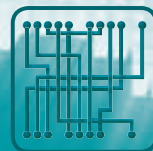
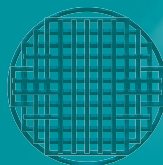
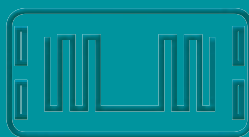
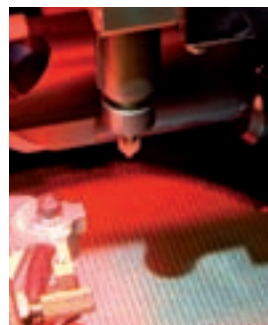
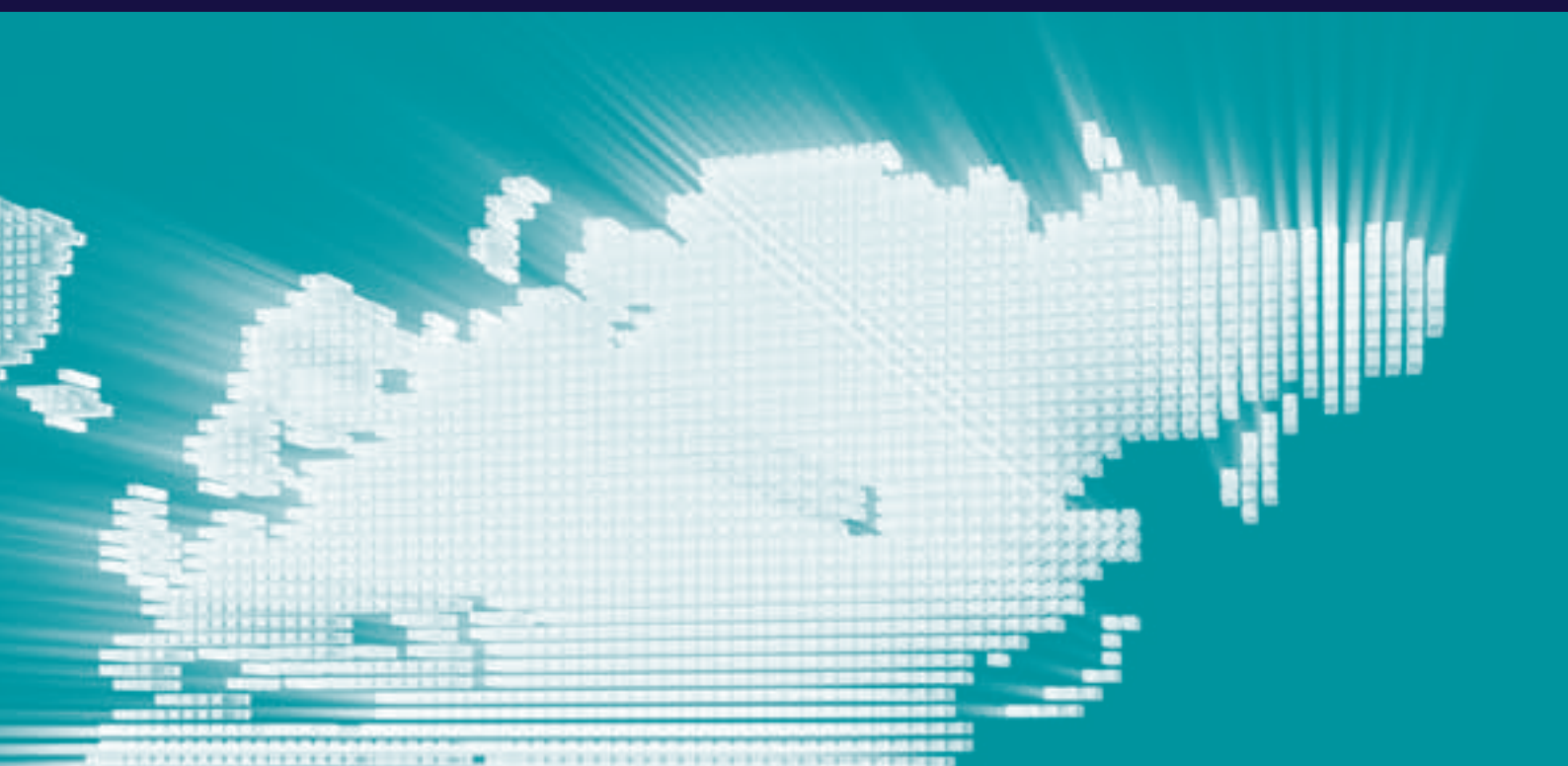


Annual Report 2007





Key Figures

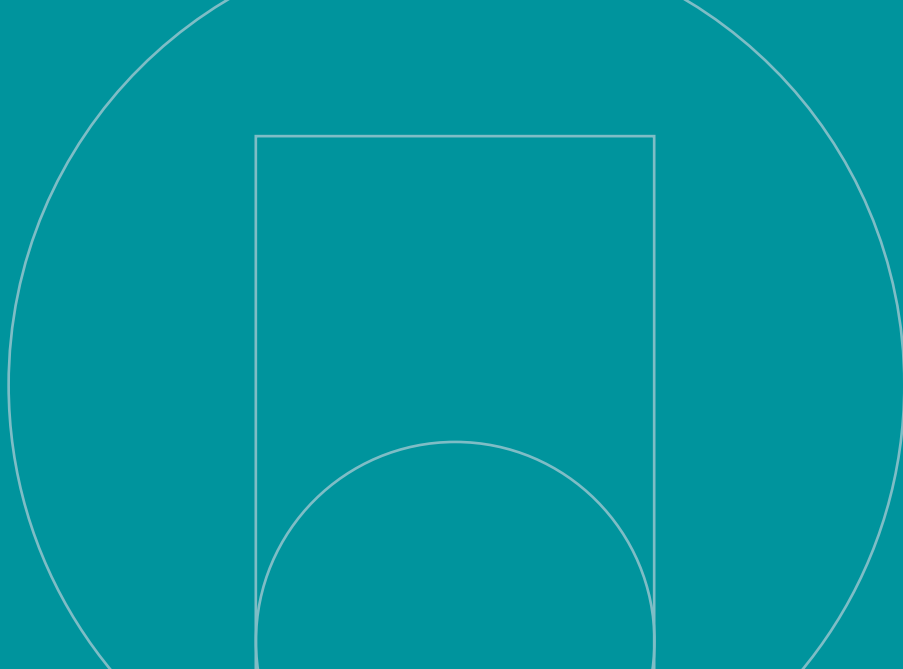
		2007	2006	Change %
Sales	TEUR	159,134	160,676	(1.0)
Research and development expenses	TEUR	20,280	17,081	18.7
EBIT ¹	TEUR	26,411	34,437	(23.3)
Pretax profit margin	%	17.9	23.7	(24.5)
Net earnings	TEUR	19,114	27,728	(31.1)
Earnings per share	EUR	1.31	1.90	(31.1)
Free cashflow	TEUR	16,394	2,447	570.0
Working capital ²	TEUR	46,077	45,460	1.4
Working capital-intensity ³	%	29.0	28.3	2.5
Gross capital expenditures without capitalized development costs	TEUR	6,908	9,176	(24.7)
Equity ratio	%	81.2	80.1	1.4
Dividend per share ⁴	EUR	1.00	1.25	(20.0)
Share price (Year-End-Close)	EUR	24.19	29.35	(17.6)
Market Capitalization (Year-End Close)	TEUR	355,498	431,330	(17.6)
Employees (Average per year)	Number	1,710	1,529	11.8

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



In the 2007 financial year, we consistently pushed forward our internationalization. Expanding our presence in Europe, Asia and the USA helps us to meet the requirements of our customers even more individually in order to develop appropriate technology solutions.

Josef Mühlbauer, company's founder and CEO



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To our shareholders, business partners and colleagues

Ladies and Gentlemen,

We are looking back on the year 2007 that was very eventful for our company – a year in which we undertook significant but necessary activities to extend our market leadership and to generate a sustained basis for growth and long-term value enhancement. In so doing, we focused on a clear strategy, which we pursued consistently in the year under review and which will continue to play a decisive role in future.

In our core business area SmartID this clearly refers to one-stop technology and market expertise. On the Cards & TECURITY® market we therefore provide our customers with state-of-the-art, innovative solutions for data enrollment, card or document production, personalization and verification. We are thus the only company worldwide that can cover the entire range of systems required by the Smart Card industry. Irrespective of what our customers require for their ID project, we are able to supply it – competently and reliably. However, this also means that we need to determine the pace of this industry. As a result, in 2007 we again continually subjected our products to further development and added new solutions to our portfolio. Our strategy is successful: virtually wherever Smart Cards or innovative ID documents are used, these are backed by Mühlbauer technologies.

In the RFID area as well, we consistently provide one-stop solutions. Radio labels that can be read contactless represent the future; there are no two ways about it. This is sufficient reason for us to prove ourselves as a competent partner on this gigantic market and to meet all our customers' needs. With a global market share of 80% we are already excellently positioned. In order to retain this positioning we consistently extended our Smart Label portfolio. Our systems support all procedures for the production of Smart Labels currently on the market. Even the further processing of the label to contactless readable, self-adhesive labels or RFID tickets is easily possible, thanks to systems newly developed by Mühlbauer. We are thus ideally prepared to meet the constant rise in demand for Smart Labels.

The internationalization and global expansion of the Mühlbauer Group, which we drove ahead vehemently in the 2007 financial year, is an important milestone on the path to sustained growth. As early as April, we commenced operation at our first production site outside Germany with the new modern technology center in Malaysia. Only shortly



thereafter we started processing initial orders from the Asian region. This shows that we are on the right track if we focus on extending our position on growth markets. In 2007, we therefore also took initial steps toward furnishing our existing subsidiary in the USA with a modern customer relation center. I am convinced that this will succeed in reinforcing our US American basis so that we can strengthen our positioning through focused marketing activities.

*Management Board of the Mühlbauer AG
(left to right):*

Thomas Betz (CMO)

Josef Mühlbauer (CEO)

Hubert Forster (CFO)

Gerhard Gregori (CTO)

Against the background of our strategic efforts, we are satisfied with the overall business performance achieved in 2007. We achieved the upper end of our sales goal, which we had to adjust slightly at the end of the second quarter. After a somewhat cautious first half-year, we caught up tremendously during the third quarter and overall completed the year with an immensely successful last quarter. To the end of 2007 Group sales reached EUR 159.1 million and, at 16.6%, the EBIT margin is within the respectable double-digit percent range. In view of the good business situation in the second half of the year we propose the payment of an attractive dividend of EUR 1.00 per share to the Annual General Meeting.

Let us take a look to the future. We will have to face increasing competitive pressure and a rougher market. However, we will be able to cope with this challenge because, after all, we have already initiated the necessary actions. These actions must now be consistently pursued. Our unique products and our technology must be driven ahead through innovations and the internationalization of the company extended to achieve greater proximity to our customers and faster reaction times. I am convinced that this strategy will provide us with the necessary potential to continue the company's positive business development. I would therefore be extremely pleased if you decided to continue down this path with us. Your confidence is both an incentive to us and a motivation!

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Mühlbauer'.

Josef Mühlbauer
Chief Executive Officer (CEO)



Mühlbauer at a glance

The Mühlbauer Group is a worldwide leading and independent supplier of turnkey production solutions for the areas Cards & TECURITY®, Smart Labels, Semiconductor Back-End and Traceability. Mühlbauer system solutions provide for the production of any type of security-oriented identification documents and smart cards, from electronic passports, ID cards, bank and GSM cards to contact and contactless dual interface cards as well as the production of smart labels for authorization and access controls, supply chain management and for tracking of textiles and applications for the retail industry.

Mühlbauer's entire competence benefits from the company's synergetic orientation. While Precision Parts & Systems produces all required components for the complete Mühlbauer portfolio itself, the core business Smart Identification benefits in addition from the know-how specialized in handling smallest dice in the semiconductor technology. Therefore, as the only company worldwide we offer the entire range of system solutions for the production of new innovative passport systems and intelligent smart labels for identifying goods and products.

Our main goal is to meet the requirements of our customers and to completely understand and fulfill their individual needs. As a competent and reliable partner we respond thus well directed to the individual projects of our customers and develop tailored solutions.



**Cards &
TECURITY®**

Mühlbauer offers a complete production flow on the Cards & TECURITY® market. We are the only independent supplier of one-stop shop solutions and therefore already now a strong partner for governments and authorities in more than 50 international ID projects.



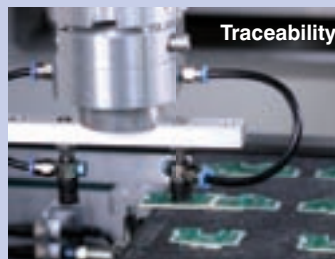
Smart Label

As well for the production of smart labels, Mühlbauer offers complete solutions from a single source. Mühlbauer systems produce not only inlays but also take over the subsequent conversion into self-adhesive labels or RFID tickets. With a share of 80%, Mühlbauer is the international market leader in this area.



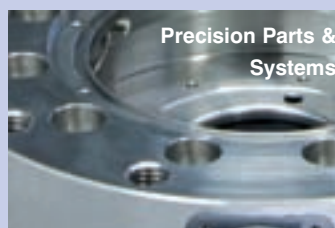
**Semiconductor
Related Products**

As a niche market player in the semiconductor industry, Mühlbauer develops systems for processing smallest dies in the area of Semiconductor Related Products. We offer innovative technologies in the back-end area of the semiconductor industry, carrier tape and independent vision systems for worldwide operating customers.



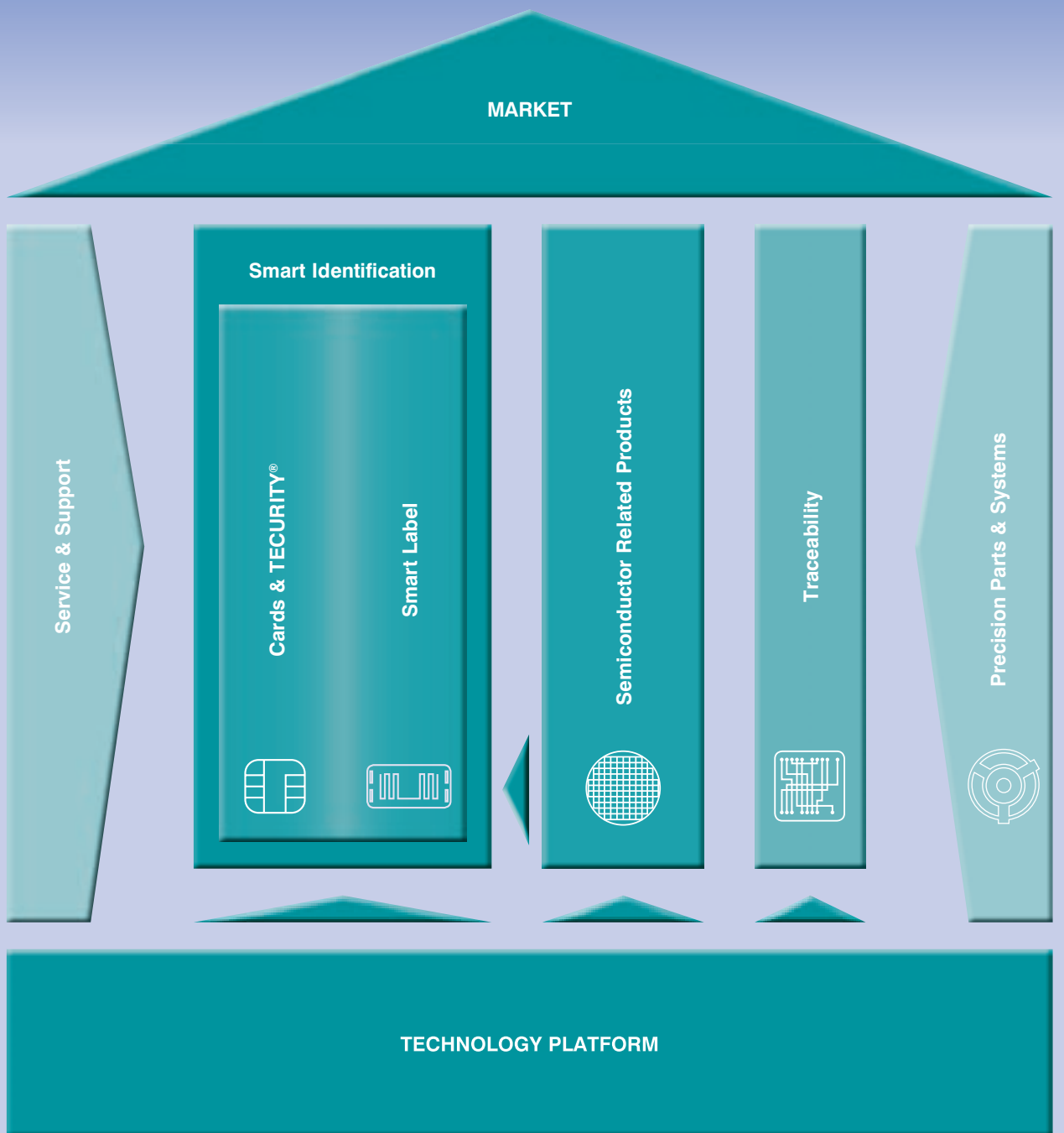
Traceability

The business segment Traceability contains systems for the individual labeling of circuit boards. By means of laser labeling, these boards are provided with a distinctive identity and can be traced back to the point of production. Reading and scanning stations, data management systems as well as board handling systems complete the Traceability portfolio.



**Precision Parts &
Systems**

In the area Precision Parts & Systems we produce precision parts not only for our company but also for external customers from sophisticated industries such as aerospace, motor sports, medical technology, measuring technology and the semiconductor industry. Our quality satisfies.





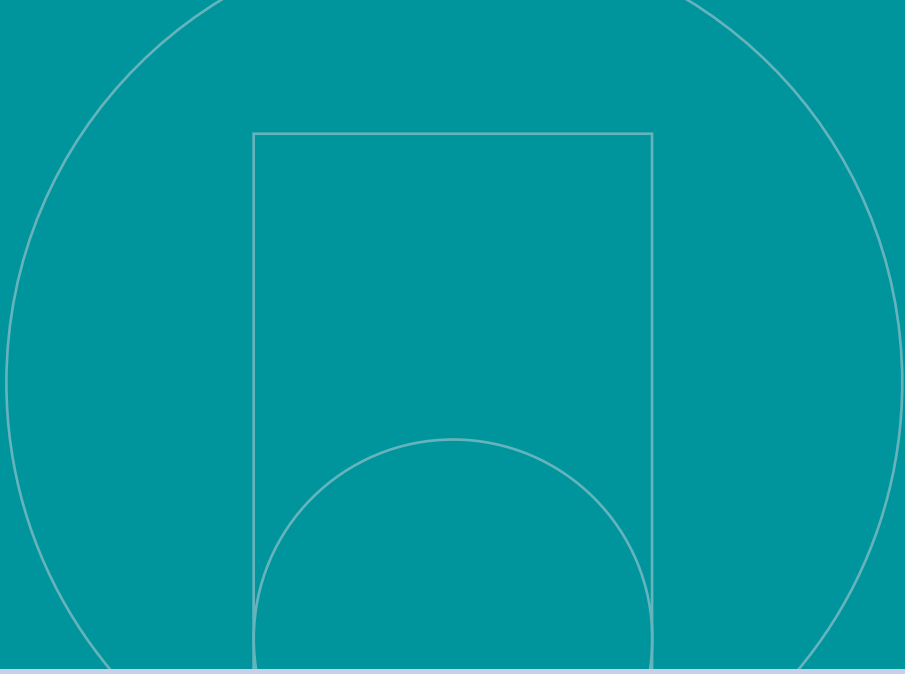
Mühlbauer around the globe

The Mühlbauer Group achieves more than 70% of its sales volume outside of Germany – and this tendency is rising. This means in practice: Mühlbauer's customers are international and based all around the world.

Therefore, our sales and service locations form a global network in order to meet our customer's requirements in close contact with him and to provide efficient consultancy and support. The hubs of our technological competence are of course our R&D and production locations, not only in Germany, but also in Malaysia and Slovakia. In particular these both sites provide the permanent access to growth regions like Asia and Eastern Europe and the customized transfer of know-how and technology for every customer project.

