year. The reason for the decline is the weak semiconductor environment, which could not be compensated, even through Mühlbauer's focus on the more promising niches of the semiconductor industry. In addition, the company was confronted with restrained propensity to invest in Smart Label systems due to deferred transformation processes towards RFID Smart Labels in the financial year 2008. As of 31 December 2008, the order backlog amounted to EUR 7.2 million (PY: EUR 15.4 million).

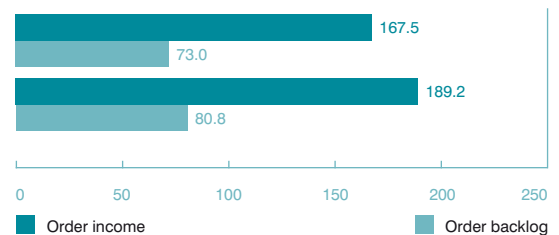
Until the end of the first half-year, the Traceability sector of the Mühlbauer technology group benefited from the great interest in components for the tracking of products and components and from initial successes in marketing its newly developed systems for the laser marking to customers in the solar industry. However, due to the decline in demand from customers in the automotive industry, caused by economic trends, demand increasingly slumped in the second half of the year. Overall, at EUR 15.8 million (PY: EUR 16.3 million), Mühlbauer recorded a slight drop in order income of 3.1% in the 2008 financial year, after significant growth in previous years. To the end of the reporting period order backlog totaled EUR 1.9 million (PY: EUR 4.1 million).

At EUR 19.2 million (PY: EUR 20.3 million) order income in Precision Parts & Systems was 5.4% below the level of the previous year after the sustained dynamic for the last three years. Reasons are the slump in demand in the automotive industry and new rules in Formula 1 racing. As of 31 December 2008, the order backlog amounted to EUR 4.3 million (PY: EUR 4.6 million) and thus dropped 6.5% year-on-year.

The global increase in demand for technology and software solutions for the production of electronic ID documents had a positive effect on the technology group's development of sales. Overall, at EUR 172.9 million, sales exceeded the previous year's value of EUR 159.5 million by EUR 13.4 million. This represents a 8.4% increase.

Order income and order backlog

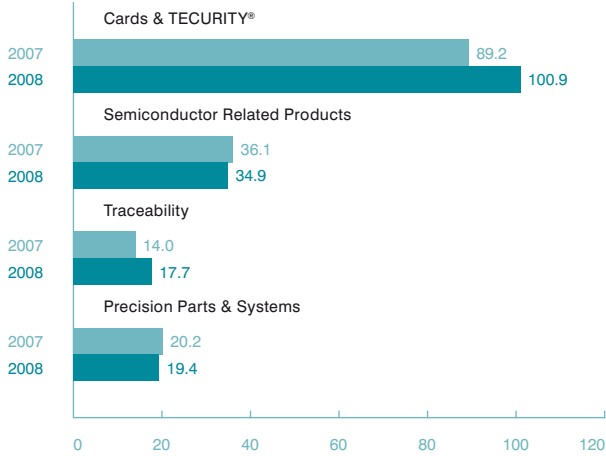
Order income and order backlog in EUR million



2007
2007
2008
2008

¹ The sales figures are the gross values prior to any deductions in earnings of EUR 0.3 million (PY: EUR 0.4 million)

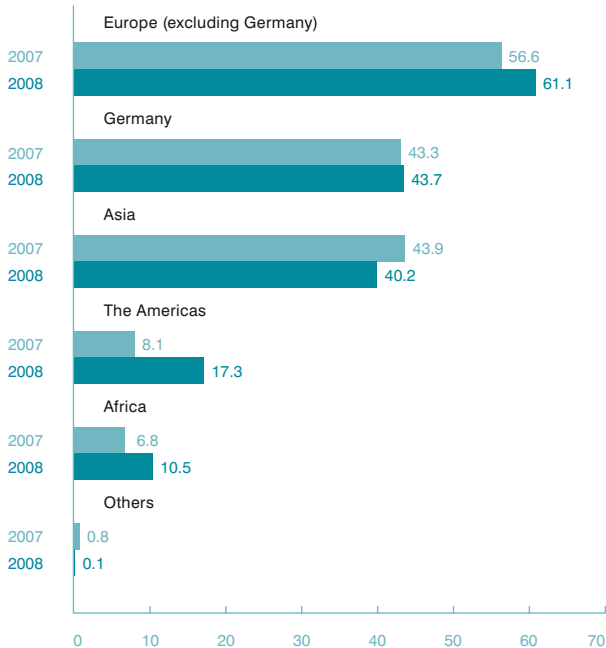
Sales development by applications in Mio. EUR



Cards & TECURITY® solutions for the production of electronic passports, ID or health cards contributed the largest share to sales growth. It rose 13.1%, from EUR 89.2 million to EUR 100.9 million. The primary customers of Cards & TECURITY® solutions are governments and government-related organizations. As the only system partner for the complete transfer of technology and expertise worldwide, the company benefits from the increasing market penetration in the international growth regions, and can thus extend its position as global market leader in this area.

In the year under review, the technology group recorded sales proceeds of EUR 34.9 million from the marketing of semiconductor-related products, which also comprise automation systems for the production of RFID Smart Labels, thus virtually stagnating at the declining level of previous year's sales (PY: EUR 36.1 million). This development is, on the one hand, characterized by the low level of readiness of semiconductor manufacturers to invest, which has been ongoing since August 2007 and has been further aggravated by the financial market crisis. On the other hand, the delay in market development is stifling the sales development of products for the manufacture of RFID Smart Labels.

Regional breakdown of sales in Mio. EUR



Sales of machines and systems for the labeling and identification of electronic components, referred to in brief as "Traceability", rose sharply, by 26.4%, to EUR 17.7 million. The reason for this was, first and foremost, sales increases for complete automation solutions. Furthermore, in the past financial year, Mühlbauer achieved initial sales from the development of highly precise systems that are used in the solar industry.

With regard to the manufacture of highly precise parts and components for sensitive security and safety-related applications, in brief "Precision Parts and Systems", the technology group virtually maintained the high sales growth of the previous year and recorded a moderate decline of 4.0%, to EUR 19.4 million.

Viewed by region, Europe once again proved to be the greatest contributor to sales with a regional share in total sales of 60.6% (PY: 62.6%), as in the previous year. In Germany, moderate growth of sales volume of 0.9% to EUR 43.7 million (PY: EUR 43.3 million) was achieved. Despite the weakness in demand, which was caused by economic trends, at EUR 40.2 million (PY: EUR 43.9 million) the Asian region remained at a high level for semiconductor-related product solutions, but had to accept a year-on-year decline of 8.4%. At EUR 17.3 million (PY: EUR 8.1 million), the American sales volume climbed 113.6%, in relation to projects, to more than double the previous year's figure. Following the strong rise in sales in the previous year, in Africa the internationally active technology group achieved sales proceeds of EUR 10.5 million (PY: EUR 6.8 million) in the year under review - a 54.4% increase. The international share in the group's total sales was 74.7%, against 72.9% year-on-year.

EARNINGS SITUATION

In the reporting period, earnings before interest and taxes (EBIT), which totaled EUR 27.3 million – adjusted for the special effect from setting up a provision for legal costs – were 3.4% higher year-on-year (PY: EUR 26.4 million). At 15.8%, the adjusted EBIT margin was somewhat under the level of the previous year (PY: 16.6%). Taking into account the special effect of EUR 3.1 million, which impacted earnings and was incurred in connection with legal fees for the defense of patent infringement suits, the EBIT achieved in the reporting period totaled EUR 24.2 million, which can be considered satisfactory in view of additional impacting factors. These impacting factors include the further increase in research and development expenses as well as the higher risk provisions in respect of trade accounts receivable.

Earnings before interest and taxes (EBIT)

Consolidated statements of income in millions	2008		2007		+/-	
	EUR	%	EUR	%	EUR	%
Sales	172.6	100.0	159.1	100.0	13.5	8.5
Cost of sales	(101.9)	(59.0)	(94.9)	(59.7)	(7.0)	7.4
Gross profit	70.7	41.0	64.2	40.3	6.5	10.1
Selling expenses	(14.5)	(8.4)	(9.7)	(6.1)	(4.8)	49.5
Administrative expenses	(8.2)	(4.8)	(7.5)	(4.7)	(0.7)	9.3
Research and development expenses	(22.7)	(13.1)	(20.3)	(12.7)	(2.4)	11.8
Other income	2.3	1.3	1.0	0.6	1.3	130.0
Other expenses	(3.4)	(2.0)	(1.3)	(0.8)	(2.1)	161.5
Operating income (EBIT)	24.2	14.0	26.4	16.6	(2.2)	(8.3)
Financial result	0.2	0.1	2.0	1.3	(1.8)	(90.0)
Income before income taxes	24.4	14.1	28.4	17.9	(4.0)	(14.1)
Income taxes	(6.1)	(3.5)	(9.3)	(5.9)	3.2	(34.4)
Net earnings	18.3	10.6	19.1	12.0	(0.8)	(4.2)

Sales of the Mühlbauer Group rose EUR 13.5 million or 8.5%, from EUR 159.1 million to EUR 172.6 million, as a result of which the gross profit margin improved moderately, from 40.3% to 41.0%. The reason for the year-on-year decline in the cost of sales ratio by 0.7% points is the under proportional increase of order-related material expenses and external service expenses of 5.0%, while the overheads included in the cost of sales increased almost proportionally with the 10.1% rise in gross profit.

Selling expenses climbed 49.5% and totaled 8.4% of sales - after 6.1% year-on-year. The rise reflects both the increase of costs for sales-related expenses resulting from the extension of global sales activities and the set up of higher risk provisions in respect of trade accounts receivable during the reporting period. In the previous year, the latter recorded earnings from the discontinuation of such risks. The percentage of administrative expenses in sales remained virtually constant year-on-year, at 4.8% (PY: 4.7%). In the meantime, after taking into consideration the capitalization of development costs and the settlement of depreciation, research and development expenses rose strongly by 11.8%. While research and development expenditure was increased by a further 3.0% in the year under review, in order to fulfill the sophisticated development program, the rate of capitalization of 6.8% was significantly under the value of the previous year (PY: 11.1%), which was characterized by new developments. This was due to the focus on the further development of existing basic technologies. At the same time, at 17.6%, the rate of depreciation was considerably higher year-on-year (PY: 13.1%) as a result of a change in the assessment of the future applicability of individual development projects.

Other income and expenses largely comprise effects outside the core activities of the Group, business transactions not related to the year under review and other transactions not directly related to the company's core business. In the reporting period the balance of expenses of EUR 1.1 million largely consisted of the setting up of a provision for legal fees of EUR 3.1 million, in connection with the defense of patent infringement suits, and which was partly compensated by the discontinuation of a risk provision in connection with the utilization of specific development results (EUR 0.6 million) as well as net profits from foreign currency transactions (EUR 0.4 million) and other income. During the comparable period of the previous year, the balance of

expenses of EUR 0.3 million primarily comprised the set up of a provision in connection with the utilization of specific development results (EUR 0.9 million) as well as net losses from foreign currency transactions (EUR 0.2 million), which were partly compensated by income from the dissolution of provisions as well as other income.

Financial result

Combined earnings from securities and interest income included in the financial result dropped to EUR +0.2 million year-on-year (PY: EUR +2.0 million). While interest income was 40.0% higher year-on-year, at EUR 1.4 million, the company realized a net loss from the sale of securities of EUR 1.2 million (in the previous year the company achieved a profit of EUR 1.1 million) in the year under review, due to the weak capital market environment.

Earnings before taxes

The described development of operating result and financial result described above led to a drop in earnings before taxes by EUR 4.0 million, to EUR 24.4 million (PY: EUR 28.4 million). This corresponds to a profit margin of 14.1%, against 17.9% in the previous year.

Income taxes

The reduction of the income tax burden for German group companies, adopted 2007 in the context of the "Corporate Tax Reform 2008", essentially resulted in a reduction of taxes on income and earnings by 34.4%. While the tax rate of the previous year was 37.1%, adjusted for the special effect from the reduction of deferred taxes caused by this reform, it declined to 25.1% in the year under review.

Net earnings

Net earnings dropped EUR 0.8 million year-on-year, from EUR 19.1 million in the previous year to EUR 18.3 million in the year under review. This is primarily due to the special effects, that impact earnings, from setting up a provision for legal costs, higher research and development expenses and higher risk provisions in respect of trade accounts receivable as well as the decline of interest income as a result of the weak capital market environment, which could only be partly compensated by the reduction of the income tax burden. These developments led to the drop of the post tax profit margin by 1.4% points, from 12.0% in the previous year to 10.6%. Consequently, earnings per share declined, from EUR 1.31 in the previous year to EUR 1.24 in the year under review.

Dividend

The company wants to continue its dividend policy of previous years and enable shareholders of the limited partnership to once again participate in the income of the past financial year. The personally liable shareholder and Supervisory Board intend to propose to the Annual General Meeting the payment of an unchanged dividend of EUR 1.00 per no-par share in respect of the 2008 financial year. Taking into consideration the current number of shares entitled to dividends, the amount distributed to the shareholders of the limited partnership totals approx. EUR 6.1 million. The personally liable shareholder will receive EUR 9.0 million, in accordance with his share in capital.

FINANCIAL SITUATION

The cashflow demonstrates the origin and utilization of cashflows in the reporting periods. It thus plays a key role in evaluating the financial situation of the company. The outflows from investment and financing activities are determined in a direct relation to payments. The inflows from operating activities are indirectly derived from the consolidated profit for the year. With the free cashflow, we provide our investors with a ratio that shows the change in liquidity, taking into account investments. Free cashflow is defined as an inflow from operating activities and outflow from investment activities, adjusted for the purchase and disposal of securities and financial assets as well as the resultant net profits and losses, payments from the disposal of fixed assets as well as the resultant profits and losses. The liquid funds shown in the cashflow statement comprise cash and cash equivalents and marketable securities, insofar as these have a residual term of no more than three months.

Cashflow

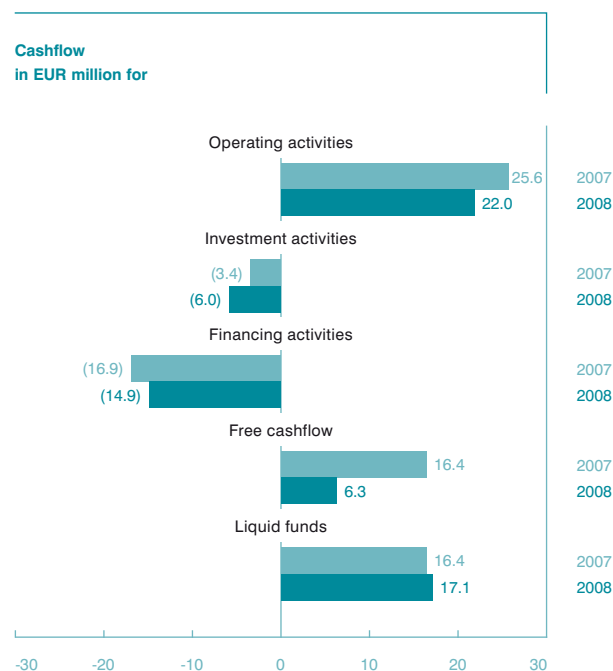
Consolidated statements of cashflow in millions	2008 EUR	2007 EUR	+/- EUR	%
Cashflow from operating activities	22.0	25.6	(3.6)	(14.1)
Cashflow from investing activities	(6.0)	(3.4)	(2.6)	76.5
Cashflow from financing activities	(14.9)	(16.9)	2.0	(11.8)
Free cashflow	6.3	16.4	(10.1)	(61.6)
Liquid funds	17.1	16.4	0.7	4.3

At EUR 22.0 million, cashflow from operating activities in 2008 was EUR 3.6 million below the level of the previous year (PY: EUR 25.6 million). The development of cashflow is primarily attributable to the significantly higher liquidity requirements to finance working capital, in particular higher expenses for the set-up of complete production lines in the showrooms at the national and international sites and the resultant increase of inventory assets (EUR +10.5 million) and trade accounts receivable (EUR +4.5 million), offset by the increase in trade accounts payable (EUR +4.5 million) and other liabilities (EUR +5.5 million).

The outflow from investment activities climbed EUR 2.6 million to EUR 6.0 million. This increase is mainly due to the payments for fixed assets of EUR 11.5 million (PY: EUR 6.6 million) in respect of the extension of national sites and the scheduled development of international sites. The increase of inflows in the course of the utilization of long-term assets and the decline of outflows in respect of loans resulted in a EUR 3.7 million higher year-on-year inflow. The expansion of the financial crisis has prompted the company to dispose of its securities portfolio and to regroup its cash and cash equivalents to securities with lower risk. In the year under review this led to an inflow of EUR 4.6 million, against EUR 7.0 million year-on-year. Investments in intangible assets and capitalized development expenses declined by EUR 1.0 million year-on-year.

Financing activities resulted in an outflow of EUR 15.1 million (PY: EUR 17.4 million), which is offset by an inflow of EUR 0.2 million (PY: EUR 0.5 million). The lower outflow is primarily due to the by EUR 2.9 million lower distribution of profits in respect of the 2007 financial year, offset by EUR 0.6 million higher withdrawals for personal tax payments of the personally liable shareholder year-on-year. The dividend distribution proposed in respect of the 2008 financial year is not yet included in the cashflow statement for 2008, as no resolution has been passed so far and no outflows have occurred.

Liquid funds, as the total of the individual cashflows, rose EUR 0.7 million year-on-year, to EUR 17.1 million, compared to 31 December 2007 (EUR 16.4 million). Total liquidity, including the longer-term deposits and securities, declined by EUR 6.9 million, from EUR 42.0 million to EUR 35.1 million, in the course of the Group's extension of business and implementation of the internationalization strategy.



Free Cashflow

At EUR 6.3 million, free cashflow dropped by a significant EUR 10.1 million below the level of the previous year, largely due to the development of the Group previously explained. The severe decline is strongly characterized by the considerably higher need for cash and cash equivalents to finance the working capital, as well as considerably higher investment expenses in fixed assets.

Capital requirements and refinancing

In the 2009 financial year we will require capital to finance our operating activities, pay our other financial obligations, insofar as such arise, to effect the scheduled investments and the distribution of profits. We meet these requirements through cashflow from current business, available funds and disposable securities as well as short-term credit lines of a total of EUR 10.0 million, available at the end of 2008, of which EUR 5.8 million had been utilized by this time. In January 2009 the short-term credit lines were increased by EUR 15.0 million to EUR 25.0 million.

ASSET SITUATION

The Group's balance sheet total rose by EUR 12.4 million year-on-year, to EUR 187.0 million (PY: 174.6 million), as a result of the extension of business. The share of short-term assets in the balance sheet total climbed from 64.7% in the previous year to 68.7%, while the equity ratio dropped from 81.2% to 77.5%.

Balance sheet (outline) in millions	2008		2007		+/-	
	EUR	%	EUR	%	EUR	%
Short-term assets	128.3	68.7	112.9	64.7	15.4	13.6
Long-term assets						
Financial assets	0.7	0.4	8.2	4.7	(7.5)	(91.5)
Fixed assets	47.0	25.1	40.0	22.9	7.0	17.5
Intangible assets	7.0	3.7	9.6	5.5	(2.6)	(27.1)
Long-term tax receivables	2.3	1.2	2.4	1.4	(0.1)	(4.2)
Deferred tax assets	0.8	0.4	0.2	0.1	0.6	300.0
Other long-term assets	0.9	0.5	1.3	0.7	(0.4)	(30.8)
Total assets	187.0	100.0	174.6	100.0	12.4	7.1
Short-term liabilities	39.4	21.1	29.4	16.8	10.0	34.0
Long-term liabilities	2.6	1.4	3.5	2.0	(0.9)	(25.7)
Shareholders' equity	145.0	77.5	141.7	81.2	3.3	2.3
Total liabilities	187.0	100.0	174.6	100.0	12.4	7.1

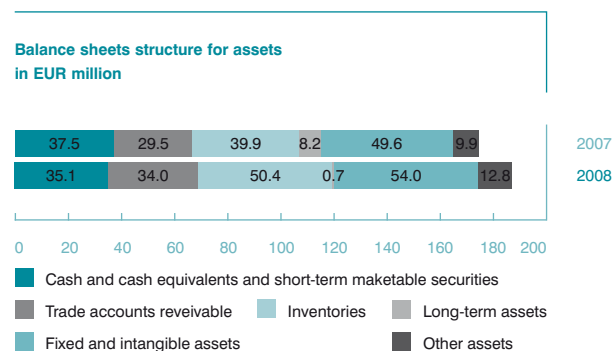
Group's balance sheet total

Short-term assets rose from EUR 112.9 million to EUR 128.3 million. The short-term asset components contained in working capital, consisting of trade accounts receivable, other receivables and tax receivables as well as inventories, increased by a total of EUR 17.8 million. Liquidity (including the marketable securities held in short-term assets) dropped from EUR 37.5 million to EUR 35.1 million, for the reasons explained in "Free Cashflow".

Short-term assets

Long-term assets dropped by a total of EUR 3.0 million, to EUR 58.7 million. The ratio of long-term assets to the balance sheet total consequently dropped from 35.3% to 31.3%. The securities of the previous year of EUR 4.6 million, included in financial assets and other loans of the previous year of EUR 2.2 million were fully disposed or repaid in the year under review. In the course of scheduled investments for the development of national and international sites reduced by depreciations and disposals, fixed assets rose distinctly by EUR 7.0 million, while intangible assets declined by EUR 2.6 million year-on-year. The remaining long-term assets dropped by EUR 0.6 million in the year under review.

Long-term assets



Short-term liabilities

On the liabilities side, short-term liabilities increased by a total of EUR 10.0 million to EUR 39.4 million. Apart from the rise of trade accounts payable by EUR 4.5 million, of other short-term liabilities by EUR 2.5 million and of other accruals by EUR 2.4 million, the remaining short-term liabilities increased by EUR 0.6 million.

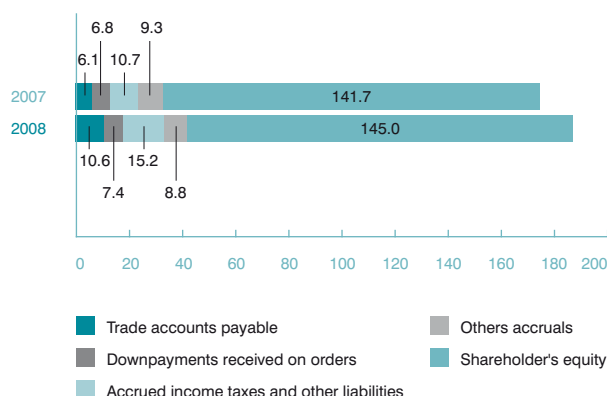
Long-term liabilities

On the reporting date, long-term liabilities amounted to EUR 2.6 million (PY: EUR 3.5 million). These include only the deferred taxes that IFRS has determined must be posted as long-term liabilities.

Shareholders' equity

Shareholders' equity rose from EUR 141.7 million to EUR 145.0 million. The increase largely results from the net earnings for the year, which exceed the dividend payments to the shareholders by EUR 3.8 million. The increase was furthermore supported by the disposal of own shares. Other comprehensive income declined by EUR 0.8 million, of which EUR 0.5 million related to the adjustment of available-for-sale securities with no effect on the income. Despite the rise of shareholders' equity, the equity ratio dropped from 81.2% to 77.5%, due to the strong increase of trade accounts payable, other short-term liabilities and other accruals contained in the short-term liabilities.

Balance sheets structure for liabilities
in EUR million



Long-term capital, consisting of shareholders' equity and long-term liabilities, provides 251.4% coverage for the long-term assets. At 175.9% (PY: 177.9%) the extended coverage of long-term assets (long-term capital in relation to the total of long-term assets and 50% of inventories) is at a solid level.

Ordinary share capital is posted as subscribed capital. The ordinary share capital of Mühlbauer Holding AG & Co. KGaA was EUR 8,037,376.00 on the reporting date and is divided up into 6,279,199 no-par bearer shares and one no-par registered share with a nominal theoretical value of EUR 1.28 each. Each of the no-par limited partnership shares entitled its bearer to one vote. The shareholding of the general partner, held by the personally liable shareholder of Mühlbauer Holding AG & Co. Verwaltungs KG, that is not allocated to the ordinary share capital, amounts to EUR 10,773,600.00. With the agreement of the personally liable shareholder, the Annual General Meeting can resolve the conversion of the general partner's share to ordinary share capital.

SECURA Vermögensverwaltungs GmbH, headquartered in Metten – a company fully controlled by the personally liable shareholder – participates in the ordinary share capital of Mühlbauer Holding AG & Co. KGaA with 3,296,852 no-par bearer shares or 52.50%. This value comprises 2,000,000 no-par bearer shares or 31.85% of the ordinary share capital, in respect of which SECURA Vermögensverwaltungs GmbH has entered into a voting agreement. The personally liable shareholder has made a commitment to the company commencing on 9 September 2002 and for a term of ten years – not to exercise the voting right for these shares as long as he owns them. The only exclusion from this commitment are cases in which the exercise of the voting right or the perception of the right to attend is necessary to avert serious damage from the company or if the Annual General Meeting decides on matters that require at least 75% of the entire ordinary share capital of the company, in accordance with the Articles of Association of the company.

The no-par registered share held by Ms. Anna Antonie Mühlbauer, Metten, grants her the power to appoint one third of all members of the Supervisory Board to the Supervisory Board. The power to appoint shall not apply insofar and to the extent that the owner of the share granting the power to appoint is the personally liable shareholder, his personally liable shareholder or one of the members of the Management Board. The holder of the no-par registered share shall neither hold this share as a trustee nor as a recipient of instructions issued by the personally liable shareholder or an affiliated person. The transfer of the no-par registered share is only permitted following agreement by the company; the Supervisory Board shall, in accordance with the Articles of Association, make a decision on such transfer at its discretion.

Mühlbauer Holding AG & Co. KGaA is represented solely by the personally liable shareholder. He is not subject to the personnel competence of the Supervisory Board and can therefore not be dismissed. In accordance with the Articles of Association of the company, the right of approval, which shareholders of a limited partnership are entitled to in respect of extraordinary transactions, is excluded. The Articles of Association, however, contain a catalog of transactions – also exceeding ordinary business proceedings – that require the approval of the Supervisory Board and enable it to influence material legal transactions and activities of the personally liable shareholder. Several resolutions of the Annual General Meeting require the approval of the personally liable shareholder; these include amendments to the Articles of Association and the approval of the annual financial statements.

The ordinary share capital has been conditionally increased by up to EUR 84,480.00, through the issue of up to 66,000 no-par bearer shares (conditional capital II). The conditional capital increase at this level is utilized to service subscription rights, which can be issued to members of management, executives and staff holding key positions by 3 May 2005, in the form of naked warrants – in accordance with the resolutions of the Annual General Meeting of 4 May 2000 and 7 June 2001. All warrants issued in the context of these resolutions have either been exercised or have expired without substitution. Currently no further subscription rights are outstanding.

The ordinary share capital has been conditionally increased by up to EUR 1,996,800.00, through the issue of up to 1,560,000 no par bearer shares (conditional capital III). The conditional capital increase is only executed to the extent that the Annual General Meeting, with the approval of the personally liable shareholder, resolves the conversion of the capital share to ordinary share capital. The new shares shall participate in earnings from the beginning of the financial year in which they were issued, after exercising the exchange privilege.

The personally liable shareholder is authorized to increase the ordinary share capital once or several times by 15 April 2013 – with the approval of the Supervisory Board – but only by a maximum of EUR 4,018,688.00 (authorized capital 2008/I), by issuing new, no-par bearer shares against cash and/or non-cash contributions. The shareholders shall, on principle, be granted subscription rights. With the approval of the Supervisory Board, the personally liable shareholder is, however, entitled to

- a) exclude fractions from the subscription right;
- b) preclude the subscription rights of shareholders to issue the new shares against cash contributions at an issue price that is not significantly below the stock market price;
- c) preclude the subscription rights of shareholders to render the shares available for the conversion of general partners' capital;
- d) preclude the subscription rights of shareholders to issue the shares against non-cash contributions for the acquisition of companies or company participations.

As per the resolution of the Annual General Meeting of 29 April 2008, the personally liable shareholder is authorized – until 30 September 2009 – to acquire shares of the company with a theoretical share in the subscribed capital of a maximum of 10%, i.e. up to 627,920 shares, to be able to offer these to third parties in the context of mergers with other companies or in the context of the acquisition of businesses or participations, to collect them, offer them to holders of subscription rights for purchase or to offer them to employees and/or members of the company's management or an associated company for purchase.

VALUE-ORIENTED CONTROL PARAMETERS

The reporting of the Mühlbauer Group delivers select value-oriented control parameters in a timely and responsible manner and thus provides a management tool that is predictive and indicates the need for change at an early stage. Management with value-oriented control parameters extends along the entire manufacturing process of the product portfolio: From procurement to production, research and development to sales – the implementation of value-oriented management's mission statement is based on clearly defined ratios. This controlling concept, which has been implemented throughout the Group, enables management to communicate results both inside and outside the Group, and to control and coordinate business processes targetedly. The values determined in accordance with IFRS form the basis of our reporting system.

1	Investment rate = Long-term assets / Total assets
2	Rate of circulation = Short-term assets / Total assets
3	Inventories to total capital = Inventories / Total assets
4	Rate of inventory turnover = Sales / Average inventories
5	Turnover time of inventories in days = Average inventories * 360 days / Sales
6	Period of payment in days = Average trade accounts receivable * 360 days / Sales
7	Equity ratio = Equity / Total capital
8	Return on equity = Net earnings / Average equity
9	Total return on capital = (Net earnings + interest expense) / Average total capital
10	Equity-to-fixed-assets ratio = Equity / Fixed assets
11	Personnel expenses = Personnel expenses / Sales
12	Material costs = Material costs / Sales
13	R&D ratio = Research and development costs / Sales
14	EBIT ratio = Earnings before interest and taxes / Sales

The average of the balance sheet value is determined as the average of the value on the reporting date of the current and the previous year.

Ratios (Selection)	2008	2007
1 Investment rate	31.4%	35.3%
2 Rate of circulation	68.6%	64.7%
3 Inventories to total capital	26.9%	22.9%
4 Rate of inventory turnover	3.8	4.0
5 Turnover time of inventories in days	94	90
6 Period of payment in days	69	71
7 Equity ratio	77.5%	81.2%
8 Return on equity	12.7%	13.6%
9 Total return on capital	10.1%	10.9%
10 Equity-to-fixed-assets ratio	308.1%	354.5%
11 Personnel expenses ratio	35.9%	36.3%
12 Material costs ratio	31.4%	32.9%
13 R&D ratio	13.2%	12.7%
14 EBIT ratio	14.0%	16.6%

Management controls the company through strategic and operational goals and on the basis of monetary and non-monetary parameters. Key financial control parameters of the Mühlbauer Group are earnings before interest and taxes (EBIT), the pretax profit margin (earnings before taxes, based on sales) and the free cashflow (balance from cash provided by operating activities and used for investing activities). The form in which value-oriented management is practiced within the individual business processes varies. In procurement, the values of purchase volumes are monitored and investment rates are also observed. By calculating the return on investment in respect of investment proposals, the anticipated return from the respective capital expenditure required is depicted. The activities in production are controlled on the basis of cost rates and expense ratios, prices, productivity ratios, as well as absolute and relative values on the development of inventory. We use the R&D ratio (R&D investment expenditure based on sales) to depict our research and development activities. In production and R&D, in particular, headcount is periodically depicted by means of staff change values, so that existing personnel capacities can be flexibly maneuvered between the individual product areas in the event of varying employment situations. Order income, sales and collection periods constitute the primary control information within the sales organization. Sales utilizes an additional control parameter – customer value – for the identification of key accounts. This value is determined using quantitative and qualitative criteria.

The exact provision of all ratios is linked to a comparison of the actual and target values. Due to the processing of this information by management, which is always effected promptly, it is guaranteed that escalation processes and countermeasures can be initiated immediately in the event that deviations are identified. These processes and countermeasures include measures intended to counteract unfavorable developments, decisions on investment measures, the selection and expansion of product areas with which the targeted growth is to be realized or the timely withdrawal from activities that do not achieve sufficient earnings contributions. This controlling concept implemented by the Mühlbauer Group supports the goal of a long-term, sustained enhancement of value instead of a short-term optimization of return.

SUSTAINABILITY REPORT

To the Mühlbauer Group it is a matter of course to reconcile its own commercial success with environmental and social needs through the sustained management of its activities. Only the responsible handling of existing resources will secure a stable basis for the positive development of the company. The internationally active Mühlbauer Group therefore not only feels obliged to observe the respective legal systems of the different countries and regions with which it maintains business relationships but also the high ethical and moral criteria pertaining to value-oriented management.

To a high-tech company such as Mühlbauer, quality is a key factor. Mühlbauer therefore utilizes all technical and operational opportunities to maintain and further increase the high quality of its products. Stable business and production processes that are subjected to continual testing and improvement, in the context of quality management, play a particular role in this. Mühlbauer is certified annually in accordance with the DIN EN ISO 9001 standard by external, independent evaluators, while internal auditors concurrently monitor the ongoing activities of the management system in the context of defined audit programs. Deviations of the functions are recognized at an early stage and corresponding measures can be initiated, if necessary.

Quality

At the German production sites Roding and Stollberg and at the production cell affiliated with the research and development center located in the Slovakian city of Nitra, about 450 Mühlbauer employees manufacture high-precision individual parts for its own range of products. Furthermore the company also produces parts for other industries, including such highly sensitive sectors as the aerospace, Formula 1 and medical technology industries. The most important processes for the manufacture of the products comprise drilling, turning, milling, welding and punching, while the raw materials include aluminum, stainless steel, cast iron scrap, synthetic materials, titanium and copper. Areas of particular environmental relevance are:

Production

- Surface treatment systems
- Central wastewater treatment systems for process water from preliminary and final surface treatment
- Waste management systems
- Facilities for hazardous material
- Central oil store
- Gas station for company vehicles
- Fuel oil tanks for the operation of the combined heat and power plants

In these areas, technically trained staff pay particular attention to the observance of legal environmental standards, thus enabling the prevention of and early defense against environmental damage. A consistent waste prevention and recycling system ensures that the waste is reduced and remaining waste materials are recycled.

Mühlbauer bears great responsibility for more than 1,900 employees worldwide. The company is well aware of this and therefore takes all necessary measures to create attractive and ideal working conditions. Key issues here are measures for a high level of workplace health and safety. Staff are regular sensitized with regard to possible hazards and receive training on how to handle emergencies. Fire safety and first aid facilities are available as well as technical monitoring and fire alarm systems. Mühlbauer treads unusual paths with regard to the promotion of health at the workplace, as a contribution to working efficiently and preventing illnesses. Employees can counter the physical inactivity their work entails with sporting activities in a modern fitness center and wellness area of around 1,500 m². Under the expert guidance of qualified trainers, Mühlbauer's employees can train health-oriented and improve their fitness levels pre-emptively. Furthermore, the existing company medical officer, who is available in the event of occupational accidents or acute illnesses, offers all necessary and officially required preventive medical examinations. The entire range of services not only improves the motivation of the employees, it also reduces illness-related expenses.

Work safety and health

Personnel development

Sustained management means also to qualify employees in such way, that they can permanently master the future challenges of a globalized world in conjunction with the company. We take this responsibility seriously. The Mühlbauer Group regularly provides numerous young people with an apprenticeship or traineeship, thus young people rapidly find the way into the paid workforce. Apart from this range of training opportunities, the company also offers its employees several further education options and qualification measures. Be it technical training, the development of social competencies or customized personnel development, involving instruction by job coaches – the qualification of staff never stops and is consistently implemented.

Social commitment



To the Mühlbauer Group social responsibility is of particular concern. For many years, the company has therefore been supporting many national and international projects from a social background through monetary and in-kind donations as well as charitable institutions. The Josef Mühlbauer Foundation, initiated by the company's founder, Josef Mühlbauer, plays a key role in this. Under the umbrella of the Josef Mühlbauer Foundation, the Mühlbauer Group supports select social projects and charitable initiatives with major monetary donations. Furthermore, the "Mühlbauer-Run", which was hosted for the fourth time in 2008, has already become a tradition. More than 1,000 runners and Nordic walkers have already participated in the race, which is meanwhile known supra-regionally, and have run or walked for a good cause. Thanks to the support of sponsors, employees and external participants, the proceeds of the race amounted to a handsome total at the five digit mark, which was utilized to co-finance a charitable school project for needy children in India.

FACTOR INPUT

Investments

In the 2008 reporting period, Mühlbauer's gross investment volume totaled EUR 10.4 million, exceeding the previous year's value of EUR 9.1 million by 14.3%.

The investments in intangible assets of EUR 1.5 million are primarily due to the development of new innovative and high technology products for the markets relevant to Mühlbauer and the introduction of an electronic spare parts catalog and a help desk system. Further investments in this area were made in respect of the security of our IT infrastructure.

The majority of investments in fixed assets went towards the mechanical expansion and the refurbishment of our production center in Stollberg, near the East German city of Chemnitz. Significant funds were used for the construction of a sheet metal center fitted with a fully automatic storage system, to meet the greater demand for components made of sheet metal. Furthermore, a property including production building, bordering the Stollberg production site, was purchased to guarantee the effective assembly of standard machines for Traceability applications. In the context of the refurbishment and expansion of the machinery, the focus was on investments in state-of-the-art milling machines, processing centers, type-bound tools as well as appliances. Additionally, at the Ehingen site, located within the state of Baden-Württemberg, investments were made into the construction of a sales and customer center for Traceability solutions and to optimize the marketing of solutions for the tracking of electronic components. Funds were also invested to purchase additional property in the Malaysian city of Melaka, in order to secure the further growth of the development and production site established in 2007.

In the context of its internationalization process, the technology group made available total funds of EUR 5.0 million, above and beyond the gross investment volume, in the year under review, in respect of the research and development center currently being established in the Slovakian city of Nitra and the customer center that is concurrently being developed in the US American state of Virginia. While parts of the premises in either project have already been operating since January 2009, the actual completion of both sites is realized in spring 2009.

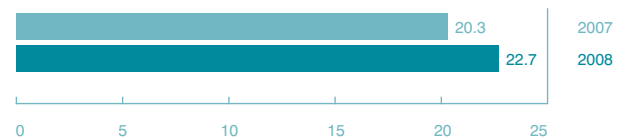
The investment rate, i.e. the ratio of gross investments to sales, is 6.0%, compared to 5.7% in the previous year. Including the advance payments made during the reporting period and objects in construction progress, the rate amounts to 8.9% (PY: 5.8%). The investments were fully financed by the operative cashflow.

Our development activities are intended to extend our market leadership through new innovative and high-tech products and to set us off from our competitors through our comprehensive competence. A total of 340 highly qualified technicians and engineers are therefore continually working toward the realization of new systems and solutions in our research and development departments in Germany, Malaysia and Slovakia, partly in cooperation with customers, universities and external research institutes. Our strong commitment in the research and development area is also reflected in our internationally-oriented intellectual property management: During the reporting period alone, we applied for 48 property rights (PY: 40) to protect our developments against growing competition. The high level of significance that Mühlbauer awards to continual research and development is mirrored in the R&D costs.

They amounted to EUR 22.7 million, which is 11.8% more than in the previous year (PY: EUR 20.3 million). Based on sales, this corresponds to an R&D rate of 13.2% (PY: 12.7%).

Research and development

Expenditures in research and development
in EUR million



As a system partner, Mühlbauer offers its customers complete solutions along the entire process chain for the production of electronic passports, chip cards and RFID Smart Labels. In order to extend its technological expertise long term, Mühlbauer continually revised and strengthened its range of products and extended the existing product portfolio by new basic solutions.

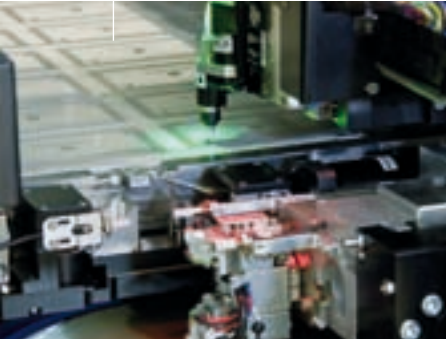
Cards & SECURITY®

Apart from the development of processes for specific customer applications, one of the focuses in the area of ID government systems was on the extension of the portfolio by the new system technology for the fully automatic production of covers with contactless chip inlays for electronic passports (eCoverLine). Additionally, Mühlbauer continued the further development of new verification techniques for electronic travel documents and extended its portfolio by a new electronic eGate with greater access protection for use at airports and border crossings. Apart from hardware systems, Mühlbauer also offers all necessary software-based processes for complete ID projects. In the year under review, specialists also developed software-based interfaces for the matching and synchronization of servers with national databases and adapted existing ID management systems to the ever broadening range of products. Hardware and software are thus combined and connected to become an often substantial network that can be tailored to customer and project requirements.

In the cards sector Mühlbauer caused a stir with its new high-speed solution GSM 5000 for the personalization of GSM/UMTS and pay TV cards. The GSM 5000 contains process modules for contact or contactless chip coding as well as for laser personalization and achieves high throughputs of up to 5,000 cards per hour. In card body production, machine systems for both the milling and the hologram application processes for applying security features to meet the high security standards of the various card applications underwent further development. For the purpose of posting cards, Mühlbauer subjected its fully automatic mailing system to further development, in order to apply ID1 format cards to letters with a higher throughput, to fold them and put them in envelopes.

Within its RFID portfolio Mühlbauer focused on a further increase of efficiency and performance of its inlay production solutions, during the reporting period. With the TAL 500 for example, a semi-automatic RFID bonder was created that is not only suitable as an introduction for new customers to the RFID market but which also significantly accelerates material and process evaluation for inlay production. Furthermore, as a successor to TAL 10000, Mühlbauer developed a flexible system for the antenna assembly (TAL 15000) that features a higher degree of automation and is more economical. The new TAL 20000 features a new improvement in the flip-chip assembly technology for RFID inlays: By doubling the speed of production to 20,000

RFID-Smart Label



Semiconductor Related Products

inlays per hour, Mühlbauer has developed the so far fastest antenna assembly machine on the market that is ready for series production. Due to its high level of flexibility, it can also process multi-component labels such as battery-supported tags. While the TAL series is designed to directly fit chips to antennas, Mühlbauer also offers its customers the opportunity to produce RFID Smart Label straps, with its FCM series. Mühlbauer developed the FCM 20000 as a counterpart to the TAL 20000. The FCM 20000 is also specifically designed to meet the requirements of chip producers and strap users in mass production, with its maximum throughput of 20,000 units per hour. Mühlbauer also pushed ahead its development activities in the RFID converting area: In the year under review, Mühlbauer specifically extended its converting line IL 15000 for the production of luggage tags for luggage tracking at airports, while new processes for the boosting of throughput were developed for the CL 15000.

In semiconductor-related technology solutions, the market launch of the new flexible die sorter generation won customers over with its improved performance and excellent quality. Improved handling and the elimination of downtime when changing rolls encountered positive feedback at customers. In the further development of our carrier tape systems at our technological base in Malaysia, the focus was primarily on efficiency and precision. The development of the carrier tape system CT 12/88 to a standardized machine was primarily completed in respect of cost reduction and further improvement of performance. Apart from a better forming quality, customers also benefit from an improvement of throughput of up to 35%, compared to its predecessor.

Traceability

Within its Traceability product portfolio, Mühlbauer focused its R&D activities on the further development and customer-specific adaptation of its board handling and laser marking systems. In the board handling area, Mühlbauer commenced the complete revision of its flip and turn units and buffer systems and their adjustment to a new user interface, which not only facilitates operation but also offers an integrated diagnostic function. Additionally, Mühlbauer extended its portfolio of laser marking systems for the marking of electronic components: In addition to the WL 700LCS, a high-speed marking system, Mühlbauer can therefore offer its customers the laser marking system WL 500 LCL, newly developed in the year under review, which guarantees outstanding quality while offering an excellent cost-benefit ratio. The intelligent combination of the proven marking laser with a specially developed handling renders brilliant marking quality available even to price-sensitive customers. Moreover, synergies with the solar industry were recognized in the Traceability area: With a view to the solar industry, Mühlbauer developed new systems to improve production security and quality..

Procurement

The ideal design of procurement processes is a key factor with regard to the positive business development of a company. Mühlbauer therefore constantly strives to improve the efficiency of its procurement management and to utilize it to the benefit of the company. In particular due to the continuous internationalization of the Group, in the course of the setup and further development of the locations in Malaysia, Slovakia and the USA, international procurement activities became possible within the company, which have been integrated as firm features of the daily procurement process, in the context of global sourcing. The increasing level of global procurement by utilization of worldwide markets not only enables a sustained improvement of procurement costs, as a result of the larger pool of suppliers, but also quality and service improvements, thanks to direct procurement channels. Mühlbauer has set up decentralized purchasing organizations at its locations in Malaysia, USA and Slovakia, in order to benefit from global sourcing. Where it was advantageous to do so, the procurement of individual products was reorganized to markets that offer long-term cost benefits while providing the same high level of quality and greater flexibility by offering shorter delivery periods.

So that all procurement processes of the Mühlbauer Group can be closely agreed, despite the decentralization of procurement activities, the standardization of procurement processes was pushed ahead consistently within the Group during the year under review. As basis for cooperation, identical guidelines regarding supplier qualification were defined throughout the Group and all purchasing organizations were provided with standardized evaluation procedures to ensure our general high quality requirements. Furthermore, corporate standardiza-

tion of the internal inventory management was introduced mid-year, which not only ensures greater transparency but also results in sustained potential for savings: The possibility to determine requirements and needs throughout the Group and thus to bundle orders results in larger quantities purchased and subsequently in more favorable prices. The electronification of purchasing processes was also continued, to increase the efficiency and productivity of the purchase. Apart from the electronic processing and archiving of purchasing documents, which has already been implemented, Mühlbauer electronified internal ordering processes in the year under review. Throughout the Mühlbauer Group, employees can access standardized electronic procedures, which allow for a rapid and efficient processing by the relevant purchasing department.

The Mühlbauer Group paid close attention to the development of prices on the procurement markets. Mühlbauer countered the price increase for steel and aluminum, which continued until mid-year, by concluding framework agreements. This guaranteed cost-oriented procurement and complete security of supply. In 2008, expenditure for raw, auxiliary and operating materials as well as for acquired services amounted to EUR 54.2 million (PY: EUR 52.4 million).

Although the Mühlbauer Group has increased its independence from individual suppliers significantly in the context of global sourcing, it still targets trusting and long-term cooperations with existing and potential suppliers. In conjunction with an effective global network of suppliers, it is our goal to further improve the quality, costs, technology and logistics of the materials and services purchased, thus enhancing company value sustainably.

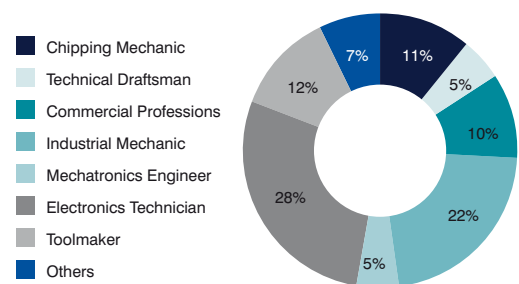
EMPLOYMENT

As an innovative company, Mühlbauer benefits from employees who are not only highly qualified but are also particularly highly motivated and approach new challenges with a flexible frame of mind. It is one of the primary responsibilities of human resource work at Mühlbauer to promote and upgrade the qualifications of such employees on the basis of our corporate culture and to constantly recruit new talents for the international Mühlbauer Group and its new technology bases.

In the battle for requested talents, Mühlbauer has already set the right points at an early stage. Since the foundation of the company, Mühlbauer has been providing very intense and high-quality training to young people and has successively been pushing ahead training measures nationally and internationally. To the end of the year under review, 328 (PY: 288) young people were employed as trainees or apprentices. This corresponds to a training quota of 17.2% (PY: 16.1%). With 14 different jobs requiring training – from mechatronic to assistant in sports and fitness for the company's own fitness center technicians – Mühlbauer is an attractive employer and trainer to school leavers. Apart from general education, the Mühlbauer Group also enables professional training including specialized university entrance qualification. In the so-called DBFH program, the trainees participating in the program acquire both their craft certificate and the specialized university entrance qualification. In cooperation with regional universities of applied sciences, Mühlbauer additionally offers school leavers holding the specialized university entrance qualification, a mutually interlocked training program, in which company training is offered in parallel with a fully fledged course of study including a Bachelor's degree (dual study). With regard to the recruitment of young highly qualified staff, Mühlbauer significantly extended its university marketing in the year under review: Apart from the extension of work experience, student trainee and undergraduate offers, the company entered into targeted cooperations with universities of applied sciences, to position itself among students and graduates as an attractive employer at an early stage.

Recruitment of trainees and apprentices

Vocational training structure in %



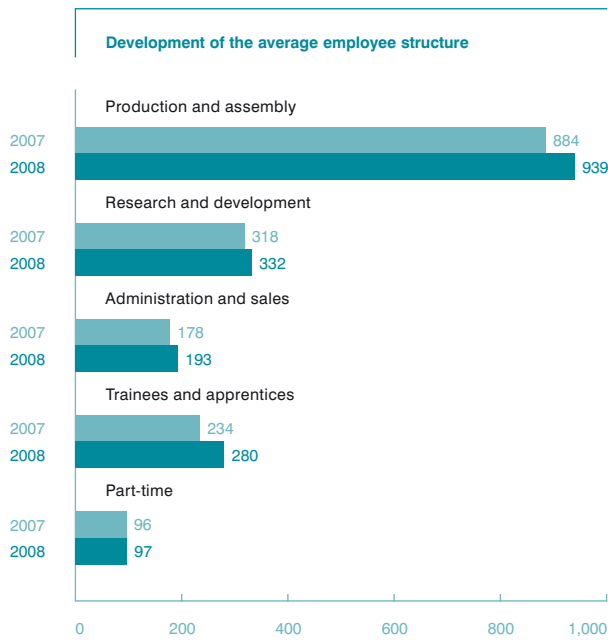
Personnel development

In the year under review, a focus of staff development at Mühlbauer was on the implementation and extension of the "Leading and Designing" program, initiated in 2007. The goal of the program is to support the identification and selection as well as the promotion of executives throughout the Group with regard to the gradually increasing challenges in the globally active Mühlbauer Group. Internally, employees are identified for management positions through assessment centers and prepared for their new responsibilities through seminars and customized qualification measures - including intercultural measures. Moreover, executives and top leaders are coached or further qualified by in-house job coaches or select partners and organizations. To spot future executives at an early stage, Mühlbauer has also implemented various promotional and trainee programs targeted specifically at trainees and apprentices with excellent marks and promising university graduates. In the context of a scholarship, these high performers receive special support through customized trainee programs and are offered long-term careers within the Mühlbauer Group, as junior executives. Mühlbauer's modern training center is further proof of the fact that holistic human resource development plays a major role. It is not only home to a training center with a training workshop and IT facilities, but also a separate fitness center, to promote physical fitness alongside mental fitness.

Organisation

The increasing internationalization of the Group through the development of the sites in Malaysia, Slovakia and the USA has presented human resource work with new challenges. Mühlbauer has pushed ahead the decentralization of its recruitment organization in order to quickly gain access to the pool of potential staff and to acquire suitable, highly qualified employees for the company at its new locations. Both in Slovakia and in Malaysia independent HR units deal with recruitment, personnel care and HR administrations.

To the end of the reporting period, the Mühlbauer Group employed 1,903 staff (PY: 1,791). The rise in employees is due to the additional staff required at the new sites in Malaysia and Slovakia, caused by the internationalization of the Group and the rise in the number of apprentices and trainees. Personnel expenditure totaled EUR 62.0 million (PY: EUR 57.7 million). Salaries and wages accounted for EUR 51.4 million (PY: EUR 47.9 million), while social security contributions amounted to EUR 10.6 million (PY: EUR 9.8 million).



OTHER DETAILS

In June 2007, the personally liable shareholder submitted an action to the Nuremberg Finance Court, after the tax office of the place of business relevant to the company had intended to revise its previous opinion, namely that the so-called partner view had to be applied to the determination of the profit of a KGaA, and that the half-income procedure would, in future, have to be applied to the share in profits of the personally liable shareholder of a KGaA, to the extent that the share in profits contains calculated dividends within the meaning of § 20 para. 1 numbers 1 and 2 EStG (German Income Tax Act). With the legal action taken, the personally liable shareholder sought the application of the so-called partner view in respect of the taxation of a KGaA.

In November 2008, the Bavarian State Ministry of Finance, to which the personally liable shareholder appealed in parallel to the action taken, advised that the Heads of the Division of Income Tax of the federal government and the federal states, in their September meeting, had resolved to apply the partner view to the taxation of the personally liable shareholder of a KGaA, within the meaning of a partially transparent taxation concept.

With this resolution, the Federal Ministry of Finance, on principle, complied with the opinion of the personally liable shareholder, according to which the half-income or partial-income procedure should apply to the distribution of profits of a joint stock corporation, to the extent that a proportion thereof is distributed to the personally liable shareholder. The result has no impact on the company, as the company has so far effected its determination of income in accordance with the partner view. This corresponds with both its own view and the previous view represented by the tax office.