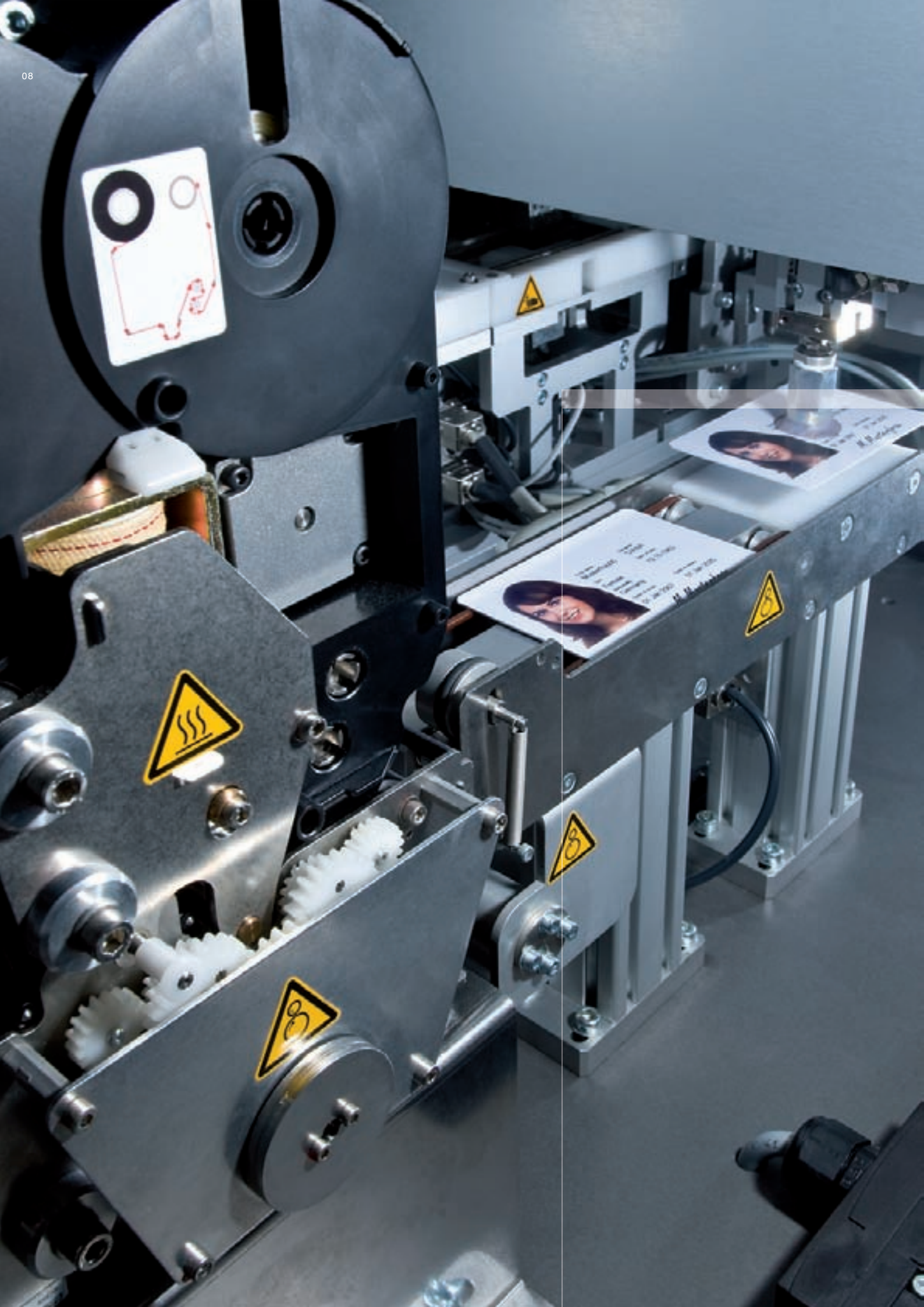
Or put it simply: Mühlbauer stands for a reliable partnership – all over the world and unconditionally.





- France
- Germany
- Italy
- Slovakia
- South Africa
- United Arab Emirates
- India
- Thailand
- Malaysia
- China
- Taiwan
- South Korea
- Philippines
- Australia





Growth with security



Christian Johnson is in a bit of a rush. His flight to New York is scheduled to depart in an hour and the queue at the security control counter is long. The formalities are, however, quickly and easily completed, as Mr. Johnson has an electronic passport, which stores not only the usual data but also a photo and two fingerprints on a concealed chip. His identification document can therefore be read quickly and contactless and he is provided with access to an electronic verification system. Within a matter of seconds his index finger is scanned and compared with the biometric data stored in his passport. The unambiguous allocation of travelers to the respective identification document is thus possible. It goes without saying that Mr. Johnson's data are consistent. Now there's nothing stopping his trip to New York.

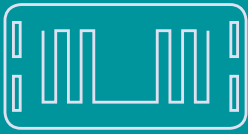
The chip-based technology is not only asserting itself with regard to passports and ID cards, it is also becoming matter of course in many other areas. Banks are replacing their magnetic strip cards with chip cards that can be read contactless, and health insurance companies are introducing an innovative health card. The benefit: chip-based cards feature better verification options, while at the same time preventing abuse by unauthorized persons. The extendable functions of the chip card represent an additional benefit.

Today's world requires a balance between the need for security and the need for flexibility and mobility. In this context, trust and performance are closely linked, after all, every ID project always touches on sensitive areas. At Mühlbauer, we are aware of this. Therefore numerous customers already trust and rely on our technology expertise and our experience gained from more than 50 ID projects.

Mühlbauer is the only technology provider in the world who can offer the entire range of system solutions for the production of innovative Smart Cards – from silicon to chip card modules through to the personalization and verification of the document. Be it an electronic passport, ID card, driver's license or a bank card, our data enrollment, personalization and production systems are suitable for all conceivable applications.



A changing world has constantly new requirements. Smart Cards and electronic passports replace conventional identification documents.



Intelligent logistics for happy customers

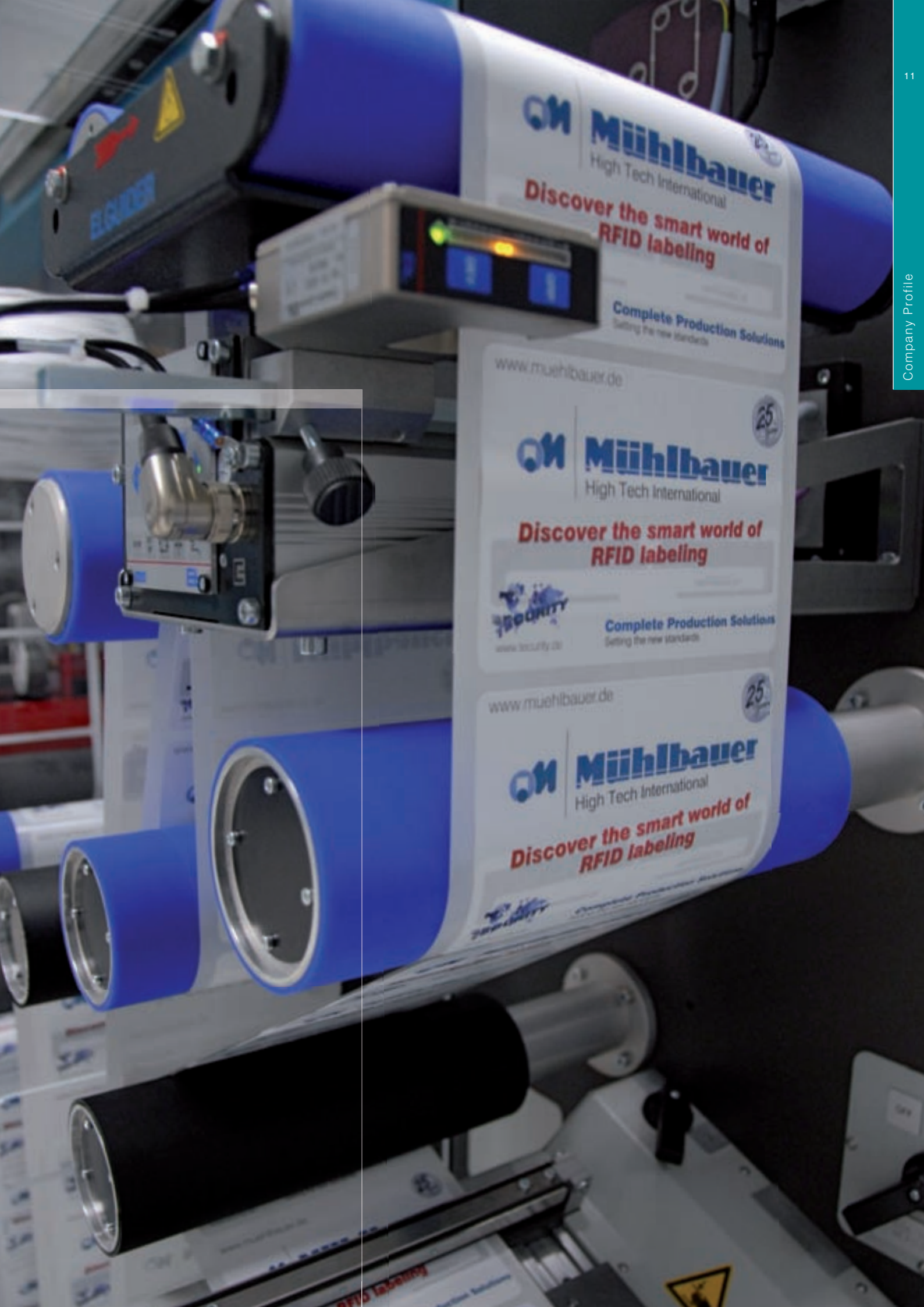


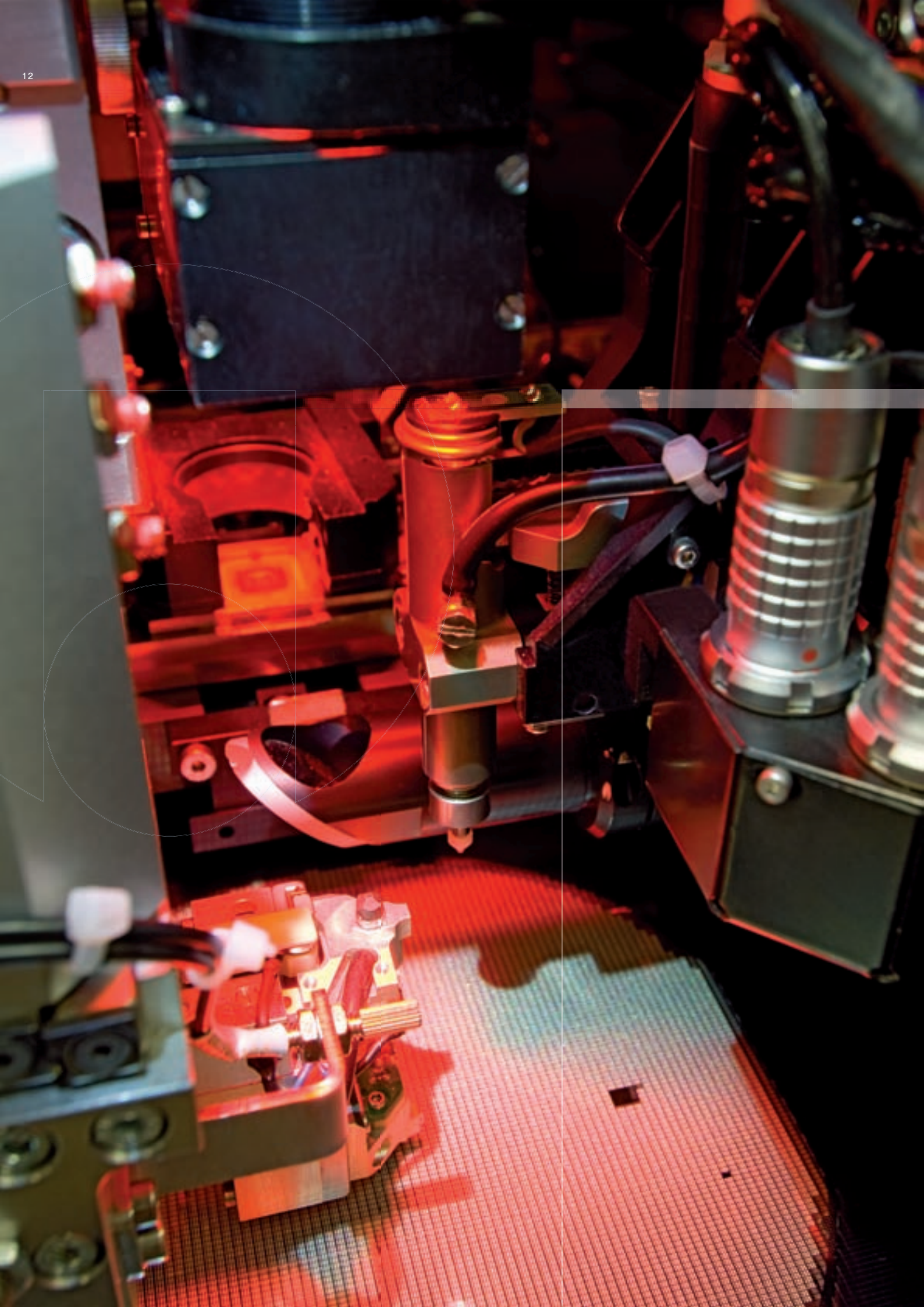
RFID technology is part of our daily lives as it can easily be integrated into labels or tickets.

At the beginning, Daniela Kreuzer was rather skeptical when she heard that the branch of the department store she worked for intended to execute a pilot project with RFID labels on the shop floor. She now knows that these can help her to provide her clients with an even better service: let's take Mr. Kreisel as an example. He wants to buy a new suit. Via the integrated display in the changing room he has not only been given product information such as price, material and care instructions but also information on suitable accessories. But how is he to go about finding the requested shirt and suitable tie? Luckily, the days where long searches were reality are history. Using a portable tag reader Ms. Kreuzer can immediately determine the location of the shirt or the tie and it also tells her in which sizes the items are still available. Her customer then leaves the department store perfectly dressed – to Daniela Kreuzer further proof how closely RFID, optimized logistics and customer satisfaction are linked.

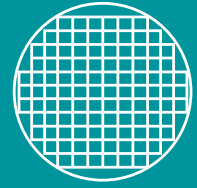
The use of RFID is not only becoming commonplace in department stores and trading companies. Worldwide, Smart Labels have come to replace the usual labels in a host of different areas and applications, thus providing objects with a distinctive identity. The increasing acceptance of the RFID technology has created huge new markets. Apart from numerous pilot projects, RFID has, in many cases, already been incorporated into our everyday lives – with a rising trend. Smart Labels optimize logistics, accelerate processes and protect objects against theft or forgery.

Mühlbauer has been developing systems for the production of intelligent Smart Labels for more than 10 years. While that was still a bit up in the air for most, back then, it was already starting to become a reality at Mühlbauer. We can now provide the growing RFID market with the entire range of system solutions – from inlay production to converting for electronic self-adhesive labels or Smart Tickets. Due to the low level of standardization, a large amount of flexibility is, however, required with regard to the production process. And it is precisely this that Mühlbauer excels in. Being the worldwide market leader in the RFID sector, we support all methods for the production of Smart Labels and RFID tickets currently utilized on the market.





Solutions with plan



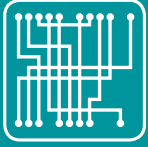
Diana Cleary is already on her way to her well-deserved vacation when she suddenly gets a call from her colleague Pramod Viswanath. He has an important appointment in two hours time but is stuck in a traffic jam. The freeway is congested, all lanes closed. Theoretically Diana could stand in for her colleague, but neither did she take her laptop along nor did she prepare for the appointment. The solution to the problem is smaller than a pack of tissues and fits into a jacket pocket: the Smartphone, a gadget that combines a mobile phone with an organizer integrating Office applications. Diana Cleary stops at the next parking lot. She downloads the most important data and the current product presentation, which her colleague already sent to her via e-mail. Now she still has a bit of time left to discuss the strategy to be applied during the meeting. Then there's nothing standing in the way of a successful product presentation.

Be it in devices used on a daily basis such as mobile phones, organizers, PCs, consumer electronics, Smart Cards and Smart Labels or in highly sensitive systems used in medical, aerospace and security technology, a host of complex systems currently use extremely small and thin microchips; and the trend toward the miniaturization of electronic components is still proceeding. With its semiconductor backend solutions – which pose the highest demands on production technologies and machine solutions such as die sorters, flip chip and wafer level package systems – Mühlbauer focuses on precisely this promising niche of the semiconductor market.

And it is exactly here that Mühlbauer considers its core competency to be. A high-quality finish thanks to precise production procedures guarantee the functionality of the semiconductor element even if the production capacity rises or placement speed increases. Thanks to the constant optimization of our systems' performance, we can meet the demands of the fast-paced semiconductor market and provide our customers with optimum expertise. On top of this, Mühlbauer has subjected the young area of Industrial Image Processing to further development in order to ensure the highest possible quality standards. Our own, technologically leading inspection solutions are used in sophisticated areas such as security printing and the minting industry – another branch of technology that bears great promise for the future.



These days many complex systems utilize minute microchips. The trend toward miniaturization demands quality and innovations.



The sum of its parts

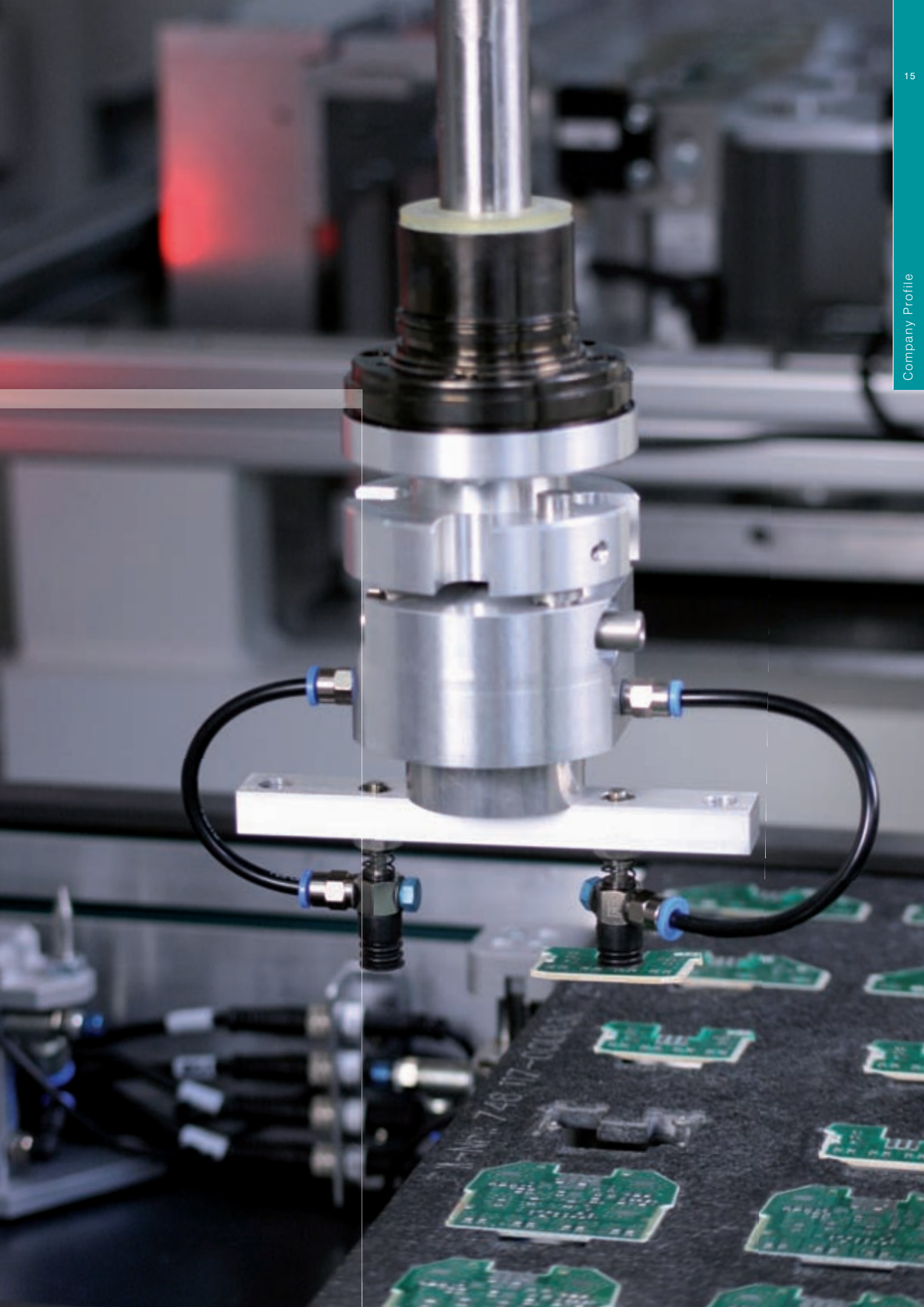


Demand for the traceability of products is growing. Traceability systems by Mühlbauer contribute to meeting such demand.

Lars Walter, head of quality management of a large automobile manufacturer is tense. For some days now, an increasing number of complaints have been coming in, regarding problems with the ABS system of a certain model of car. Now Mr. Walter has to resort to one of his most important tools: the traceability management. Tests quickly show that a specific batch of printed circuit boards for the control of the ABS system features a concealed error. As every component used is clearly marked with all information relevant to production, the defective component can be traced back to the producer. Additionally, on the basis of detailed production protocols, Lars Walter can track precisely into which cars the defective printed circuit board has already been installed. Now he has all the information necessary to conduct a targeted product recall and to reduce warranty costs. Once again Traceability is literally paying for itself.

If a car manufacturer needs to recall a model to remedy quality defects, costs rapidly go into the double-digit millions. Often this also entails a considerable damage to the manufacturer's image. And it is not only in the automotive sector that technology is becoming increasingly complex; this affects virtually the entire electronics market. Traceability is thus increasingly becoming necessary to delimit defective products. Due to the fact that traceability of components can be guaranteed across the entire production process, traceability management results in a sustained improvement of quality, long term.

As a specialist for the Traceability area, Mühlbauer supplies all components required for the traceability of electronic components. Mühlbauer's portfolio therefore not only comprises laser and label marking systems for printed circuit boards but also the respective scanning stations and data management systems. A wide range of board handling machines – including loading and unloading stations, magazine-buffer systems, flip and turn units as well as conveyors – completes the Traceability portfolio. Our solutions can be customized to meet individual customer requirements.





Precision down to the most intimate detail



Cordula Jendritzky is admittedly a bit nervous regarding her first eye operation. However, she trusts her doctor and knows that she can rely on the interaction of state-of-the-art laser technology and highly precise surgical instruments. In a pre-surgery talk the doctor explained exactly what will happen. The procedure itself is performed completely painlessly. Ms. Jendritzky does not feel how the surgeon lifts away a thin disc from the outermost layer of the cornea of her left eye using state-of-the-art technology, models the underlying cornea by a cold light laser and subsequently replaces the thin corneal disc. Ms. Jendritzky must, however, be patient until she can view the result of the surgery with her own eyes; then, however, she will be able to do this without having to don her strong glasses. Without state-of-the-art medical technology, which utilizes minute precision parts and high-quality optics, this would most likely have remained a life-long dream.

In medical technology and in many other safety-sensitive areas, the function of an entire system depends on the quality of a minute precision part. There is no scope for errors. Customers from research and industry continuously specify new materials and constantly pose rising demands toward the quality of precision parts to realize their goals.

This means that the utmost demands are made on quality and flexibility – precisely the points Mühlbauer is comfortable with. More than 450 employees at the Roding and Stollberg sites produce all precision parts required internally – fast, flexibly and at a constant high quality. A decisive factor with regard to this high level of quality is the excellent technical competence of Mühlbauer's staff and the state-of-the-art machine park for the production of precision parts. This quality even wins over external customers from such exacting industries as motor sports, medical technology, assembly automation and semiconductor industries. In the production of highly precise individual components they trust our expertise. The technologies we use range from material cutting to CNC milling and turning, sheet metal forming, toolmaking to surface finishing. Across the entire process chain, our customers thus receive everything from a single supplier – within cycle time, while providing the highest possible quality.



A high level of quality awareness is the basis for first class products – this is why safety-sensitive industries rely on our competence.

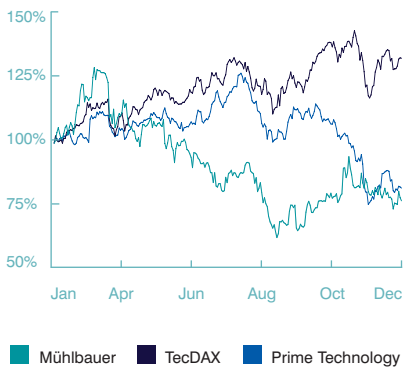


The Mühlbauer Share

Eventful stock markets

Against the backdrop of significant global economic expansion, high company profits and exceptionally lively merger and acquisition activities, global stock markets continued its positive trend in the first half of 2007. At mid-year massive defaults in the sub-prime lending sector occurred at the US American mortgage, the dollar weakness, and skyrocketed commodity prices damped the development at the international stock markets. The combined effect of these factors caused inevitably temporary price corrections and increased market volatility. Despite the continuing confidence crisis permeating the financial sector, the stock markets were still able to strongly assert themselves in parts towards the end of the year, and the DAX stood out positively among the other major indices. While the DAX with 22.3% chalked up a two digit growth for the third time, other major indices performed below average. The Dow Jones Index rose 6.4% and the Euro Stoxx by 6.8%, while the Nikkei declined by 11.1% from the previous year.

Development of the Mühlbauer Share



While the TecDAX profited from the strenght of solar stocks and gained approx. 30% in 2007, the pure technology sector had to settle for price losses. The comparable branch index, Prime Technology, which includes all the technology companies of the Prime Standard, recorded a downturn of 14.7%. The Mühlbauer share could not evade this negative trend as well and suffered a price loss. The stock began the 2007 financial year at a robust level and reached a high for the year of 37.50 EUR in February after a steep climb. However, by the end of the month the Mühlbauer share was unable to maintain this high level compared to the TecDAX and surrendered its recent gains. The share price dropped through the summer months hitting a low of 20.51 EUR in August. The reasons for this decline included the subdued business performance in the first half of 2007, which led to an adjustment in earnings expectations, and the noticeable deterioration of the share markets. Hit by the real-estate crisis in the USA, the markets suffered insecurities in all sectors, prompting institutional investors to spurn the small-cap sector in favour of large-cap companies. Even well-established small-cap companies with true value such as Mühlbauer were affected and were forced to accept a harsh price drop. Not until the expectations improved for a stronger development of our technology group in Q2 2007 did the share price improve somewhat during Q3 2007, only to move sideways with a downward trend the past two months. The Mühlbauer share ended the year at a closing price of EUR 24.19 and lagged by 17.6% behind the previous year.

At the end of the financial year, market capitalization of Mühlbauer Holding AG & Co. KGaA declined to EUR 355.5 million (PY: EUR 431.3 million). However, the daily volume of the shares increased in 2007. Whereas only 6,628 shares per day were traded in 2006 on average, volume increased in 2007 to 10,821 shares, indicating higher liquidity of the stock.

Ratios	2007	2006
Share price (Xetra)		
Annual high (in EUR)	37.50	39.70
Annual low (in EUR)	21.51	24.90
Year end (in EUR)	24.19	29.35
Market capitalization¹		
Annual high (in EUR thousand)	551,103	583,434
Annual low (in EUR thousand)	316,113	365,932
Year end (in EUR thousand)	355,498	431,330
Share values		
Earnings per share (in EUR)	1.31	1.90
Dividend (in EUR)	1.00 ²	1.25 ³
Trading volumes (in number of shares)⁴		
Average per trading day	10,821	6,628
Annual trade volume (in million shares)	2.7	1.7

Contact Investor Relations

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Since the company's listing on the German Stock Exchange, investors have benefited from their investment to Mühlbauer in the form of dividends. We will continue this reliable dividend policy in the 2007 financial year as well. The personally liable shareholder and the Supervisory Board will therefore propose a dividend distribution in the amount of 1.00 EUR per share at the annual general meeting on 29. April 2008. Based on the year-end stock price of 24.19 EUR, this translates into an above average annual yield of 4.1%.

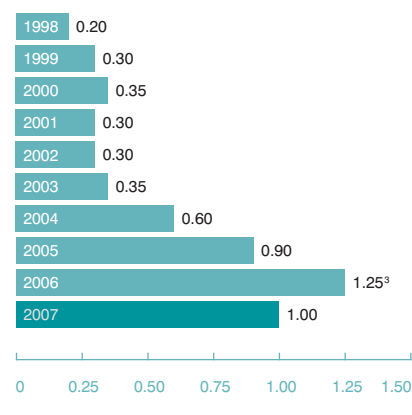
An important objective of our investor relations efforts at Mühlbauer is to maintain an open and ongoing communication channel with the capital market. The Mühlbauer Group therefore sought to present the company at several analyst conferences and road shows, which were also frequented by an international financial public. In numerous one-on-one meetings and conference calls, management also provided investors, analysts and the economy press with in-depth information regarding the developments and future prospects of the Mühlbauer Group. We actively cultivate the investor community and over time have increasingly gained new contacts, many of which, for example, attended our presentation at the German Equity Capital Forum in Frankfurt and scheduled individual one-on-ones. Institutional investors and analysts are increasingly taking advantage of the opportunity to visit our headquarters in Roding to study our extensive product portfolio and become better understanding for our technology. This opportunity is also provided to our private shareholders at our Annual General Meeting: our Show-Truck, displaying our sophisticated Mühlbauer systems, generated considerable interest among our shareholders and provided participants with coherent information about our technology. Mühlbauer's corporate governance understanding - to provide all shareholders with immediate and comprehensive information of all new company and product developments - is clearly demonstrated with our Investor Relations presence on our website. In addition to the online publications of our quarterly and annual reports, which can be downloaded, our website provides ad-hoc announcements and press releases, director's dealings, presentations, references to research reports and contact form for any questions. We will continue to inform our institutional investors, analysts, and private shareholders in a transparent and comprehensive way and are available for open dialogs with the investment community.

13 March 2008 Balance Sheet Press & Analysts' Conference, Frankfurt
 28 April 2008 Quarterly Report I/2008
 29 April 2008 Annual General Meeting, Roding
 31 July 2008 Quarterly Report II/2008
 30 October 2008 Quarterly Report III/2008
 March 2009 Annual Report 2008

Dependable Dividend Policy

Open and ongoing exchange of information

Dividend development in EUR



Financial Calendar

¹ based on total capital ² subject to agreement by the Annual General Meeting

³ 1.00 EUR dividends in addition to the 0.25 EUR special dividend ⁴ Number from Xetra- and on-floor trading



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 14 June 2007. 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 2007 were, after being discussed in the Supervisory Board, integrated in the internal Codex.

In December 2007, the personally liable shareholder and Supervisory Board issued the Declaration of Conformity for 2007 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. The personally liable shareholder and the Supervisory Board have, however, also decided that the company will not conform to several provisions. 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:

Deductible on D&O insurance

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 Figure 3.8 para. 2).

As opposed to the German Corporate Governance Codex (Codex 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.

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 in small tranches only.

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 Figure 4.2.3 para. 6).

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

An explanation of management's remuneration components is provided in the notes. A more extensive disclosure and explanation of the remuneration system, the annual allocation of pension provisions, 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 Figure 4.2.5 para. 2 and 3).

The contents of stock option plans and remuneration systems are the result of intensive discussions within the Group. 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.

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

Mühlbauer refrains from defining an age limit for the members of the Supervisory Board (Codex 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.

Remuneration, individualized details and disclosure of management's remuneration

Formation of committees on the Supervisory Board

Composition of the Supervisory Board and remuneration of its members

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 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 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 Figure 5.4.7 para. 2 clause 1).

The Chairman of the Supervisory Board Dr Thomas Zwissler received a fixed Supervisory Board remuneration of a total of EUR 12,000.00 (net) for the year under review, the member of the Supervisory Board Dr Peter Drexel a total of EUR 4,800.00 (net) and the member of the Supervisory Board Dr Frank Scholz a total of EUR 1,600.00 (net). The remuneration paid to the Supervisory Board members Dr Thomas Zwissler and Dr Peter Drexel are based on the positions they hold with Mühlbauer Holding AG & Co. KGaA and Mühlbauer Aktiengesellschaft.

Transparency

As per 31 December 2007, 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 300 shares (which corresponds to 0.00%) and the management of Mühlbauer Aktiengesellschaft 72,552 shares (which corresponds to 1.16%). Neither the personally liable shareholder, the Supervisory Board nor the management of Mühlbauer Aktiengesellschaft held options or other derivatives as per 31 December 2007.

Accounting and audit of the financial statements

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 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

OVERVIEW OF THE 2007 FINANCIAL YEAR

The technology group Mühlbauer pushed ahead according to plan with its global expansion and internationalization in the year under review. With the completion of the new technology site in Malaysia, Mühlbauer gains a forceful presence in Asia, the second most significant market for the company, in addition to its already strong historically expanding market position in Europe. Upon completion of the state-of-the-art customer service center in Newport News, Virginia, USA, being planned in the current year, and the strategic expansion of the development location in Nitra, Slovakia, Mühlbauer has established its presence in all the important world markets and is eminently positioned to bring new technology solutions to the market even faster and more efficiently. At the same time, Mühlbauer moves a decisive step closer to its customers and can therefore respond even more individually to their specific needs and develop corresponding solutions.

Highlights for the financial year 2007 were:

- By the development of a comprehensive solution package embedded in the Cards & SECURITY® area, Mühlbauer has qualified itself as partner for additional nations and has provided countries such as Hungary, Slovenia and Bosnia-Herzegovina with technological solutions for the production of security-oriented ID-systems. Concurrently, the solution provider has introduced to the market software-based products used for the capturing of personalized and biometric features and for control systems of production and security management. Overall, Mühlbauer has references from over 50 ID projects globally, which recommend us to additional governments and authorities as a reliable partner.
- To continue expanding its market leadership and pursuing its technological competence, Mühlbauer has presented the market with numerous new technological solutions and broadened its production chain. For example, with the newly developed CardMAIL 2000, the technology group offers a fully automatic system for the high-performance mailing of personalized Smart Cards.
- To prepare the company to successfully meet the global challenges in the world market, personnel development within the entire corporation was strongly accelerated in the year under review. Based on our internal corporate culture, the competency of our executive personnel was systematically improved by undertaking specifically tailored measures to enhance international personnel development and individual qualifications. Our junior employees were also advanced by means of specific training programs and grants.

- With sales volume¹ achieved in the period under review of EUR 159.5 million, the technology group Mühlbauer concluded its financial year almost attaining the level of the previous year (PY: EUR 160.9 million), thereby reaching the higher end of the sales target projected between EUR 150.0 million and EUR 160.0 million. The sales target was adjusted at the beginning of the second half-year, due to the longer project lead time in the product line Cards & TECURITY® and the continuing weakness in the semiconductor industry.
- Risk provisions in inventories and the expansion of research and development activities in the newly established locations in Malaysia and Slovakia were the primary factors responsible for a reduction of EUR 8.0 million in earnings before interest and taxes (EBIT), which amounted to EUR 26.4 million in the financial year under review, compared to EUR 34.4 million in the previous year. This corresponds to an EBIT margin of 16.6%, after 21.4% in the previous year.
- Due to the lower financial results in the year under review, which decreased by EUR 1.6 million from the previous year, and the higher tax burden the group showed a decrease of EUR 8.6 million in consolidated earnings to EUR 19.1 million. Earnings per share therefore decreased from EUR 1.90 per share (adjusted for the special tax effect from EUR 1.74) in the previous year to EUR 1.31 in the year under review.
- The need for liquid capital to finance working capital was considerably lower in comparison to the previous year and resulted combined with lower investment requirements in a significant increase in free cashflow of EUR 16.4 million in comparison to the previous year (EUR 2.4 million). Total liquidity decreased slightly in the same period from EUR 44.7 million to EUR 42.0 million.
- The personally liable shareholder and the Supervisory Board would like to continue their dividend policy of the previous years and will recommend to the Annual General Meeting a dividend distribution of EUR 1.00 per no-par share. The dividend distribution in the previous year amounted to EUR 1.25 per no-par share, which included a special dividend of EUR 0.25 per share on the occasion of the company's 25th anniversary.
- Mühlbauer expects a continuation of the good development in sales over the next two years. We are also anticipating positive developments in earnings. In regards to the business areas, our product line Cards & TECURITY® will provide a significant contribution to this development, whereby business development in the product line Smart Label should intensify over the next two years. Furthermore, we anticipate continuing growth in our other business areas, Traceability and Precision Parts & Systems. With investment expenses in the amount of up to EUR 10.0 million, we intend to secure the long-term growth of the company.

¹ Sales figures are gross values before subtraction of any deductions on sales proceeds of EUR 0.4 million (PY: EUR 0.2 million)

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 more than 25 year old tradition 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 approx. 1,800 employees, development and production sites in Germany, Malaysia and Slovakia as well as a worldwide sales and service network, Mühlbauer is the leading provider of production systems for the ePassport, Smart Card and Smart Label industry. It is our goal to achieve sustained income and to constantly increase the value of the company. In so doing, we want to take the lead in all our business areas and grow more rapidly than our competitors. For this purpose, Mühlbauer is pursuing a strategy of earnings-oriented growth. It is based on technology 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 worldwide, with more than 100 different standard and customized products, Mühlbauer offers a comprehensive range from a single source. Intelligent software solutions support the production process and provide for highest quality and production efficiency This ensures that we can continuously extend our position in the globalized markets of TECURITY® and the Smart Label industry.

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.

In its core business area SmartID, Mühlbauer is the only company in the world to offer the entire range of system solutions for the manufacture of all card types from a single source. Mühlbauer system solutions are used in the production of ID cards, ePassports, eVisa, contact and contactless cards, dual interface cards and multimedia cards. In addition to hardware systems Mühlbauer offers also software based solutions for the data enrollment and the production management in the Cards & TECURITY® area and supports customers in installation of extensive access control systems. Furthermore, our manufacturing technologies in the product area Smart Label cover all procedures currently utilized on the market in the production and the converting of Smart Labels for the security, service and textile industries and for retail.

The area Semiconductor Related Products develops, produces and sells innovative technology solutions for specific niche applications in the back-end area of the semiconductor industry, carrier tape systems and high technologic inspection systems.

In the Traceability area, Mühlbauer develops and produces labeling systems for the traceability of electronic components. The product range in this area also extends to the relevant reading devices and data management systems and to circuit board handling machines.

In two independent manufacturing centers in Germany and in the affiliated manufacturing cell of the research and development center at Slovak Nitra, the area Precision Parts & Systems produces highly precise individual components for industries that are sensitive

towards security technology issues, such as aerospace, motor sports and medical technology; due to its longstanding manufacturing competence this area also supports the sale of high-quality products from the above areas.

Economic framework conditions

In 2007, the world economy again expanded above the trend, and global real gross domestic product (GDP) experienced a growth rate of approx. 3.7%, only slightly lower than the previous year's value of 3.9%. But towards the end of the year, the economic climate increasingly worsened. The reasons for this economic downturn are, on the one hand, the weakening of the real estate market in the US, already beginning in the previous year, and, on the other hand, the crisis on the international financial markets caused by the revaluation of securities backed by US mortgages. The Japanese economy also proved to be very unstable in 2007. Despite positive developments for private consumption, supported by a stable labor market, corporate investment remained lackluster. As the American economy flattened out, the Japanese export impetus was weakened even further. A different picture can be seen in the Asian and Pacific region, where economic growth remained disproportionately robust, China and India being the most significant growth drivers. In China booming investments in infrastructure and strong exports resulted in an increase in real GDP of more than 10%. The decisive force behind the expansion in India was domestic demand. Particularly investments in defense and construction increased at a fast pace. In contrast to Asia, economic expansion decelerated in the European Union (EU) during 2007. This was particularly the case for the countries in euro zone, as Great Britain and the newly joined member states of the EU were able to continue their economic boom. Despite stronger growth in exports and an increase in investments, particularly in the industry and construction sectors, it was not enough to compensate for the dampening effects of the cooling American economy and renewed massive increases in oil prices on the world market. After the strong performance in 2006, the German national economy was able to continue expanding at almost the same level, despite the dampening effects of the increase in VAT-taxes and turbulences on the international financial markets. Furthermore foreign demand remains the main impetus for the European economy, despite the massive appreciation of the Euro against the US dollar.

World economy

In the TECURITY® market, states and authorities worldwide are striving towards the goal of replacing conventional documents with new ID applications or equip existing documents with biometrics. Interest continued to remain high in 2007 for technological and software solutions in the production of security-oriented IDs such as electronic passports or ID cards. Approx. 45 countries worldwide already issue electronic passports and some 30 additional nations are engaged in implementing in the near future. According to calculations of the branch expert Eurosmart already 45 million electronic passports were issued only in 2007. During the year under review, the European Union already began to implement a second generation of electronic passports. Since November 2007, for example, Germany became the first country to incorporate additional biometric identification features onto its electronic passports by integrating a chip containing two fingerprints in addition to the already existing electronic picture. In addition to global circulation of electronic passports, new and innovative card applications were implemented: particularly East-European countries signalled a keen interest in Mühlbauer's solution systems for the production of ID cards, health insurance cards and driver's licenses and the company was increasingly inquired as partner. For 2007, Eurosmart stated a growth on the global chip card market – which also includes SIM and EMV bank cards – to EUR 4.3 billion (PY: EUR 3.6 billion).

The market for digital security and contactless identification

The RFID branch is likewise marked by continuing long-term growth. This sector benefits from the intensification and increasing application of contactless identification within the logistic processes and ticketing areas. The Metro Group, for example, started the largest RFID application in the European commercial sector by implementing the comprehensive operative utilization of radio frequency identification. Deliveries to 180 locations are contactlessly registered and tested for completeness in a matter of seconds. More than 200 suppliers have therefore begun to equip their delivery pallets with radio labels. First steps have also been taken by the retail level to implement RFID. Department stores such as

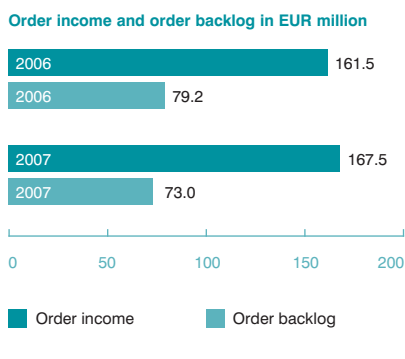
Kaufhof (Metro) and Karstadt (Arcandor) proceeded in 2007 to mark their product portfolio with Smart Labels, not only to accelerate logistics but to offer their customers additional advantages and improved service as well. In the 2007 financial year, we also recognized an increased demand for RFID solutions in the ticketing sector, where the RFID-Ticket is setting new standards, particularly for its use in access control and public transportation systems. In 2007 the local subway system in Moscow, for example, used daily by more than 8 million passengers, implemented a RFID ticket system: contactless readable tickets replaced the existing magnetic stripe cards and now not only offer passengers quicker access but also prevent ticket fraud. The RFID project undertaken at the Moscow Metro will consume approx. 30 million inlays monthly and is therefore the most extensive RFID project to date.