The notice issued by the State Ministry of Finance grants legal certainty until 2005. For 2006 through to 2008, the notice should furthermore develop a protection of confidence in respect of the personally liable shareholder. The future retention of the partially transparent taxation concept is subject to a uniform, Germany-wide regulation by the Federal Ministry of Finance, scheduled for 2009.

EVENTS AFTER THE 2008 FINANCIAL YEAR

No events of major significance occurred after the reporting date 2008.

RISK REPORT

Our endeavor to further extend Mühlbauer's market position globally without losing track of the value-oriented development of the company entails opportunities and risks. The risk policy of the Mühlbauer Group therefore not only consists of the perception of existing opportunities but also of the early recognition and evaluation of risks, as well as their delimitation and control with suitable countermeasures.

For this purpose, the company utilizes an opportunity and risk management system that has been established for several years and that is constantly further developed and checked for efficiency. Sensitization of all staff to identify, notify and monitor risks at an early stage is communicated and executed across the Group. The legally required risk management is comprehensively documented in a risk management manual and can be viewed by all staff. Short interaction paths result in the rapid and unbureaucratic notification of newly identified risks to the risk committee or a member of the Management Board.

Result on the possible amendment of the taxation concept

The risk report, which results from the half-yearly risk inventory of all group companies, is drawn up centrally and, in addition to other reporting elements, is used by management to control the company in a value-oriented way. It provides information on all individual risks of the Group, presents their development in chronological order and breaks them down into individual area portfolios. Their evaluation on the basis of "probability of occurrence" and "extent of damage" in dependence on earnings before interest and taxes is effected by the respective executive responsible for the risk. The plausible calculation of the possible expectancy, the provision of a detailed reason, the listing of countermeasures and the scheduled date of their implementation are mandatory and are discussed in detail in risk committee meetings.

Every executive is responsible for monitoring the effectiveness of the opportunity and risk management. At the same time, the efficiency of the system is monitored by an independent third party on the basis of regular internal audits and further optimized. As in previous financial years, the auditors have evaluated the early recognition system utilized in the year under review. They have ascertained that it meets legal requirements.

Currently no developments can be discerned within the Mühlbauer Group, which pose a risk to the company as a going concern. Risks can, however, never be fully excluded. Thus, natural catastrophes, an escalation of terrorist activities, possible pandemics or amendments of taxes or customs duties on individual export markets, could possibly impact the sale of technology solutions. Irrespective of this, the Mühlbauer Group is currently experiencing the following risks, which could prove a considerable negative impact on the asset, financial and earnings situation of the Group.

Business environment and industry risks

To suppliers the interference of the current financial market crisis with the real economy means that the risks resulting from the existing dynamic and successively harsher market and competitive conditions may become aggravated through a restraint in demand in the capital goods sector.

On such markets there is a risk that the faulty or delayed analysis of the market situation results in a lack of correspondence between the products and solutions offered and the needs of customers. This results in dissatisfied customers. Through the active dialog with our customers and intensive internal analyses and research on the market environment, customer requirements and on our competition, we can react to new developments and requirements in the industry at an early stage. For this purpose, we utilize a constantly up-to-date and comprehensive information and communication tool, as well as analyses on existing market information.

The financial market crisis bears the risk of declining demand from our customers in the industrial sector, whereas business with governments and government-related institutions should prove to be more stable. Other consequences of the financial crisis are manifested in that payment guarantees, which were previously considered good, may not be as secure as anticipated or that the payment practices of customers with a history of good payment practices could have deteriorate in future. On the basis of the good market position we hold in the government business, we are currently assuming that we will be able to compensate for the negative impact in the industry business - at least in part. We counter the lower trustworthiness of payment promises by performing more intensive checks of the respective banks and through other safeguards.

To further extend its technological and market leadership on the markets relevant to the company, Mühlbauer usually positions itself and its innovative machine and solution concepts on the market at a very early stage. As a result, there is a potential risk that our technologies are copied by other companies. The possible outflow of expertise through industrial espionage or the poaching of carriers of expertise, is counteracted by a host of measures: The continual observation of the market, the protection of key technologies and procedures by patents, the targeted further development of our technological lead and the further expansion of our international organization are a few of the critical control measures we take.

The processing of our global business activities is subject to an internally organized export control with regard to the supply of goods to other countries. However, as a result of the scope and the complexity of existing export regulations and constant changes to them, there is a risk that corresponding provisions are not observed, entailing a range of different sanctions. The implementation of IT security features in our IT system, the intensive cooperation with the Federal Office of Economics and Export Control, as well as staff training on the risks involved are effective, risk-minimizing measures that Mühlbauer employs.

Damage caused by defects or consequential damage can arise if our machines have quality defects that are not recognized in a timely manner during our internal production qualification. Any end products that were defectively produced and possibly brought into circulation for the above reason, can result in production downtime or new production at customers and cause substantial costs, in respect of which Mühlbauer might be held liable. Further consequences are effects that may damage the reputation of the company. Preventive measures, such as internal product qualifications for new developments, the auditing of preliminary process developments, support with the installation of quality management systems for the customer's production, as well as corresponding contract designs in respect of financial loss, help to keep risk at a manageable level.

In a company with a high share of research and development, which constantly extends its product portfolio, the risk that innovative technology solutions violate foreign trade marks, thus disrupting the development, production and market launch of innovative products, is high. Mühlbauer protects itself against possible infringements of trade marks by systematically executing research, to determine and evaluate third-party trade marks. Accruals have been formed in respect of the utilization of specific development results. Once the measure has been taken, the residual risk is considered negligible.

The internationalization of the group bears the risk that a high level of cash and cash equivalents is required, apart from the high level of staffing, to activate newly founded companies or sites. During the initial stages, these funds cannot be fully covered by the organic earnings of the branch. This risk is met by a transparent organization in connection with an unambiguous allocation of responsibilities, constant dialog with the local organization, training sessions on work procedures and the transfer of the company's corporate culture, as well as the communication of the company's technological expertise.

IT risks consist of failing networks and the alteration, destruction or copying of data through incorrect or unauthorized access to data. We counter these risks through regular investments in the hardware and software areas, the use of state-of-the-art virus scanners, firewall systems and penetration tests by external service providers, who test the Group's IT security. The sensitization of staff with regard to data security and data abuse, as well as a comprehensive authorization management and encryption concept are all measures that help keep risk in this area at a manageable level.

In the industry and the regions in which the Mühlbauer Group is active, competition for highly qualified specialists and executives is still high. To implement its corporate strategy, the company must recruit superbly qualified personnel within a highly competitive environment and retain their enthusiasm long-term. Mühlbauer counteracts this risk with intensive training and further education programs for its junior staff, through customized trainee programs and the further development of loyal staff members to future executives. In so doing, Mühlbauer's corporate culture is incorporated into all staff development concepts.

Fluctuating demand can result in overcapacities in certain areas. To counter this risk without having to lay off employees, we count on uniform qualification standards for staff, thus being able to deploy employees flexibly and across departments. Limited term contracts also assist in meeting this risk.

Technology risks

Expansion risks

IT risks

Personnel risks

Procurement risks

It is purchasing's objective to procure high quality raw materials and services in a timely manner and at the best possible cost. This procurement process can involve price and purchasing risks, as well as quality risks on the part of the supplier. As a result of budget agreements for raw materials and a global procurement strategy, prices are fixed for defined periods and single source situations relativized. Comprehensive process and test instructions for the receiving area ensure that only qualitatively unobjectionable goods enter the production and assembly process.

Fiscal risks

Apart from a regular, intensive observation of the market, Mühlbauer utilizes contractual agreements and derivatives to minimize currency risks from exchange rate or interest rate fluctuations. Any financial transactions in foreign currencies that exceed the anticipated net cashflows of a currency unit are rate-hedged on completion of the basic transaction or, insofar as market expectations permit, at a later point in time. Default risks are minimized by applying a consistent management of receivables fitted with escalation processes and linked to regular reporting as well as an extensive creditworthiness check of new customers. The delimitation of the liquidity risk is effected by concluding credit lines with banks and by maintaining liquidity reserves in the form of capital investments. The risk involved with capital investments, apart from the absolute development of price, is that a complete, disposal of the securities whenever required may not be possible or only to a limited degree, as a result of market irregularities. The delimitation of this risk is effected by means of a targeted selection of investments and their continual monitoring. With regard to the disclosure requirements on opportunity and risk management codified in § 315 para. 2 HGB (German Commercial Code) relating to the use of financial instruments, we also refer to the corresponding statements provided in the notes at 32 "Additional information regarding financial instruments" and at 33 "Risk management and financial derivatives".

Other risks

The Mühlbauer Group is protected against external influences such as damage caused by storm, water or fire by a comprehensive insurance package, which is regularly checked and adjusted as required.

OUTLOOK

Global economy

Due to the intensification of the financial market turbulences and their ramifications on economic development, the global economy, which is already experiencing a downward slide will – according to leading market research companies – continue to dampen and subsequently liven up only hesitantly, irrespective of the massive attempts of governments and central banks to stabilize banks and stimulate the economy. While only marginal rates of global economic increase are anticipated in 2009, the economy in the industrialized countries is even set to shrink. According to leading economists, economic activity in the USA, which slid into a recession in the course of 2008, will continue to weaken, due to a decline in consumer and capital spending. Economic programs, both those already kicked off and future programs – largely infrastructure investments – could have a stimulating, if delayed, effect. The Japanese economy is set to dampen significantly throughout most of next year. While gains of purchasing power are expected to support private consumption, at least over the next few months, exports are unlikely to spur growth momentum, due to the global economic decline. Even the increase in production in the newly industrializing countries in Asia will most likely drop substantially in 2009, as the weakness in demand from industrialized countries and the dramatic decline of raw material prices represents an uncompensatable pressure on the export-oriented national economies. While central bank interest rates in China were raised in the past year in order to counter an overheating of the Chinese economy, the government is now taking measures to stimulate demand. Despite considerable economic impulses, China's gross domestic product is set to grow only slightly in contrast to previous years, due to its export-driven economy. Even India is expected to achieve only slow GDP growth, as the ongoing robust domestic demand will only be able to moderately compensate for the deterioration of the general foreign trade conditions. A decline of overall economic production is to be anticipated in almost all countries

of the euro zone. In view of pessimistic sales and earnings expectations, as well as tighter financing conditions, the investment restraint is expected to be exacerbated. It is to be assumed that the weakness on the labor market will result in a restriction of private consumption. While the fiscal measures for the support of the economy resolved so far have a cushioning effect, it is doubtful whether they alone can impact the basic economic trend in a sustained way. In Germany, both the decline of exports, which was the driver of growth in recent years and the slump in domestic demand is expected to result in a shrinking of gross domestic product. The available income will increase slightly as a result of the drop in the rate of inflation and lower taxes, and while this speaks for an extension of private consumption, the economic development impacts the labor market negatively, which will trigger opposite effects.

Even though it cannot be fully excluded that the worldwide financial crisis may result in a temporary complication of project financing and that this may result in delays with regard to the implementation of projects, the government-related TECURITY® market should continue to hold great potential for growth over the next couple of years. The rise in demand for innovative and reliable technology and software solutions for the production of security-oriented identification systems in Smart Card and passport formats is not so much borne by economic trends as it is by structural decisions. The focus here is on the interest of states and public authorities to offer additional security through the introduction of new innovative ID applications, with greater flexibility and speed. Furthermore, stimuli in respect of the global introduction of new applications on a government ID basis result from international requirements and provisions that are, for example, issued by the ICAO, the US Visa Waiver Program or the European Union, and must be implemented by the participating states, irrespective of the current economic situation. Several countries are therefore in a process of replacing their conventional documents with new, more innovative ones. Moreover, biometrics are increasingly becoming a new standard, in particular, for ID applications. Not only is the implementation of biometric details being targeted for this reason, but increasingly also the introduction of electronic verification solutions, to match persons and documents fully automatically. As a result, the market research company ABI Research forecasts significant growth for biometrics, from USD 3 billion in 2008 to USD 7.3 billion by 2013. The bank/EMV and SIM card market should continue to grow stably. Due to the frequency with which conventional magnetic stripe cards are forged, banks are pushing ahead the switch to EMV chips while additional demand for SIM cards is caused by the spread of mobile telephone services in developing and newly industrializing countries, in particular. Overall, the industry expert Eurosmart is anticipating a rise to 5.4 billion Smart Cards for the 2009 financial year.

The RFID market is expected to gain momentum over the next few years. It is a clear fact that the number of RFID projects is increasing globally and that RFID is being utilized in more and more industries and applications. While the potential for growth in the UHF sector is being driven ahead by the forced expansion of the RFID technology in the supply chain management of large business groups, e.g. Metro, utilization of contactless RFID identification is also increasingly being used in the HF sector: Apart from tickets for public transport, tickets for events are more and more frequently being fitted with an RFID tag to enable safe access control or prevent ticket fraud. RFID tickets are planned to be used at "Expo Shanghai", which is expecting to attract more than 70 million visitors. According to estimates by IDTechEX, the RFID market is anticipated to grow 23% in the 2009 financial year and 25% in the 2010 financial year.

On the general semiconductor market, the sustained global economic decline is once again set to impact demand in the 2009 financial year. Estimates indicate that the semiconductor industry will, for the first time in its history, have to accept a drop in sales for the second year in a row. The Gartner market research institute has forecast a decline in sales of 16.3% for 2009 and is expecting the situation to improve at the earliest 2010.

With regard to the markets involving Mühlbauer's competence in Traceability, it must be assumed, as a result of the sustained economic slump and weaker sales expectations, that demand for capital goods will stagnate in 2009. In the 2010 financial year, the anticipated revival of the automotive and electronic sectors is to stimulate demand, which should result in a recovery of these markets.

Industry development



Premises of the outlook for the Mühlbauer Group

Our outlooks take into account our risk and opportunity considerations and are based on our operative evaluation and Mühlbauer's medium-term forecast. Apart from our longstanding experience on the markets relevant to us, these are also backed by the market forecasts of our customers and assessments of independent institutes. Despite the turbulent developments in the recent past, our operative evaluation is assuming a stable development of our prices, a moderate development of energy and raw material prices and a slow increase of personnel costs. We do not provide forecasts in respect of exchange rates and the termination of legal action in the future. We are assuming the legal structure of Mühlbauer Holding AG & Co. KGaA will remain unchanged. Possible changes in the scope of consolidation, caused by disposals and acquisitions are not taken into consideration.

Outlook for the Mühlbauer Group

Above all, the increase in demand by governments and government-related agencies for technology and software solutions – resulting from multilateral agreements designed to boost security in tourism and travel and triggered by the rising need for innovative, security-oriented ID documents in Smart Card and passport formats – should continue to encourage sales of Cards and SECURITY®. This positive assessment is based on the gradual implementation of Mühlbauer's strategic objective of qualifying as a fully reliable system partner for the complete transfer of technology and expertise required for the production of innovative electronic and biometric ID documents. We are therefore assuming business to develop positively, both in 2009 and 2010, while the intensity of this trend is of course subject to great fluctuation, due to the volatile project business. The principal risks in this business are that project financing is temporarily impeded due to the global financial crisis and that this results in the delayed realization of scheduled projects or that certain projects do not result in firm orders.

The intensification of the distinct decline in the general semiconductor industry that has been reported for several quarters and which market research institutes have forecast, will lead to the sustained weakening of demand for semiconductor-related automation systems, which has been reported since the second half of 2007. Recovery is not anticipated before 2010. While the technology solutions bundled under the "Smart Label Factory", for the production of RFID Smart Labels, hold quite some potential, due to the increasing use of the technology worldwide, it is unlikely that growth will be achieved in Semiconductor Related Products, irrespective of the company's focus on promising niches of the semiconductor market. Against this background, we are assuming stagnating sales volumes for 2009 overall, which could start providing positive stimuli in 2010, in line with a general economic recovery. Irrespective of the current weakness on the semiconductor market, Mühlbauer will continue to press ahead with new product developments in order to benefit above average from the future upturn of the market. Additionally, the Mühlbauer Group is pushing onto new markets with its semiconductor-related technology base, in order to further relativize the high cyclicality of the semiconductor industry. The main risk factors we see here are the further aggravation of competition and the further deterioration of market prospects.

In 2009, in the Traceability environment, we will, in particular, be confronted with the slump in the automotive industry, which has so far been one of the largest consumers of traceability and board handling solutions. Mühlbauer will therefore further diversify its product portfolio, in order to relativize its dependence on individual industries and to sustainably secure stability in this area. At the same time, worldwide sales of the products are being pushed ahead via the global sales network of the Mühlbauer Group. Although the company is hoping for Solar, the new product area within "Traceability", to provide positive stimuli in the 2009 financial year, it cannot be excluded, at this point in time, that our business activities in this area will be negatively impacted as a result of the general weakness of the economy. Against this background, we are anticipating declining sales for the financial year. It is not before 2010 that the general revival of the global economy is expected to result in an increase of investments in the industries relevant to Traceability, thus enabling sales growth. The main risk factors we see here are the further aggravation of competition and the further deterioration of market prospects.

The cyclical decline in demand in the automotive industry and the change in Formula 1 regulations since the 2007 racing season led to a slackening of the momentum – which had been continuous over three years – in demand for precision parts and systems in the year under review. Mühlbauer will react to this development by utilizing the corporate sales channels cooperatively and by acquiring new customers and alternative, less volatile sales markets, in order to further improve risk diversification and guarantee stability. As we are currently unable to rule out that the measures we introduced will not take immediate effect, we are forecasting stagnant business development for 2009, while the following year should show growth. We consider the greatest risk to be a further deterioration of the general economic environment.

The Mühlbauer technology group, which is the only system partner worldwide for the complete transfer of technology and expertise related to the manufacture of electronic ID documents, is retaining its long-term growth strategy. Due to the fact that Mühlbauer is unique as a provider of one-stop solutions, the company is assuming that it will be able to further increase its attractiveness on the market, thus being increasingly able to benefit from the global transformation process. The technology group is therefore assuming that it will at least be able to compensate the temporary weakness in demand for products from semiconductor-related industries, Traceability applications and Precision Parts & Systems.

Overall, we are anticipating the stable development of sales and earnings for the 2009 financial year and further growth for the following year.

Mühlbauer will finalize the first stage of its internationalization process with the completion of its development site in the Slovakian city of Nitra and the customer relations center in the US American state of Virginia in the spring of 2009. Depending on the further development of the markets relevant to Mühlbauer, we will push ahead investments pertaining to the expansion of global production capacities - in the context of the second stage of the internationalization process. Provided that these are implemented in 2009, these investments will total between EUR 7 million and EUR 10 million. At over 14% of sales, research and development expenses will also remain high, in order to further increase the level of automation and enhance the group's attractiveness to customers.

A change of our dividend policy is not under consideration. Based on our expected earnings, we are again considering the payment of a profit-oriented dividend to our shareholders.

IMPORTANT NOTICE

This Management Report contains statements that are projected into the future; statements that are based not on historic facts but rather on current plans, assumptions and estimates. Future-oriented statements are only applicable to the period in which they are established. Mühlbauer accepts no liability to revise these once new information becomes available. Future-oriented statements are always subject to risk and uncertainty. We therefore wish to point out that a range of factors can impact the actual results to the extent that these deviate considerably from those forecast. Some of these factors are described in the "Risk report" and other parts of this report.

**CONSOLIDATED STATEMENTS OF INCOME (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2008
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Jan. 1 - Dec. 31, 2008 TEUR	Jan. 1 - Dec. 31, 2007 TEUR
1. Sales	(3)	172,575	159,134
2. Cost of sales	(5)	(101,851)	(94,931)
3. Gross profit		70,724	64,203
4. Selling expenses	(6)	(14,538)	(9,674)
5. Administrative expenses	(7)	(8,227)	(7,568)
6. Research and development	(8)	(22,731)	(20,280)
7. Other income	(9)	2,335	1,000
8. Other expenses	(9)	(3,326)	(1,270)
9. Operating income		24,237	26,411
10. Financial result			
a) Financial income	(10)	3,859	2,970
b) Financial expenses	(10)	(3,697)	(937)
11. Income before income taxes		24,399	28,444
12. Income taxes	(11)	(6,125)	(9,330)
13. Net earnings		18,274	19,114
Earnings per share in EURO			
basic	(12)	1.24	1.31
fully diluted	(12)	1.24	1.31
Weighted average of shares			
basic	(12)	6,118,333	6,105,206
fully diluted	(12)	6,118,334	6,105,212

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

**CONSOLIDATED BALANCE SHEETS (IFRS) AS AT DECEMBER 31, 2008
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Dec. 31, 2008 TEUR	Dec. 31, 2007 TEUR
ASSETS			
Short-term assets			
Cash and cash equivalents	(13)	17,122	16,425
Marketable securities	(14)	17,981	21,062
Trade accounts receivable	(15)	34,033	29,536
Other current assets	(16)	5,830	4,770
Tax receivables	(17)	2,882	1,233
Inventories	(18)	50,398	39,913
		128,246	112,939
Long-term assets			
Investment and long-term financial assets			
Marketable securities	(19)	-	4,562
Trade accounts receivable	(15)	741	1,536
Other loans	(20)	-	2,150
		741	8,248
Fixed assets			
Land and buildings	(21)	27,819	26,276
Technical equipment	(21)	8,895	8,217
Furniture and office equipment	(21)	5,251	5,315
Buildings and equipment in progress	(21)	5,083	179
		47,048	39,987
Intangible assets			
Software and licenses	(22)	591	1,001
Capitalized development costs	(22)	6,413	8,603
		7,004	9,604
Other long-term assets			
Long-term tax receivables	(23)	2,334	2,389
Deferred tax assets	(11)	759	162
Plan assets	(27)	913	1,302
		4,006	3,853
		187,045	174,631
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term liabilities			
Financial liabilities		22	21
Trade accounts payable		10,578	6,068
Downpayments	(24)	7,439	6,769
Other liabilities	(25)	10,689	8,178
Accrued income taxes	(26)	1,900	1,962
Other accruals	(26)	8,789	6,398
		39,417	29,396
Long-term liabilities			
Deferred tax liabilities	(11)	2,658	3,492
		2,658	3,492
Shareholders' equity			
Ordinary share capital		8,038	8,038
Own shares	(28)	(202)	(214)
Fixed capital contribution	(28)	(2,980)	(2,980)
Additional paid-in capital	(28)	60,677	60,483
Other comprehensive income	(28)	(449)	326
Retained earnings	(28)	79,886	76,090
		144,970	141,743
		187,045	174,631

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

**CONSOLIDATED STATEMENTS OF CASHFLOWS (IFRS)
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Jan. 1 - Dec. 31, 2008	Jan. 1 - Dec. 31, 2007
	TEUR	TEUR
Cash provided by operating activities		
1. Net earnings	18,274	19,114
2. + Income taxes	6,125	9,330
3. + Interest expenses	124	295
4. - Interest incomes	(526)	(534)
Adjustments for non cash expenses and income		
5. +/- Expenses/(income) from employee profit-sharing programs	75	162
6. +/- Depreciations/(appreciations) to fixed assets	6,358	6,341
7. +/- Depreciations/(appreciations) to intangible assets	627	725
8. +/- Depreciations/(appreciations) to capitalized development costs	3,587	2,575
9. +/- (Gains)/losses from the sale of fixed assets	(97)	(248)
10. +/- Realized net (gains)/losses from short- and long-term marketable securities	1,215	(1,045)
11. +/- (Gains)/losses from the change in fair value of financial instruments	(17)	149
12. +/- (Increase)/decrease of deferred tax assets	(597)	(118)
13. +/- Increase/(decrease) of deferred tax liabilities	(834)	(1,039)
Changes in long-term assets and working capital		
14. +/- (Increase)/decrease of inventories	(10,485)	(106)
15. +/- (Increase)/decrease of trade accounts receivables and other short-term assets	(5,208)	(631)
16. +/- Increase/(decrease) of trade accounts payables and other liabilities	13,087	1,834
17. + Proceeds from sales of short-term marketable securities (available-for sale and held-to-maturity papers)	65,843	27,485
18. - Acquisitions of short-term marketable securities (available-for sale and held-to-maturity papers)	(64,475)	(26,266)
19. = Cash generated from operating activities	33,076	38,023
20. - Income tax paid	(11,495)	(12,657)
21. - Interest paid	(30)	(110)
22. + Interest received	484	353
23. = Cash provided by operating activities	22,035	25,609
Cashflow from investing activities		
24. + Proceeds from disposals of fixed assets	3,989	1,277
25. +/- (Increase)/decrease of other loans	(1,380)	(2,395)
26. - Purchase of fixed assets	(11,463)	(6,596)
27. - Purchase of intangible assets	(358)	(486)
28. - Expenditures for capitalized development costs	(1,397)	(2,207)
29. + Proceeds from sales of long-term marketable securities (available-for sale-papers)	6,081	8,652
30. - Acquisitions of long-term marketable securities (available-for sale-papers)	(1,476)	(1,672)
31. = Cash used for investing activities	(6,004)	(3,427)
Cashflow from financing activities		
32. +/- Increase/(decrease) of short-term financial liabilities	1	21
33. + Proceeds from sales of own shares	131	475
34. - Dividends paid	(12,720)	(15,617)
35. +/- Tax withdrawal personally liable shareholder	(2,331)	(1,758)
36. = Cash used for financing activities	(14,919)	(16,879)
37. +/- Increase/(decrease) of currency exchange rate changes	(415)	(189)
38. = Net increase/(decrease) in cash and cash equivalents (Total of lines 23, 31, 36 and 37)	697	5,114
39. + Liquid funds at beginning of reporting period	16,425	11,311
40. = Liquid funds at end of reporting period	17,122	16,425

We refer to additional informations on page 92 of the accompanying notes.

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (IFRS)
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Other comprehensive income/(loss)							Retained earnings TEUR	Total TEUR
		Total number of shares	Own shares Number	Ordinary share capital TEUR	Fixed capital TEUR	Additional paid-in capital TEUR	Cumulative transaction adjustments TEUR	Available for-sale securities TEUR		
Balance Jan. 01, 2007		6,279,200	(187,502)	7,798	(2,980)	59,872	101	1,158	74,350	140,299
Net earnings		-	-	-	-	-	-	-	19,114	19,114
Other comprehensive income/(loss)	(28)	-	-	-	-	-	(189)	(744)	-	(933)
Total comprehensive income/(loss)	(28)	-	-	-	-	-	(189)	(744)	19,114	18,181
Deferred compensation	(28)	-	-	-	-	162	-	-	-	162
Proceeds from sales of own shares	(28)	-	20,262	26	-	449	-	-	-	475
Dividends	(28)	-	-	-	-	-	-	-	(17,374)	(17,374)
Balance Dec. 31, 2007		6,279,200	(167,240)	7,824	(2,980)	60,483	(88)	414	76,090	141,743
Balance Jan. 01, 2008		6,279,200	(167,240)	7,824	(2,980)	60,483	(88)	414	76,090	141,743
Net earnings		-	-	-	-	-	-	-	18,274	18,274
Other comprehensive income/(loss)	(28)	-	-	-	-	-	(320)	(455)	-	(775)
Total comprehensive income/(loss)	(28)	-	-	-	-	-	(320)	(455)	18,274	17,499
Deferred compensation	(28)	-	-	-	-	75	-	-	-	75
Proceeds from sales of own shares	(28)	-	9,245	12	-	119	-	-	-	131
Dividends	(28)	-	-	-	-	-	-	-	(14,478)	(14,478)
Balance Dec. 31, 2008		6,279,200	(157,995)	7,836	(2,980)	60,677	(408)	(41)	79,886	144,970

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

Notes

(1) **BASIC PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS**

A. GENERAL INFORMATION

Description of business activities

Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien (referred to as the company) and its subsidiaries (together referred to as the Mühlbauer Group) develop, produce and distribute products and services within the chip card, passport, Smart Label, semiconductor and electronic technology. The development and production sites of the company are located in Germany, Malaysia and Slovakia. Sales are generated globally via the company's own sales and service network and trade representations in different countries.