Growth was minimal in the general semiconductor sector, within which Mühlbauer is concentrating on niche areas. Whereas the semiconductor sector generated a growth rate of approx. 9% in 2006, this figure fell to 3.2% in the reporting year, according to the SIA (Semiconductor Industry Association), due particularly to the weak prices in the memory chip sector. Growth was sustained worldwide especially by Asia.

Business development

Order income and order backlog

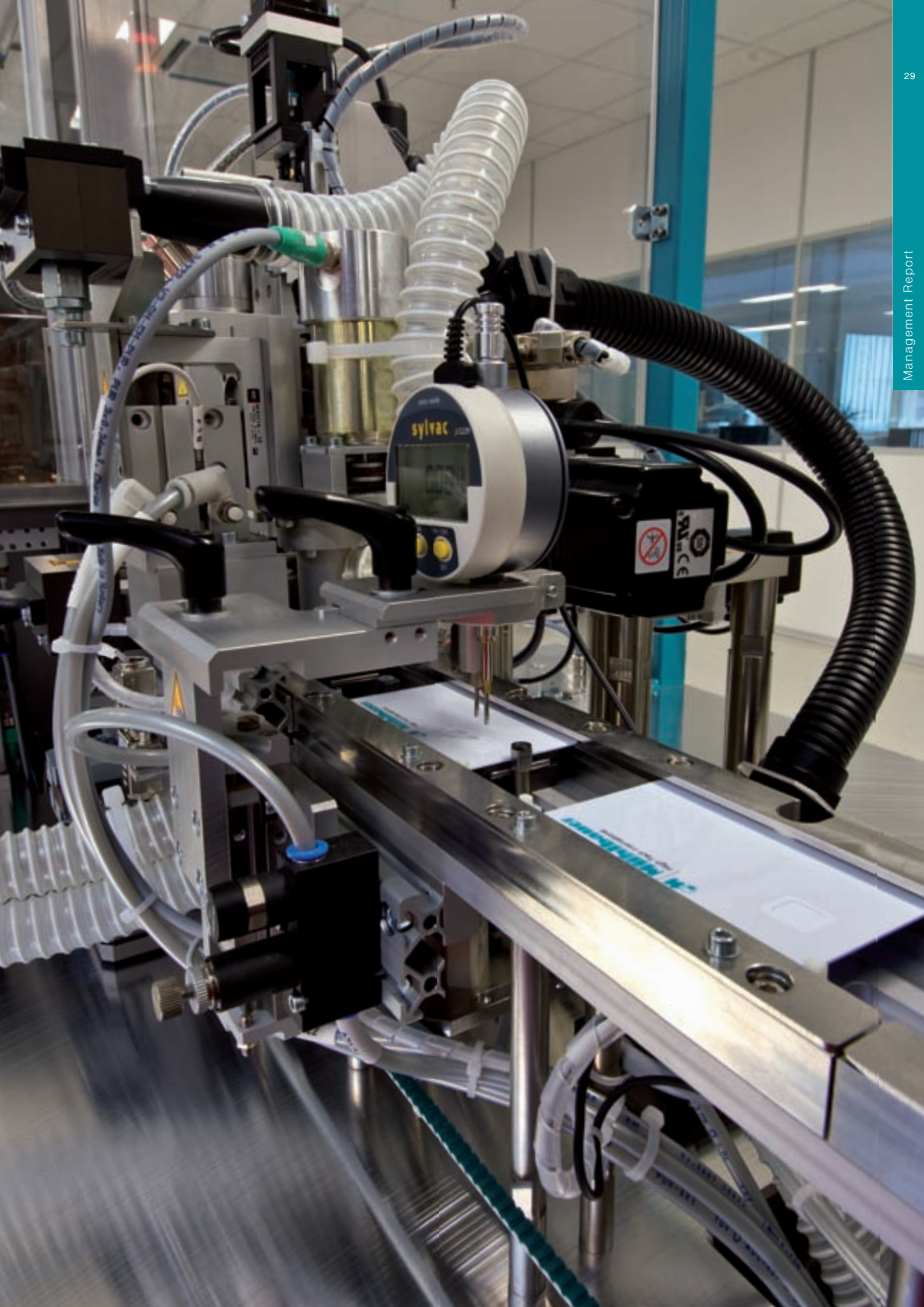
In the financial year 2007, the global technology group Mühlbauer achieved an order income of EUR 167.5 million, increasing order volume by 3.7% over the previous year (EUR 161.5 million). Order backlog was EUR 73.0 million, dropping below last year's value by 7.8% (PY: EUR 79.2 million). The foreign share of present orders was 87.0% (PY: 89.1%), decreasing slightly to EUR 63.5 million compared to the previous year (EUR 70.6 million). Domestic orders increased slightly to EUR 9.5 million compared to the previous year (PY: EUR 8.6 million).



In its core business SmartID, the company achieved order income in the amount of EUR 96.9 million (PY: EUR 92.6 million). This corresponds to an increase in orders of 4.7%. Whereas demand for Smart Label technologies remained almost at the level from the previous year, the order book profited from the increasing need for systems from the product areas Cards & TECURITY®. Mühlbauer systems were particularly sought after for a variety of ID-projects by East European countries such as Hungary, Slovenia and Bosnia-Herzegovina. The company has thereby been able to expand its positioning on the market as a competent and reliable partner for governments and authorities. Moreover, orders increased for card application systems such as EMV and GSM cards. Order income also profited from sales of a complete software solution for a national electronic passport project, ranging from the decentralized data enrollment to software-driven production and security management. Due to very strong sales in the fourth quarter, order backlog recorded EUR 53.1 million at the end of the reporting year, which corresponds to a 12.5% reduction from the previous year (EUR 60.7 million).

In the business area Semiconductor Related Products, order income of the Mühlbauer Group amounted to EUR 35.4 million, due the lagging semiconductor environment, which had weakened significantly throughout 2007, and dropped by 8.7% compared to the previous year (EUR 38.7 million). Although Mühlbauer was able to show a significant increase in orders for the nascent product area "Industrial Imaging Inspection" in the fourth quarter, the company could not completely offset the decrease in demand in the previous quarters of semiconductor related technology products. Order backlog on 31 December 2007 decreased by 8.6% from EUR 12.3 million in the previous year to EUR 11.2 million.

By achieving a order income of EUR 16.3 million in the business area Traceability, the comparative value from the previous year (EUR 13.2 million) was exceeded by 22.9%. Mühlbauer owes this positive development to the solidly growing sales of established products in the product areas Board-Handling and also to its forward-looking product and market strategy in regards to components used to trace products and parts in the product area Traceability. The latter profited from the successful introduction to the market of the CO2-Laser printing station in two respects. First, Mühlbauer has increasingly expanded

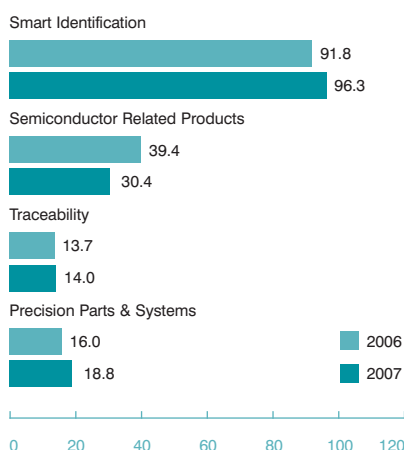


its market positioning in comparison to the competition. Second, the technology group is now in a position to install in-house the laser beam source, a significant expense factor, thereby capturing a larger share of the added value. An additional milestone has been reached by the first-time delivery of a complete production line. This order not only constitutes the largest individual order to date in the business area Traceability. The company also clearly demonstrates that its technology and integration of external components leads to the successful integration of mechanical, electrical and software aspects required for a reliable and safe complete processing solution. With an increase of 118.5%, order backlog doubled to EUR 4.1 million (PY: EUR 1.9 million).

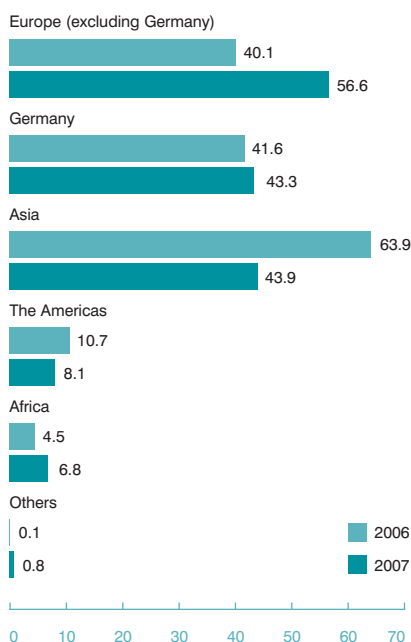
Order income in the area Precision Parts & Systems reiterated its positive development. Mühlbauer recorded orders in the amount of EUR 18.9 million (PY: EUR 17.0 million), constituting an increase in orders of 11.4% compared to the financial year in 2006. The technology company particularly profited from the favorable market environment for technology products and the resulting greater need for high-precise parts and components for sensitive industries. Order backlog at the end of the year under review amounted to EUR 4.6 million, an increase of 5.8% over the previous year (EUR 4.3 million).

Sales²

Sales development by applications in EUR million



Regional breakdown of sales in EUR million



With a sales volume of EUR 159.5 million in the reporting period, the Mühlbauer technology group concluded the financial year by almost matching last year's level of EUR 160.9 million, and achieved the upper end of its sales target of EUR 150.0 and EUR 160.0 million. The sales target had to be adjusted at the beginning of the second half of the year, due to the longer project lead time in the product line Cards & TECURITY® and the continuing weakness in the semiconductor industry. Although the first half of the year was negatively affected by a weak start and continuing project postponements within the government business, the company clearly exceeded last year's figures with double digit growth rates in Q3 and Q4 2007.

The core business area SmartID generated annual sales of EUR 96.3 million, surpassing last year's sales of EUR 91.8 million by 4.9%. The core area was mainly supported by the product line Cards & TECURITY®, used for the production and personalization of electronic passports and security-oriented Smart Card applications, and by the introduction on the market of software based products used for the enrollment of personal and biometric data and the production and security management. However, the contribution to sales by the product line Smart Label drifted slightly lower compared to last year, due to delayed market development. In the business area Semiconductor Related Products, sales for the Mühlbauer Group accounted for EUR 30.4 million and lagged behind last year's value of EUR 39.4 million by 22.6%, because of the weak semiconductor environment. Sales in the business area Traceability, however, were slightly higher than in the previous year, which benefited equally from the positive developments in the product lines Board Handling and Traceability. In the year under review, sales in the Traceability area contributed EUR 14.0 million (PY: EUR 13.7 million) to total sales - an increase of 1.9%. As in the previous year, the area of Precision Parts & Systems profited from the positive market development. With a distinct growth in sales of 16.8%, this area improved sales by EUR 2.8 million to achieve EUR 18.8 million, exceeding last year's value of EUR 16.0 million.

Looking at sales from a regional perspective, Europe (excluding Germany) was the main pillar in sales. Sales in this region generated EUR 56.6 million, exceeding last year's value (EUR 40.1 million) by 41.1%. This growth was accompanied by the largely significant growth in sales throughout the Central and Eastern European regions. Sales revenues in Germany also continued to develop positively after a slight contraction in the previous year, and rose by 4.0% to EUR 43.3 million. Overall, the share of Europe's contribution to total sales amounted to 62.6% (PY: 50.7%). A significant increase in sales could also be recorded in Africa, albeit on a low level. Sales revenues rose by 48.1% compared to last year, whereas revenues produced in the Asian region dropped by 31.3%, due to the decrease in demand for semiconductor related product solutions. Sales revenues in the Americas fell by 24.2% to EUR 8.1 million from EUR 10.7 million the previous year. The foreign share of total revenues earned by the Mühlbauer Group was 72.9% compared to the previous year (74.2%).

² Sales figures are gross values before subtraction of any deductions on sales proceeds of EUR 0.4 million (PY: EUR 0.2 million)

EARNINGS SITUATION

In the year under review, the Mühlbauer technology group achieved earnings before interest and taxes (EBIT) in the amount of EUR 26.4 million. It thereby missed the comparable earnings achieved in the previous year of EUR 34.4 million by EUR 8.0 million. The EBIT margin of 16.6% decreased by 4.8 percentage points from the previous year (21.4%). Due to existing uncertainties of continuing developments, particularly in the semiconductor and Smart Label industries, and overall inventory risks because of longer storage time, it appeared advisable to write down the value of inventory. Furthermore, the expansion of research and development activities in the new established sites in Malaysia and Slovakia resulted in research and development expenses that were considerably higher than in the previous year and which cannot yet be offset by capitalization of development earnings during the start-up.

Earnings before interest and taxes (EBIT)

Consolidated statements of income in millions	2007		2006		+/-	
	EUR	%	EUR	%	EUR	%
Sales	159.1	100.0	160.7	100.0	(1.6)	(1.0)
Cost of sales	(94.9)	(59.7)	(91.4)	(56.9)	(3.5)	3.9
Gross profit	64.2	40.3	69.3	43.1	(5.1)	(7.3)
Selling expenses	(9.7)	(6.1)	(11.4)	(7.1)	1.7	(15.3)
Administrative expenses	(7.5)	(4.7)	(7.7)	(4.8)	0.2	(1.1)
Research and development expenses	(20.3)	(12.7)	(17.1)	(10.6)	(3.2)	18.7
Other income	1.0	0.6	1.4	0.9	(0.4)	(29.0)
Other expenses	(1.3)	(0.8)	(0.1)	(0.1)	(1.2)	1.376.7
Operating income (EBIT)	26.4	16.6	34.4	21.4	(8.0)	(23.3)
Financial result	2.0	1.3	3.6	2.3	(1.6)	(43.1)
Income before income taxes	28.4	17.9	38.0	23.7	(9.6)	(25.3)
Income taxes	(9.3)	(5.9)	(10.3)	(6.4)	1.0	(9.3)
Net earnings	19.1	12.0	27.7	17.3	(8.6)	(31.1)

While sales of EUR 159.1 million were almost at last year's level of EUR 160.7 million, gross profit on sales resulted in a significant decrease of 7.3%. The main reason for the increasing cost of sales by 3.9% to 59.7%, in comparison to the previous year (56.9%), was the already mentioned increase in the risk provision in inventories. Material expenses and changes in inventory rose disproportionately by 4.2%, while depreciation increased by 12.7%. The use of in-house personnel instead of temporary workers resulted in a reduction of other operating expenses by 6.0%, while personnel expenditures increased by 4.3%.

In the meantime, the cost structures in sales and administration has clearly improved. While selling expenses decreased by 15.3% to EUR 9.7 million from the previous year (EUR 11.4 million), general administrative expenses were reduced by 1.1%. The aggregate sales and administrative expenses rate decreased to 10.8% from 11.9%. The significant decrease in administrative expenses is attributed primarily to the collection of adjusted trade accounts receivable and the modified valuation criteria for ascertaining general default risks. In the course of the expansion of research and development activities in the newly established locations in Malaysia and Slovakia, research and development expenses, including the required increase in personnel capacity, increased significantly by 8.9% to EUR 19.9 million from the previous year (EUR 18.3 million). Research and development expenses also increased by 18.7% to EUR 20.3 million even after taking into consideration the capitalization of development costs and the settlement of depreciation. The rate of capitalization decreased to 11.1% (PY: 23.8%) due to the utilization of personnel development capacity for the construction of the new locations so that direct costs were moderately incurred for capitalization of development earnings. Other operating income and expenses mainly comprise effects beyond the core activities of the Group, business transactions not related to the year under review and other transactions not directly related to the core business of the company. The decrease in the account balance from plus EUR 1.3 million in the previous year to minus EUR 0.3 million in the reporting period mainly resulted from the creation of an accrual in conjunction with the utilization of certain development results and unrealized and realized losses in share price.

-
- Financial results** Combined earnings from securities and net interest income included in the financial results decreased from the previous year by 43.1%. The reduced investment position, resulting from the utilization of liquidity reserves, which were invested in securities to finance the dividend distribution, mainly attributed to a weakening of the securities results by EUR 1.4 million compared to previous year. The decrease in net interest income by EUR 0.2 million resulted from higher interest expenses incurred by the discounting of long-term accounts receivables and expenses similar to interest expenses to secure core business activities.
- Earnings before taxes** The described developments of operating and financial results resulted in a decrease of earnings before taxes by EUR 9.6 million to EUR 28.4 million (PY: EUR 38.0 million). This corresponds to a profit margin of 17.9% compared to 23.7% in the previous year.
- Income taxes** With a decline by 9.3%, income taxes decreased insignificantly, irrespective of lower earnings before taxes by 25.3%, which resulted in a decreased taxable base. The reason was largely attributable to the discounted capitalized claim for the payment of a corporation tax credit from the previous year in the amount of EUR 2.3 million, which could only partially be offset by extraordinary gains of EUR 1.2 million in the year under review. The extraordinary gain resulted from the adoption of the Corporate Tax Reform 2008, which approved lowering the tax burden of German groups. Another factor increasing the tax burden were the initial losses incurred by a foreign allied company, for which no capitalized deferred taxes could be undertaken due to a tax exemption granted for several years. The tax rate of 32.8% is approx. the same as last year's tax rate of 33.0%, which was adjusted for the one-time effect.
- Net earnings** The combined effects of higher cost of sales, increasing research and development expenses, decrease in net interest income and higher tax burden in comparison to the previous year, were the main reasons that our consolidated income statement showed significantly lower net earnings of EUR 19.1 million for the financial year 2007, compared to the same period in the previous year (EUR 27.7 million). This corresponds to a post-tax profit margin of 12.0% (PY: 17.3%). This resulted in a decrease in earnings per share to EUR 1.31 in the year under review after EUR 1.90 (adjusted for the special tax effect from EUR 1.74) in the previous year.
- Dividends** The company would like 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 a dividend distribution for the financial year 2007 in the amount of EUR 1.00 per no-par share. Taking into account the current number of shares entitled to dividends, total payout to the shareholders of the limited partnership amounts to approx. EUR 6.1 million. The personally liable shareholder will receive EUR 8.4 million, in accordance with his shareholding. In the previous year, the payout to the shareholders of the limited partnership amounted to approx. EUR 7.6 million due to the additional special dividend in the amount of EUR 0.25 per share with dividend entitlement, which was paid on the occasion of the company's 25th anniversary. The personally liable shareholder received EUR 9.7 million.

FINANCIAL SITUATION

Cashflow demonstrates the origin and utilization of cashflows in the reporting period. It therefore plays a key role in evaluating the financial situation of the company. Outflows for investment and financing activities are determined in an indirect relation to payments. The inflow from operating activities is indirectly derived from the consolidated profit for the year. With the free cashflow, we provide our investors with a ratio which shows the change in liquidity, taking into account investments. Free cashflow is defined as an inflow for operating activities and outflow for investment activities, adjusted by 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 and currency differences from the translation of the value of fixed assets. The liquid funds shown in the cashflow statement comprise cash and cash equivalents and marketable securities, insofar as these have a residual time to maturity of no more than three months.

Consolidated statements of cashflow in millions	2007 EUR	2006 EUR	+/- EUR	%
Cashflow provided by operating activities	25.6	8.6	17.0	198.4
Cashflow used for investing activities	(3.4)	(12.8)	9.4	(73.3)
Cashflow used for financing activities	(16.9)	(13.8)	(3.1)	22.0
Free cashflow	16.4	2.4	14.0	570.0
Liquid funds	16.4	11.3	5.1	45.2

Cashflow from operating activities in the year 2007 increased significantly by EUR 17.0 over the level of the previous year (EUR 8.6 million) to EUR 25.6 million. The distinctly positive cashflow development is mainly attributable to lower cash requirements for financing working capital, particularly in inventories and trade accounts receivable. Another reason for this increase included the higher inflow from received payments as well as the increase in other liabilities. A major inflow resulted from a surplus in deposits paid on orders and the disposal of short-term marketable securities.

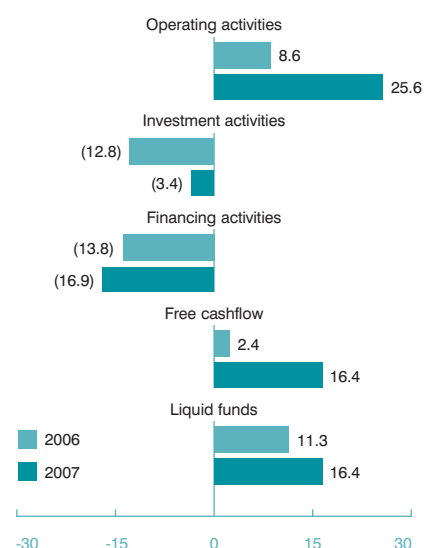
Outflow for investment activities decreased by EUR 9.4 million to EUR 3.4 million. The significant decline by EUR 9.3 million for investment requirements in fixed assets, intangible assets and capitalized development costs, compared to the outflow the previous year (EUR 12.8 million), were offset by net incoming payments from the disposal of securities held long-term in the amount of EUR 7.0 million (PY: EUR 0.1 million) as well as outpayments from the realization of fixed assets in the amount of EUR 1.3 million (PY: EUR 0.3 million). Inflows resulting from the disposal of securities were used primarily to finance the dividend distribution and construction and development of foreign facilities. Outflows for lending activities amounted to EUR 2.4 million.

Outflow for financing activities resulted in EUR 17.4 million (PY: EUR 14.2 million), offset by an inflow of EUR 0.5 million (PY: EUR 0.4 million). Outflow was largely due to the 2006 dividend distribution paid this year, which was EUR 3.6 million higher compared to last year as well as the withdrawals for personal tax payments of the personally liable shareholder, which were EUR 0.5 million higher than last year. The proposed dividend distribution for the financial year 2007 is not yet included in the cashflow statement for 2007.

As the total of the individual cashflows, liquid funds increased by EUR 5.1 million to EUR 16.4 million, compared to 31 December 2006 (EUR 11.3 million). Total liquidity, which also includes longer-term deposits and securities, decreased by EUR 2.7 million to EUR 42.0 million (EUR 44.7 million).

Cashflow

Cashflow in EUR million from



Free cashflow Free cashflow of EUR 16.4 million increased by EUR 14.0 million and was significantly higher compared to last year due to the company developments described above. This strong increase in free cashflow is mainly a result of the significant reduction in the need for cash to finance working capital and the noticeable decrease in investment expenses.

Capital requirements and refinancing In the 2008 financial year we will require capital to finance operating activities, to pay our contingent liabilities, provided they occur, and for the scheduled execution of investments. We meet these requirements through cashflow from current business activities, available funds and disposable securities as well as short-term lines of credit available at the year 2007 in the amount of EUR 20.0 million, of which EUR 2.3 million was drawn as of 31 December 2007.

ASSET SITUATION

The balance sheet total of the company remained virtually unchanged from the previous year (175.2 million) with EUR 174.6 million. The ratio of short-term assets to total assets increased from 62.2% in the previous year to 64.7%, while shareholders' equity ratio increased from 80.1% to 81.2%.

Consolidated balance sheet in millions	2007		2006		+/-	
	EUR	%	EUR	%	EUR	%
Short-term assets	112.9	64.7	109.0	62.2	3.9	3.6
Long-term assets						
Financial assets	8.2	4.7	12.9	7.4	(4.7)	(35.9)
Fixed assets	40.0	22.9	40.1	22.9	(0.1)	(0.3)
Intangible assets	9.6	5.5	10.0	5.7	(0.4)	(4.1)
Long-term tax receivables	2.4	1.4	2.3	1.3	0.1	5.3
Deferred tax assets	0.2	0.1	0.0	0.0	0.2	289.3
Other fixed assets	1.3	0.7	0.9	0.5	0.4	40.6
Total assets	174.6	100.0	175.2	100.0	(0.6)	(0.3)
Short-term liabilities	29.4	16.8	30.4	17.3	(1.0)	(3.3)
Long-term liabilities	3.5	2.0	4.5	2.6	(1.0)	(22.7)
Shareholders' equity	141.7	81.2	140.3	80.1	1.4	1.0
Total liabilities	174.6	100.0	175.2	100.0	(0.6)	(0.3)

Short-term assets increased from EUR 109.0 million to EUR 112.9 million. Liquidity (including marketable securities held in short-term assets) increased to EUR 37.5 million from 33.1 million due to the circumstances described in the section "Free cashflow". The share of the other items included in short-term assets in the balance sheet total remained virtually constant.

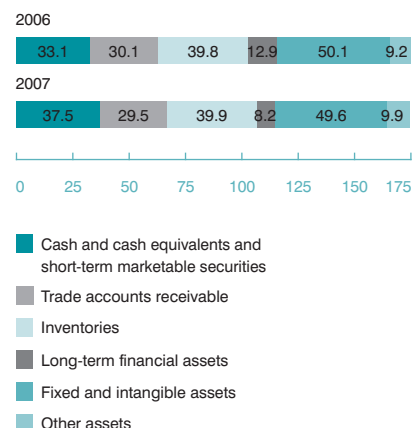
Long-term assets declined by EUR 4.5 million to EUR 61.7 million. The ratio of long-term assets to the balance sheet total was thereby reduced to 35.3% from 37.8%. Marketable securities included in the item financial assets decreased by EUR 7.0 million to EUR 4.6 million. A contrary development was seen in the increase in trade accounts receivable as well as other loans, which grew by EUR 2.3 million. Other long-term assets increased by EUR 0.2 million

On the liabilities side, total short-term liabilities decreased by EUR 1.0 million to EUR 29.4 million. The decline in trade accounts payable by EUR 1.6 million to EUR 6.1 million, accrued income tax and other accruals by each EUR 0.5 million to EUR 2.0 million and EUR 9.3 million respectively, was offset by increases in prepayments by EUR 1.1 million to EUR 6.8 million and in other liabilities by EUR 0.5 million to EUR 5.2 million.

On the reporting date, long-term liabilities amounted to EUR 3.5 million (PY: EUR 4.5 million). These include only the deferred taxes that must be posted by definition as long-term according to IFRS. The Corporate Tax Reform 2008, announced on 17 August 2007, eased the deferred tax liabilities in the amount of EUR 1.5 million.

Balance sheet

Balance sheets structure for assets in EUR million



Short-term assets

Long-term assets

Short-term liabilities

Long-term liabilities

Shareholders' equity

Balance sheets structure for liabilities in EUR million



Shareholders' equity increased to EUR 141.7 million from EUR 140.3 million. The increase is mainly attributable net earnings, which exceeded the distributions paid to shareholders in the financial year by EUR 1.7 million. The increase was supported by the sale of own shares. Other accruals decreased by EUR 0.9 million, of which EUR 0.7 million were derived from the adjustment made to Available-for-Sale securities, which had no effect on earnings. Shareholders' equity improved from 80.1% to 81.2%.

Long-term capital, consisting of shareholders' equity and long-term liabilities, provides 235.4% coverage for long-term assets. At 177.9% (PY: 168.1%), the extended coverage of long-term assets (long-term capital in relation to the total of long-term assets and 50% of inventories) continues to be at a very 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 a no-par registered share with a nominal theoretical value of EUR 1.28 each. All no-par limited partnership shares entitled to vote have 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 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 is if it becomes necessary in certain cases to exercise the voting right or the right to attend in order 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; in accordance with the Articles of Association the Supervisory Board shall 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.

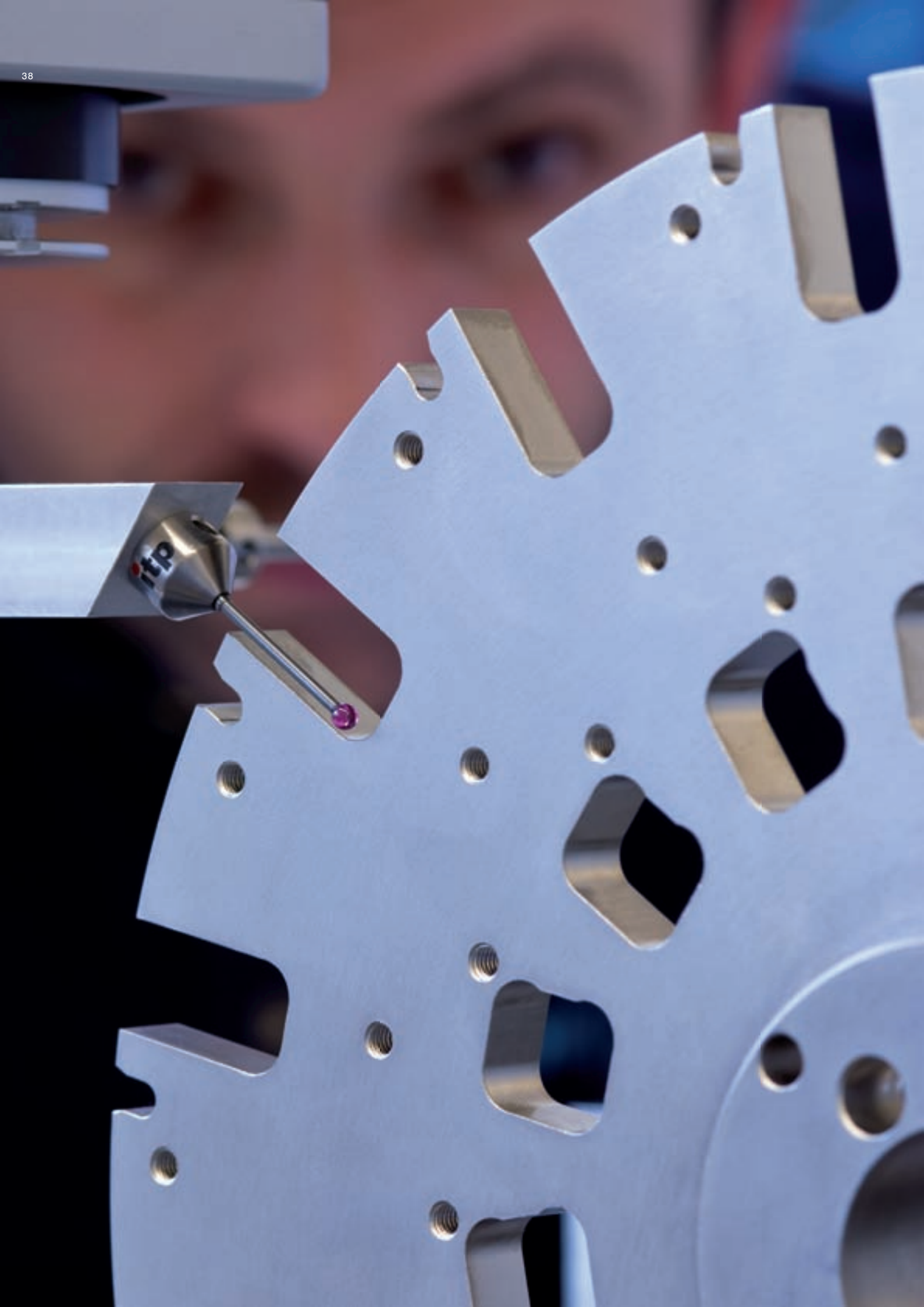
The ordinary share capital has been conditionally increased by up to EUR 84,480.00, through the issue of up to 66,000 no-par bearer shares (conditional capital II). The conditional capital increase at this level is utilized to service subscription rights, which can be issued to members of management, 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 2009 – with the approval of the Supervisory Board – but only by a maximum of EUR 4,018,688.00 (authorized capital 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 does not drop 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 26 April 2007, the personally liable shareholder is authorized – until 30 September 2008 – 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 financial reporting system within the Mühlbauer Group delivers selected current and value-oriented control parameters in a timely and responsible manner, and provides a corporate instrument used to forecast any future developments and to identify signals early that indicate the need for the implementation of any changes. The value-orientation of management extends across the entire production process of the product portfolio: from procurement to production, research & development to sales, the implementation of the mission statement of value-oriented management is based on clearly defined metrics. The controlling concept used within the Mühlbauer Group enables management to communicate results both within the Group and externally and provides goal-oriented control and coordination of the company business processes. The values determined in accordance with IFRS form the basis of our reporting system.

Ratios (Selection)	2007	2006
1 Investment rate	35.3%	37.8%
2 Rate of circulation	64.7%	62.2%
3 Inventories to total capital	22.9%	22.7%
4 Rate of inventory turnover	4.0	4.4
5 Turnover time of inventories in days	90	82
6 Period of payment in days	71	60
7 Equity ratio	81.2%	80.1%
8 Return on equity	13.6%	20.8%
9 Total return on capital	10.9%	16.3%
10 Equity-to-fixed-assets ratio	354.5%	349.7%
11 Personnel expenses ratio	36.3%	33.8%
12 Material costs ratio	32.9%	35.3%
13 R&D ratio	12.7%	10.6%
14 EBIT ratio	16.6%	21.4%

Management controls the company by setting strategic and operative goals and on the basis of monetary and non-monetary parameters. The key financial control parameters of the Mühlbauer Group are earnings before interest and taxes (EBIT), pretax profit margin (earnings before taxes based on sales), and free cashflow (cashflow from operating activities minus cashflow from investments). The form of value-oriented management practiced varies within the individual business processes. In procurement, values of purchasing volumes are monitored and investment rates are observed. 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. The R&D ratio (R&D investment expenditure based on sales) is used to depict our research and development activities. A headcount is periodically undertaken, particularly in production and R&D, using changes in personnel values to facilitate a flexible relocation of personnel capacity between the individual product areas, depending on the different employment situation. Order income, sales and collection period constitute the primary control parameters within the marketing organization. In order to identify key accounts, marketing also uses the individual customer value, which is ascertained according to quantitative and qualitative criteria, as a control parameter.

The exact provision of all control parameters 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 – in the event that deviations are identified – that escalation processes and countermeasures can be initiated immediately. 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.

- 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** = Annual sales / Average inventories
5 **Turnover time of inventories in days** = Average inventories * 360 days / Annual sales
6 **Period of payment in days** = Average trade accounts receivable * 360 days / Annual sales
7 **Equity ratio** = Equity / Total capital
8 **Return on equity** = Consolidated net earnings or loss / Average equity
9 **Total return on capital** = Consolidated net earnings or loss / Average total assets
10 **Equity-to-fixed-assets ratio** = Equity / Fixed assets
11 **Personnel expenses** = Personnel expenses / Annual sales
12 **Material costs** = Material costs / Annual sales
13 **R&D ratio** = Research and development costs / Annual sales
14 **EBIT ratio** = Earnings before interest and taxes / Annual 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.

SUSTAINABILITY REPORT

To achieve long-term and sustainable success and create long-lasting value for shareholders, customers, and employees it is imperative to manage our resources in a responsible manner. As a company operating on an international scale, it is therefore a logical consequence for us to adhere to the legal systems prevailing in the various foreign countries and regions but fulfill high ethical standards including social responsibility as well.

Quality High-tech produced by Mühlbauer essentially requires one thing: utmost quality awareness. For this reason, Mühlbauer exploits all technical and industrial opportunities available to achieve the highest quality possible in all facets of its products. Our main aim is therefore to promote ongoing improvements throughout all business and production processes. To successfully achieve this aim, it does not suffice to simply fulfill the quality norm DIN EN ISO 9001, which is established on an annual basis throughout the company within the framework of an examination of the management system conducted by external evaluators, but to monitor the management system in process by Mühlbauer's internal auditors according to predetermined audit programs. We are therefore able to detect discrepancies in any functions or processes at an early stage, which can be remedied accordingly and reveal potential for improvement.

Production Mühlbauer employs more than 450 employees at its production facilities in Roding and Stollberg as well at the production cell affiliated with the research and development center in Nitra, Slovakia. These employees are responsible for the production of high-precision individual parts for its own product portfolio and other high-sensitive industries such as aviation and aerospace, Formula One and medical technology. Essential processes are drilling, turning, milling, welding and precision cutting, and the principal raw materials used include aluminum, stainless steel, cast iron scrap, synthetic material, titanium and copper. Areas that are relevant in regards to the environment are

- surface treatment systems
- central wastewater treatment system for process water from preliminary and final surface treatment
- waste management systems
- facilities for hazardous material
- central oil storage facility
- gasoline station for company vehicles
- heating oil tanks for operating block-type thermal power station

Our technically trained employees are therefore particularly committed to comply with all environmental protection laws and apply any measures needed to prevent and protect against any damage to the environment. We also seek to reduce the amount of waste products by avoiding garbage and recycling consistently.

Work safety and health Mühlbauer strives to create an optimal and attractive work environment for all its employees. We guarantee safety in the workplace by conducting training on a regular basis and increasing employee awareness about possible dangers that could arise, technical monitoring and fire alarm systems to give an early indication of any malfunctions and by providing fire protection and medical facilities. Apart from this, workplace health promotion activities are also a big issue at Mühlbauer as an important contribution to efficient work and illness prevention. Our modern fitness center and affiliated wellness area offer all our employees the opportunity to find a balance to their working lives. By means of health oriented fitness training coordinated by professional trainers, it is possible to offset adverse effects caused by work-related stress or prevent potential impairments altogether. Furthermore, all necessary and officially required occupational medical checks of employees are offered by the existing company medical officer, who is available in the event of accidents at work, emergencies and acute illnesses. The payment the company receives in kind for providing these services includes motivated employees and low illness expenses: Average absenteeism due to illness in the entire corporation was only 7.1 days (PY: 5.4 days) and is far below the national average again in 2007.

The Mühlbauer Group places top priority in the advancement and development of its employees and considers this aspect one of the most significant investments for the future. Continuing education has traditionally always been of significant importance at Mühlbauer. 288 apprentices and trainees were taking advantage of this educational opportunity at Mühlbauer to complete a qualified technical training program. Because a high percentage of these trainees are subsequently hired by the company after completing their apprenticeship, these individuals are ensured entry into the workforce. The company also supports all its employees striving to promote their career and private development. Numerous continuing education opportunities are offered, ranging from IT and language classes, qualification measures for acquiring key qualifications, to tailored personal development courses instructed by personal trainers.

Personnel development

The appreciation of ethics by the Mühlbauer Group leads us to accept our social responsibility and provide a contribution to society. For many years, Mühlbauer has therefore supported a number of different social and charitable initiatives, associations and organizations with financial donations and in-kind donations. By means of the Josef Mühlbauer Foundation, established by the company's founder Josef Mühlbauer himself, the company contributes significant financial donations to support selected social projects, reinforcing its lasting commitment to meet its obligations to society. Another token of the company's social interest is the annual "Mühlbauer Run", which has become a popular event in the region. Due to the active participation of many of our employees and numerous sponsors in 2007, a donation totaling 30,000 EUR was achieved, which was presented to the association "Verein zur Förderung krebskranker und körperbehinderter Kinder Ostbayern e.V." specializing in the support of children with physical disabilities or who suffer from cancer.

Social responsibility

FACTOR INPUT

Investments

Total gross investments of EUR 9.1 million in the financial year 2007 was significantly lower than the comparable value from the previous year of EUR 13.7 million.

Investments in intangible assets in the amount of EUR 2.8 million are mostly based on capitalized development costs. The main focus of our development activities were directed towards the modernization and expansion of our product portfolio in the business areas SmartID and Semiconductor Related Products. Additionally, resources flowed towards the continuous optimization and expansion of IT-infrastructure. As a result of the personnel management system introduced the previous year, the automatization of manual processes was intensively pursued in the year under review. Furthermore, two additional locations (Malaysia, Slovakia) now stand to profit from the synergies of these applications.

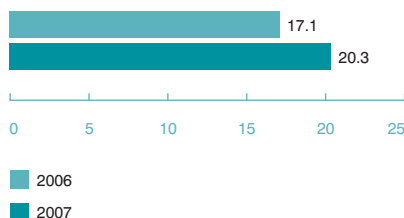
The focus of investments in fixed assets concentrated on the construction and equipping of the new technology base in Malaysia. Concurrently, new measures were again required to modernize and expand the mechanical capacity of our domestic production sites. In our efforts to better demonstrate our competency in TECURITY® solutions to potential customers, an additional focal point of our investment activities included the purchase of a mobile Show Truck. We can hereby provide our customers with an on-site demonstration in a limited area of the complete sequence of personalization processes, beginning with data capturing and ending in the completely personalized ID-document.

Mühlbauer has also allocated resources for the construction of a new research and development center in Slovakia. Property was therefore purchased in Nitra. In this new facility, novel technology solutions will be developed and produced. Due to Mühlbauer's increased commitment in the East European and Asian regions, the company is thereby better positioned to more strongly participate in the success of the rapidly expanding markets.

Including capitalized development costs, the investment rate of investments in fixed assets to sales is 5.7%, compared to 8.5% in the previous year. Investments were fully financed by operating cashflow.

Research & development

Expenditures in research and development
in EUR million



In our efforts to expand our market leadership and continually push our technological competence, Mühlbauer focuses on the development of new and innovative products and leading technological solutions. In the research and development centers located in different sites, more than 340 highly qualified engineers and technicians realize, in close collaboration with customers, universities and research institutions, efficient and reliable solutions in increasingly shorter development and production cycles. To strategically protect its own competitive advance against the globally forming competition, Mühlbauer places great value on a pronounced internationally applied Intellectual Property Management. For this reason, the patent portfolio was increased again in the financial year 2007 and applications were filed for 40 property rights worldwide (PY: 35). With EUR 20.3 million (PY: 17.1 million), the continuing research and development expenses of the Mühlbauer Group are reflected in the capital expenditures. This corresponds with an increased R&D rate of 12.7% compared to previous year (10.6%).