Principles of presentation

The company is a partnership limited by shares, founded and headquartered in Roding, Germany.

The company is listed on the regulated market of the Frankfurt Stock Exchange with admission to the "Prime Standard".

Mühlbauer Holding AG & Co. KGaA is a parent company within the meaning of § 290 HGB (German Commercial Code). As a result of issuing equity investments on the capital market, the company must draw up the consolidated financial statements of the company in accordance with § 315a para. 1 HGB, in connection with Article 4 of the regulation of the European Parliament and Council of 19 July 2002 according to the International Financial Reporting Standards (IFRS) acknowledged by the EU. The consolidated financial statements of the Mühlbauer Group are in accordance with the IFRS, as it is applied in the European Union. To achieve equivalence with consolidated financial statements drawn up in accordance with the regulations of commercial law, the information and explanations required by German Commercial Law are made in addition to fulfilling the disclosure requirements in accordance with IFRS.

The consolidated financial statements are drawn up in euro, which represents both the functional currency and the reporting currency of the company. Insofar as no other representation is pointed out, all amounts shown in these consolidated financial statements relate to thousand euro ("TEUR"). Negative values are represented in brackets.

The consolidated financial statements are prepared on the basis of historical cost, restricted by the financial assets that are available for disposal as well as financial assets and financial debts (including derivative financial instruments) that have an effect on the statements of income at the fair value.

The establishment of the consolidated financial statements under consideration of IFRS requires that estimates and assumptions are made for some items which affect the amount stated on the balance sheet or in the statement of income of the Group as well as the information in respect of contingent assets and debts. The values actually occurring in later periods may deviate considerably from the estimates and assumptions. This, in particular, affects

Realization of sales for customized production orders: Sales from customized orders are realized upon attaining certain milestones and performance progress respectively. Order risks and other assessments are the relevant estimation values used. The estimation values are continually evaluated and adjusted if necessary.

Trade accounts receivable: The Mühlbauer Group makes adjustments to bad debt to account for estimated losses, resulting from customers' inability to pay. The basis used by management for the assessment of the appropriateness of the value adjustments in respect of bad debts is the maturity structure of the accounts receivable balances and the experience gained with the loss of accounts receivable in the past, the creditworthiness of customers and changes of the terms of payment. In the event that the customers' financial situation deteriorates, the scope of the actual loss may exceed the scope of the anticipated loss. If these assumptions prove false, a corresponding increase in value will be made. The company makes additional assumptions so that it can map the economic content of specific contracts from the sales of goods and services and distribute them across the respective fair values of the individual elements. These assumptions represent the expected processing of such contracts that require the use of assessments when estimating the impact of these contracts on the trade accounts receivable.

Inventories: In its valuation, Mühlbauer takes into account inventory risks resulting from higher stockholding periods and the reduced ability to realize inventory assets. The provisions for these inventory risks are in the form of value adjustments made on the basis of the evaluation of individual risk factors in regards to market potential, price deterioration and stockholding periods exceeding the anticipated length of time. The valuation of these inventory risks represents assumptions in respect of the anticipated market development and the resultant ability to realize the inventory assets, which render the utilization of assessments necessary when estimating the impact of these inventory risks on inventories.

Development expenses: When investigating the intrinsic value of the capitalized development costs, the company, on principle, targets the opportunity to draw a future economic benefit from the utilization of any resulting products. Factors such as the overall market and competitive assessment and the corresponding marketability risks as well as alterations of base technologies can result in a value adjustment.

Accruals: The valuation of pension obligations is based on a method that takes into account the various parameters, such as percentage of discount, the expected salary, wage and pension trend as well as earnings from plan assets. If these parameters develop considerably different than expected, this can impact pension obligations significantly. The formation of other accruals is based on assumptions in respect of the obligations. The assumptions can entail risks and insecurities that may lead to the fact that the actual obligations deviate considerably from the amounts currently estimated. Accruals provided for guarantees are calculated based on historical experience values; the most probably value is applied to calculate process risks. Any change of estimate is recorded for the respective period and offset against the item in respect of which it was formed.

Interpretations and amendments of published standards, which must be applied from 2008 onwards and which have not been applied in the past

- IFRIC 11 "IFRS 2: – Group and Treasury Share Transactions":
IFRIC 11 shall be applied to financial years commencing on or after 1 March 2007. The interpretation regulates whether group-wide share-based payment arrangements must be accounted for as equity- or cash-settled. This does not affect the financial statements and notes of the Mühlbauer Group.
- Amendments to IAS 39 and IFRS 7: "Reclassification of Financial Instruments":
The amendments shall be applied as of 1 July 2008. The amendments regulate the possibility to reclassify financial instruments. This does not affect the financial statements and notes of the Mühlbauer Group.
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction":
IFRIC 14 shall be applied to financial years commencing on or after 1 January 2008. The interpretation regulates the interaction between an obligation – existing on the reporting date – to contribute additional amounts towards a pension plan (minimum funding requirement) and the regulations contained in IAS 19 on the upper limit of a positive balance between plan assets and performance-based obligations (asset ceiling). This does not affect the financial statements and notes of the Mühlbauer Group.

Published standards which have been applied for the first time in 2007

- IFRS 8 "Operating Segments"
IFRS 8 is applicable for financial periods beginning on or after 1 January 2009. Mühlbauer opted for the early adoption of IFRS 8, beginning with the consolidated financial statement for 2007. This standard regulates the disclosure of operating segments. As a company consisting of one segment, the first-time application of this interpretation had no effect on the financial statement or the notes to the financial statement of the Mühlbauer Group. Important notes to the financial statements are explained under item "D Segment Reporting".

Published interpretations and amendments to published standards, that need not yet be urgently applied and that were not applied prematurely

- IFRIC 13 "Customer Loyalty Programs":
IFRIC 13 shall be applied to financial years commencing on or after 1 July 2008. Mühlbauer will apply IFRIC 13 as of 1 January 2009. The interpretation regulates the statement, valuation and disclosure of "award credits" in the context of customer loyalty programs. This does not affect the financial statements and notes of the Mühlbauer Group.
- Amendment to IAS 23 Borrowing Costs:
The amendments shall be applied to financial years commencing on or after 1 January 2009. Mühlbauer will apply the amendment of IAS 23 as of 1 January 2009. The amendment relates to the removal of the option of immediately recognizing as an expense borrowing costs that relate directly to the purchase, the generation or the production of a qualified asset – in favor of capitalization. This does not affect the financial statements and notes of the Mühlbauer Group.

- Amendment to IAS 1 Presentation of Financial Statements: "A Revised Presentation":
The amendments shall be applied to financial years commencing on or after 1 January 2009. Mühlbauer will apply the amendments of IAS 1 as of 1 January 2009. The amendments relate to both the terminology and the new components of an IFRS financial statement:
As a result, the names for the balance sheet and cashflow statement will change. Alternatively, the depiction of a statement of comprehensive income including the integrated depiction of "other comprehensive income" or the depiction of the statement of income including the separate depiction of "other comprehensive income" in a separate statement becomes a new component. The net result for the year and the overall result incl. changes in shareholders' equity with no effect on the income statement shall be allocated to the shareholders of the parent company and to minority shareholders. With regard to the individual components, the corresponding income tax effects and the effects caused by restructures shall e.g. be provided in a preliminary column of the statement of income or in the notes. Additionally, three reporting dates must be depicted if a reporting method was used retrospectively, the correction of the statement, the valuation or the disclosure of items must be retrospectively performed or an item was restructured as per the reporting date. To Mühlbauer this largely affects the depiction of "other comprehensive income", which was previously explained in the Notes and which will – from 2009 onwards – be presented in a separate "statement of comprehensive income", as a part of the overall result.
- Amendment to IFRS 2 Share-based Payment: "Vesting conditions and cancellations":
The amendments shall be applied to financial years commencing on or after 1 January 2009. Mühlbauer will apply the amendments of IFRS 2 as of 1 January 2009. The amendments relate to two facts. On the one hand it has been defined, that "vesting conditions" merely means "service conditions" and "performance conditions". On the other hand, it is specified that all terminations must be equally taken into consideration in accounting, irrespective of whether they were issued by the company or other parties. This does not result in any effects on the financial statements or notes of the Mühlbauer Group.

Principles of consolidation

The consolidated financial statements comprise not only Mühlbauer Holding AG & Co. KGaA but also all subsidiaries in respect of which the company exercises control through the majority of voting rights, be it directly or indirectly. Capital consolidation is effected in accordance with the purchase method. In so doing, the purchase cost of the shares purchased is offset against the newly valued pro-rata equity applicable to the parent company. The assets and debts of the subsidiary acquired are stated at their fair value. Remaining active differences are capitalized and subjected to an annual impairment test. Negative differences are directly credited to earnings.

Subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which control of the subsidiary is transferred to the Group. They are deconsolidated from the date on which this control ends.

Interim results, expenses and earnings as well as receivables and liabilities between the incorporated companies are eliminated. Where necessary, the accounting principles of subsidiaries were altered to guarantee uniform accounting principles throughout the Group.

Insofar as value adjustments on shares of incorporated companies or group receivables were formed in individual financial statements, these shall be cancelled in the context of consolidation.

On 31 December 2008, the scope of consolidation of the company not only comprised Mühlbauer Holding AG & Co. KGaA but also 8 additional subsidiaries in Germany and 11 subsidiaries abroad.

The companies in which the Group holds shares and their shareholders' equity and annual result, determined in accordance with the regulations of the respective country, are shown below.

SUMMARY OF KEY ACCOUNTING PRINCIPLES

(2)

German companies:

Name and registered office	Share in equity in %	Shareholders' equity in TEUR	Annual result in TEUR
ASEM Präzisions-Automaten-GmbH, Dresden	100	2,951	142
MB ID4 GmbH, Roding	100	26	-
MB ID5 GmbH, Roding ³⁾	100	39	-
Mühlbauer Aktiengesellschaft, Roding	100	72,306	14,052
Mühlbauer ID Services GmbH, Roding	100	3,753	1,345
Rommel GmbH, Ehingen	100	4,854	1,120
takeID GmbH, Oberhaching	100	711	751
Tema GmbH, Schwelm	100	(100)	(1,411)

Foreign companies:

Name and registered office	Share in equity in %	Shareholders' equity in TEUR ¹⁾	Annual result in TEUR ²⁾
Muehlbauer, Inc., Newport News, Virginia, USA	100	1,100	311
Muehlbauer America Management Corp., Newport News, Virginia, USA ⁴⁾	100	36	-
Muehlbauer America LP, Newport News, Virginia, USA ⁵⁾	100	3,578	(4)
Muehlbauer d.o.o. Beograd, Belgrade, Serbia ⁶⁾	100	73	79
Muehlbauer (India) Private Limited, New Delhi, India	100	92	133
Muehlbauer Middle East FZ-LLC, Dubai, United Arab Emirates	100	161	(191)
OOO Muehlbauer, Moscow, Russia ⁷⁾	100	1	1
Muehlbauer (PTY) Limited, Midrand, South Africa	100	152	198
Muehlbauer Technologies s.r.o., Luzianky, Slovakia	100	1,006	82
Muehlbauer Technologies Sdn. Bhd., Melaka, Malaysia	100	5,306	782
Muehlbauer Sdn. Bhd., Melaka, Malaysia	100	1,007	817

¹⁾ Translation at the exchange rate on the reporting date on 31 December 2008

²⁾ Translation at the annual average exchange rate

³⁾ The name of Systronic Systemlösungen für die Elektronikindustrie GmbH was changed to MB ID5 GmbH in January 2008, while the company's registered office was moved to Roding

⁴⁾ Initial consolidation on 8 August 2008

⁵⁾ Initial consolidation on 26 August 2008

⁶⁾ Initial consolidation on 17 July 2008

⁷⁾ Initial consolidation on 14 July 2008

Changes in the scope of consolidation**Additions**

On 19 June 2008 the company entered into a joint venture agreement with two other companies, but did not execute a capital contribution until the reporting date. The background to this agreement is the acquisition of a 45% share in a project company. The company reports this participation using the equity method in future.

On 14 July 2008, the company founded "OOO Muehlbauer", headquartered in Moscow, Russia. The entry into the Commercial Register of Moscow, Russia, was effected as 1087746780439. OOO Muehlbauer functions as a sales, trading and service company. The subscribed capital of the company amounts to RUB 10,000 and is fully paid up.

The company founded "Muehlbauer d.o.o. Beograd" on 17 July 2008, headquartered in Belgrade, Serbia. The entry into the Commercial Register of Belgrade, Serbia, was effected as 20436506. Muehlbauer d.o.o. Beograd functions as a sales, trading and service company. The subscribed capital of the company amounts to EUR 500 and is fully paid up.

On 8 August 2008, the company founded "Muehlbauer America Management Corp.", headquartered in Newport News, Virginia, USA. Entry into the Commercial Register of Georgia was effected as 8062171. The purpose of the company is the provision of a personally liable shareholder and the takeover of management of "Muehlbauer America LP", also newly founded. The subscribed capital of the company amounts to USD 1,000, divided into 1,000 no-par shares and is fully paid up.

On 26 August 2008, the company founded "Muehlbauer America LP", headquartered in Newport News, Virginia, USA. Entry into the Commercial Register of Georgia was effected as 8076484. The primary purpose of the company is the administration of own assets and the lease of real estate. The contractually agreed equity share is USD 100 and is fully paid up.

Disposals

The company disposed of MB ID3 GmbH, Roding, on 17 October 2008. The company disposed of was a shelf company without a separate business purpose. The decision to dispose of the company was made at short notice.

The special fund posted as separate assets was dissolved in Q4 2008. The separate assets largely consisted of securities of the category "available for sale" and of cash and cash equivalents. The background to this disposal was regroupings of investments and the demand for cash and cash equivalents for the extension of national sites and the scheduled development of international sites.

Alteration of reporting methods

According to IAS 37.11, certain obligations to staff shall be reported as accruals under other liabilities, even if estimates are required to determine the level of such obligations and their occurrence. In the year under review, Muehlbauer reports obligations to staff from overtime, from recreational leave claims not used by the reporting date as well as other contractually agreed obligations under the balance sheet item "Other short-term liabilities". In the past, these obligations were reported in "Other accruals".

The previous year's figures were depicted comparably.

Currency translation

The annual financial statements of subsidiaries drawn up in foreign currencies are translated in accordance with the concept of the functional currency. As the subsidiaries are economically independent entities, the functional currency of the subsidiary corresponds with the respective local currency. In so doing, the exchange rate on the reporting date is used for the items on the balance sheet – with the exception of shareholders' equity, which is translated at historic exchange rates – while the items on the statement of income are translated using monthly average rates. Any differences in the currency translation of assets and debt over the translation of the previous year, as well as differences in translation between the statement of income and the balance sheet are listed separately within shareholders' equity at "Other comprehensive income", with no effect on the income statement.

In the individual financial statements, transactions in foreign currencies are valued using the exchange rate on the date the transaction was initially executed. Any gains or losses on exchange that occurred until the reporting date and resulted from the valuation of monetary assets and debts have an effect on the income statement.

The exchange rates of countries that are not members of the euro area and in which Mühlbauer is active with consolidated subsidiaries are listed below:

Currency:		Rate on reporting date	Rate on reporting date	Average rate	Average rate
		31 December 2008	31 December 2007	2008	2007
		EUR	EUR	EUR	EUR
India	INR 1	0.0143	0.0172	0.0157	0.0176
Malaysia	MYR 1	0.2051	0.2051	0.2053	0.2114
Russia	RUB 1	0.0241	0.0277	0.0275	0.0286
Serbia	RSD 1	0.0111	0.0123	0.0124	0.0129
Slovakia	SKK 1	0.0332	0.0298	0.0321	0.0297
South Africa	ZAR 1	0.0750	0.0996	0.0836	0.1030
USA	USD 1	0.7094	0.6790	0.6834	0.7247
United Arab Emirates	AED 1	0.1930	0.1848	0.1861	0.1973

Realization of sales, other operating income and operating expenses

Sales comprises the fair value achieved in respect of the sale of goods and services, excluding sales tax and discounts and after elimination of sales within the Group. Sales are realized as follows:

Sales proceeds from the sale of products are recorded in correspondence with the criteria of IAS 18 "Revenue" if the relevant opportunities and risks were transferred and no right of disposal or effective authority to dispose remains, a price has been agreed or can be defined as the payment of the price can be expected and the costs pertaining to the sale can be reliably determined. In substantiating these criteria, the company defines the following conditions for a listing as sales:

- Pre-acceptance tests were successfully executed.
- Pre-acceptance tests have been proven to be reliable indicator of successful final acceptance and their share in installation is considered insignificant with regard to the overall order value.
- Opportunities and risks connected with the ownership have been transferred to the customer.

Sales of customized production orders are calculated using the Percentage of Completion Method (PoC-method) according to the achievement of certain milestones and performance progress respectively. Under certain circumstances it may be necessary in this connection to apply the criteria to individual delimitable components of an entire agreement to depict the economic content of the transaction appropriately. With regard to the division of the entire agreement value, the so-called "Relative Fair Value Method" is to be utilized. According to this method, the agreement value must be divided up at the ratio of the fair values of the individual elements.

Sales proceeds from the supply of services are recorded in the financial year in which the services are provided, in correspondence with the progress of performance, at the ratio of services already provided to the total of services to be provided.

Interest income is recorded on a pro rata basis, using the effective interest rate method. Dividend income is recorded at the date at which the right for receipt of payment arises.

Operating expenses are accounted for when expenses are incurred.

Cash and cash equivalents

Cash and cash equivalents are valued at market value and comprise cash and demand deposits. On the balance sheet, advances on current accounts that have been utilized are shown under short-term liabilities as debt.

Inventories

Inventories in the form of unfinished and finished products are valued at acquisition or production cost, whereas raw, auxiliary and operating materials are predominantly valued at the moving average price respectively at the lower fair value. In accordance with IAS 2 "Inventories", cost of production not only comprises the directly attributable individual costs but also the overheads attributable to the production process including appropriate depreciation to production systems. Financing costs are not taken into consideration. Where necessary, the lower realizable net sales value is used.

Financial Assets

Financial assets are divided into the categories "at fair value through profit or loss, held to maturity, available for sale and loans and receivables" and are each recorded separately and individually at their fair value at the time of their addition. Any alterations of market value are settled as income for such assets that are held for trading purposes (at fair value through profit or loss). Financial assets to be held until final maturity (held to maturity) are valued at amortized cost. Unrealized profits and losses in respect of securities that are allocated to the category "available for sale", due to their categorization as financial assets available for disposal, are included in shareholders' equity. If securities of the category "available for sale" are disposed of or impaired, the adjustments of the fair value accumulated in shareholders' equity are recorded in the statement of income as income, as profits or losses from financial assets. The market value of each of these securities is determined on the basis of the published share price. Initial recording and the disposal of securities is effected as soon as the underlying transaction is executed.

The category "at fair value through profit or loss" applies to free-standing currency futures, each of which is valued according to market valuations. The market valuations are derived from the price at which the currency futures are traded or listed on the reporting date. The market values were determined according to the regular daily reference exchange rate of interbank trading.

Trade accounts receivables, loans and other receivables which are due in less than one year are accounted as amortized cost. Receivables and loans that are due in more than twelve months are also valued according to the effective interest rate method. The discount factor is based on an interest rate, determined by the length of time to maturity. Default risks are accounted for in adjustments. Customized production orders are carried according the percentage of completion method. Disclosure of the orders is carried on the asset side in "Trade accounts receivable". If prepayments exceed the cumulative performance, it is recognized on the liabilities side under "downpayments received on orders".

The classification depends on each individual purpose for which the financial assets will be used. Management decides upon the respective classification of the financial assets when first applied and evaluates the classification on each reporting date. Provided that the financial assets do not have a final maturity, these instruments are carried as available for sale.

Receivables or other assets that do not constitute financial instruments are posted as amortized cost.

Fixed Assets

Fixed assets are reported at acquisition or production cost minus accumulated depreciation. A revaluation of fixed assets in accordance with IAS 16 "Property, Plant and Equipment" was not effected. Real estate held as financial investment in accordance with IAS 40 "Investment Property" does not exist. Subsequent acquisition/production costs are only recorded as a part of the acquisition/production cost of the asset if it is likely that this results in a future economic benefit to the company and that the costs of the assets can be reliably determined. The production cost of systems constructed by the company comprises all costs that are directly attributable to the production process as well as necessary shares of the production-related overheads including depreciation. Repairs and services are recorded as expenditure in the financial year in which they are executed or provided.

In the event of public grants or allowances for the acquisition or production of assets, the acquisition and production costs are reduced by the amount granted or allowed, in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

The assets included in fixed assets – with the exception of real estate – are depreciated on a straight-line basis, in correspondence with their utilization. The depreciation of buildings is based on a period of utilization of up to 33 years. Technical equipment is depreciated over a maximum of 10 years. Depreciation for other assets and furniture and office equipment is 3 to 10 years. Assets are checked for an impairment in value if corresponding events or changes in circumstances show that the book value may no longer be achievable (so-called triggering events). A loss through impairment in value is recorded at the level of the book value exceeding the value that can be achieved. The value that can be achieved is the higher amount from the respective time value of the asset minus selling expenses and its value in use. To execute the impairment test, assets are summarized at the lowest level at which cashflows can be separately identified (so-called cash generating units).

Profits and losses from the disposal of assets are determined as the difference between the disposal proceeds and the book value and recorded as income.

Intangible Assets

Intangible assets comprise software, concessions, licenses, trademarks and similar rights as well as goodwill and capitalized development costs including any advance payments made towards such rights and values.

Intangible assets are stated at amortized acquisition and production costs. In so doing, concessions, licenses, trademarks and software are, on principle, depreciated on a straight-line basis over a period of 3 to 5 years.

Goodwill from business acquisitions are not subjected to scheduled depreciation in accordance with IFRS 3 "Business Combinations" in connection with IAS 36 "Impairment of Assets" as well as IAS 38 "Intangible Assets". Instead, the impairment of goodwill is investigated annually. In so doing, the net book values of goodwill are offset against the discounted cashflows expected in accordance with medium-term planning and a subsequent government perpetuity of the respective units.

Development costs for technology projects and service products are capitalized at production cost minus directly attributable public grants, insofar as technical realization and ability to utilize as well as availability of necessary resources is ensured, a clear allocation of expense possible and the intended completion and marketing as well as the probable achievement of future economic benefit is proven, as demanded by IAS 38 "Intangible Assets". Production costs comprise the costs that are directly and indirectly attributable to the development stage. Capitalized development costs are depreciated linear from the start of production over the anticipated product lifecycle of generally 4 to 8 years. Research costs are recorded as expenses in the period in which they occur. Earnings allowances that are not offset by future expenses are recorded as income.

The impairment test for intangible assets with specific utilization periods is effected similar to that for fixed assets. Capitalized development costs that are not yet systematically depreciated are subject to an annual impairment test, independent of triggering events.

Deferred tax assets

Deferred taxes result from different valuations in the annual financial statements drawn up in accordance with IFRS and tax balance sheets of the group companies as well as from consolidation measures, insofar as these differences balance out in the course of time. Moreover, deferred tax assets must be taken into account for future asset benefits from tax-related loss carryovers. The delimitation of deferred taxes is effected in accordance with IAS 12 "Income

taxes". The tax rates current in the individual countries on the reporting date or resolved and known future tax rates are applied in accordance with the "Liability method". Deferred tax assets and deferred tax liabilities are only offset if the law allows for this. Deferred tax assets are not discounted in accordance with the regulations of IAS 12 "Income taxes". Deferred taxes for reporting and valuation differences as well as for tax-related loss carryovers are only taken into account insofar as their realization has been sufficiently substantiated.

Derivative financial instruments

To hedge risk positions from currency fluctuations the company also utilizes derivative financial instruments such as forward exchange deals. The hedging transactions cover risks from booked basic business and additionally from pending delivery and service activities.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", all derivative financial instruments are reported at market value, regardless for what purpose or with what intention they were concluded. The market values of the relevant derivative financial instruments utilized are posted under other assets (positive market value) or other liabilities (negative market value). Any price differences arising in respect of the agreed forward rate are recorded as income.

The Mühlbauer Group applies the regulations governing hedging measures according to IAS 39 (Hedging Accounting) to provide security to asset positions. For these purposes, Mühlbauer primarily applies fair value hedges. A fair value hedge serves as collateralization of the fair value of firm commitments representing either assets or liabilities or which have not yet been recognized on the balance sheet. If the hedged item designated as a fair value hedge proves ineffective, it is categorized as held-for-trading. Each change in the fair value of the derivative used as hedging instrument shall be recorded as a gain or loss in the profit and loss statement.

Pension and postretirement benefits

The obligations from the performance-oriented pension scheme are valued in accordance with the "Projected Unit Credit" method (method of ongoing single premiums) in accordance with IAS 19 "Employee Benefits". The "Projected Unit Credit" method determines the expected pension payments after occurrence of the payable event and distributes these across the entire duration of employment of the staff benefited, taking into account dynamic aspects. For this purpose, actuarial expertises are drawn up on an annual basis. The calculation of the company's obligations is based on specific trend assumptions. The registration of actuarial profits and losses, arising from alterations of assumptions on which the calculations are based, is effected in accordance with the 10% corridor rule. This only records actuarial profits or losses as income if they exceed 10% of whatever value is higher: the cash value of pension obligations or the time value of plan assets. The distribution of actuarial profits or losses outside the 10% corridor is effected via the expected residual term of service of the staff benefited. An offsetting of the cash value of pension obligations against the plan assets is only undertaken if the necessary criteria have been met.

Other accruals

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", other accruals are formed if an equivalent obligation towards third parties exists that will most likely be utilized and if the expected level of the necessary accrual can be reliably estimated. The probability of occurrence must be higher than 50%. The most likely amount to be paid is posted. It is determined on a partial cost basis. Accruals with a residual term of more than one year are only discounted if the interest effect is considerable.

Financial liabilities

Financial debt is initially posted at fair value, after the deduction of transaction costs. In following periods, it is valued at amortized cost; every difference between the payment amount (after deduction of transaction costs) and the repayment amount is recorded as income over the term of the loan, utilizing the effective interest rate method.

Amounts due to banks with a term of less than 12 months after the reporting date are considered short-term liabilities. Trade accounts payable are recorded as amortized cost. Financial debt, trade accounts payable and other financial liabilities are classified as "Financial Liabilities Measured at Amortized Cost".

Liabilities which are not considered financial instruments are carried as amortized cost.

Deferred tax liabilities

Deferred taxes result from different valuations in the commercial and tax balance sheets of the group companies and from consolidation measures, insofar as these differences balance out in the course of time. The delimitation of deferred taxes is effected in accordance with IAS 12 "Income Taxes". The tax rates current in the individual countries on the reporting date or resolved and known future tax rates are applied in accordance with the "Liability Method". Deferred tax assets and deferred tax liabilities are only offset if the law allows for this. Deferred tax liabilities are not discounted, in accordance with the regulations of IAS 12 "Income Taxes".

Stock option programs

The Group has issued share-based remuneration that is paid through the issue of company shares or, by choice of the company, through a cash settlement. The fair value of performance provided by the staff in return for the granting of options is recorded as expense. The total expense that must be recorded throughout the period, until non-forfeitability of the options, is determined on the basis of the fair value of the options on the due date of the grant, without taking into consideration the effects of non-market oriented exercise hurdles (e.g. income and sales growth goals). Non-market oriented exercise hurdles are taken into consideration in the assumptions on the number of options that are expected to become exercisable. On every reporting date, the estimated number of options that are expected to become exercisable is checked. The effects of alterations on original estimates that may need to be taken into consideration are taken into account in the statement of income and by a corresponding adjustment in shareholders' equity over the remaining term until non-forfeitability of these options.

The payments received on exercising the options are credited to the ordinary share capital (par value) and the additional paid-in capital after deducting directly attributable transaction costs.

The valuation of the stock options granted is effected on the basis of the fair value method in accordance with IFRS 2 "Share-based Payment" and by applying the Black-Scholes option pricing model. IFRS 2 "Share-based Payment" was not applied to stock options assured before 8 November 2002 and stock options granted after 7 November 2002, which became non-forfeitable before 1 January 2005. Such stock options are valued on the basis of the intrinsic value method, in accordance with APB 25 "Accounting for Stock Issued to Employees".

B. EXPLANATIONS TO THE CONSOLIDATED STATEMENTS OF INCOME

Sales list the payments charged to customers for deliveries and services – minus deductions in earnings and discounts. A division by application area and market can be found in section D “Segment reporting”.

SALES | (3)

Of sales, TEUR 163,557 (PY: TEUR 152,199) are allotted to sales of goods and TEUR 9,018 (PY: TEUR 6,935) to performance of services.

Included in sales of TEUR 172,575 (PY: 159,134) are order revenues of TEUR 21,658 (PY: TEUR 5,954), which are calculated using the percentage of completion method.

In the context of presenting the statement of income in the cost of sales format, expenses are allocated to functional areas. The following cost types were included in production, sales, administrative costs as well as in the research and development expenses:

COSTS OF FUNCTIONAL AREAS | (4)

	2008 TEUR	2007 TEUR
Material expenses (external supplies)	54,169	52,354
Personnel expenditure	61,974	57,732
Depreciations and impairments	9,423	8,505
Total	125,566	118,591

Cost of sales comprises costs for goods sold and the cost of funds of the merchandise sold. In accordance with IAS 2 “Inventories” they correspondingly contain not only the directly attributable costs such as material, personnel and energy costs but also the overheads including depreciation. The cost of sales also includes the balance of devaluations and revaluations on inventories executed in the respective period.

COST OF SALES | (5)

In addition to the costs for the sales departments and the field staff, selling expenses also comprise advertising costs (TEUR 1,008; PY: TEUR 1,138) and costs for logistics (TEUR 2,492; PY: TEUR 1,821). The position also includes the major share of devaluations on trade accounts receivable. In the year under review value adjustment expenses on trade accounts receivable, offset against the earnings from the discontinuation of such value adjustments, totaled TEUR 1,325 TEUR (PY: Earnings TEUR 1,127).

SELLING EXPENSES | (6)

Administrative expenses comprise personnel expenditure and material costs of the management and administrative areas including depreciation, insofar as they are not debited to other cost centers as an internal service.

ADMINISTRATIVE EXPENSES | (7)

In accordance with IAS 38 “Intangible Assets”, all research costs under this position are directly recorded as expenses. The costs from the development of a product which is ready for the market are capitalized if they meet the criteria for the capitalization of development costs. The non-capitalizable development costs are listed under this position. Research and development expenses without depreciation on capitalized development costs and before capitalized own funds amounted to TEUR 20,541 (PY: TEUR 25,084) in the past financial year. Research costs include refunds for research and development of TEUR 1,057 (PY: TEUR 898).

RESEARCH AND DEVELOPMENT | (8)

(9) OTHER INCOME AND EXPENSES

	2008 TEUR	2007 TEUR
Earnings from closing accruals	600	253
Canteen earnings	393	350
Foreign currency profits	385	-
Insurance and other reparations	352	128
Income from the cancellation of contracts	277	-
Gains from the sale of fixed and current assets	188	101
Rental income	17	2
Other	123	166
Sum of other operating income	2,335	1,000
Donations	(29)	(35)
Losses from the sale of fixed and current assets	(127)	(46)
Foreign currency losses	-	(216)
Other	(3,170)	(973)
Sum of other operating expenses	(3,326)	(1,270)
Total	(991)	(270)

(10) FINANCIAL RESULT

	2008 TEUR	2007 TEUR
Interest and dividend income	1,039	874
Other interest and similar earnings	1,437	601
Realized income from securities and financial assets	1,383	1,495
Financial income	3,859	2,970
Interest and similar expenses	(1,099)	(509)
Realized losses from securities and financial assets	(2,598)	(428)
Financial expenses	(3,697)	(937)
Total	162	2,033

(11) INCOME TAXES

Income taxes contain the income tax paid and owed by the individual group companies on income and earnings as well as deferred tax delimitations. Income taxes are comprised as follows:

	2008 TEUR	2007 TEUR
Actual tax expenditure	7,913	10,587
Relating to other periods	67	293
(Earnings) from the dissolution of accrued income taxes	(198)	(90)
(Earnings) from the application of tax credits	(239)	(6)
Actual taxes on income and earnings	7,476	10,491
Deferred tax expenses (gains) from loss carryovers	(453)	(14)
Deferred tax expenses (gains) from temporary differences	(898)	(1,147)
Taxes on income and earnings	6,125	9,330

The German corporate tax laws applied for the financial year 2008 stipulates a tax rate in the amount of 15% (PY: 25%) in addition to the solidarity surcharge of 5.5%. The commercial tax burden for German companies is between 10.9% and 15.8%.

Other taxes are included in the respective functional areas. Deferred taxes result from valuations that deviate in time between the tax balance sheets of the companies and the valuations in the consolidated balance sheet, taking into consideration the "Liability method".

The reconciliation of the deferred tax assets and liabilities on the balance sheet and the deferred taxes in the statement of income is represented as follows:

	2008	2007
	TEUR	TEUR
Changes in deferred tax assets in accordance with the balance sheet	597	120
Changes in deferred tax liabilities in accordance with the balance sheet	834	1,027
Changes in deferred tax assets/liabilities that do not affect income	(5)	(13)
Exchange rate fluctuation	(75)	27
Deferred taxes in accordance with the statement of income	1,351	1,161

Overall, deferred tax assets from tax loss carryovers amount to TEUR 473 (PY: TEUR 34). All loss carryovers, for which deferred tax assets were formed, can be carried forward unrestrictedly. In the previous year, no accrued tax claims were applied for the tax loss carryovers in the amount of TEUR 0 (PY: TEUR 1,016).

The deferred tax assets and liabilities can be allocated to the following balance sheet positions:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
	TEUR	TEUR	TEUR	TEUR
Trade accounts receivable	2	132	-	116
Inventories	4	42	100	64
Marketable securities	-	-	12	21
Fixed assets	236	1,511	260	1,487
Capitalized development costs	-	1,730	-	2,325
Pension accruals	511	-	423	-
Unrealized profits and losses from currency translation	15	68	16	93
Tax loss carryovers	473	-	34	-
Accruals	344	-	-	-
Other	-	1	5	74
Subtotal	1,585	3,484	850	4,180
Balance of deferred tax assets and liabilities	(826)	(826)	(688)	(688)
Total deferred taxes	759	2,658	162	3,492

Deferred tax assets and liabilities are offset if deferred taxes exist in respect of the same tax authority and they can be offset.

The following table provides a reconciliation for taxes, based on the theoretical tax rate that would arise in respect of effective taxes in accordance with the statement of income, if the regular tax rates were applied on the national and international group companies of the Mühlbauer Group:

		2008	2007
Income before income taxes	TEUR	24,399	28,444
Rate of income tax including trade tax	%	26.68	36.7
Expected income tax expenditure with uniform tax burden	TEUR	(6,510)	(10,439)
Reconciliation:			
Changes in taxes due to differences between local tax rates and the hypothetical tax rate	TEUR	194	130
Changes in taxes for deferred taxes due to future changes in tax rates	TEUR	-	1,217
Tax losses	TEUR	(256)	(390)
Tax share for:			
Tax-free earnings	TEUR	28	448
Non-tax deductible expenditure	TEUR	(467)	(450)
Actual taxes relating to other periods	TEUR	131	(203)
Earnings from the application of tax credits	TEUR	239	-
Other tax deviations	TEUR	3	(1)
Income tax expenditure before tax reduction on earnings related to the personally liable shareholder	TEUR	(6,638)	(9,688)
Effective tax rate	%	27.2	34.1
Tax savings on earnings related to the personally liable shareholder	TEUR	513	358
Income tax expenditure shown	TEUR	(6,125)	(9,330)
Tax rate in accordance with statement of income	%	25.1	32.8

The recording of deferred tax assets from loss carryovers of previous periods, that have so far not been included in the tax deferral, results in deferred tax income of TEUR 26 (PY: TEUR 0). The tax effects are contained in the reconciliation under "Tax losses".

The reduction of taxes on the share of profit of the personally liable shareholder occurs because the corporate tax and solidarity tax surcharge for the share of profit for the personally liable shareholder is not posted by the company. These taxes are directly attributable to the personally liable shareholder, who will be individually taxed at a rate that is irrespective of the tax rates which apply to the company. The percentage of the tax expenditure before tax reduction from the share of profit of the personally liable shareholder of 27.2% (PY: 34.1%) thus corresponds with the actual tax rate that is to be applied to the earnings attributable to the shareholders of the limited partnership.

EARNINGS PER SHARE (12)

Basic earnings per share are determined by reducing the earnings before taxes (EBT), applicable to the shareholders of the limited partnership in correspondence with their share in the total capital, of currently 42.73%, by the share of taxes applicable to them in accordance with the effective tax rate (see also note (11)) and by subsequently dividing the resultant share of net earnings for the year applicable to the shareholders of the limited partnership by the weighted average of shares that were outstanding in the year under review.

		2008	2007
Income before income taxes	TEUR	24,399	28,444
Portion of share capital in total capital	%	42.73	42.73
Portion of income before income taxes applicable to the shareholders of the limited partnership	TEUR	10,426	12,154
Effective tax rate	%	27.2	34.1
Effective tax amount	TEUR	2,837	4,140
Portion of net earnings for the year applicable to the shareholders of the limited partnership	TEUR	7,589	8,014
Weighted average of common shares	No.	6,279,200	6,279,200
Repurchased shares (weighted)	No.	(160,867)	(173,994)
Weighted average of shares outstanding	No.	6,118,333	6,105,206
Dilution effects from subscription rights of employees and executives	No.	1	6
Weighted average of shares outstanding (fully diluted)	No.	6,118,334	6,105,212
Basic earnings per share	EUR	1.24	1.31
Diluted earnings per share	EUR	1.24	1.31

Diluted earnings per share are calculated by dividing the share of net earnings for the year applicable to the shareholders of the limited partnership through the weighted average of shares that were outstanding in the year under review plus the number of shares that would have been issued had outstanding exercise rights been executed.

C. EXPLANATIONS ON THE CONSOLIDATED BALANCE SHEETS

(13) CASH AND CASH EQUIVALENTS

in TEUR	31 December 2008	31 December 2007
Deposits with financial institutions	17,062	16,284
Checks, cash on hand	60	141
	17,122	16,425

The development of cash and cash equivalents that form the liquid funds in accordance with IAS 7 "Cash Flow Statements" is represented in the statements of cashflows.

(14) MARKETABLE SECURITIES

in TEUR	31 December 2008	31 December 2007
Securities of the category "available for sale"		
Shares and comparable securities	17,981	18,424
Bonds	-	2,638
	17,981	21,062

Short-term marketable securities are common short-term securities of the categories "available for sale". The valuation of the "available for sale" securities is effected at market value, while changes within the context of the normal volatility of market values are directly taken into account in shareholders' equity.

(15) TRADE ACCOUNTS RECEIVABLE

in TEUR	31 December 2008			31 December 2007		
	With a residual term of up to 1 year	With a residual term of more than 1 year	Total	With a residual term of up to 1 year	With a residual term of more than 1 year	Total
Trade accounts receivable	35,684	741	36,425	30,500	1,536	32,036
Less value adjustments	(1,651)	-	(1,651)	(964)	-	(964)
	34,033	741	34,774	29,536	1,536	31,072

Interest expenses resulting from discounting of long-term receivables amounted to TEUR 55 (PY: TEUR 155).

in TEUR	Book value	Of which: No impairment of value nor overdue at reporting date	Of which: No impairment of value but overdue in following timeframe	
		at reporting date	Maximum of 365 days	More than 365 days
31 December 2008				
Trade accounts receivable	34,774	21,023	13,893	234
31 December 2007				
Trade accounts receivable	31,072	21,507	9,822	86

With regard to the amount of trade accounts receivables, which are neither impaired in value nor in arrears, there are no indications at the reporting date of any debtors that are unable to meet their payment obligations.

As of 31 December 2008, Mühlbauer has accepted securities of trade accounts receivable in the amount of TEUR 9,466 (PY: TEUR 6,730) in the form of bank guarantees and letter of credits. Furthermore, Mühlbauer always retains retention of title.

Value adjustments have developed as follows:

in TEUR	2008	2007
Value adjustments 01 January	964	2,079
Additions (Expenses for value adjustments)	1,435	195
Consumption	(555)	-
Dissolutions	(193)	(1,310)
Value adjustments 31 Dezember	1,651	964

The decision to which degree the overdue receivables will be adjusted depends on the individual case. On the reporting date, receivables with the following par value are individually adjusted.

in TEUR	up to 50%	over 50% until 99%	100%
31 December 2008	25	-	1,250
31 December 2007	-	65	489

In the 2008 financial year, receivables were adjusted in value in the net amount of TEUR 1,275 (PY: TEUR 554). These value adjustments were for trade accounts receivables. The total value of the addition in the amount of TEUR 1,435 (PY: TEUR 195) comprises additions due to individual value adjustments in the amount of TEUR 1,332 (PY: TEUR 176) and the value adjustments made that are based on historical experience values in the amount of TEUR 103 (PY: TEUR 19). The consumption of TEUR 555 during the reporting period related to specific allowances for bad debts. Dissolution in value adjustments included rescissions from individual value adjustments in the amount of TEUR 175 (PY: TEUR 878) and rescissions made that are based on historical experience values in the amount of TEUR 18 (PY: TEUR 432).

Customized production orders, balanced according to the percentage of completion method, are determined as follows:

in TEUR	31 December 2008	31 December 2007
Incurred order costs and stated earnings		
less stated losses	35,521	13,863
Less partial accounts	(5,856)	-
Production orders with amount due from customers	29,665	13,863

The company received advance payments of TEUR 23,231 (PY: TEUR 11,790) in respect of the customized production orders in progress on the reporting date.

in TEUR	31 December 2008	31 December 2007
Receivables from the personally liable shareholder	2,331	1,758
VAT-receivables	899	159
Claims on investment subsidy	703	49
Claims on investment and technology grants	626	1,209
Deferred expenses	477	375
Advance payments made	344	694
Receivables from suppliers	107	63
Guarantees	85	87
Derivative financial instruments	17	-
Interest receivables	-	197
Other	241	179
	5,830	4,770

OTHER CURRENT ASSETS (16)

The other current assets are reported at their fair value. If default risks or other risks exist, they are taken into consideration through value adjustments. With regard to the market values of the financial instruments, we herewith refer to information provided in note (32).

With regard to the balance of other assets, which are neither impaired in value nor in arrears, there are no indications at the reporting date of any debtors that are unable to meet their payment obligations. Other current assets contain no material items that are overdue and not impaired.

(17) TAX RECEIVABLES

The tax receivables of TEUR 2,882 (PY: TEUR 1,233) comprise reclaimable corporation tax and the solidarity surcharge of the national companies as well as comparable income taxes of the international companies.

(18) INVENTORIES

in TEUR	31 December 2008	31 December 2007
Raw materials, auxiliary and operating materials	8,181	6,818
Unfinished products	35,484	27,962
Finished products	6,733	5,133
	50,398	39,913

Of the inventories reported on 31 December 2008, an amount of TEUR 5,380 (PY: TEUR 3,950) was valued at its net disposal value. In the year under review, expensed value adjustment on inventory assets was increased by TEUR 1,763 (PY: TEUR 5,628).

(19) MARKETABLE SECURITIES

in TEUR	Fixed asset securities of the category „available-for-sale“
Accumulated acquisition values	
1 January 2007	11,549
Additions	1,672
Retirements	(5,940)
Reclassification in short-term marketable securities	(2,625)
31 December 2007	4,656
Additions	1,476
Retirements	(5,672)
Reclassification in short-term marketable securities	(460)
31 December 2008	-
Accumulated changes in value	
1 January 2007	(25)
Write-ups/(depreciation)	-
Retirements	42
Reclassification in short-term marketable securities	(19)
Adjustment of financial asset values to market values not affecting income	(92)
31 December 2007	(94)
Write-ups/(depreciation)	-
Retirements	131
Reclassification in short-term marketable securities	(37)
Adjustment of financial asset values to market values not affecting income	-
31 December 2008	-
Market values	
31 December 2007	4,562
31 December 2008	-

Financial assets of the category “available for sale” are, on principle, stated at market value. Any changes of market values are taken into account in shareholders' equity without affecting income. Loans bearing no interest are carried at cash value.

Other loans of the previous year comprise a collateralized loan, which was prematurely repaid in the year under review.

OTHER LOANS | (20)

FIXED ASSETS | (21)

in TEUR	Land, rights similar to land and buildings, including buildings on property owned by others	Technical equipment	Other assets, furniture and office equipment	Advances paid on fixed assets and asset values in progress	Total
Accumulated acquisition values					
1 January 2007	41,422	35,482	20,089	377	97,370
Currency adjustments	(75)	(32)	(22)	(5)	(134)
Additions	1,780	1,152	2,554	173	5,659
Retirements	-	(1,061)	(843)	-	(1,904)
Transfers	313	(2)	55	(366)	-
31 December 2007	43,440	35,539	21,833	179	100,991
Currency adjustments	86	9	5	2	102
Additions	2,807	2,738	2,043	5,034	12,622
Retirements	-	(659)	(3,445)	-	(4,104)
Transfers	53	68	3	(132)	(8)
31 December 2008	46,386	37,695	20,439	5,083	109,603
Accumulated depreciation					
1 January 2007	(15,739)	(26,587)	(14,921)	-	(57,247)
Currency adjustments	1	3	13	-	17
Additions	(1,425)	(1,710)	(2,175)	-	(5,310)
Retirements	(1)	971	566	-	1,536
Transfers	-	1	(1)	-	-
31 December 2007	(17,164)	(27,322)	(16,518)	-	(61,004)
Currency adjustments	-	(2)	(5)	-	(7)
Additions	(1,403)	(1,829)	(2,056)	-	(5,288)
Retirements	-	353	3,391	-	3,744
Transfers	-	-	-	-	-
31 December 2008	(18,567)	(28,800)	(15,188)	-	(62,555)
Residual book values					
31 December 2007	26,276	8,217	5,315	179	39,987
31 December 2008	27,819	8,895	5,251	5,083	47,048

The fixed assets acquired or produced in the financial year have been reduced by grants and allowances totaling TEUR 1,144 (PY: TEUR 434).

Depreciation expenses have been taken into account as follows: TEUR 3,295 (PY: TEUR 3,243) in cost of sales, TEUR 777 (PY: TEUR 734) in selling expenses, TEUR 521 (PY: TEUR 635) in administrative expenses and TEUR 694 (PY: TEUR 698) in research and development expenses.

(22) INTANGIBLE ASSETS

in TEUR	Licenses, trademarks and patents etc. as well as licenses to such rights and assets	Capitalized development costs	Goodwill	Total
Accumulated acquisition values				
1 January 2007	5,181	12,347	785	18,313
Currency adjustments	(4)	-	-	(4)
Additions from intra-company developments	-	2,207	-	2,207
Other additions	588	-	-	588
Retirements	(3)	(2,250)	-	(2,253)
Transfers	-	-	-	-
31 December 2007	5,762	12,304	785	18,851
Currency adjustments	-	-	-	-
Additions from intra-company developments	-	1,396	-	1,396
Other additions	131	-	-	131
Retirements	(105)	(1,098)	-	(1,203)
Transfers	8	-	-	8
31 December 2008	5,796	12,602	785	19,183
Accumulated depreciation				
1 January 2007	(4,142)	(3,376)	(785)	(8,303)
Currency adjustments	1	-	-	1
Additions	(620)	(2,575)	-	(3,195)
Retirements	-	2,250	-	2,250
Transfers	-	-	-	-
31 December 2007	(4,761)	(3,701)	(785)	(9,247)
Currency adjustments	-	-	-	-
Additions	(549)	(3,586)	-	(4,135)
Retirements	105	1,098	-	1,203
Transfers	-	-	-	-
31 December 2008	(5,205)	(6,189)	(785)	(12,179)
Residual book values				
31 December 2007	1,001	8,603	-	9,604
31 December 2008	591	6,413	-	7,004

The intangible assets acquired or produced in the financial year have been reduced by grants amounting to TEUR 4 (PY: TEUR 34). Due to a change in assessment regarding the future usability of individual development projects these have been fully value adjusted. Impairment expenses determined from impairment tests were recognized in the amount of TEUR 1,889 (PY: TEUR 929).

Depreciation on intangible assets of TEUR 139 (PY: TEUR 151) was recognized as income in the statement of income via cost of sales, TEUR 16 (PY: TEUR 18) in selling expenses, TEUR 126 (PY: TEUR 151) in administrative expenses and TEUR 3,854 (PY: TEUR 2,875) in research and development expenses.

(23) LONG-TERM TAX RECEIVABLES

In the year under review, the long-term tax receivables comprise the cash value (interest rate 2.9%) of the claim for repayment of corporation tax reported as income due to the revision of § 37 para. 5 Corporation Tax Law composed in 2006. This claim for repayment of corporation tax derives from the conversion of the German corporation tax system on 1 January 2001, from the tax imputation system to the half-income system. The claim arises on expiry of 31 December 2006 and is paid in 10 equal annual installments, always on the 30 September of the repayment period 2008 to 2017.

Of downpayments received to the end of the reporting period, TEUR 1,989 was received as payments for customized orders. We refer to the notes (15) of the financial statement.

in TEUR	31 December 2008	31 December 2007
Salaries and wages	6,207	5,984
Customer liabilities	2,242	782
Income tax on salaries and wages	1,039	962
VAT-tax burden	570	53
Commissions	155	-
Social security contributions	151	72
Capital formation	65	71
Other liabilities – personnel	64	72
Other	196	182
	10,689	8,178

DOWNPAYMENTS (24)

OTHER LIABILITIES (25)

The item "Salaries and wages", contained in "Other short-term liabilities", comprises obligations towards staff from overtime, unused leave entitlements as per the reporting date and other contractually agreed obligations totaling TEUR 3,129. In the past, these obligations were reported in "Other accruals". The reporting of the previous year's values of TEUR 2,952 was correspondingly adjusted.

For details regarding liquidity risk from other financial liabilities, we refer to the notes (33) of the financial statement.

in TEUR	As per 1 January 2008	Difference due to currency translation	Con- sumption	Addition	Dis- solution	As per 31 December 2008
Accrued income taxes	1,962	-	(1,844)	1,782	-	1,900
Personnel and social security obligations	1,368	-	(1,057)	1,125	(311)	1,125
Guarantee obligations	2,622	-	(2,622)	3,035	-	3,035
Service in progress	683	-	(276)	431	(62)	776
Litigation risks	950	-	(42)	2,926	(600)	3,234
Commissions	18	-	(4)	-	(14)	-
Other	757	-	(571)	581	(148)	619
	8,360	-	(6,416)	9,880	(1,135)	10,689

**ACCRUED INCOME TAXES
AND OTHER ACCRUALS** (26)

Accrued income taxes include current income taxes formed for the past financial years and for the 2008 financial year. The personnel-related accruals comprise obligations from variable payments as well as contributions and fees. Based on experience, the guarantee obligations comprise accruals to the amount of guarantee claims expected from sales made. The litigation risks take into account obligations from legal disputes. Other obligations largely comprise risk provisions for losses from pending business, costs relating to the drawing up and publishing of the annual financial statements and outstanding invoices, not yet presented by suppliers. In the year under review, a total of TEUR 1,135 (PY: TEUR 1,407) were dissolved. The company expects all accruals to become due or to be utilized within 12 months.

The previous year's annual financial statements contained obligations towards staff from overtime, unused leave entitlements as per the reporting date and other contractually agreed obligations totaling TEUR 2,952 in the item "Other accruals". We refer to the notes (25).

(27)

**PENSION AND
POSTRETIREMENT BENEFITS**

The Mühlbauer Group provides its employees with different retirement and pension schemes that are primarily based on the length of employment and salary of the employee. Pension obligations exclusively comprise performance-based pension schemes and only include entitlements for pensions to be paid in the future. The pension obligations are secured by assigned reinsurance policies.