SmartID

In its core business area SmartID, Mühlbauer continually expanded its product range in order to offer complete solutions to satisfy the entire bandwidth of different customer needs. For this reason, in the Cards & TECURITY® area, customer specified process adaptations based on existing types of machines were undertaken, and numerous new machine developments were presented on the market. Examples of these innovations are the CMI 200 (Chip Milling Implanter), a low-end milling and implanting station, as well as the continuing development of the SCL (Smart Card Line), a modular and highly flexible system in the high-end production area, which sets new standards due to a new machine concept and innovative process handling. Furthermore, the entire card spectrum profits from the new card hot stamping system CHS 6000, used for applying holograms and kinegrams on cards, meeting the highest security standards, as well the newest Mühlbauer Scratch Off Solution HSO 30000. The latter offers customers the possibility to choose between applying labels or hotfoils in various sizes in order to conceal numbers or texts such as a PIN. Optical personalization is attained by using a full color inkjet printer unit, while a vision system ensures quality control. With a maximum throughput of 30,000 cards per hour, Mühlbauer satisfies the highest speed demands. The newly developed Matrix Embossing Unit used for the personalization of credit cards and EMV cards has also generated a great deal of market interest. This embosser has been specifically developed by Mühlbauer for high-volume usage and meets the current requirements in the banking sector, thereby setting new standards in regards to speed and quality. The end of the process chain is also completed by new systems designed by Mühlbauer, which is clearly demonstrated by the CardMAIL 2000 system, a complete solution for mailing personalized cards that was newly developed in 2007. This fully automatic system can process approx. 2,000 cards per hour, placing standard ID1 cards on letters, folding and placing them in envelopes ready for mailing.

The range of services offered by Mühlbauer in the Cards & TECURITY® area does not end with systems for the production of cards and passports, because ID projects undertaken by states and authorities require more than just hardware. Processes must be completely compatible, systems inter-combinable and able to be connected to a network that is often quite extensive. It is exactly this solution-oriented thinking that Mühlbauer pursues through each development phase. Software-based interfaces for matching and synchronization with connected databases are provided and the existing ID management systems are individually adapted, depending on the project. Mühlbauer is therefore able to offer hardware as well as the required software-based processes for a complete and extensive ID project.

Mühlbauer not only continued to expand its product portfolio in the Cards & TECURITY® sector but also in the RFID market, continuing its way as the leading provider of complete

solutions in the Smart Label area in 2007. The range of solutions for the inlay production was completed by the introduction of the newly developed CAT 20000 (Contactless Antenna Tester). This system allows the inlay producer to test antenna, even before the chips are applied, enabling him to achieve the highest level of quality during the production. In addition to these new systems for the inlay production, Mühlbauer expanded its range of machines also required for converting inlays in the ticketing and electronic paper label sector. As a counterpart to the CL 15000, the technology group provided its customers during the financial year with the IL 15000 (Insertion Line), a converting system developed to apply RFID-Inlays onto existing paper labels, enabling a contactless readability of the paper labels. Also newly developed is the TL 15000 (Test Line), which is used as a fully automatic quality check for self-adhesive labels and guarantees the highest quality of tested labels. By continually expanding the "Smart Label Factory", Mühlbauer is able to react in a flexible manner to meet even the most diverse market needs in the areas of both inlay production and the converting to self-adhesive label and tickets.

The market demands in the semiconductor back-end area are rapidly increasing in regards to performance, quality and improved operating convenience. Mühlbauer is determined to not only meet this swift pace but mainly to set the pace. Our goal is therefore to provide the market with a permanent source of new and innovative systems that will satisfy our customers in every respect. We are therefore continuing to develop our product portfolio in the Die Sorter area and were able to establish on the market a more advanced and efficient Die Sorter generation (DS 15000). By means of the establishment of our new technology center in Malaysia as well as our continuous product innovations, Mühlbauer was responding to the fact that an increasing number of customers relevant to Mühlbauer in the semiconductor industry is drifting away to Asia. Innovative technology solutions for the Asian market are to be developed and produced in this new plant, that creates excess value for both the company and our customers. In the image processing segment, Mühlbauer particularly accelerated the development of complex testing units in the area of security printing. In addition to the precise handling of the sheets and the software, it is imperative to also provide the necessary interfaces and process protocols to facilitate communication with the customer's data processing. It is hereby essential to adhere to strict security standards, that guarantee the reliability of data and provide absolute protection from unauthorized access.

Semiconductor Related Products

The Traceability area likewise benefited in 2007 from the ongoing development of new customer-oriented solutions. The development of the high-speed laser marking system WL 700 LCS sets new standards in the marking sector. Not only does the new conception accommodate the limited space of our customers, but marking time was reduced by 50% due to the application of new laser technology as well. In addition to new developments and adaptation techniques of different scanning and reading systems, which allow for example the reading of all prevailing coding, technical innovations at board handling systems were also undertaken, giving special attention to increasing productivity and avoiding production interruptions.

Traceability

Procurement

The effects of accelerated internationalization experienced in the financial year 2007 became noticeable at the procurement management within the Mühlbauer Group. More than a third of the new suppliers added in the year under review are located abroad. Particularly the Asian growth areas were included as a source of procurement. A particular contribution made the new Mühlbauer technology base in Malaysia, where the process for the development of a parallel purchasing organization with a technical purchasing department was already started. Mühlbauer thereby anticipates profiting from attractive local purchasing conditions, counteracting general price fluctuations and shortening the delivery time for products and raw materials needed by the Malaysian production base. Despite this internationalization of purchasing, we still maintain our fundamental principle "Buy centrally, procure decentrally" which was successfully practiced in the past. Our

decentralized purchasing organizations will therefore continue to be centrally directed and coordinated by strategic purchasing. All procurement transactions are thereby closely coordinated within the corporation.

The purchasing department at the Mühlbauer Group constantly aims to consistently commit those suppliers who are optimal for us in regards to pricing, innovation, reliability, service and quality. These criteria are constantly being audited by means of a standardized evaluation procedure and serve as the basis for cooperation. In addition to our generally high quality requirements, we began increasingly in the year under review to enter into separate quality agreements with our key suppliers. Thus we succeed not only to ensure that our specified quality of the products are met, but to continuously improve upon them.

A particular challenge for purchasing by the Mühlbauer Group in 2007 was the high price level in the commodities markets, particularly steel and aluminum. However, at an early stage Mühlbauer counteracted this development by entering into framework agreements to ensure efficient and cost-oriented procurement as well as guaranteeing the safety of supply and procurement. Furthermore, volume advantages were generated by bundling purchasing flows to create the largest possible volume and competitive prices. Price increases could thereby be either prevented or at least mitigated.

In the year under review expenditure for acquired services and the purchase of raw, auxiliary and operating materials amounted to EUR 52.4 million (PY: EUR 56.8 million).

We cultivate intense contacts to existing and future suppliers and foster friendly cooperation with our subcontractors for a mutually beneficial and trusting business relationship without giving up our own independence. We are convinced that these procurement politics combined with our modern purchasing management will help us in the future to achieve our first and foremost goal, namely to increase the value of the corporation by optimizing the procurement processes.

EMPLOYMENT

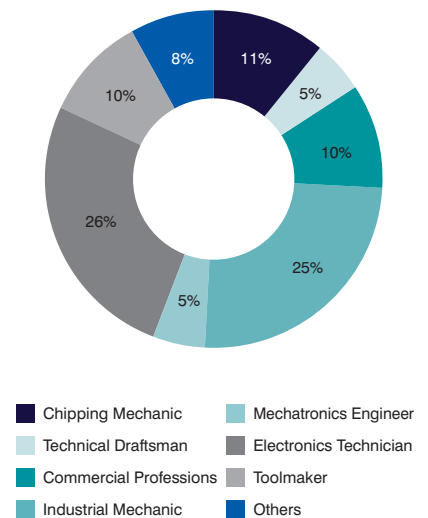
We at Mühlbauer are convinced that the decisive factors determining the sustainable economic success of our company essentially depends on the abilities, enthusiasm and committed dedication of our employees. For this reason, one of our main objectives is to prepare our employees for the demands, which are continually increasing due to innovation and competition in the marketplace, and to improve their skills. For this purpose the Mühlbauer Group provides a broad and comprehensive continuing education program, comprising not only general seminars and classes but also includes customized human resource development measures and individual training based on our corporate culture by the use of personal trainers.

An important component within our human resource development program is the continuing education of our management staff to ensure that they also are equipped to cope with the ever increasing challenges facing our globally active company. To achieve this goal, we cooperate with specifically selected partners and organizations. Furthermore our top leaders are trained by means of an in-house continuing education program taught by personal trainers to meet the ever-increasing demands for a modern executive. By introducing our new program "Lead and Act" in 2007, a concept tailored to the Mühlbauer Group, we train the central management competencies. At Mühlbauer, we strive not only to strengthen competency throughout all our established executives but continually seek out and identify talented new candidates to fill tomorrow's managerial positions and bind them long-term to the company. For these purposes, we initiated the program "Talent Development" in 2007, whose agenda includes awarding grants and offering specific stays abroad. Already during the apprenticeship, new talents are identified and specifically cultivated. It is our goal to provide the highly qualified graduates a long-term perspective within the Mühlbauer Group, where they have the opportunity to emphasize their abilities and develop their own talents. With the program "Talent Development", Mühlbauer trains highly qualified, loyal and highly motivated junior executives, thereby contributing to the lasting successful development of the company. Furthermore, the Mühlbauer Group offers all its employees a broad range of advanced training opportunities, extending from vocational training to personal development and health management.

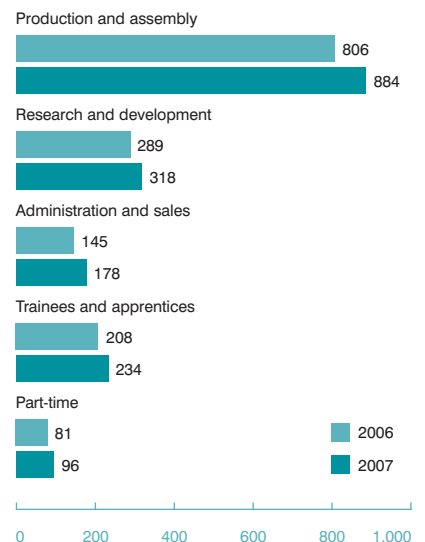
As much as Mühlbauer values the continuing training and education of its employees, the company is equally committed to provide vocational training to young people and thereby offering them a successful beginning to their future working life. Since the company was founded, the Mühlbauer Group has consistently provided training and emphasises this commitment in the form of its modern training center, which includes an apprentice workshop. At the end of 2007, 288 apprentices (PY: 238) were being trained in 14 different occupational careers, ranging from sports and fitness assistants for our in-house fitness center to technical draftsmen or mechatronic engineers. Mühlbauer also participates in the so-called DBFH-Model, a dual system of vocational education and certification of aptitude for specialized higher education. The trainees who participate in and successfully complete this program will be awarded both a craft certificate and the certificate, which qualifies them for admission to further education at the university level. The training quota within the company remains high. With 16.1% at the end of 2007 (PY: 14.8%) it is considerably more than the national average of 7%. This clearly demonstrates Mühlbauer's commitment to provide high quality training and education to future generations.

On 31 December 2007, the number of employees within the Mühlbauer Group increased to 1,791 (PY: 1,608). Due to the global expansion of the Mühlbauer Group, additional demand for employees ensued abroad, particularly through the process of developing the organizational structure at the technological base in Malaysia. In the 2007 financial year, personnel expenditures for the Mühlbauer Group amounted to EUR 57.7 million, an increase of 6.2% from 2006 (EUR 54.4 million). In 2007, salaries and wages amounted to EUR 47.9 million (PY: EUR 44.9 million). Social security contributions amounted to EUR 9.8 EUR million (PY: EUR 9.5 million), an increase of 3.2%.

Vocational training structure in %



Development of the average employee structure



Percentages were determined on the basis of the exact figures and may deviate due to rounding

OTHER DETAILS

Potential changes in the tax base

It is the opinion of the personally liable shareholder that since the implementation of the half-income assessment method, a tax law problem exists, by which his share of profits is subject to taxation in the full amount and not only in the half-income amount, even though these profits are “consumed” by the KGaA from dividend income (so-called capitalistic interpretation).

The personally liable shareholder therefore filed a lawsuit in the Nürnberg tax court in June 2007, after the internal revenue office responsible for the company voiced its intentions to revise its previous view that the so-called cooperated interpretation applies to the assessment of profits of a KGaA, and therefore the half-income assessment method insofar applies to the share of profits of the personally liable shareholder, just like computed dividends are contained in the share of profits in the sense of § 20 para. 1 No. 1 and 2 EStG (German income tax law).

Because the proceeding is still in the early stage, the company cannot assess the outcome of the proceeding. With the complaint procedure, the personally liable shareholder demands the application of the so-called cooperated interpretation in the taxation of a KGaA. In case of a successful outcome, this would have no consequence to the company, as the company has undertaken its assessment of taxable earnings corresponding to the prevailing view of the internal revenue office according to the so-called cooperated interpretation. In case the personally liable shareholder is not successful with the outcome of his filed complaint, the company will receive a tax reimbursement on the target date 31 December 2007 in the amount of approx. TEUR 7,036 in addition to interest. Concurrently, the company would have to refund to the personally liable shareholder share of profits reduced by applicable taxes in the amount of TEUR 5,674 in addition to interest.

EVENTS AFTER THE 2007 FINANCIAL YEAR

No events of major significance occurred after the reporting date 2007.

RISK REPORT

Our goal to continue global expansion of our market position of the Mühlbauer technology group, without losing sight of the value oriented development of the company, is accompanied by opportunity as well as risk. The Mühlbauer corporation risk management policy, therefore, not only endeavors to take advantage of existing opportunities but to identify risk factors at an early stage and implement appropriate countermeasures to confine and control these risks.

For this purpose, the company uses the firmly established opportunity and risk management system, which has been in place for many years, and which is continually being developed and tested for effectiveness. Sensitization of all staff to identify, notify and monitor risks at an early stage is communicated and executed across the Group. Our risk management handbook provides in-depth documentation of risk management, as required by law, which can be reviewed by all employees worldwide. Due to the short paths of interaction new identified risks can quickly reported in an unbureaucratic manner to the risk management committee or a member of the board.

The risk report, which results from the half-yearly risk inventory of all group companies, is drawn up centrally and is used by management to control the company in a value ori-

ented way, in addition to other reporting elements. 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 (EBIT) is effected by the respective executive responsible for the risk. A report, which includes a plausible calculation of the expected value, including a detailed explanation, a list of countermeasures and a schedule for their implementation, is compulsory and will be discussed in detail at risk management committee meetings.

It is the responsibility of every executive to monitor the implementation and effectiveness of opportunity and risk management. At the same time, the efficiency of the system is evaluated and optimized by an independent third party by means of regular internal audits. As they have done in the past financial years, the auditors have evaluated the early detection system used in the 2007 financial year. They determined that all legal requirements have been met.

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.

In a dynamic market and competitive environment where costs and competition are continuing to intensify, it is necessary to provide products and competitive solutions that are in line with market requirements. Our strategy is therefore to be extremely focused on providing market and product oriented solutions in this area and, however, can lead to errors or delays in developments if we have incorrectly assessed the available market information. By an active dialog with our customers and intensive internal analysis and research of the market environment, customer wishes and our competition, we can react at an early stage with new developments to meet the needs in the industry. In so doing, we utilize continually updated and comprehensive information and communication tools as well as analysis of available market information.

Business environment and industry risks

In our efforts to continue expanding our technological and market leadership in markets that are relevant to us, Mühlbauer is already positioning itself on the market at a very early stage with its innovative machines and solution concepts. We are aware of the latent danger that our technologies could potentially be replicated by other companies. Different measures are being undertaken to counteract the potential drain of know-how due to industry spying or poaching. We manage this risk by continually observing the market, protecting and patenting our core technologies and processes, focusing on expanding our technological edge and continually developing our international organization.

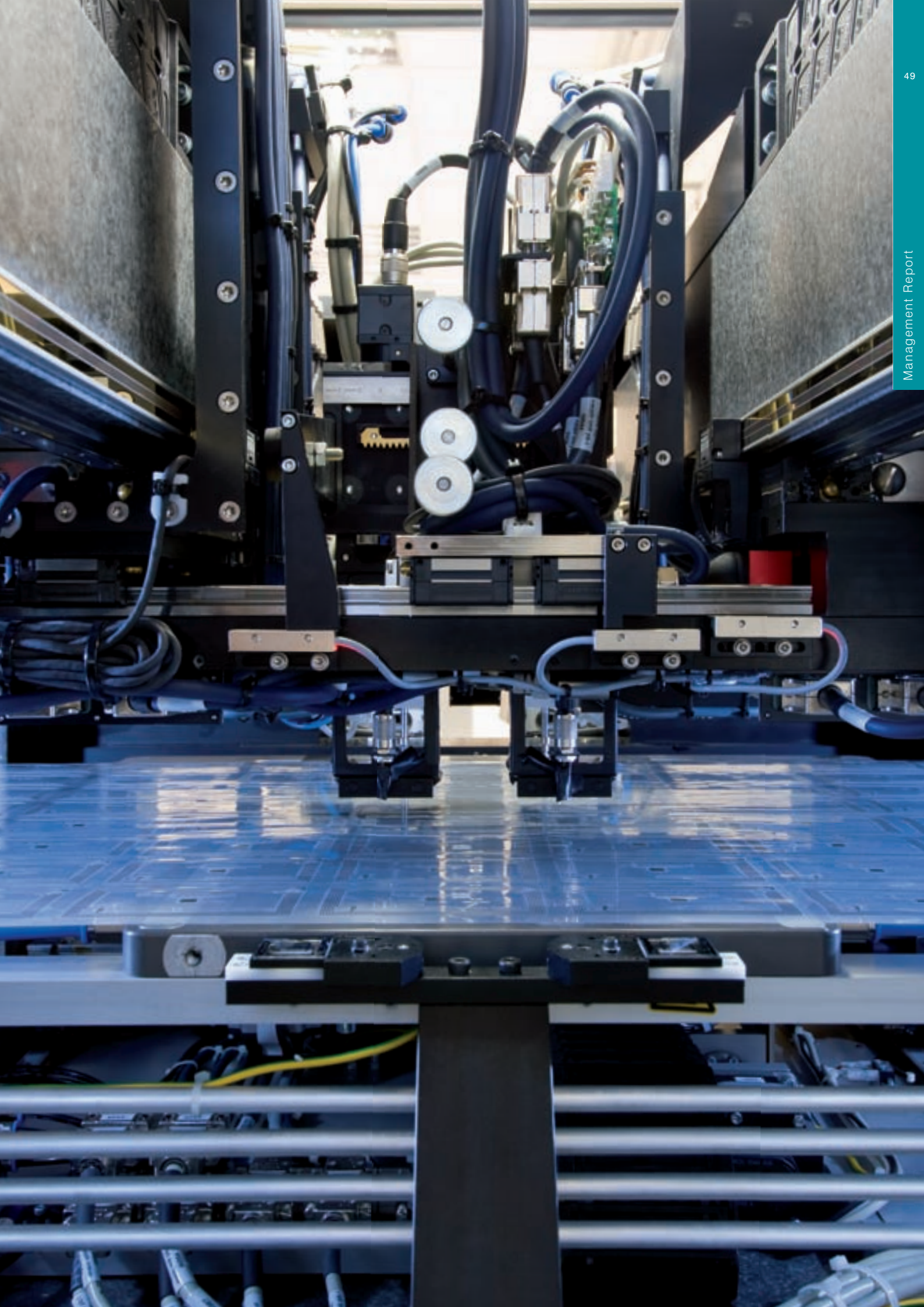
Damage or consequential damage due to defects can occur if our machines prove to have some qualitative defects that were not detected during the internal product qualification process. These defective end-products that may have been put into circulation could lead to production down-times or new production at the customer's facility, resulting in expenses for which Mühlbauer could potentially be made liable. To help contain this risk at a manageable level, preventive measures are undertaken such as internal product qualifications for new product developments, audit of advance development of processes, support during installation by quality management systems for production on site at the customer's facilities and drawing up corresponding contracts which take into consideration any potential damage to assets that could occur.

Technology risks

For a company with such a significant amount of research and development activity and continual expansion of its product portfolio, there is always an increased risk that other

trademarks could be violated when developing new types of technology solutions, which could lead to disturbances in the development and production of new products and delay their introduction onto the market. Mühlbauer protects itself from possible infringing on any trademark rights by conducting systematic investigations to identify and evaluate third-party trademarks.