The following actuarial parameters have been taken into consideration:

	31 December 2008	31 December 2007
Discounting rate	5.70%	5.50%
Future pay increase	3.50%	3.50%
Future pension increase	2.00%	2.00%
Staff turnover	0.00%	0.00%
Expected rate of interest on plan assets	3.50%	3.50%

The value recorded on the balance sheet in respect of "Plan assets" is derived as follows:

in TEUR	31 December 2008	31 December 2007
Cash value of the backed pension commitments	4,685	4,327
Fair value of the plan assets	(5,793)	(5,374)
Financial status	(1,108)	(1,047)
Unrealized actuarial profits/(losses)	195	(255)
Other long-term assets	(913)	(1,302)

The development of the cash value of the backed pension commitments at TEUR 4,685 (PY: TEUR 4,327), the fair value of the plan assets at TEUR 5,793 (PY: TEUR 5,374) and the actuarial profits/(losses) from experience-based adjustments is represented as follows:

in TEUR	2008	2007
Cash value of the backed pension commitments at the beginning of the year	4,327	4,514
Current service cost	212	446
Interest expenses on obligations	249	199
Actuarial profits/(losses)	(464)	(832)
Amortization of past service costs	361	-
Cash value of the backed pension commitments at the end of the year	4,685	4,327

in TEUR	2008	2007
Fair value of the plan assets at the beginning of the year	5,374	4,510
Expected earnings on plan assets	192	173
Actuarial profits/(losses)	(14)	(188)
Payments made by the company	241	879
Fair value of the plan assets at the end of the year	5,793	5,374

in TEUR	2008
Experience-based profits/(losses) from the plan assets	
(a) Value	(14)
(b) in % of the plan assets	(0%)
Experience-based profits/(losses) from the scope of obligations	
(a) Value	257
(b) in % of the backed pension commitments	5.0%

The plan assets for backed pension commitments are largely comprised of shares, fixed interest securities and real estate funds. They do not include financial instruments issued by the company or real estate utilized by group companies.

The actual income from plan assets amounted to TEUR 178 (PY: expenses TEUR 15) in the year under review.

The company is expected to make a payment of TEUR 284 towards plan assets in the following year.

During the reporting period, the value in respect of "Pension and postretirement benefits and similar obligations" recorded in the balance sheet changed, as presented below. The composition of the amounts recorded in the statement of income as income can also be found in the following table:

in TEUR	2008	2007
Accruals for pension obligations as per 1 January	(1,302)	(926)
Amounts recorded as income		
Current service cost	212	446
Interest expenses on obligations	249	199
Expected earnings on plan assets	(192)	(173)
Amortization of past service costs	361	-
Amortization of actuarial losses	-	31
	630	503
Contributions to plan assets	(241)	(879)
Accruals for pension obligations as per 31 December	(913)	(1,302)

For contribution-based pension schemes, which result in no further obligations to the companies of the Mühlbauer Group apart from the payment of contributions, the expenses from current contribution payments amounted to TEUR 301 (PY: TEUR 303) in the reporting period. Furthermore, the company paid employer contributions to the statutory pension insurance fund of TEUR 4,240 (PY: TEUR 4,036).

All expenses in respect of performance and contribution-based pension schemes are included in the operating income.

The development of the individual components of group equity during the 2008 financial year is represented in the consolidated statements of changes in shareholders' equity.

SHAREHOLDERS' EQUITY

(28)

Ordinary share capital

Ordinary share capital is reported as subscribed capital. On the reporting date, the ordinary share capital of Mühlbauer Holding AG & Co. KGaA was EUR 8,037,376.00 and was divided up into 6,279,199 bearer no-par value shares, tradable at the regulated market, and one registered no-par value share with a calculatory par value of EUR 1.28 each. Share capital is fully paid up. All limited partners' shares with dividend entitlement have one vote.

SECURA Vermögensverwaltungs GmbH, headquartered in Metten – a company fully controlled by the personally liable shareholder – holds 3,296,852 bearer no-par value shares or a 52.50% participation in the ordinary share capital of Mühlbauer Holding AG & Co. KGaA. This value includes 2,000,000 bearer no-par value shares or 31.85% of the ordinary share capital in respect of which SECURA Vermögensverwaltungs GmbH holds no voting proxy. The personally liable shareholder has made a commitment to the company, starting with 9 September 2002, for a term of ten years, not to exercise his voting rights for these shares while he owns them. The only exclusion from this commitment are cases in which the exercise of his vote or the perception of his right of participation is required to avert serious damage to the company or if the Annual General Meeting resolves matters that require a majority of at least 75% of the entire ordinary share capital of the company – in accordance with the statutes of the company.

The registered no-par value share held by Ms. Anna Antonie Mühlbauer, Metten, grants her the right to appoint one third of all members of the Supervisory Board to same. The right to appoint

shall not apply insofar and to the extent that the owner of the share granting the right to appoint is the personally liable shareholder, his personally liable shareholder or one of the members of the Management Board. The owner of the registered no-par value share shall not hold this as a trustee or recipient of orders issued by the personally liable shareholder or another affiliated person. The transfer of the registered no-par value share is only permitted with the agreement of the company, on which the Supervisory Board shall decide at its discretion, in accordance with the statutes.

Mühlbauer Holding AG & Co. KGaA is represented solely by the personally liable shareholder. He is not subject to the personnel competence of the Supervisory Board and can therefore not be dismissed. In accordance with the statutes of the company, the right of approval, which the shareholders of the limited partnership hold in respect of extraordinary transactions, is excluded. The statutes, however, comprise a catalog of transactions – also exceeding ordinary business proceedings – that require the approval of the Supervisory Board, thus providing it with a certain measure of influence with regard to material legal transactions and other activities of the personally liable shareholder. Several resolutions of the Annual General Meeting require the approval of the personally liable shareholder, these include amendments to the statutes and the approval of the annual financial statements.

The ordinary share capital has been conditionally increased by up to EUR 84,480.00, through the issue of up to 66,000 bearer no-par value shares (conditional capital II). The conditional capital increase at this level is utilized to service subscription rights, which could be issued to members of management, executives and staff holding key positions by 3 May 2005, in the form of naked options – in accordance with the resolutions of the Annual General Meeting of 4 May 2000 and 7 June 2001. All options issued in the context of these resolutions have either been exercised or have expired without substitution. Currently, no further subscription rights are outstanding.

The ordinary share capital has been conditionally increased by up to EUR 1,996,800.00, through the issue of up to 1,560,000 bearer no-par value shares (conditional capital III). The conditional capital increase is only executed to the extent that the Annual General Meeting, with the approval of the personally liable shareholder, resolves the conversion of the capital share to ordinary share capital. The new shares shall participate in earnings from the beginning of the financial year in which they were issued, after exercising the exchange privilege.

The personally liable shareholder is authorized to increase the ordinary share capital once or several times by 15 April 2013 – with the approval of the Supervisory Board – but only by a maximum of EUR 4,018,688.00 (authorized capital 2008/I), by issuing bearer no-par value shares against cash and/or non-cash contributions. The shareholders shall, on principle be granted subscription rights. With the approval of the Supervisory Board, the personally liable shareholder is, however, entitled to

- a) exclude fractions from the subscription right;
- b) preclude the subscription rights of shareholders to issue the new shares against cash contributions at an issue price that is not significantly below the stock market price;
- c) preclude the subscription rights of shareholders to render the shares available for the conversion of general partners' capital;
- d) preclude the subscription rights of shareholders to issue the shares against non-cash contributions for the acquisition of companies or company participations.

Own shares

As per the resolution of the Annual General Meeting of 29 April 2008, the personally liable shareholder is authorized – until 30 September 2009 – to acquire shares of the company with a calculatory share in the subscribed capital of a maximum of 10%, i.e. up to 627,920 shares, to be able to offer these to third parties in the context of mergers with other companies or in the context of the acquisition of businesses or participations, to collect them, offer them to holders of subscription rights for purchase or to offer them to employees and/or members of the company's management or an associated company for purchase. In the year under review, no use was made of this authorization to purchase own shares.

From the portfolio of 167,240 of the company's own shares held at the beginning of the year (computed par value of EUR 214,067.20), the company disposed of 8,405 shares (PY: 20,262 shares) with a computed par value of EUR 10,758.40 (PY: EUR 25,935.36) for a market price of EUR 15.51 per share in the course of the asset formation campaign undertaken on behalf of employees of the Mühlbauer Group. The earnings were utilized to reinforce the operating capital. In the year under review 840 additional shares with a computed par value of EUR 1,075.20 were also issued free of charge in the form of anniversary shares. The proceeds from the sale of shares served to strengthen operating capital.

As per 31 December 2008, the company held 157,995 own shares with a computed par value of EUR 202,233.60. The percentage of own shares in the ordinary share capital was 2.52% as per 31 December 2008. Own shares are reported using the par value method.

Fixed capital contribution

The fixed capital contribution not related to the ordinary share capital ("fixed capital contribution of personally liable shareholder" or "equity share B") of the personally liable shareholder amounts to EUR 10,773,600.00. The deposit of the personally liable shareholder was effected by means of contributing all shares of Mühlbauer GmbH, which was converted to Mühlbauer Aktiengesellschaft on 5 May 1998. The contribution of the shares represents a so-called "Common Control Transaction" (transaction between businesses under uniform management) and was recorded under the book value of the shares. This amounted to TEUR 51 at the time of the contribution.

The Annual General Meeting can resolve the conversion of equity capital B to ordinary share capital with the agreement of the personally liable shareholder. The conversion is effected by means of a capital increase. In so doing, the subscription right of the shareholders of the limited partnership can be excluded. The nominal amount of the capital increase corresponds with the nominal amount of the personally liable shareholder's capital affected. Insofar as authorized capital exists, the capital increase required for the conversion of shareholders of the limited partnership's capital to shares is to be executed using the authorized capital. If this is not legally possible or if the authorized capital is insufficient, the conversion shall be effected by executing a conditional capital increase, insofar as conditional capital is available. If this is not legally possible or if the amount of the capital increase from the conditional capital increase is insufficient, the Annual General Meeting is entitled to create the conditions for conversion by means of a capital increase. The subscription right of the shareholders of the limited partnership can be excluded in this case. In the event of a full conversion of equity share B, the increase of the ordinary share capital will exceed the book value of the fixed capital contribution by TEUR 13,754. If the equity share of the personally liable shareholder is fully converted into ordinary share capital, he must retire as personally liable shareholder when the capital increase becomes effective.

Additional paid-in capital

in TEUR	31 December 2008	31 December 2007
Premium from capital increases	59,557	59,557
Balance from the premium applicable to the purchase/disposal of own shares (pro rata)	(732)	(851)
Share-based adjustment item (reserve in respect of expenditure resulting from conversion schemes or stock option programs)	1,859	1,784
Withdrawal from additional paid-in capital to adjust the ordinary share capital to the euro	(7)	(7)
	60,677	60,483

The premiums from capital increases were reduced by the transaction costs of TEUR 3,907 directly attributable to capital procurement and the associated income tax benefits of TEUR 671 deducted in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation".

Other comprehensive income

The following table shows the development of the changes in equity that do not affect income from the market valuation of financial instruments in connection with IAS 39 "Financial Instruments: Recognition and Measurement".

in TEUR	Financial assets of the category "available for sale"	Difference due to currency translation	Total
Status as per 1 January 2008	414	(88)	326
Adjustment to market values	(1,676)	-	(1,676)
Currency adjustments	-	(320)	(320)
Deferred taxes in equity	5	-	5
Reclassification in income statement	1,216	-	1,216
As per 31 December 2008	(41)	(408)	(449)

Retained earnings and appropriation of earnings

Apart from the retained earnings of Mühlbauer Holding AG & Co. KGaA, retained earnings also comprise the earnings reserves of the subsidiaries included in the consolidated financial statements as well as the effects of consolidation measures.

In addition to the payment of a dividend of EUR 1.00 per no-par value share with dividend entitlement executed in the year under review to the shareholders of Mühlbauer Holding AG & Co. KGaA, amounting to a total of TEUR 6,121, the appropriation of earnings also includes the earnings transfer of Mühlbauer Holding AG & Co. KGaA to Mühlbauer Holding AG & Co. Verwaltungs KG due in parallel as a result of the statutes. In correspondence with the capital situation, Mühlbauer Holding AG & Co. Verwaltungs KG participated in the earnings of Mühlbauer Holding AG & Co. KGaA to an amount of TEUR 8,357 (57.27%). Taxes of TEUR 1,758, paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG are deducted from this amount. The earnings from ordinary business activities on which the statutory earnings transfer is based minus trade income tax of Mühlbauer Holding AG & Co. KGaA amounted to TEUR 14,591 in the previous year.

Stock purchase programs

The personally liable shareholder is authorized, by resolution of the Annual General Meeting, to offer employees own shares of the company for purchase. So far, 5,597 options, distributed across 4 tranches, have been granted. The rights to purchase shares ("purchase right") granted to employees, can be exercised at a previously specified subscription price per Mühlbauer share, on the basis of the prior achievement of specific personal performance and team goals. On principle, the purchase right can be exercised within a specific period, without having to observe a waiting period. The development of the stock of all purchase rights for the subscription of shares of Mühlbauer Holding AG & Co. KGaA is shown in the below table:

	Tranche 1	Tranche 2	Tranche 4
Subscription price in EUR	21.00	28.00	29.00
Start of the exercise period	21 Mar. 2002	28 Apr. 2004	12 July 2005
End of the exercise period	-	27 Apr. 2009	30 June 2008
Outstanding options as per 1 January	26	1,158	110
Options issued within the period	-	-	-
Options forfeited within the period	-	-	(110)
Outstanding options as per 31 December	26	1,158	-
- thereof exercisable on 31 December	26	1,158	-

In the previous year, earnings (before taxes) of TEUR 0.1 were taken into consideration.

Stock ownership plan to employees

The company offers employees and second year apprentices and trainees (hereinafter referred to as "employees") shares at favorable conditions, within the above period. In order to qualify for shares, employees must, on principle, have been in a continuous and unterminated employment relationship or apprenticeship/traineeship in the six month period prior to the share offer as well as at the time the shares are allocated; in addition, the purchase is subject to restrictions regarding the number of shares that can be subscribed by the employees. If the shares are subject to a uniform blocking period applicable to all participating domestic group companies, they are only freely available on expiry of the blocking period. The number of own shares issued for a price of EUR 15.51 in the financial year amounted to 8,405.

The market value of the stock ownership plans to employees is specified on the respective reporting date, on the basis of the Black-Scholes model. In so doing, the following parameters were applied on 31 December 2008 and 2007:

	2008	2007
Expected dividend yield	0.0%	0.0%
Expected volatility	42.3%	35.8%
Risk free rate of interest	4.0%	3.7%
Expected maturity (in years)	0.3	0.3
Market value of the option in EUR	22.00	31.10

The difference between the purchase and market price of TEUR 57 (PY: TEUR 162) was posted as personnel expenditure. The expected volatility was determined based on the relation of the daily yield to the expected yield using the daily closing price as the underlying value. The time frame used to calculate the expected volatility was one year.

In the year under review, employees with a specified seniority received 1 share per year of employment free-of-charge. The number of own shares issued on the basis of this offer totaled 840 in the 2008 financial year. The cost of TEUR 19 was recorded as personnel expenditure.

Capital management

It is a principle of capital management to finance investments and ongoing expenses primarily from internal funds and cashflows generated, whilst targeting not only the optimization of earnings power but also the sustained increase of corporate value and the securing of solvency and independence at all times. Furthermore, the shareholders shall be paid a regular dividend in respect of their deposit.

The above objectives result in the control of capital management by focusing on and optimizing operating business, the financial result and free cashflow. With regard to capital resources, a high equity ratio is targeted. The company is not subject to any statutory capital requirements.

	31 December 2008 TEUR	31 December 2007 TEUR	Change
Short-term liabilities	39,417	29,396	
Long-term liabilities	2,658	3,492	
Liabilities	42,075	32,888	27.9%
in % of total capital	22.5%	18.8%	
Shareholder's equity	144,970	141,743	2.3%
in % vom total capital	77.5%	81.2%	
Total capital	187,045	174,631	7.1%

(29)

**LIABILITY AND OTHER
FINANCIAL OBLIGATIONS**

	31 December 2008 TEUR	31 December 2007 TEUR
Contractual obligations:		
Obligations from purchase and service agreements	18,369	13,405
Obligations from tenancy and insurance agreements	536	546
Total contractual obligations	18,905	13,951

The following table provides an overview of the due dates of the contractual obligations:

	2008 TEUR	2007 TEUR
2008	-	13,684
2009	18,687	204
2010	186	52
2011	26	6
2012	2	1
2013	2	1
thereafter	2	3
Total	18,905	13,951

On the reporting date, the following contingent liabilities by the company exist in respect of third parties:

	31 December 2008 TEUR	31 December 2007 TEUR
Contingent liabilities:		
Guarantees, sureties and agreements	9,004	2,002
Conditional benefits from public authorities	9,983	9,207
Claim for damages	1,360	-
Total contingent liabilities	20,347	11,209

The following table provides an overview of the due dates of the contingent liabilities:

	2008 TEUR	2007 TEUR
2008	-	2,202
2009	4,503	2,385
2010	2,100	676
2011	5,176	3,893
2012	792	1,909
2013	7,342	55
thereafter	434	89
Total	20,347	11,209

The company received benefits from public authorities for the construction and financing of specific production facilities, under the premise that certain project-related criteria are met within a specific timeframe after receipt of the benefits. The company must meet these requirements. If these requirements are, however, not met, a maximum of TEUR 3,471 (PY: TEUR 3,553) of the benefits can be demanded to be returned by the reporting date of 31 December 2008. Furthermore, as parent company of its consolidated subsidiaries, the company has accepted co-liability for specific projects in the event that the subsidiaries do not meet obligations associated with benefits and take responsibility for the repayment due. The maximum amount repayable by the consolidated subsidiaries on the reporting date of 31 December 2008, amounts to TEUR 6,512 (PY: TEUR 5,654).

In connection with its ordinary business activities, the company is obliged to exempt its contract partners from specific risks linked to basic business, with regard to certain sales and other agreements. The maximum amount of possible future payments for this type of agreement amounts to TEUR 339 (PY: TEUR 4) on the reporting date of 31 December 2008.

D. SEGMENT REPORTING

The products and services provided by the company do not have any significantly different risks and earnings are comparable in regard to the type of products and services provided, production processes and methods of marketing. Due to the high level of integration of the individual business areas, which serves the purpose of utilizing the synergy effects across all sectors, management and reporting is conducted as one entity, in accordance with IFRS 8 "Operating Segments". The additional information required by IFRS 8 is provided as follows at 31 December 2008 and 31 December 2007:

Sales by application area	2008 TEUR	2007* as reported TEUR	2007* Reclassifications TEUR	2007* TEUR
Cards & TECURITY®	100,848	96,345	(7,191)	89,154
Semiconductor Related Products	34,905	30,447	5,691	36,138
Precision Parts & Systems	19,424	18,753	1,500	20,253
Traceability	17,710	13,956	-	13,956
	172,887	159,501	-	159,501
Deductions in earnings	(312)	(367)	-	(367)
	172,575	159,134	-	159,134

* The company altered the contents of its previous application areas "SmartID" and "Semiconductor Related Products" as of 1 April 2008. The change largely consists of the change of name of the application area "SmartID" to "Cards & TECURITY®", the restructure of the product line "Smart Label", previously managed within "Smart ID", to the application area "Semiconductor Related Products" and the allocation of specific sales, reported within the application area "Semiconductor Related Products" to the application area "Precision Parts & Systems". The segment information for 2008 is depicted in accordance with the new structure, the previous year was correspondingly reconciled.

Sales by region	2008 TEUR	2007 TEUR
Europe (excluding Germany)	61,063	56,612
Germany	43,753	43,233
Asia	40,227	43,905
The Americas	17,319	8,110
Other countries	10,525	7,641
	172,887	159,501
Deductions in earnings	(312)	(367)
	172,575	159,134

Additional information about geographical areas in TEUR	Europe (excl. Germany)					Consolidated 2008
	Germany 2008	Germany 2008	Asia 2008	The Americas 2008	Other countries 2008	
Long-term assets (excl. financial instruments)	46,534	3,531	3,292	2,982	47	56,386
Investments in fixed assets	6,518	140	756	284	14	7,712
Investments in intangible assets	1,483	1	51	-	-	1,535
Deferred tax assets	440	17	-	329	20	806
Pension obligations	(913)	-	-	-	-	(913)

Additional information about geographical areas in TEUR	Europe (excl. Germany)					Consolidated 2007
	Germany 2007	Germany 2007	Asia 2007	The Americas 2007	Other countries 2007	
Long-term assets (excl. financial instruments)	48,081	962	2,787	81	69	51,980
Investments in fixed assets	2,491	940	2,379	13	29	5,852
Investments in intangible assets	2,717	-	78	-	-	2,795
Deferred tax assets	125	-	-	21	16	162
Pension obligations	(1,302)	-	-	-	-	(1,302)

The statement of regional breakdown is determined on basis of country of delivery. No sales comprising at least 10% of consolidated sales were made to any one customer during the year under review or in the previous year.

E. NOTES TO THE CASHFLOW STATEMENT

The cashflow statement in accordance with IAS 7 "Cash Flow Statements" records cashflows of a financial year to depict information on the financial transactions of the company. The cashflows are differentiated by operating activities as well as investing and financing activities.

The liquid fund in the cashflow statement comprises all cash and cash equivalents listed in the balance sheet as well as short-term marketable securities if these have a residual term of no more than three months.

The cashflow from operating activities is determined in accordance with the indirect method, by adjusting net earnings by changes in inventories, trade accounts receivable and payable, positions that do not affect income and all other positions representing cashflows in the investing or financing areas. The cashflows from investing or financing activities were determined in relation to payments. In so doing, currency translation effects and changes in the scope of consolidation were adjusted.

Free cashflow is used as an internal control parameter in respect of the liquidity contribution of the Mühlbauer Group and is the total from the inflows of business and investment activities, adjusted by the purchase and disposal of securities in current and financial assets as well as the resultant net profits and losses, payments for loans and payments from the disposal of objects included in fixed assets as well as the resultant profits and losses and differences arising from the currency translation of long-term assets.

Free cashflow is thus derived as follows:

	2008 TEUR	2007 TEUR
Cash provided by (used for) operating activities	22,035	25,609
Cash provided by (used for) investment activities	(6,004)	(3,427)
Subtotal	16,031	22,182
Transition to free cashflow		
Gains/(losses) from the sale of fixed assets and intangible assets	97	248
Realized net gains/(losses) from short and long-term marketable securities	(1,215)	1,045
Proceeds from disposals of long-term assets	(3,989)	(1,277)
Payments from long-term loans	1,380	2,395
Proceeds from sale of long-term assets (marketable securities)	(6,081)	(8,652)
Investments in long-term assets (marketable securities)	1,476	1,672
Proceeds from sale of short-term assets (marketable securities)	(65,843)	(27,485)
Investments in short-term assets (marketable securities)	64,475	26,266
Free Cashflow	6,331	16,394

In the financial year, the dividend payments contained in the cashflow from financing activities were comprised as follows:

	2008 TEUR
Dividends paid to shareholders of the limited partnership	6,121
Statutory earnings transfer by the company to Mühlbauer Holding AG & Co. Verwaltungs KG in respect of the 2007 financial year	8,357
Total dividend payments and earnings transfers	14,478

F. OTHER NOTES

No events of major significance occurred after the 2008 financial year.

**EVENTS AFTER THE
REPORTING DATE**

(30)

In June 2007, the personally liable shareholder submitted an action to the Nuremberg Finance Court, after the tax office of the place of business relevant to the company had intended to revise its previous opinion that the so-called partner view had to be applied to the determination of the income of a KGaA, and that the half-income procedure would, in future, have to be applied to the share in profits of the personally liable shareholder of a KGaA, to the extent that the share in profits contains calculated dividends within the meaning of § 20 para. 1 numbers 1 and 2 EStG (Income Tax Act). With the legal action taken, the personally liable shareholder sought the application of the so-called partner view in respect of the taxation of a KGaA (partnership limited by shares).

**RESULT REGARDING
THE POSSIBLE AMENDMENT
OF THE TAXATION
CONCEPT BASIS**

(31)

In November 2008, the Bavarian State Ministry of Finance, to which the personally liable shareholder appealed in parallel to the action taken, advised that the Heads of the Division of Income Tax of the Federal Government and the federal states, in their September meeting, had resolved to apply the partner view to the taxation of the personally liable shareholder of a KGaA, within the meaning of a partially transparent taxation concept.

With this resolution, the Federal Ministry of Finance, on principle, complied with the opinion of the personally liable shareholder, according to which the half-income or partial-income procedure should apply to the distribution of profits of a joint stock corporation, to the extent that a proportion thereof is distributed to the personally liable shareholder. The result has no impact on the company, as the company has so far effected its determination of income in accordance with the partner view. This corresponds with both its own view and the previous view represented by the tax office.

The notice issued by the State Ministry of Finance grants legal certainty until 2005. For 2006 through to 2008, the notice should furthermore develop a protection of confidence in respect of the personally liable shareholder. The future retention of the partially transparent taxation concept is subject to a uniform, Germany-wide regulation by the Federal Ministry of Finance, scheduled for 2009.

(32) **ADDITIONAL INFORMATION
REGARDING FINANCIAL
INSTRUMENTS**

Valuation of financial instruments by classes

Based on the relevant balance sheet items, the following table provides a coherent overview of the classifications and stated valuations of the individual financial instruments.

in TEUR	Valuation category according to IAS 39	Book value		Valuation balance sheet in acc. w. IAS 39			
		31 Dec. 2008	Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect on income	Fair value 31 Dec. 2008
Assets							
Cash and cash equivalents	-	17,122	17,122	-	-	-	17,122
Trade accounts receivable*	LaR	34,774	34,774	-	-	-	34,774
Other financial receivables	LaR	2,764	2,764	-	-	-	2,764
Other loans	LaR	-	-	-	-	-	-
Other primary financial assets							
Held-to-maturity investments	HtM	-	-	-	-	-	-
Available for sale financial assets	AfS	17,981	-	18,022	(41)	-	17,981
Derivative financial assets							
Without effective hedge relationship							
FAHFT	-	-	-	-	-	-	-
With hedge relationship							
-	-	17	-	-	-	17	17
Liabilities							
Financial debt	FLAC	22	22	-	-	-	22
Trade accounts payable	FLAC	10,578	10,578	-	-	-	10,578
Other financial liabilities	FLAC	10,107	10,107	-	-	-	10,107
Aggregated according to valuation classes							
Loans and receivables (LaR)		37,538	37,538	-	-	-	37,538
Held-to-maturity investments (HtM)		-	-	-	-	-	-
Available for sale financial assets (AfS)		17,981	-	18,022	(41)	-	17,981
Financial assets held for trading (FAHFT)		17	-	-	-	17	17
Financial liabilities measured at amortized cost (FLAC)		20,707	20,707	-	-	-	20,707

in TEUR	Valuation category according to IAS 39	Book value		Valuation balance sheet in acc. w. IAS 39			
		31 Dec. 2007	Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect on income	Fair value 31 Dec. 2007
Assets							
Cash and cash equivalents	-	16,425	16,425	-	-	-	16,425
Trade accounts receivable*	LaR	31,072	31,072	-	-	-	31,072
Other financial receivables	LaR	2,281	2,281	-	-	-	2,281
Other loans	LaR	2,150	2,150	-	-	-	2,150
Other primary financial assets							
Held-to-maturity investments	HtM	-	-	-	-	-	-
Available for sale financial assets	AfS	25,624	-	25,205	419	-	25,624
Derivative financial assets							
Without effective hedge relationship							
FAHFT	-	-	-	-	-	-	-
With hedge relationship							
-	-	-	-	-	-	-	-
Liabilities							
Financial debt	FLAC	21	21	-	-	-	21
Trade accounts payable	FLAC	6,068	6,068	-	-	-	6,068
Other financial liabilities	FLAC	4,138	4,138	-	-	-	4,138
Aggregated according to valuation classes							
Loans and receivables (LaR)		35,503	35,503	-	-	-	35,503
Held-to-maturity investments (HtM)		-	-	-	-	-	-
Available for sale financial assets (AfS)		25,624	-	25,205	419	-	25,624
Financial assets held for trading (FAHFT)		-	-	-	-	-	-
Financial liabilities measured at amortized cost (FLAC)		10,227	10,227	-	-	-	10,227

* Including receivables accounted according to the percentage of completion method.

The book value of cash and cash equivalents, short-term trade accounts receivable, other financial receivables, financial debts, trade accounts payable and other short-term liabilities of the company correspond closely to the fair value on 31 December 2008, due to their short maturity.

Net result by valuation categories

	From interest	From revaluation			From retirements	Net result 2008
		At fair value	Currency translation adjustment	Value adjustment		
in TEUR – 2008						
Loans and receivables (LaR)	787	-	32	(1,125)	-	(306)
Held-to-Maturity investments (HtM)	-	-	-	-	-	-
Available for sale financial assets (AfS)	623	-	215	-	(1,209)	(371)
Financial assets held for trading (FAHfT)	-	17	-	-	(8)	9
Financial liabilities measured at amortised cost (FLAC)	(26)	-	56	-	-	30
Total	1,384	17	303	(1,125)	(1,217)	(638)

	From interest	From revaluation			From retirements	Net result 2007
		At fair value	Currency translation adjustment	Value adjustment		
in TEUR – 2007						
Loans and receivables (LaR)	138*	-	(30)	1,191	-	1,299
Held-to-Maturity investments (HtM)	-	-	-	-	-	-
Available for sale financial assets (AfS)	635	-	1	-	1,230	1,866
Financial assets held for trading (FAHfT)	-	5	-	-	-	5
Financial liabilities measured at amortised cost (FLAC)	(109)	-	2	-	-	(107)
Total	664	5	(27)	1,191	1,230	3,063

* Included herein is interest income of value adjusted assets in the amount of TEUR 6.

The difference between expenses and income from value adjustments to the category loans and receivables for the amendment of value adjustments in respect of trade accounts receivable (note (15)) results from additional value adjustments on other assets as well as income from their revocation. Furthermore, the expense item comprises direct value adjustments to trade accounts receivable, which were not preceded by anticipated value adjustments. The interest from financial instruments is reported in the financial result (note (10)).

The expenses from value adjustments to trade accounts receivable (in the previous year from income from the revocation of such value adjustments), to be allocated to the valuation category loans and receivables, are reported under selling expenses (note (6)).

Also carried in the category loans and receivables are commission expenses in the amount of TEUR 767 (PY: TEUR 327).

Principles of risk management

The Mühlbauer Group is exposed to particular risks in regards to its assets, liabilities and planned transactions due to fluctuations in foreign exchange rates, interest rates and share prices.

The main objective of financial risk management is to limit these market risks, which are encountered in the course of normal, ongoing operating and financially oriented activities. Based on the risk assessment selected derivatives or non-derivative financial instruments will be implemented. Derivative financial instruments are used as hedging instruments and are, as a matter of principle, not used for trading or speculative purposes.

The guidelines for financial policies are determined on an annual basis by management and are monitored by the Supervisory Board. The implementation of financial policies as well as the ongoing risk management is incumbent upon management. Certain transactions require the explicit authorization from management, which is also continually informed by the risk committee regarding the extent and amount of current risk exposure (measurement of risk).

Foreign currency risks

Foreign currency risks to which the Mühlbauer Group is exposed primarily result from operative activities, contribution of equity to subsidiaries in non-euro countries, as well as financial receivables from and liabilities owed to foreign subsidiaries.

To avoid concluding a binding hedging transaction before the order has been placed, currency risk is eliminated during the bidding phase by a so-called price variation clause. As soon as the underlying transaction has been concluded, attempts are made to minimize the exchange risk by the use of forward exchange contracts. To the extent that market expectations permit, such transactions are also concluded at a later point in time. If there are timing differences between previously expected receipts of payments and the presumed actual receipt of payment, a hedge ensues by prolonging the forward exchange contract. If an already concluded hedging transaction proves ineffective, it will be categorized as Held-for-Trading.

Furthermore, the company encounters currency risks, particularly in the course of the construction and expansion of facilities in foreign locations. It is hereby attempted to meet payments in the local currency with the corresponding currency by invoicing in the local currency. The injected shareholders' equity funding and financial receivables from and liabilities owed to subsidiaries in foreign currencies are not currently hedged.

To demonstrate inherent market risks, IFRS 7 requires sensitivity analyses to evaluate the impacts of hypothetical changes of relevant risk variables on income and shareholders' equity. In addition to currency risks, the Mühlbauer Group is exposed to interest rate risks as well as price risks in regard to its investments. Periodic impacts are determined by projecting the hypothetical changes caused by the risk variables to the balance of the financial instruments on the financial reporting date. The underlying assumption is that the balance for the financial reporting date is representative for the entire year.

Currency risks as defined by IFRS 7 occur in financial instruments which are denominated in a currency other than a functional currency and are of a monetary type. Relevant risk variables basically apply to all non-functional currencies, in which Mühlbauer uses financial instruments.

The underlying assumptions regarding currency sensitivities are as follows:

- No currency risk is applied to financial instruments (cash and cash equivalents, receivables, interest bearing marketable securities or debt capital instruments held, interest bearing debt, non-interest bearing liabilities), which are carried in a functional currency.
- Primary and derivative financial instruments which are not carried in a functional currency are considered a currency risk and are included in the sensitivity analysis.
- Receivables and liabilities between domestic and foreign subsidiaries which are not carried in functional currency are also considered a currency risk for the Mühlbauer Group and are therefore also included in the sensitivity analysis.

If the value of the euro to the US-dollar had been 10% stronger on 31 December 2008, earnings and thereby shareholders' equity would have been TEUR 356 lower (TEUR 221 lower on 31 December 2007). If the value of the euro in regards to all other currencies had been 10% stronger on 31 December 2008, earnings would have been TEUR 108 lower (TEUR 103 lower on 31 December 2007). Converse currency developments have an analog effect.

Interest risks

The Mühlbauer Group is subject to interest risk primarily in regards to financial investments. Interest rate risks are disclosed in accordance with IFRS 7 sensitivity analyses. These analyses depict the effects of changes of market interest rates on the fair value of financial instruments as well as on shareholders' equity. The underlying assumptions regarding interest sensitivities are as follows:

Fluctuations in interest rates change market values of fixed interest marketable securities. By evaluating long-term receivables using the effective interest method, a change in market interest ensues, which also leads to a change in the fair value of the financial instrument. Currency derivatives are not subject to future changes in interest rates and therefore have no effect on interest sensitivity. Significant external interest bearing financial obligations do not currently exist. Based on the current market evaluation, the risk of a change in interest rates is considered minimal.

If the market interest level had been 100 basis points higher on 31 December 2008, earnings would have been TEUR 9 (31 December 2007: TEUR 77) and total shareholders' equity TEUR 9 (31 December 2007: TEUR 244) lower. If the market interest rates would have been lower by 100 basis points on 31 December 2008, earnings would have been TEUR 9 (31 December 2007: TEUR 80) and shareholders' equity TEUR 9 (31 December 2007: TEUR 255) higher.

Default risks

The Mühlbauer Group is exposed to the risk of default in the course of conducting business and pursuing certain financial activities. The company controls these risks by means of a consistent receivables management, which is equipped with escalation processes in conjunction with regular reporting as well as a comprehensive check on the creditworthiness of new customers. To minimize the risk of default, hedging is only concluded with leading financial institutions.

The maximum default risk is expressed by the book value of the financial assets carried on the balance sheet (incl. derivative financial instruments with a positive market value), minus the securities received (notes (15)). No significant agreements such as settlement agreements that diminished the maximum default risk existed at the financial reporting date.

Liquidity risks

31 December 2008 in TEUR	due within 1 month	due after 1 month
Financial liabilities	22	-
Trade accounts payable	9,886	692
Other financial liabilities	10,107	-
Total	20,015	692

31 December 2007 in TEUR	due within 1 month	due after 1 month
Financial liabilities	21	-
Trade accounts payable	5,522	546
Other financial liabilities	4,124	14
Total	9,667	560

To ensure the company's solvency at all times as well as its financial flexibility, Mühlbauer holds liquidity reserves in the form of lines of credit and, if necessary, cash and cash equivalents. On 31 December 2008, the company had arrangements in place for independent short-term and unsecured lines of credit in the amount of TEUR 10,000 (PY: TEUR 20,000) with several financial institutions. Of these lines of credit on 31 December 2008, TEUR 4,205 (PY: TEUR 17,661) was available. Interest is based primarily on a variable base interest rate with a fixed margin.

Other price risks

To depict potential market risk, IFRS 7 requires the disclosure of how any hypothetical changes in risk variables impact the price of financial instruments. Risk variables particularly include stock prices or indices. The Mühlbauer Group is subject to price risks primarily due to the financing investments and its own shares. Due to the inevitable fluctuations in stock prices, the market value of the securities change, resulting therefore in a change in income and shareholders' equity.

If the share price of the financial instrument were 10% higher on 31 December 2008, shareholders' equity would have increased by TEUR 1,798 (PY: TEUR 1,842). Converse stock price developments have an analog effect.

Hedging measures

Hedges in accordance with IAS 39 are used in the form of fair value hedges. The following table lists the fair values established for the different derivative financial instruments on the balance sheet.

in TEUR	Book value on 31 Dec. 2008	Book value on 31 Dec. 2007
Forward exchange contracts – Fair value hedges	17	-
Forward exchange contracts – without hedge relationship	-	-
Total	17	-

Gains and losses from hedging activities are as follows:

in TEUR		Gain or (loss) from hedging instruments		Gain or (loss) from hedged position	
Hedging instrument	Hedged position	2008	2007	2008	2007
Fair value hedges	Trade accounts receivable	(25)	17	47	(24)

(34) CORPORATE GOVERNANCE

The Declaration of Conformity in accordance with § 161 AktG (German Stock Corporation Act) was issued in December 2008 and posted to the internet so that shareholders can access it whenever required.

(35) INFORMATION ON THE REMUNERATION OF THE AUDITOR

The remuneration for the audits executed in the financial year amounts to TEUR 122. TEUR 1 of the other services provided by the auditor in the previous year has been recorded as expense.

(36) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS

Associated companies and persons within the meaning of IAS 24 "Related Party Disclosures" are on principle the companies controlled by Mühlbauer Holding AG & Co. KGaA, Mühlbauer Holding AG & Co. Verwaltungs KG as personally liable shareholder of Mühlbauer Holding AG & Co. KGaA and its personally liable shareholder without an equity share, Mühlbauer Beteiligungs Aktiengesellschaft and SECURA Vermögensverwaltungs GmbH, controlled by Mühlbauer Holding AG & Co. Verwaltungs KG.

Moreover, the disclosure requirement in accordance with IAS 24 also extends to persons who can exercise a significant influence over the company, i.e. those individuals who participate in the financial and business policies of the company without, however, being able to exert a controlling influence over these policies, including closely related family members. In the 2008 financial year this applied to members of the Group's Supervisory Board, members of the Supervisory Board and Management Board of Mühlbauer Aktiengesellschaft and their close relatives.

The terms and conditions of business transaction with related companies and persons correspond to those with independent, non-affiliated business partners.

As per 31 December 2008, receivables existed of TEUR 2,331 (PY: TEUR 1,758), resulting from taxes paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG. In addition, as per 31 December 2008, liabilities of TEUR 7 (PY: TEUR 7) existed toward Mühlbauer Beteiligungs Aktiengesellschaft. This balance results from the compensation of expenditure in connection with the management.

Following the proposal of the personally liable shareholder and Supervisory Board, the remuneration of the Supervisory Board is determined by the Annual General Meeting. Apart from the compensation of expenses paid in cash, the cash payment consists exclusively of a fixed share. With regard to the fixed share, the Chairman of the Supervisory Board receives double the amount of a member of the Supervisory Board and the Vice Chairman one and a half times the amount. The Chairman of the Supervisory Board, Dr. Thomas Zwissler, was paid a fixed share of Supervisory Board remuneration in respect of the reporting period of a total of TEUR 12 (PY: TEUR 12), the member of the Supervisory Board Prof. Dr. Kurt Falthäuser was paid a total of TEUR 6 and the Supervisory Board member Steffen Harlfinger TEUR 4. The members of the Supervisory Board Dr. Peter Drexel and Dr. Frank Scholz, who retired from the Board in the year under review, received TEUR 1 (PY: TEUR 5) and TEUR 1 (PY: TEUR 2), respectively. The amounts paid to the Supervisory Board members Dr. Thomas Zwissler, Prof. Dr. Kurt Falthäuser, Dr. Peter Drexel and Steffen Harlfinger derived from the position held within the respective corporate body at Mühlbauer Holding AG & Co. KGaA and Mühlbauer Aktiengesellschaft.

Dr. Thomas Zwissler, Chairman of the Supervisory Board is also an attorney and partner of the international law firm Zirngibl Langwieser. The company occasionally provides legal consultation to the Mühlbauer Group. The fees for such services amounted to TEUR 36 (PY: TEUR 38) in the year under review.

In the 2008 financial year, the Management Board of Mühlbauer Aktiengesellschaft received fixed remuneration totaling TEUR 705 (PY: TEUR 971) and variable pay amounting to TEUR 165 (PY: TEUR 195). Of this fixed remuneration of the previous year, TEUR 253 is allocated to other financial reporting periods. An additional TEUR 822 (PY: TEUR 645) were allocated to pension and postretirement benefits.

For the claim of benefits from closely related family members TEUR 54 (PY: TEUR 89) were expanded in the reporting year.

The companies Mühlbauer Aktiengesellschaft, ASEM Präzisions-Automaten-GmbH and takelD GmbH rent office and living space from Mr. Josef Mühlbauer, who is the CEO of Mühlbauer Beteiligungs AG and holds sole power of representation. Mühlbauer Beteiligungs AG is the personally liable shareholder of Mühlbauer Holding AG & Co. Verwaltungs KG, which is in turn the personally liable shareholder of Mühlbauer Holding AG & Co. KGaA. The term of the tenancies are indefinite and can be terminated by either party under observance of a notice period of up to six months in accordance with German legislation. In the year under review, rental costs amounted to TEUR 320 (PY: TEUR 316).

Group companies utilize certain services in respect of the conveyance of passengers, sales promotion, the organization of travel, accommodation and catering, offered by companies that are controlled by Mr. Josef Mühlbauer. Mühlbauer Aktiengesellschaft paid TEUR 387 (PY: TEUR 237) including the current amount of VAT for such services in the year under review. In the year under review, Mühlbauer Aktiengesellschaft paid TEUR 126 (PY: TEUR 391), including the current amount of VAT, to Mr. Josef Mühlbauer or companies controlled by him in respect of services provided and products sold. From the disposal of the sole company share in the shelf company "MB ID3 GmbH" Mühlbauer Aktiengesellschaft received TEUR 26 from Mr. Josef Mühlbauer.

(37) NUMBER OF EMPLOYEES

The number of staff employed by the Group on an annual average is shown in the below table:

	2008 Number	2007 Number
Production and assembly	939	884
Research and development	332	318
Administration and sales	193	178
	1,464	1,380
Apprentices, trainees and part-time employees	377	330
	1,841	1,710

Number of employees by region for the financial year under review:

	2008 Number	2007 Number
Germany	1,644	1,565
Asia	133	101
Europe (excluding Germany)	40	23
The Americas	18	16
Others	6	5
Total	1,841	1,710

(38) CORPORATE BODIES OF THE COMPANY

As personally liable shareholder, Mühlbauer Holding AG & Co. Verwaltungs KG, Roding, is entitled to manage and represent the company. The sole limited partner of Mühlbauer Holding AG & Co. Verwaltungs KG is Mr. Josef Mühlbauer, the personally liable shareholder is Mühlbauer Beteiligungs Aktiengesellschaft, Roding. The sole shareholder and only Management Board member of Mühlbauer Beteiligungs Aktiengesellschaft is Mr. Josef Mühlbauer.

During the 2008 financial year the following persons were appointed to the Supervisory Board of Mühlbauer Holding AG & Co. KGaA:

	Age	Enf of term	Membership on further Supervisory Boards and other comparable committees
Dr. Thomas Zwissler Chairman (since 29 April 2003)	40	2011	Attorney and partner of the law firm Zirngibl Langwieser, Munich
			External seats: Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding (Chairman) • Going Public Media AG, Wolfratshausen (Chairman)
			Group seats: Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding (Chairman)
Prof. Dr. Kurt Faltlhauser Vice Chairman (since 29 April 2008)	68	2013	Of Counsel at PSP Peters, Schönberger & Partner Rechtsanwälte, Wirtschaftsprüfer, Steuerberater
			External seats: Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding • Fürst Fugger Privatbank KG, Augsburg • Prime Office AG, Munich
			Member of the Advisory Board • Bayerische Landesbank, Munich • Süddeutscher Beirat der Deutschen Bank AG, Frankfurt am Main • deutscher Beirat der Rothschild GmbH, Frankfurt am Main
			Member of the Board of Directors • Kreditanstalt für Wiederaufbau, Frankfurt am Main
			Group seats: Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding
Steffen Harlfinger (since 29 April 2008)	38	2013	Head of Vocational Training at Mühlbauer AG
			Group seats: Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding

Retired members of the Supervisory Board

	Age	End of term	Membership on further Supervisory Boards and other comparable committees
Dr. Peter Drexel Vice Chairman (until 29 April 2008)	64		Former Head of Division at Siemens AG (until 31 March 2008)
			External seats:
			Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding (Vice Chairman until 12 March 2008)
			Member of the Advisory Board • KARL MAYER Textilmaschinenfabrik GmbH, Obertshausen (until 2008)
			Group seats:
			Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding (Vice Chairman until 7 March 2008)
Dr. Frank Scholz (until 29 April 2008)	47		Degreed Engineer

In accordance with § 58 para. 2 AktG (German Stock Corporation Act), the dividend distribution of Mühlbauer Holding AG & Co. KGaA is based on the net income for the year shown in the annual financial statements of Mühlbauer Holding AG & Co. KGaA, drawn up according to commercial law. In accordance with the financial statements of Mühlbauer Holding AG & Co. KGaA, drawn up as required by commercial law, a net income for the year of TEUR 6,747 is distributable. The statutory share in profits of TEUR 8,991, attributable to the personally liable shareholder according to his equity share (we refer to the comments in note (28)) was deducted from the net income for the year and entered into his retained earnings. The personally liable shareholder and Supervisory Board intend to propose a dividend distribution from the net income for the year of EUR 1.00 (PY: EUR 1.00) per no-par value share with dividend entitlement and to carry forward the remaining net income for the year.

This consolidated financial report was released for publication on 06 March 2009 by the personally liable shareholder.

**Mühlbauer Holding AG & Co.
Kommanditgesellschaft auf Aktien**

The personally liable shareholder



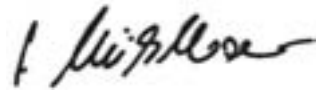
**PROPOSAL FOR
THE APPROPRIATION
OF EARNINGS**

(39)

Assurance of the Legal Representative

I herewith assure, to the best of my knowledge, that the consolidated financial statements, drawn up in accordance with the accounting principles, reflect the actual asset, financial and earnings situation of the Group and that the development of business, including the performance and situation of the Group – presented in the consolidated management report – is presented to depict a realistic image of the Group and that the key opportunities and risks of the company's anticipated development are described.

The personally liable shareholder



Auditor's Report

We have audited the consolidated financial statements prepared by the Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien, Roding, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1st to December 31st 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.


Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

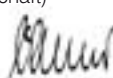
Munich, March 9th 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)



Dr. Grottel
Wirtschaftsprüfer



Mühlhuber
Wirtschaftsprüfer

Report of the Supervisory Board

The past financial year was characterized by the company's activities to further internationalize the operative business and by the further development of the organization of the company. Furthermore, the increasingly visible effects of the financial market crisis on the overall economy provided an occasion to pay particular attention to how this development may impact the company's business. The Supervisory Board actively assisted in this process and in this development, which also included changes in the company's risk situation, by advising and discussing with the personally liable shareholder and Management. Concurrently, the Supervisory Board exercised its statutory supervisory role.

Composition of the Supervisory Board

At the beginning of 2008, Dr. Thomas Zwissler (Chairman), Dr. Peter Drexel (Vice Chairman) and Dr. Frank Scholz were members of the Supervisory Board. The term of the above mentioned members of the Supervisory Board ended on conclusion of the Annual General Meeting on 29 April 2008.

In view of the end of term of the previous Supervisory Board members, the Supervisory Board was re-appointed at the Annual General Meeting held on 29 April 2008 – namely Prof. Dr. Kurt Falthäuser and Steffen Harlfinger. On the same day the holder of the no. 1 share appointed Dr. Thomas Zwissler to the Supervisory Board as further member. Following the Annual General Meeting held on 29 April 2008, the Supervisory Board reconstituted itself and elected Dr. Thomas Zwissler as its Chairman and Prof. Dr. Kurt Falthäuser as its Vice Chairman.

Meetings of the Supervisory Board

In four ordinary meetings – on 12 March, 21 May, 30 September and 11 December 2008 – the Supervisory Board apprised itself of the company's situation and development, strategic corporate planning and all essential business transactions. In this connection, great importance has been attached to the reporting system for preparing these meetings. The reporting system has provided information to the Supervisory Board for preparing its meetings in a timely and comprehensive manner. In this connection, questions of risk management have been a regular part.

In the year under review, further material areas of the Supervisory Board's auditing and consulting activities were:

- the annual financial statements of the company and consolidated financial statements as per 31 December 2007 (meeting held on 12 March 2008);
- the takeover of a large-scale project contract by Mühlbauer ID Services GmbH (April 2008);

- the organizational structure and appointment of the management of Mühlbauer AG (meeting held on 21 May 2008);
- the strategy, opportunities and risks of the business line Semiconductor Related Products (meeting held on 30 September 2008);
- the effects of the financial market crisis and legal disputes (meeting held on 11 December 2008);
- the implementation of the Group's strategic objectives by the second management level.

The members of the Supervisory Board participated in all Supervisory Board meetings. In the individual meetings the Supervisory Board convinced itself of the fact that the personally liable shareholder duly manages business. Furthermore, the Supervisory Board Chairman was kept informed by the personally liable shareholder and the management on key developments and decisions within the company on an ongoing basis. Where necessary, the Supervisory Board passed resolutions in writing or by telephone.

The recommendations and suggestions of the German Corporate Governance Codex were repeatedly discussed by the Supervisory Board. The Supervisory Board had continuously monitored its efficiency and gave its declaration of conformity pursuant to § 161 AktG (German Stock Corporation Act). Details will be given separately in the annual report. No conflict of interests among the Supervisory Board members (in particular with regard to the German Corporate Governance Codex) were detected. Insofar as the Supervisory Board approved of the activities of Zirngibl Langwieser Rechtsanwälte Partnerschaft, in which Dr. Zwissler participates as a partner, Dr. Zwissler abstained from voting. Measures which are subject to the approval of the Supervisory Board were presented for decision making.

Committees

In view of the total number of Supervisory Board members, no committees were formed.

Financial accounting

The KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (former: KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich), was selected as external auditor by the Annual General Meeting and was assigned by the Supervisory Board. The external auditor audited the annual financial statement of Mühlbauer Holding AG & Co. KGaA and the consolidated financial statement as well as the management report and the consolidated management report including accounting on 31 December 2008. He approved them without qualification. Furthermore, the external auditor audited the company's early risk management system pursuant to § 317 para. 4 of the German Commercial Code (HGB) and, as

a result, confirmed that the statutory management obligations are fully complied with and that the system for the early recognition of risks is, on principle, suitable to recognize developments that pose a risk to the continuance of the company at an early stage.

On 11 March 2009, the balance sheet meeting of the Supervisory Board was held. In this meeting particularly the annual financial statement, the consolidated financial statement, the management report and the consolidated management report were discussed. The Supervisory Board was provided with all necessary documents before the meeting. The external auditor attended the meeting while the Supervisory Board debated on the annual financial statement and he gave a detailed report on the process and all major findings of the audit. He also provided additional information on request.

After own examination of the annual financial statement, the consolidated financial statement, the management report and the consolidated management report, the Supervisory Board has approved the audit results obtained by the external auditor. The Supervisory Board therefore suggests to the Annual General Meeting to accept the financial statement of Mühlbauer Holding AG & Co. KGaA as submitted in its current version on 31 December 2008.

The Supervisory Board endorses the proposal of the personally liable shareholder to use the net income available to pay out a dividend of EUR 1.00 per share on the company's dividend-entitled capital stock for 2008.

Report of the personally liable shareholder on the relation to affiliated companies

The external auditor also audited the personally liable shareholder's report pursuant to § 312 AktG on the relation to affiliated companies in the 2008 financial year and reported on the result. The auditor gave the following certificate:

"On the basis of our obligatory audit and assessment we confirm that

- 1. the actual information on the report is correct,*
- 2. the service of the company for the legal transactions stated in the report was not inappropriately high."*

The Supervisory Board examined the report on relations to affiliated companies in the 2008 financial year and discussed it in its meeting dated 11 March 2009. It did not raise any objections against the declaration of the personally liable shareholder and the audit result of the external auditor.

The members of the Supervisory Board would like to thank the personally liable shareholder, the Management Board and all employees for their commitment in the 2008 financial year.

Roding, 11 March 2009

For the Supervisory Board

A handwritten signature in black ink, appearing to be 'Zwissler', with a horizontal line extending to the right.