- Expansion risks** The internationalization of the group involves the risk that the significant amount of liquid assets required to start up newly established companies or facilities, in addition to the high personnel capacity, cannot be fully covered during the building phase from organic income derived by the new facility. To counteract this risk factor, we proactively seek to maintain a transparent organization, coupled with a clear assignment of responsibilities, pursue continuous dialog with the local organization, train personnel in specific corporate workflow systems, transfer corporate culture and accelerate the exchange of technological know-how.
- IT-risks** The risks confronting the IT area are that networks can malfunction and that data could be falsified, destroyed or illegally copied because of unauthorized access. We counteract these IT-risks by regularly investing in hard and software and using the most up-to-date virus scanners and firewall systems, in addition to undergoing penetration tests conducted by external providers to test the IT-security of our computer network. By making our employees aware of data security and the potential of data abuse and establishing a comprehensive authorization management and encryption concept, we seek to keep potential risk to a manageable level.
- Personnel risks** The competition for highly qualified specialists and executive personnel is still fierce within the industry and in the region in which Mühlbauer is active. In order to implement its business strategy, the company is obligated to actively seek out highly qualified personnel in an intensely competitive environment and provide motivation for these individuals to ensure their long-term commitment to the company. Mühlbauer meets this challenge by providing intensive education and continuing training programs for junior employees within the company and supports the progression of loyal employees to the executive level. Underlying all our personnel development concepts is our internal corporate culture.
- Fluctuations in orders may lead to excess personnel capacity in some areas. To counteract this risk, while avoiding as many lay-offs as possible, we insist on uniform qualification standards for staff thus being able to deploy employees flexibly and across departments. Limited term contracts also assist in delimiting this risk.
- Financial risks** Currency risk is mitigated by the use of hedge instruments and constant monitoring of a bundle of early warning indicators. With regard to disclosure requirements the on opportunity and risk management, codified in § 315 para. 2 HGB (German Commercial Code), in regards to the use of financial instruments, we refer to the corresponding remarks in the notes of this financial statement report under 32 "Additional information regarding financial instruments" and 33 "Risk management and financial derivatives" that can be found in the notes.
- Other risks** To protect from external forces such as storm, water and fire, the Mühlbauer Group has a comprehensive insurance package that is evaluated on a regular basis and adjusted as needed.



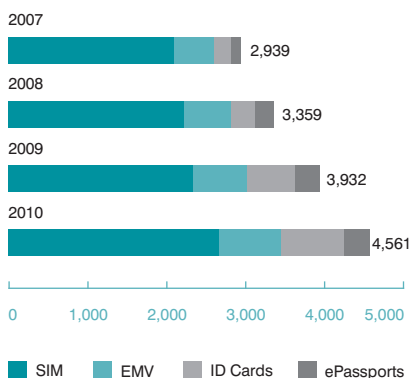
OUTLOOK

Global economy

Although the world economic tensions have increased recently, leading economic research institutes believe that the economic momentum will continue in 2008. However, the pace will decelerate compared to 2007 particularly in the group of industrial countries. Especially the turbulences on the financial markets, triggered by the real-estate crises in spring 2007, and the continuing fear of a downturn in the United States, could have a negative impact on the global economic development. The US-American central bank FED is therefore trying to stabilize the US-American economy with massive interest rate cuts. If this strategy proves successful, the risk of massive instability in the financial sector could be contained, and the US economy could experience a soft landing, without seriously affecting the rest of the industrial markets. As a consequence, the rest of the world economy could develop according to the expectations of leading economists. According to their prognosis, the expansion in Japan will continue at a moderate pace in 2008. Growth impulses will be derived from private consumption, while foreign trade will cool off. To prevent the Chinese national economy from overheating, the government and central bank are attempting to curb rapid expansion by increasing central bank interest rates and postponing investment projects. Growth in China will therefore be somewhat curtailed but should be able to achieve an disproportionate gain in the expansion rate of real GDP of more than 10%. India is expected to generate remarkable economic growth in 2008, since the weakening of the world economy did not have much of an effect on the expansion pace within the country due to the low exposure to exports. Economic expansion in the Euro area will continue to decline, although a sharp downturn is not expected. The restricting effects are particularly due to the cooling US economy and the strong euro, as these factors present a burden to exports for the Euro zone, and to declining investments. This can be partially compensated by the positive impulses from the fairly high dynamics of the world economy, particularly from the Asian region. The economic upturn in Germany in 2008 will be increasingly supported by domestic demand, as the increase in disposable income has a positive effect on consumer confidence. Foreign trade impulses will abate, however. An increase in imports and a declining development in exports outside the European Monetary Union will result in a reduced trade surplus.

Industry development

Worldwide Smart Card market in mill. units

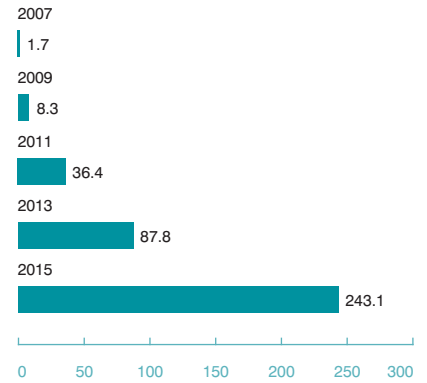


Source: Gartner

The market for innovative identification documents and intelligent chip cards will continue its positive development in the future. Especially the TECURITY® market is in a global transformation process, leading to new security-oriented ID-systems, accordingly market research institutes and industry experts are prognosticating a high need for new electronic passports, ID-cards, health insurance cards and driver's licenses. Germany, for example, has already begun the introduction of a second generation of electronic passports which will gradually be adopted by all members of the European Union in 2008 and 2009. Approx. 30 further countries worldwide deal with the implementation of electronic passports or are already in the conception phase in preparation for the conversion. The increasing use of these new biometric travel documents will also bring change to border controls. For the same reason that electronic passports are becoming standard for the travelling and border traffic, the use of electronic and biometric-supported verification systems will be required to match people and documents. Market researcher BCC Research therefore anticipates an average growth rate in global sales in the biometrics market of approx. 21% until 2012. But new innovative documents are not only being used in border traffic. The introduction of other government applications based on the use of Smart Cards is accelerating worldwide. Regardless of the type of cards - ID cards, driver's licenses or health insurance cards - governments and authorities worldwide intend to utilize the advantages of chip-based card technology to offer their citizens an additional benefit with a higher level of security. We can also expect future growth for bank cards, EMV and SIM cards. While the need for new bank cards is increasing because of the conversion from magnetic stripe cards to EMV chips, additional growth will result due to the increasing expansion of the mobile telephone network in India, China, Russia, and Africa. In view of the increasing need for Smart Cards in all market segments, market researcher Gartner estimates an annual growth rate of 16% until 2010.

In addition to the TECURITY® market, the market for contactless identification using RFID labels is showing considerable growth potential. Be it contactless readable labels optimizing logistic processes or RFID tickets ensuring safe access controls, the application of RFID-technology is continually expanding and become increasingly diverse. It is also apparent, however, that the market will develop more slowly than anticipated in the past. This particularly applies to the application in the UHF area (e.g. supply chain management). Although the different projects for example of Metro, Karstadt or Marks & Spencer have contributed to massively stimulate the use of this technology, sales volume must still improve. Significant signs of growth can be found in the HF application such as ticketing. Several projects particularly in public mass transit are underway worldwide to expand the use of RFID tickets, such as the RFID ticket system implemented for use in the Moscow subway, which will require 30 million inlays monthly. Even though the RFID market will continue to experience some delays in short term, we still expect significantly positive growth in the mid to long term.

Market for RFID labels in bn. units



Source: IDTechEX, 2007

Whereas the general semiconductor market only generated approx. 3.2% growth in 2007, the Semiconductor Industry Association (SIA) is in agreement with other market researchers and estimates a growth rate of approx. 7.7% in 2008. It is also unanimously assumed that the market will continue its cyclical volatility, but the extreme fluctuations experienced in the semiconductor sector should abate due to the improved forecasting methods used in the industry.

We expect a positive development in the Traceability market over the next two years. Our customers will continue to shift their production facilities to foreign countries, requiring additional investments in new locations.

Our prognoses take into consideration our risk and opportunity evaluation and are based on our operative assessment and medium term predictions for the business areas, SmartID, Semiconductor Related Products, Traceability and Precision Parts & Systems. Apart from our longstanding experience in the individual business fields, these rely on the market prognosis of our customers and the assessments of independent institutes such as Gartner for the Smart Card market or IDTechEX for the development of the Smart Label market. Our operative valuation assumes a stable price development, a moderate energy and commodities price development and an increase in personnel expenses. We do not forecast foreign exchange rates. We will continue to assume that the legal structure of Mühlbauer Holding AG & Co. KGaA will remain unchanged. Any possible changes in the consolidation scope through sales and acquisitions will be disregarded.

Premises of the outlook for the Mühlbauer Group

The expected growth in sales of the business area SmartID will be also in 2008 and 2009 significantly affected by the product sector Cards & TECURITY®. The market forecasts made by leading market research institutes emphasize the positive prospects for the development in sales in the security-oriented ID systems in Smart Card and passport formats. According to their estimations, continued growth can be expected in both the EMV and GSM card market and TECURITY® market, and high double-digit growth anticipated in the ID card and electronic passport sectors. Even though the demand for Mühlbauer's technology and software solutions and the number of Smart Cards required by the market are subject to natural fluctuations, we anticipate a dynamic development over the next years in the product area Cards & TECURITY® and expect a continued increase in sales. The main risk factor we see that could potentially impact this are if the realization of planned projects were delayed or if certain projects fail to culminate in firm orders.

Outlook for the business area SmartID

In view of the increased implementation of RFID technology by global leading commercial enterprises such as Wal-Mart, the Metro Group and Karstadt, we expect increasing production capacity utilization in the market. Based on the high growth rates predicted by the market research institute IDTechEx especially for the logistic processing and ticketing sectors in the upcoming years, we expect that sales in the product area Smart Label will intensify in the next two years. The main risk factors we can see are the delay of the forecast market development, the changing of materials and production methods or the fact that market predictions do not come about as scheduled.

Outlook for the business area Semiconductor Related Products

In the Semiconductor Related Products area, Mühlbauer focuses with its product portfolio on specialized niche areas, which is not necessarily affected by the high cyclicality of the semiconductor industry according to experience. Sales growth in this area is therefore less dependent on the general development of the semiconductor market, that should show an upward trend in 2008 according to most market research institutes.

This year, our research and development center will be introducing an entire series of new-generation projects that are currently in the development pipeline, with the goal of accelerating and expanding the market positioning of the area Semiconductor Related Products. Innovative and refined product solutions will continue in the future to accommodate the accelerating and competitive-intensive market development and the changing needs of our customers. Against the backdrop of the market maturity of these new product solutions in at mid-year, we anticipate a moderate increase in growth during the current year and expect this trend to accelerate in 2009. The main risk factors we have identified in this area include more intense competition and a deterioration of market prospects.

Outlook for the business area Traceability

The strategic positioning of the business area Traceability forms the basis for sustained positive development. With the new assembly concept developed in the automation sector, Mühlbauer provides the industry with an exceptionally well-balanced symbiosis between automation and manual operation that fulfills all the requirements in regards to quality and economic efficiency.

On the whole, we are anticipating continuing sales growth in 2008 and 2009. These expectations are supported by the introduction on the market of new products from the service and software area. Again, the main risk factors we have identified in this area include a deterioration of market prospects and more intense competition.

Outlook for the business area Precision Parts & Systems

The area Precision Parts & System will continue its positive trend by expanding its production capacity and acquiring innovative manufacturing and assembly centers, and sales growth will continue over the next two years. The biggest risk factor we see here is a potential deterioration of market growth.

Development of Mühlbauer

Under consideration of the above mentioned uncertainties that we have identified, we do anticipate positive developments in both sales and earnings.

The new technology base in Malaysia completed in 2007 has established Mühlbauer in a new and strategically significant position from which to pursue its internationalization efforts and global orientation. The expansion to Malaysia has already proven successful, as the technology facility has already received its first orders from China and neighboring Singapore. The US-American market offers similar opportunities. To take advantage of the market potential in the US, Mühlbauer seeks to intensify its positioning there and equip its Virginia branch this year with a state-of-the-art customer relations center. Furthermore, the company intends to press ahead with the strategic expansion of its development site in Slovakian Nitra built in 2007.

Our investments for the future will remain high to ensure the company's long-term growth and development through innovation. The ratio of research and development expenses to sales should remain above 12%. We expect investments in fixed assets of up to EUR 10 million.

Dividend development

A change in our dividend policy is not under consideration. Based on our expected financial results, we will again propose to our shareholders a dividend distribution based on earnings.

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, 2007
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Jan. 1 - Dec. 31, 2007 TEUR	Jan. 1 - Dec. 31, 2006 TEUR
1. Sales	(3)	159,134	160,676
2. Cost of sales	(5)	(94,931)	(91,406)
3. Gross profit		64,203	69,270
4. Selling expenses	(6)	(9,674)	(11,421)
5. Administrative expenses	(7)	(7,568)	(7,654)
6. Research and development	(8)	(20,280)	(17,081)
7. Other income	(9)	1,000	1,409
8. Other expenses	(9)	(1,270)	(86)
9. Operating income		26,411	34,437
10. Financial result			
a) Financial income	(10)	2,970	3,747
b) Financial expenses	(10)	(937)	(171)
11. Income before income taxes		28,444	38,013
12. Income taxes	(11)	(9,330)	(10,285)
13. Net earnings		19,114	27,728
Earnings per share in EURO			
basic	(12)	1.31	1.90
fully diluted	(12)	1.31	1.90
Weighted average of shares			
basic	(12)	6,105,206	6,086,439
fully diluted	(12)	6,105,212	6,086,640

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

**CONSOLIDATED BALANCE SHEETS (IFRS) AS AT DECEMBER 31, 2007
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Dec. 31, 2007 TEUR	Dec. 31, 2006 TEUR
ASSETS			
Short-term assets			
Cash and cash equivalents	(13)	16,425	11,311
Marketable securities	(14)	21,062	21,819
Trade accounts receivable	(15)	29,536	30,106
Other current assets	(16)	4,770	4,619
Tax receivables	(17)	1,233	1,360
Inventories	(18)	39,913	39,786
		112,939	109,001
Long-term assets			
Investment and long-term financial assets			
Marketable securities	(19)	4,562	11,524
Trade accounts receivable	(15)	1,536	1,335
Other loans	(20)	2,150	-
		8,248	12,859
Fixed assets			
Land and buildings	(21)	26,276	25,683
Technical equipment	(21)	8,217	8,895
Furniture and office equipment	(21)	5,315	5,168
Buildings and equipment in progress	(21)	179	377
		39,987	40,123
Intangible assets			
Software and licenses	(22)	1,001	1,039
Capitalized development costs	(22)	8,603	8,971
		9,604	10,010
Other long-term assets			
Long-term tax receivables	(23)	2,389	2,268
Deferred tax assets	(11)	162	42
Plan assets	(27)	1,302	926
		3,853	3,236
		174,631	175,229
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term liabilities			
Financial liabilities		21	-
Trade accounts payable		6,068	7,655
Downpayments	(24)	6,769	5,646
Other liabilities	(25)	5,226	4,723
Accrued income taxes	(26)	1,962	2,540
Other accruals	(26)	9,350	9,847
		29,396	30,411
Long-term liabilities			
Deferred tax liabilities	(11)	3,492	4,519
		3,492	4,519
Shareholders' equity			
Ordinary share capital	(28)	8,038	8,038
Own shares	(28)	(214)	(240)
Fixed capital contribution	(28)	(2,980)	(2,980)
Additional paid-in capital	(28)	60,483	59,872
Other comprehensive income	(28)	326	1,259
Retained earnings	(28)	76,090	74,350
		141,743	140,299
		174,631	175,229

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, 2007 TEUR	Jan. 1 - Dec. 31, 2006 TEUR
Cash provided by operating activities		
1. Net earnings	19,114	27,728
2. + Income taxes	9,330	10,285
3. + Interest expenses	295	148
4. - Interest incomes	(534)	(275)
Adjustments for non cash expenses and income		
5. +/- Expenses/(income) from employee profit-sharing programs	162	188
6. +/- Depreciations/(appreciations) to fixed assets	6,341	6,128
7. +/- Depreciations/(appreciations) to intangible assets	725	614
8. +/- Depreciations/(appreciations) to capitalized development costs	2,575	3,144
9. +/- (Gains)/losses from the sale of fixed assets	(248)	(261)
10. +/- Currency differences from the transition of long-term assets	-	(1)
11. +/- Realized net (gains)/losses from short- and long-term marketable securities	(1,045)	(2,265)
12. +/- (Gains)/losses from the change in fair value of financial instruments	149	(222)
13. +/- (Increase)/decrease of deferred tax assets	(118)	57
14. +/- Increase/(decrease) of deferred tax liabilities	(1,039)	473
Changes in long-term assets and working capital		
15. +/- (Increase)/decrease of inventories	(106)	(6,275)
16. +/- (Increase)/decrease of trade accounts receivables and other short-term assets	(631)	(12,368)
17. +/- Increase/(decrease) of trade accounts payables and other liabilities	1,834	(2,310)
18. + Proceeds from sales of short-term marketable securities (available-for sale and held-to-maturity papers)	27,485	24,734
19. - Acquisitions of short-term marketable securities (available-for sale and held-to-maturity papers)	(26,266)	(29,351)
20. = Cash generated from operating activities	38,023	20,171
21. - Income tax paid	(12,657)	(11,827)
22. - Interest paid	(110)	(13)
23. + Interest received	353	252
24. = Cash provided by operating activities	25,609	8,583
Cashflow from investing activities		
25. + Proceeds from disposals of fixed assets	1,277	321
26. +/- (Increase)/decrease of other loans	(2,395)	-
27. - Purchase of fixed assets	(6,596)	(7,947)
28. - Purchase of intangible assets	(486)	(992)
29. - Expenditures for capitalized development costs	(2,207)	(4,341)
30. + Proceeds from sales of long-term marketable securities (available-for sale-papers)	8,652	3,999
31. - Acquisitions of long-term marketable securities (available-for sale-papers)	(1,672)	(3,876)
32. = Cash used for investing activities	(3,427)	(12,836)
Cashflow from financing activities		
33. +/- Increase/(decrease) of short-term financial liabilities	21	(960)
34. + Proceeds from sales of own shares	475	384
35. - Dividends paid	(15,617)	(12,006)
36. +/- Tax withdrawal personally liable shareholder	(1,758)	(1,250)
37. = Cash used for financing activities	(16,879)	(13,832)
38. +/- Increase/(decrease) of currency exchange rate changes	(189)	(90)
39. = Net increase/(decrease) in cash and cash equivalents (Total of lines 24, 32, 37 and 38)	5,114	(18,175)
40. + Liquid funds at beginning of reporting period	11,311	29,486
41. = Liquid funds at end of reporting period	16,425	11,311

We refer to additional informations on page 86 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	Total number of shares	Own shares Number	Ordinary share capital TEUR	Fixed capital TEUR	Other comprehensive income/(loss)				Total TEUR
						Additional paid-in capital TEUR	Cumulative transaction adjustments TEUR	Available for-sale- securities TEUR	Retained earnings TEUR	
Balance Jan. 01, 2006		6,279,200	(202,437)	7,779	(2,980)	59,319	191	2,028	59,878	126,215
Net earnings		-	-	-	-	-	-	-	27,728	27,728
Other comprehensive income/(loss)	(28)	-	-	-	-	-	(90)	(870)	-	(960)
Total comprehensive income/(loss)	(28)	-	-	-	-	-	(90)	(870)	27,728	26,768
Deferred compensation	(28)	-	-	-	-	188	-	-	-	188
Proceeds from sales of own shares	(28)	-	14,935	19	-	365	-	-	-	384
Dividends	(28)	-	-	-	-	-	-	-	(13,256)	(13,256)
Balance Dec. 31, 2006/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

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 and semiconductor industries. 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 estimations 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. To determine the adequacy of adjustments to bad debt required, management applies as basis the maturity structure of debt, experiences in regards to charge-offs to debt in the past, the credit-worthiness of the customer, as well as changes in payment terms. If a deterioration of the financial state of the customer is determined, the extent of the actual write-offs to be undertaken may exceed the amount of the assumed write-off. 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 2007 onwards and which have not been applied in the past

- IFRIC 9 “Reassessment of Embedded Derivatives”:
IFRIC 9 is applicable for the financial periods beginning on or after 01 June 2006. This interpretation provides an assessment if an embedded derivative is required to be separated from the host contract and accounted for as a derivative. 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.
- IFRIC 10 “Interim Financial Reporting and Impairment”
IFRIC 10 is applicable for financial periods beginning on or after 01 November 2006. This interpretation concludes that impairment losses recognized in the financial period shall not be reversed at the end of the year. This only applies to impairment losses in respect of:
 - Goodwill
 - Investment in an equity instrument deemed disposable
 - Financial assets accounted at acquisition costs
 The application of this interpretation had no effect on the financial statement or the notes to the financial statement of the Mühlbauer Group.
- IAS 1 (revised) “Presentation of Financial Statements – Capital Disclosures”:
Revised IAS 1 is applicable for financial periods beginning on or after 01 January 2007. The company is required to provide disclosure in regards to the company’s objectives, policies and processes for managing equity. For additional notes, we refer to the notes to the financial statement (28) “Shareholders’ equity”.
- IFRS 7 “Financial Instruments: Disclosures”:
IFRS 7 is applicable for financial periods beginning on or after 01 January 2007. Compliance with this standard results in extensive notes to the financial statement. To give a direct comparison, corresponding figures have been provided from the previous years. The first-time application of this interpretation had no effect on the asset, financial and earnings situation 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 01 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, that need not yet be urgently applied

- IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”:
IFRIC 11 is applicable for financial periods beginning on or after 01 March 2007. Mühlbauer will apply IFRIC 11 as of 01 January 2008. The interpretation regulates if share-based payments within the Group is an equity-settled or cash-settled transaction. This will not have an effect on 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 2007, the scope of consolidation of the company not only comprised Mühlbauer Holding AG & Co. KGaA but also 9 additional subsidiaries in Germany and 7 subsidiaries abroad as well as a special fund.