Dr. Thomas Zwissler
Chairman

Several years overview ¹		2008	2007	2006	2005	2004	2004	2003	2002	2001	2000
		IFRS	IFRS	IFRS	IFRS	IFRS US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP
Consolidated Balance Sheets											
Short-term assets											
	TEUR	128,246	112,939	109,001	105,128	91,735	90,001	72,217	79,031	83,167	92,764
Cash and cash equivalents	TEUR	17,122	16,425	11,311	13,507	20,365	20,365	12,597	13,110	2,206	3,618
Marketable securities	TEUR	17,981	21,062	21,819	32,687	13,561	13,255	3,498	2,261	2,592	6,609
Trade accounts receivables, net	TEUR	34,033	29,536	30,106	21,985	22,462	21,703	20,348	19,161	19,645	30,868
Other short-term assets	TEUR	5,830	4,770	4,598	2,441	2,461	2,301	1,521	1,095	1,444	2,382
Tax receivables	TEUR	2,882	1,233	1,360	976	670	161	26	59	5,148	3,034
Inventories	TEUR	50,398	39,913	39,807	33,532	32,216	32,216	34,227	43,345	52,132	46,253
Long-term assets											
Financial assets											
	TEUR	741	8,248	12,859	11,088	10,141	10,440	9,241	7,383	7,749	10,762
Marketable securities	TEUR	0	4,562	11,524	10,809	10,134	10,440	9,241	7,383	7,749	10,762
Trade accounts receivables, net	TEUR	741	1,536	1,335	279	7	0	0	0	0	0
Other financial assets	TEUR	0	2,150								
Fixed assets											
	TEUR	47,048	39,987	40,123	39,018	39,472	46,765	41,333	41,189	45,169	38,871
Land and Buildings, net	TEUR	27,819	26,276	25,683	27,343	28,916	34,202	29,995	31,625	32,479	25,711
Technical equipment, net	TEUR	8,895	8,217	8,895	5,965	5,010	6,174	6,016	*	*	*
Furniture and office equipment, net	TEUR	5,251	5,315	5,168	5,510	5,481	6,320	5,282	9,539	12,621	11,416
Assets in progress	TEUR	5,083	179	377	200	65	69	40	25	69	1,744
Intangible assets											
	TEUR	7,004	9,604	10,010	8,412	6,870	482	877	1,025	1,398	2,009
Goodwill	TEUR	0	0	0	0	0	0	468	468	468	548
Software and licenses	TEUR	591	1,001	1,039	638	411	482	409	557	930	1,461
Capitalized development costs	TEUR	6,413	8,603	8,971	7,774	6,459	0	0	0	0	0
Other long-term assets											
	TEUR	4,006	3,853	3,236	609	262	1,308	1,888	804	459	529
Long-term tax assets	TEUR	2,334	2,389	2,268	0	0	0	0	0	0	0
Deferred tax assets	TEUR	759	162	42	99	234	0	201	804	459	529
Other long-term assets	TEUR	913	1,302	926	510	28	1,308	1,687	0	0	0
Short-term liabilities											
	TEUR	39,417	29,396	30,411	35,000	32,535	31,664	17,724	20,254	23,138	27,021
Debt	TEUR	22	21	0	960	1,023	1,023	1,025	1,050	3,525	2,054
Trade accounts payable	TEUR	10,578	6,068	7,655	6,150	8,383	7,028	4,751	7,038	5,646	6,781
Advance payments	TEUR	7,439	6,769	5,646	10,330	4,704	4,704	329	1,604	4,565	2,976
Other short-term liabilities	TEUR	10,689	5,226	4,723	6,385	5,496	5,496	4,959	5,312	4,757	4,338
Accrued income taxes	TEUR	1,900	1,962	2,540	2,919	7,230	6,424	2,135	760	217	5,326
Other accruals	TEUR	8,789	9,350	9,847	8,256	5,699	6,989	4,525	4,490	4,428	5,546
Long-term liabilities											
	TEUR	2,658	3,492	4,519	4,109	5,112	10,052	9,898	10,925	12,980	13,598
Convertible bonds	TEUR	0	0	0	0	0	0	0	37	39	49
Debt	TEUR	0	0	0	0	925	925	1,913	3,001	3,883	5,057
Investment grants received	TEUR	**	**	**	**	**	7,369	5,993	5,832	6,721	6,020
Deferred tax liabilities	TEUR	2,658	3,492	4,519	4,109	4,187	1,758	1,274	1,681	2,013	2,191
Postretirement and postemployment benefit liabilities	TEUR	0	0	0	0	0	0	718	374	324	281
Shareholders' Equity											
	TEUR	144,970	141,743	140,299	125,146	110,833	107,280	97,934	98,253	101,824	104,316
Ordinary share capital	TEUR	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	4,986
Own shares	TEUR	(202)	(214)	(240)	(259)	(285)	(285)	(261)	(219)	(22)	(21)
Fixed capital contributions	TEUR	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	66
Additional paid-in capital	TEUR	60,677	60,483	59,872	59,319	58,739	57,995	57,901	58,351	60,086	61,018
Other comprehensive income	TEUR	(449)	326	1,259	2,219	1,429	1,403	1,032	156	260	(201)
Retained earnings	TEUR	79,886	76,090	74,350	58,809	45,892	43,109	34,204	34,907	36,442	38,468
Total assets and liabilities											
	TEUR	187,045	174,631	175,229	164,255	148,480	148,996	125,556	129,432	137,942	144,935
Change yoY											
Short-term assets	%	13.6	3.6	3.7	14.6		24.3	(9.3)	(4.5)	(10.4)	8.7
Investment and long-term financial assets	%	(91.0)	(35.9)	16.0	9.3		13.0	25.2	(4.7)	(28.0)	9.6
Fixed assets	%	17.7	(0.3)	2.8	(1.2)		13.1	0.3	(8.8)	16.2	21.8
Intangible assets	%	(27.1)	(4.1)	19.0	22.4		(45.0)	(14.4)	(26.7)	(30.4)	64.7
Other fixed assets	%	4.0	19.1	431.4	132.4		(30.7)	134.8	75.2	(13.2)	
Short-term liabilities	%	34.1	(3.3)	(13.1)	7.6		79.6	(12.5)	(12.5)	(15.4)	32.3
Long-term liabilities	%	(23.9)	(22.7)	10.0	(19.6)		(0.1)	(9.4)	(15.8)	(2.2)	(0.2)
Shareholders' Equity	%	2.3	1.0	12.1	12.9		9.5	(0.3)	(3.5)	(2.4)	10.0
Key figures											
Gross capital expenditures without capitalized development costs	TEUR	8,999	6,908	9,176	6,272	11,706	11,706	6,224	2,338	13,099	14,137
Depreciation and amortization	TEUR	6,985	7,066	6,741	6,172	6,424	6,424	6,190	6,656	7,319	6,216
Working Capital ²	TEUR	53,748	46,077	45,460	24,894	26,297	25,578	39,624	45,260	59,215	57,776
Working Capital-Intensity ³	%	31.1	29.0	28.3	16.8	20.4	20.0	41.6	49.6	66.2	52.4
Capital Employed ⁴	TEUR	108,713	96,970	96,519	72,834	72,667	74,133	83,521	87,474	105,782	98,656
Net cash position	TEUR	35,081	42,028	44,654	56,043	42,112	42,112	22,398	18,703	5,139	13,878
Equity ratio	%	77.5	81.2	80.1	76.2	74.6	72.0	78.0	75.9	73.8	72.0
Employees											
Average per year	Number	1,841	1,710	1,529	1,433	1,338	1,338	1,262	1,274	1,299	1,206
Production and assembly	Number	939	884	806	758	729					
Research and development	Number	332	318	289	265	220					
Administration and sales	Number	193	178	145	144	132					
Trainees and part-timers	Number	377	330	289	266	257	257	263	269	261	261
Skilled workers	Number						553	515	521	574	542
Salaried employees	Number						528	484	484	464	403
Mühlbauer Holding AG & Co. KGaA											
Total stock capital ⁵	TEUR	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,805
Total issued and outstanding shares ⁶ TPieces		14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,692
Dividend per share ⁷	EUR	1.00	1.00	1.25	0.90	0.60	0.60	0.35	0.30	0.30	0.35
Share price (Year-End-Close)	EUR	17.40	24.19	29.35	40.80	26.71	26.71	20.50	10.30	29.60	84.00
Market Capitalization (Year-End Close) ⁶	TEUR	255,712	355,498	431,330	599,600	392,532	392,532	301,268	151,369	435,004	1,234,128

¹ Certain US-GAAP figures were adjusted to IFRS- statement

² Non interest short-term assets – non interest current liabilities

³ Working capital/Sales

⁴ Working capital + Fixed assets

⁵ Common stock and fixed capital contribution of the personally liable shareholder

⁶ Obtained on total stock capital

⁷ Subject to the approval of the AGM

* In furniture and office equipment included

** No information due to elimination against long-term assets

Several years overview		2008	2007	2006	2005	2004	2004	2003	2002	2001	2000
		IFRS	IFRS	IFRS	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP
Consolidated Income Statements											
Sales											
by applications	TEUR	172,575	159,134	160,676	147,932	128,939	128,180	95,204	91,317	89,422	110,322
Cards & TECURITY®¹	TEUR	100,848	89,154	91,814	86,861	54,850	54,541	39,335	50,651	47,781	48,552
Semiconductor Related Products¹	TEUR	34,905	36,138	39,361	35,564	49,325	48,875	35,619	22,103	24,464	42,427
Traceability	TEUR	17,710	13,956	13,689	10,893	7,390	7,390	5,679	6,641	7,366	8,616
Precision Parts & Systems¹	TEUR	19,424	20,253	16,061	14,789	17,603	17,603	14,680	12,085	10,116	10,981
Other	TEUR	(312)	(367)	(249)	(175)	(229)	(229)	(109)	(163)	(305)	(254)
by regions	TEUR	172,575	159,134	160,676	147,932	128,939	128,180	95,204	91,317	89,422	110,322
Germany	TEUR	43,753	43,233	41,564	44,828	53,360	53,068	45,316	43,369	38,059	33,545
Other Europe	TEUR	61,063	56,612	40,126	31,471	34,197	34,122	21,175	26,799	24,422	41,482
Africa	TEUR	10,474	6,819	4,604	3,560	5,428	5,278	2,380	179	947	1,410
North America	TEUR	14,668	5,449	6,018	13,595	8,302	8,227	4,221	3,392	2,545	6,478
South America	TEUR	2,651	2,661	4,679	8,420	2,136	2,136	403	852	3,740	2,592
Asia	TEUR	40,227	43,905	63,882	46,160	25,382	25,215	21,676	16,766	19,479	25,016
Australia	TEUR	51	822	52	73	363	363	142	123	535	53
Other	TEUR	(312)	(367)	(249)	(175)	(229)	(229)	(109)	(163)	(305)	(254)
Cost of sales	TEUR	(101,851)	(94,931)	(91,406)	(83,518)	(75,365)	(76,205)	(63,007)	(61,370)	(60,758)	(65,662)
of sales	%	(59.0)	(59.7)	(56.9)	(56.5)	(58.5)	(59.5)	(66.2)	(67.2)	(67.9)	(59.5)
Gross profit	TEUR	70,724	64,203	69,270	64,414	53,574	51,975	32,197	29,947	28,664	44,660
of sales	%	41.0	40.3	43.1	43.5	41.5	40.5	33.8	32.8	32.1	40.5
Operating expenses											
Selling and administrative	TEUR	(22,765)	(17,242)	(19,075)	(15,926)	(14,719)	(16,799)	(16,616)	(16,682)	(13,486)	(14,697)
of sales	%	(13.2)	(10.8)	(11.9)	(10.8)	(11.4)	(13.1)	(17.5)	(18.3)	(15.1)	(13.3)
Research and development	TEUR	(22,731)	(20,280)	(17,081)	(15,264)	(13,048)	(14,006)	(11,392)	(10,761)	(10,244)	(9,854)
of sales	%	(13.2)	(12.7)	(10.6)	(10.3)	(10.1)	(10.9)	(12.0)	(11.8)	(11.5)	(8.9)
Other income²	TEUR	2,335	1,000	1,409	653	1,535	4,447	4,357	3,475	3,549	3,885
of sales	%	1.4	0.6	0.9	0.4	1.2	3.5	4.6	3.8	4.0	3.5
Other expenses²	TEUR	(3,326)	(1,270)	(86)	(803)	(104)	*	*	*	*	*
of sales	%	(1.9)	(0.8)	(0.1)	(0.5)	(0.1)					
EBITDA³	TEUR	31,222	33,477	41,178	39,246	33,662	32,041	14,736	12,635	15,802	30,210
of sales	%	18.1	21.0	25.6	26.5	26.1	25.0	15.5	13.8	17.7	27.4
EBIT⁴	TEUR	24,237	26,411	34,437	33,074	27,238	25,617	8,546	5,979	8,483	23,994
of sales	%	14.0	16.6	21.4	22.4	21.1	20.0	9.0	6.5	9.5	21.7
Financial result											
Financial income	TEUR	3,859	2,970	3,747	2,335	1,048	1,109	1,673	1,101	6,397	5,623
of sales	%	2.2	1.9	2.3	1.6	0.8	0.9	1.8	1.2	7.2	5.1
Financial expenses	TEUR	(3,697)	(937)	(171)	(741)	(409)	(415)	(728)	(2,290)	(8,317)	(4,537)
of sales	%	(2.1)	(0.6)	(0.1)	(0.5)	(0.3)	(0.3)	(0.8)	(2.5)	(9.3)	(4.1)
EBT⁵	TEUR	24,399	28,444	38,013	34,668	27,877	26,311	9,491	4,790	6,563	25,080
of sales	%	14.1	17.9	23.7	23.4	21.6	20.5	10.0	5.2	7.3	22.7
Income taxes	TEUR	(6,125)	(9,330)	(10,285)	(11,648)	(10,054)	(9,374)	(2,977)	(1,871)	(1,012)	(7,383)
of sales	%	(3.5)	(5.9)	(6.4)	(7.9)	(7.8)	(7.3)	(3.1)	(2.0)	(1.1)	(6.7)
Ordinary income net of tax	TEUR	18,274	19,114	27,728	23,020	17,823	16,937	6,514	2,919	5,551	17,697
of sales	%	10.6	12.0	17.3	15.6	13.8	13.2	6.8	3.2	6.2	16.0
Extraordinary gains	TEUR	0	0	0	0	0	0	0	587	0	0
of sales	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0
Net earnings	TEUR	18,274	19,114	27,728	23,020	17,823	16,937	6,514	3,506	5,551	17,697
of sales	%	10.6	12.0	17.3	15.6	13.8	13.2	6.8	3.8	6.2	16.0
Change yoy											
Sales	%	8.4	(1.0)	8.6	14.7		34.6	4.3	2.1	(18.9)	55.3
Gross profit	%	10.2	(7.3)	7.5	20.2		61.4	7.5	4.5	(35.8)	39.7
EBIT	%	(8.2)	(23.3)	4.1	21.4		199.8	42.9	(29.5)	(64.6)	58.0
EBT	%	(14.2)	(25.2)	9.6	24.4		177.2	98.1	(27.0)	(73.8)	43.4
Ordinary income net of tax	%	(4.4)	(31.1)	20.5	29.2		160.0	123.2	(47.4)	(68.6)	28.0
Net earnings	%	(4.4)	(31.1)	20.5	29.2		160.0	85.8	(36.8)	(68.6)	28.0
Key figures											
Earnings per share											
basic	EUR	1.24	1.31	1.90	1.59	1.23	1.17	0.41	0.20	0.35	1.02
fully diluted	EUR	1.24	1.31	1.90	1.59	1.23	1.17	0.41	0.20	0.35	1.02
Tax rate for EPS calculation	%	27.20	34.10	28.70	34.80	37.20	36.87	38.10	45.30	21.60	40.50
Order income	TEUR	189,169	167,451	161,508	165,001	174,659	174,659	99,308	85,884	93,604	136,255
Order backlog	TEUR	80,848	72,972	79,172	81,672	67,209	67,968	27,794	31,820	48,076	56,436
Personal costs	TEUR	61,974	57,732	54,364	49,890	45,044	45,110	39,922	38,093	37,888	39,236
Return on equity (before tax)	%	16.8	20.1	27.1	27.7	25.2	24.5	9.7	4.9	6.4	24.0
Return on Capital Employed⁶	%	22.3	27.2	35.7	45.4	37.5	34.6	10.2	6.8	8.0	24.3
Consolidated Statements of Cashflow											
Cash provided by (used for)											
operating activities	TEUR	22,035	25,609	13,200	32,133	40,893	38,879	16,054	23,398	15,159	15,307
Cash provided by (used for)											
investing activities	TEUR	(6,004)	(3,427)	(17,453)	(21,888)	(14,707)	(21,737)	(7,344)	(1,864)	(9,872)	(4,701)
Cash provided by (used for)											
financing activities	TEUR	(14,919)	(16,879)	(13,832)	(10,606)	(9,127)	(9,131)	(8,921)	(10,243)	(6,840)	(8,558)
Net Increase/(Decrease)											
in cash and cash equivalents	TEUR	1,112	5,303	(18,085)	(361)	17,059	8,011	(211)	11,291	(1,553)	2,048
Free cashflow	TEUR	6,331	16,394	2,447	22,726	27,163	27,171	10,590	20,519	(2,156)	(63)
of sales	%	3.7	10.3	1.5	15.4	21.1	21.2	11.1	22.5	(2.4)	(0.1)

¹ Due to reclassifications from 2007 limited comparability with prior years

² No comparability due to different treatment between US-GAAP and IFRS

³ Earnings before interest, tax depreciation and amortization

⁴ Earnings before interest and tax

⁵ Earnings before tax

⁶ EBIT/Capital Employed

* Shown under function costs

TECHNICAL GLOSSARY

Adhesive Film Lamination	Attaching a heat-activated adhesive film to the reverse side of a module
Assembly & Encapsulation	Assembly and encapsulation of semiconductor components
Biometric Procedure	Procedure for registering individual personal features (e.g. fingerprints, iris structure, facial geometry); data obtained from biometric procedures are used for the unique identification of persons
Board Handling	Techniques and systems for transporting printed circuit boards in industrial manufacturing and shaping, (e.g. loading and unloading stations, magazine/buffer systems, flip/turn units and conveyors)
Border Crossing	Hard- and software for safe and quick border crossing as well as for a clear identification of documents and persons
Carrier Tape	Plastic straps for transporting and providing electronic components
Cavity	Milled cavity in a chip card for embedding the chip
Chip on Board	Technique for attaching and/or wiring dice onto carrier material such as printed circuit boards
Coating & Drying	Coating and drying of printed circuit boards
Contactless Card	Cards for contactless transmission of energy and data through electromagnetic fields
Converting	Here: further processing of the inlay in direction of a RFID label or a RFID ticket
Data Capturing	Capturing and storing biometric information
Data Enrollment	Data capture and processing (e.g. taking and optimizing pictures for further treatment)
Die Bonding	Placing small silicon chips onto carrier material
Die Sorter	Equipment for separating and packing good dice
Die, Dice	Silicon crystal equipped with an individual semiconductor-related micro-controller
Discrete Devices	Semiconductor products such as low-voltage transistors or diodes
Dual Interface Card	Card type combining the functions of contact and contactless card technologies
Embossing	High embossing unit which makes it possible to apply user data onto the card body
EMV	Refers to a specification for payment cards equipped with a processor chip and for the belonging card devices (POS terminals and ATMs). The letters EMV stand for the three developers of this standard: Europay, MasterCard and VISA.
Encapsulation	Protection of the chip and its wiring by encapsulating the reverse of a chip
Flip Chip Technology	For flipping dice 180 degrees in order to attach them to carrier material
GSM Card	Standardized chip card to be used in mobile phones. The "Global System for Mobile Communications" is an international terrestrial mobile telephone system
Hologram	Security feature which results in a three-dimensional image when viewed binocularly
ICAO	International Civil Aviation Organization; sets standards regarding safety, handling and optimizing international air traffic
Implantation	Embedding a chip in a plastic card
Inkjet	Thin jets on the print head of an inkjet printer spray ink onto the medium
Inlay	An inlay is part of an RFID product and consists of an antenna and an RFID microchip connected to the antenna. The inlay is further converted into the final RFID product. Such RFID products are e.g. Smart Labels, RFID tickets, contactless plastic cards, ePassports etc.
Kinegram	In contrast to the hologram, which possesses three-dimensional elements, kinegrams describe a two-dimensional course of movement which changes according to the viewing angle
Module	Carrier material for dice with arranged contact elements
Mounter	Machines for mounting, attaching and fixing parts
Personalization	"Programming" individual data on a chip card module. Application of visible data on a card, a passport or visa is also known as optical personalization
Plug Punching	Punching out the chip from a standardized chip card for mobile phones
Plug-In	Small-sized chip card in particular for GSM applications
Power Devices	Semiconductor products such as high-voltage transistors or diodes
Pre-Personalization	Loading an operating system onto a chip
RFID Chips	Radio Frequency Identification; components used in a high frequency range

Secure memory card similar to MMC multimedia cards; card application particularly used for digital cameras or as a storage medium for music, PDA, etc.	SD (Secure Digital) Card
Chip card, i.e. plastic card equipped with a chip module	Smart Card
Ultra-flat transponders consisting of chip, antenna and substrate for identifying goods and persons	Smart Label
Card application used in particular for digital cameras or as storage medium for music, etc.	Smart Media and Multi Media Cards
Ticket which can be read contactless because of the implanted inlay	Smart Ticket/RFID Ticket
Components, which are directly soldered to a board without drill holes. SMD components significantly reduce the component density of electronic circuits	SMD (Surface Mounted Device)
RFID transponders are also termed as 'Tags'	Tag
Mühlbauer production system for the manufacture of Smart Inlays (Smart Inlay = antenna and functional chip)	TAL (Tag Assembly Line)
Terms a market for technologically sophisticated and security-relevant solutions, taken from the two words Technology and Security	TECURITY®
Testing, labeling and packaging semiconductor components for further processing	Testing & Packaging
Pursuing and tracing back units from the raw material to the end product	Traceability
Antenna located on a Smart Label between flexible carrier layers	Transponder
Turn-key product and services solutions	Turn-Key Solutions
Verification, if the user of an ID card really is the legal holder	Verification
Measuring and controlling components using camera systems and software	Vision Technology
Ultra-thin and silicon semiconductor disk for producing many individual chips. The dice are sawn from the surface of the wafer	Wafer
Finished components on a wafer-basis, which are subject to further processing	Wafer Level Package
Fully automated process for wiring dice with carrier material	Wire Bonding
 FINANCIAL GLOSSARY	
Forms a company's financial position at the end of a fiscal year and is part of the consolidated financial statements. The balance sheets displays the origin and purpose of a company's assets	Balance sheets
Total of cash and cash equivalents and marketable securities	Gross cash position
Net sales less cost of sales	Gross profit on sales
Capital employed within a certain period of time. Consists of working capital plus the residual value of fixed assets (without long-term financial assets)	Capital employed
The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The cash flow statement is part of the consolidated financial statements and shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by purchasing/selling goods and services), investing activities (cash outflows for sustaining future growth), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds)	Cashflow
Assets intended for short-term business activities	Current assets
A measure to determine pension liabilities. The DBO is the extent of obligations determined on the basis of the projected unit credit method at a certain point of time for both forfeitable and non-forfeitable pension rights to pension beneficiaries considering salary increases. The determined cash value for all services rendered by the pension beneficiaries at this point of time will be considered	Defined Benefit Obligation (DBO)
A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond)	Derivate
Codex of the government commission "Deutscher Corporate Governance Kodex", summarizing principles and recommendations of responsible corporate governance for publicly traded companies in Germany	German Corporate Governance Codex
Earnings before interest and taxes. This is the measure that Mühlbauer uses to evaluate the operating performance	EBIT
A measure to determine the operative profits, displayed by the EBIT in relation to sales	EBIT margin
Earnings before interest, taxes, depreciation and amortization. EBIT extended by depreciation on fixed assets and amortization on intangible assets shows cash flow features, since non-liquid depreciation and amortization was added to the consolidated net earnings. EBITDA is often used for start-up companies or companies with high amortization, which might generate a annual loss	EBITDA

Equity ratio	An indicator of the proportion of equity capital in the Company's financing structure, calculated as the ratio of shareholders' equity capital to total assets
Earnings per share	Earnings (loss) per share – Basic earnings (loss) per share ("EPS") is calculated by estimating consolidated income (loss) before taxes (EBT) related to the original shareholders in the same percentage, that the ratio of their ordinary share capital corresponds to the total capital (fixed capital contribution of the personally liable shareholder and ordinary share capital). To determine EPS the proportional EBT has to be deducted by a specific calculated tax quote related to the original shareholders (shown in Note (8)) and divided by the weighted average number of ordinary shares outstanding during the reporting period (financial quarter or year). Diluted EPS is calculated by dividing calculated proportional net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued
Financial status	The difference between a pension plan's defined benefit obligation (see DBO) and the fair market value of plan assets designated to meet pension obligations as of a specific date
Free cashflow	Inflow and outflow of cash from operating and investing activities excluded purchases or sales of marketable securities, sales of fixed assets and realized gains or losses therefrom
Statement of income	Displays a company's success during the reporting period and is part of the financial statement. The statement of income includes the cost on sales and posts all major costs according to their purpose
Goodwill	An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under US-GAAP, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is done at least once a year
Hedging activities	Hedging of interest or currency risks of individual or several basic transactions, for example by making use of derivative financial instruments
IFRS/IAS	International Financial Reporting Standards for guaranteeing international comparability in financial reporting and meeting the information requirements of investors and other addressees through higher transparency. The individual paragraphs of the IFRS are referred to as IAS (International Accounting Standards). Mühlbauer has prepared its financial statement according to the IFRS/IAS requirements since 2005
Deferred taxes	Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pretax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit result from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes
Market capitalization	The market price of a publicly listed company. At Mühlbauer the market price is calculated from the market value of the share multiplied by the resulting sum of shares from the division of total capital (EUR 18,810,976) and the nominal value per share of EUR 1.28
Net cash position	Gross cash position minus current and non-current liabilities
Pension expenses	Amount of pension costs realized in the income statement. They are composed of the expenses for new pension rights, interest expenses, the expected yield for plan assets, the repayment amount for actuarial gains and losses, the repayment amount for retroactive pension plan changes as well as the repayment amount for possibly underfunded initial expenses of IAS 19 (revised 1998) during the fiscal year
Plan assets	Assets from an external insurance provider, which are only used for insurance purposes and cannot be obtained by other corporate creditors, and which can only flow back to the company, if they are used for direct pension payments, or if they are no longer required for insurance purposes
Risk management	Systematic process of identifying, assessing and monitoring various financial risk factors and of selecting and implementing measures to handle them
ROCE	Return On Capital Employed – an indicator of operating performance, calculated as the percentage of EBIT in relation to capital employed
Stock options	Form of employee incentive and compensation. The employee is given an option to purchase a company's shares if certain targets are met under specified conditions
Working capital	Working capital indicates which part of current assets generates profits without causing capital expenses in a narrow sense and is calculated by non-interest bearing current assets less current and non-interest bearing liabilities. A low working capital base is consequently to be considered positive, since a company's supplier also generates company profits
Working capital intensity	An indicator for determining a company's sales-related current assets, calculated as the percentage of working capital in relation to net sales

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Further Information: This report refers to the group. The separate report for the Mühlbauer Holding AG & Co. KGaA can be downloaded on the homepage or 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.



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