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.

German companies:

Name and registered office	Share in equity in %	Shareholders' equity in TEUR	Annual result in TEUR
ASEM Präzisions-Automaten-GmbH, Dresden	100	2,809	208
MB ID3 GmbH, Roding	100	25	-
MB ID4 GmbH, Roding	100	25	-
Mühlbauer Aktiengesellschaft, Roding	100	76,958	13,240
Mühlbauer ID Services GmbH, Roding	100	2,408	1,854
Rommel GmbH, Ehingen	100	4,234	666
Systronic Systemlösungen für die Elektronikindustrie GmbH, Flein	100	38	94
takeID GmbH, Oberhaching	100	(39)	(16)
Tema GmbH, Schwelm	100	1,312	702
Special fund (separate assets) ¹⁾	100	14,376	610

¹⁾ Financial year from 1 December to 30 November

(2) SUMMARY OF KEY ACCOUNTING PRINCIPLES

Foreign companies:

Name and registered office	Share in equity in %	Shareholders' equity in TEUR ²⁾	Annual result in TEUR ³⁾
Muehlbauer, Inc., Newport News, Virginia, USA	100	742	(85)
Muehlbauer (India) Private Limited, New Delhi, India	100	16	13
Muehlbauer Middle East FZ-LLC, Dubai, United Arab Emirates	100	345	(10)
Muehlbauer (PTY) Limited, Midrand, South Africa	100	(37)	6
Muehlbauer Technologies s.r.o., Luzianky, Slovakia ⁴⁾	100	723	(169)
Muehlbauer Technologies Sdn. Bhd., Melaka, Malaysia	100	2,470	(571)
Muehlbauer Sdn. Bhd., Melaka, Malaysia	100	2,196	(55)

²⁾ Translation at the exchange rate on the reporting date 31 December 2007 ³⁾ Translation at the transaction rate

⁴⁾ Initial consolidation on 16 January 2007

Changes in the scope of consolidation

On 04 December 2006, the company founded the subsidiary, Muehlbauer Technologies s.r.o., headquartered in Bratislava, Slovakia. On 16 January 2007, the company was registered under the Number 44109/B, section Sro. On 17 July 2007, company headquarters were transferred from Bratislava to Luzianky, Slovakia. The company is responsible for research and development, production and sales of technologies and products used in the Cards & TECURITY® industry. Subscribed capital of the company is SKK 30 million, which was paid in full at the end of the financial reporting period.

Alteration of reporting methods

In the previous year, a portion of prepayments (TEUR 21) made was accounted for in the item inventory. Payments made in advance are to be reflected in other assets.

In the consolidated cashflow statement, payments in and payments out of security transactions, which are carried in short-term assets, are applied to cashflow of operating activities. Until now, these transactions were carried in cashflows from investment activities.

For comparison purposes, corresponding values from the previous year were applied.

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 and the depreciation of fixed assets and intangible assets, which is translated at historic exchange rates – while the items on the statement of income are translated using the exchange rate at the time of the transaction. 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 zone and in which Mühlbauer is active with consolidated subsidiaries are listed below:

Currency:		Rate on reporting date 31 December 2007 EUR	Rate on reporting date 31 December 2006 EUR	Average rate 2007 EUR	Average rate 2006 EUR
India	1 INR	0.0172	0.0172	0.0176	0.0177
Malaysia	1 MYR	0.2051	0.2145	0.2114	0.2165
Slovakia	1 SKK	0.0298	0.0291	0.0297	0.0269
South Africa	1 ZAR	0.0996	0.1075	0.1030	0.1172
USA	1 USD	0.6790	0.7574	0.7247	0.7960
United Arab Emirates	1 AED	0.1848	0.2062	0.1973	0.2167

Realization of sales, other operating income and operating expenses

Sales comprise 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 and 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 indicators 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".

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 (Hedge 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 Amortised 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

(3) SALES 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”.

Of sales, TEUR 152,199 (PY: TEUR 154,045) are allotted to sales of goods and TEUR 6,935 (PY: TEUR 6,631) to performance of services.

Included in sales of TEUR 159,134 (PY: 160,676) are order revenues of TEUR 5,954 (PY: TEUR 701), which are calculated using the percentage of completion method.

(4) COSTS OF FUNCTIONAL AREAS

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:

	2007 TEUR	2006 TEUR
Material expenses (external supplies)	52,354	56,794
Personnel expenditure	57,732	54,364
Depreciation	8,505	8,848
Total	118,591	120,006

(5) COST OF SALES

Cost of sales comprise 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 include the balance of devaluations and revaluations on inventories executed in the respective period.

(6) SELLING EXPENSES

In addition to the costs for the sales departments and the field staff, sales expenses also comprise advertising costs (TEUR 1,138; PY: TEUR 1,002) and costs for logistics (TEUR 1,821; PY: TEUR 1,611). The position also includes the major share of devaluations on trade accounts receivable. In the year under review, income from the discontinuing of value adjustments for trade accounts receivable amounted to TEUR 1,127 (PY: expenses TEUR 793).

(7) ADMINISTRATIVE EXPENSES

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.

(8) RESEARCH AND DEVELOPMENT

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 25,084 (PY: TEUR 24,566) in the past financial year. Research costs include refunds for research and development of TEUR 898 (PY: TEUR 863).

	2007 TEUR	2006 TEUR
Canteen earnings	350	336
Earnings from closing accruals	253	-
Insurance and other reparations	128	211
Gains from the sale of fixed and current assets	101	513
Rental income	2	13
Foreign currency profits	-	161
Other	166	175
Sum of other operating income	1,000	1,409
Donations	(35)	(41)
Losses from the sale of fixed and current assets	(46)	(45)
Foreign currency losses	(216)	-
Other	(973)	-
Sum of other operating expenses	(1,270)	(86)
Total	(270)	1,323

(9) OTHER INCOME AND EXPENSES

	2007 TEUR	2006 TEUR
Interest and dividend income	874	791
Other interest and similar earnings	601	372
Realized income from securities and financial assets	1,495	2,584
Financial income	2,970	3,747
Interest and similar expenses	(509)	(148)
Expenses from the valuation of assets and debts	-	(3)
Realized losses from securities and financial assets	(428)	(20)
Financial expenses	(937)	(171)
Total	2,033	3,576

(10) FINANCIAL RESULT

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:

(11) INCOME TAXES

	2007 TEUR	2006 TEUR
Actual tax expenditure	10,587	12,040
Relating to other periods	293	5
(Earnings) from the dissolution of accrued income taxes	(90)	(26)
(Earnings) from the application of tax credits	(6)	(2,268)
Actual taxes on income and earnings	10,491	9,746
Deferred tax expenses (gains) from loss carryovers	(14)	(20)
Deferred tax expenses (gains) from temporary differences	(1,147)	559
Taxes on income and earnings	9,330	10,285

The German corporate tax laws applied for the financial year 2007 stipulates a tax rate in the amount of 25% (PY: 25%) in addition to the solidarity surcharge of 5.5%. The commercial tax burden for German companies is between 13.4% and 17.9%.

Due to the corporation tax reform laws 2008 announced on 17 August 2007, the statutory corporate tax rate will be lowered to 15% for domestic companies, starting in the financial year 2008, while the commercial tax will be slightly increased. Deferred taxes for domestic companies will therefore be valued with a total tax rate – including the solidarity surcharge – of between 26.7% and 31.1% (PY: 36.7%). The reduced domestic tax rate resulted in an income of TEUR 1,217 in the financial year 2007. The corporate tax reform laws 2008 contains additional individual measures, which in the future could compensate for a part of the income tax relief.

In the previous year, earnings from the capitalization of a payment claim from a corporate tax credit in the amount of TEUR 2,268 reduced tax expenses. 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:

	2007	2006
	TEUR	TEUR
Changes in deferred tax assets in accordance with the balance sheet	120	(57)
Changes in deferred tax liabilities in accordance with the balance sheet	1,027	(410)
Changes in deferred tax assets/liabilities that do not affect income	(13)	(63)
Exchange rate fluctuation	27	(9)
Deferred taxes in accordance with the statement of income	1,161	(539)

Overall, deferred tax assets from tax loss carryovers amount to TEUR 34 (PY: TEUR 20). All loss carryovers, for which deferred tax assets were formed, can be carried forward unrestrictedly. During the financial year, no accrued tax claims were applied for the tax loss carryovers in the amount of TEUR 1,016 (PY: TEUR 40).

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

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	TEUR	TEUR	TEUR	TEUR
Trade accounts receivable	-	116	-	7
Inventories	100	64	-	130
Marketable securities	12	21	-	55
Fixed assets	260	1,487	325	1,735
Capitalized development costs	-	2,325	-	3,274
Pension accruals	423	-	469	-
Unrealized profits and losses from currency translation	16	93	3	67
Tax loss carryovers	34	-	20	-
Other	5	74	23	49
Subtotal	850	4,180	840	5,317
Balance of deferred tax assets and liabilities	(688)	(688)	(798)	(798)
Total deferred taxes	162	3,492	42	4,519

Deferred tax assets and liabilities are offset if deferred taxes exist in respect of the same tax authority and they can be offset. The probable realization of deferred tax assets and liabilities can be found in the following table:

in TEUR	2007		2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Realization within 12 months	159	355	42	375
Realization after more than 12 months	3	3,137	-	4,144
	162	3,492	42	4,519

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:

		2007	2006
Income before income taxes	TEUR	28,444	38,013
Rate of income tax including trade tax	%	36.7	36.7
Expected income tax expenditure with uniform tax burden	TEUR	(10,439)	(13,962)
Reconciliation:			
Changes in taxes due to differences between local tax rates and the hypothetical tax rate	TEUR	130	278
Changes in taxes for deferred taxes due to future changes in tax rates	TEUR	1,217	-
Tax increases due to losses, for which no deferred taxes were created	TEUR	(390)	-
Tax share for:			
Tax-free earnings	TEUR	448	874
Non-tax deductible expenditure	TEUR	(450)	(333)
Actual taxes relating to other periods	TEUR	(203)	21
Other tax deviations	TEUR	(1)	(58)
Income tax expenditure before extraordinary gains¹⁾ and tax reduction on earnings related to the personally liable shareholder	TEUR	(9,688)	(13,180)
Effective tax rate before extraordinary gains ¹⁾	%	34.1	34.7
Extraordinary gains ¹⁾	TEUR	-	2,268
Income tax expenditure before tax reduction on earnings related to the personally liable shareholder	TEUR	(9,688)	(10,912)
Effective tax rate	%	34.1	28.7
Tax savings on earnings related to the personally liable shareholder	TEUR	358	627
Income tax expenditure shown	TEUR	(9,330)	(10,285)
Tax rate in accordance with statement of income	%	32.8	27.1

¹⁾ Earnings from the capitalization of a claim for payment of a corporation tax credit

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 34.1% (PY: 28.7%) thus corresponds with the actual tax rate that is to be applied to the earnings attributable to the shareholders of the limited partnership.

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.

(12) EARNINGS PER SHARE

		2007	2006
Income before income taxes	TEUR	28,444	38,013
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	12,154	16,243
Effective tax rate	%	34.1	28.7
Effective tax amount	TEUR	4,140	4,653
Portion of net earnings for the year applicable to the shareholders of the limited partnership	TEUR	8,014	11,590
Weighted average of common shares	No.	6,279,200	6,279,200
Repurchased shares (weighted)	No.	(173,994)	(192,761)
Weighted average of shares outstanding	No.	6,105,206	6,086,439
Dilution effects from subscription rights of employees and executives	No.	6	201
Weighted average of shares outstanding (fully diluted)	No.	6,105,212	6,086,640
Basic earnings per share	EUR	1.31	1.90
Diluted earnings per share	EUR	1.31	1.90

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.

Basic and diluted earnings per share of the previous year adjusted by extraordinary gains from the capitalization of a claim for payment of a corporation tax credit totals EUR 1.74.

C. EXPLANATIONS ON THE CONSOLIDATED BALANCE SHEETS

(13) CASH AND CASH EQUIVALENTS

in TEUR	31 December 2007	31 December 2006
Deposits with financial institutions	16,284	11,267
Checks, cash on hand	141	44
	16,425	11,311

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 2007	31 December 2006
Securities of the category "available for sale"		
Shares and comparable securities	18,424	19,012
Bonds	2,638	2,807
	21,062	21,819

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 2007			31 December 2006		
	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	30,500	1,536	32,036	32,185	1,335	33,520
Less value adjustments	(964)	-	(964)	(2,079)	-	(2,079)
	29,536	1,536	31,072	30,106	1,335	31,441

Interest expenses resulting from discounting of long-term receivables amounted to TEUR 155 (PY: TEUR 109).

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	
			Maximum of 365 days	More than 365 days
31 December 2007				
Trade accounts receivable	31,072	21,507	9,822	86
31 December 2006				
Trade accounts receivable	31,441	21,212	9,493	607

In regards 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 2007, Mühlbauer has accepted securities of trade accounts receivable in the amount of TEUR 6,730 (PY: TEUR 6,567) 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	2007	2006
Value adjustments 01 January	2,079	1,344
Additions (Expenses for value adjustments)	195	826
Consumption	-	(45)
Dissolutions	(1,310)	(46)
Value adjustments 31 Dezember	964	2,079

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 2007	-	65	489
31 December 2006	317	-	1,130

In the financial year 2007, receivables were adjusted in value in the net amount of TEUR 554 (PY: TEUR 1,472). These value adjustments were for trade accounts receivables. The total value of the addition in the amount of TEUR 195 (PY: TEUR 826) comprises additions due to individual value adjustments in the amount of TEUR 176 (PY: TEUR 522) and the value adjustments made that are based on historical experience values in the amount of TEUR 19 (PY: TEUR 304). Dissolution in value adjustments included rescissions from individual value adjustments in the amount of TEUR 878 (PY: TEUR 10) and rescissions made that are based on historical experience values in the amount of TEUR 432 (PY: TEUR 36).

Receivables which are due from customized production orders and balanced according to the percentage of completion method (deposits received in the previous year), are determined as follows:

in TEUR	31 December 2007	31 December 2006
Incurred order costs	8,313	4,571
Stated earnings less stated losses	5,550	3,339
Production orders with amount due from customers	13,863	7,910
Prepayments from customers	(11,790)	(9,910)
Receivables (received downpayments) from customized production orders	2,073	(2,000)

in TEUR	31 December 2007	31 December 2006
Receivables from the personally liable shareholder	1,758	1,251
Claims on investment and technology grants	1,209	681
Prepayments received	694	285
Deferred expenses	375	254
Interest receivables	197	418
VAT-receivables	159	210
Guarantees	87	29
Receivables from suppliers	63	74
Claims on investment subsidy	49	343
Receivables from the disposal of real estate	-	750
Derivative financial instruments	-	148
Other	179	176
	4,770	4,619

(16) OTHER CURRENT ASSETS

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).

In regards 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.

(17) TAX RECEIVABLES

The tax receivables of TEUR 1,233 (PY: TEUR 1,360) 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 2007	31 December 2006
Raw materials, auxiliary and operating materials	6,818	7,233
Unfinished products	27,962	28,835
Finished products	5,133	3,718
	39,913	39,786

Of the inventories reported on 31 December 2007, an amount of TEUR 3,950 (PY: TEUR 5,384) was valued at its net disposal value. In the year under review, inventory assets were devalued by TEUR 5,628 (PY: TEUR 4,977).

(19) MARKETABLE SECURITIES

in TEUR	Fixed asset securities of the category „available-for-sale“
Accumulated acquisition values	
1 January 2006	10,571
Additions	3,876
Retirements	-
Reclassification in short-term marketable securities	(2,898)
31 December 2006	11,549
Additions	1,672
Retirements	(5,940)
Reclassification in short-term marketable securities	(2,625)
31 December 2007	4,656
Accumulated changes in value	
1 January 2006	238
Write-ups/(depreciation)	-
Retirements	-
Reclassification in short-term marketable securities	35
Adjustment of financial asset values to market values not affecting income	(298)
31 December 2006	(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)
Market values	
31 December 2006	11,524
31 December 2007	4,562

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.

Residual term of financial assets in TEUR	31 December 2007 Acquisition values	31 December 2007 Market values
between 1 and 2 years	460	497
between 2 and 5 years	1,868	1,813
between 6 and 10 years	2,328	2,252
	4,656	4,562

Other lending comprises a secured loan. A repayment schedule has been firmly agreed upon, the first payment of which will occur in five annual installments, beginning on 31 October 2008.

(20) OTHER LOANS

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 2006	41,650	32,163	19,161	200	93,174
Currency adjustments	-	-	(17)	2	(15)
Additions	580	4,241	2,058	378	7,257
Retirements	(808)	(1,007)	(1,123)	-	(2,938)
Transfers	-	85	10	(203)	(108)
31 December 2006	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
Accumulated depreciation					
1 January 2006	(14,307)	(26,198)	(13,651)	-	(54,156)
Currency adjustments	-	-	12	-	12
Additions	(1,536)	(1,395)	(2,264)	-	(5,195)
Retirements	104	1,006	982	-	2,092
Transfers	-	-	-	-	-
31 December 2006	(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)
Residual book values					
31 December 2006	25,683	8,895	5,168	377	40,123
31 December 2007	26,276	8,217	5,315	179	39,987

(21) FIXED ASSETS

The fixed assets acquired or produced in the financial year have been reduced by grants and allowances totaling TEUR 434 (PY: TEUR 1,348).

Depreciation expenses have been taken into account as follows: TEUR 3,243 (PY: TEUR 2,954) in cost of sales, TEUR 734 (PY: TEUR 696) in selling expenses, TEUR 635 (PY: TEUR 834) in administrative expenses and TEUR 698 (PY: TEUR 711) 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 2006	4,389	11,412	785	16,586
Currency adjustments	-	-	-	-
Additions from intra-company developments	-	4,341	-	4,341
Other additions	804	-	-	804
Retirements	(120)	(3,406)	-	(3,526)
Transfers	108	-	-	108
31 December 2006	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
Accumulated depreciation				
1 January 2006	(3,751)	(3,638)	(785)	(8,174)
Currency adjustments	1	-	-	1
Additions	(509)	(3,144)	-	(3,653)
Retirements	117	3,406	-	3,523
Transfers	-	-	-	-
31 December 2006	(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)
Residual book values				
31 December 2006	1,039	8,971	-	10,010
31 December 2007	1,001	8,603	-	9,604

The intangible assets acquired or produced in the financial year have been reduced by grants amounting to TEUR 34 (PY: TEUR 145). 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 929 (PY: TEUR 1,444).

Depreciation on intangible assets of TEUR 151 (PY: TEUR 58) was recognized as income in the statement of income via cost of sales, TEUR 18 (PY: TEUR 22) in selling expenses, TEUR 151 (PY: TEUR 50) in administrative expenses and TEUR 2,875 (PY: TEUR 3,523) 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 3.4%) 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.

(24) DOWNPAYMENTS

Of downpayments received in the previous year, TEUR 2,000 was received as payments for customized orders. We refer to the notes (15) of the financial statement.

in TEUR	31 December 2007	31 December 2006
Salaries and wages	3,032	2,729
Income tax on salaries and wages	962	925
Customer liabilities	782	530
Social security contributions	72	320
Other liabilities – personnel	72	43
Capital formation	71	69
VAT-tax burden	53	-
Other	182	107
	5,226	4,723

(25) OTHER LIABILITIES

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

in TEUR	Difference due to					As per 31 December 2007
	As per 1 January 2007	currency translation	Con- sumption	Addition	Dis- solution	
Accrued income taxes	2,540	-	(2,540)	1,962	-	1,962
Personnel and social security obligations	4,120	(4)	(1,279)	1,517	(34)	4,320
Guarantee obligations	2,919	-	(2,244)	2,264	(317)	2,622
Service in progress	1,062	-	(615)	288	(52)	683
Litigation risks	845	-	(3)	950	(842)	950
Commissions	133	-	(115)	-	-	18
Other	768	-	(566)	717	(162)	757
	12,387	(4)	(7,362)	7,698	(1,407)	11,312

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

Accrued income taxes include current income taxes formed for the past financial years and for the 2007 financial year. The personnel-related accruals comprise obligations from overtime, variable payments, contributions and fees, as well as leave bonuses. 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 1,407 (PY: TEUR 1,231) were dissolved. The company expects all accruals to become due or to be utilized within 12 months.

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.

**(27) PENSION AND
POSTRETIREMENT BENEFITS**

The following actuarial parameters have been taken into consideration:

	31 December 2007	31 December 2006
Discounting rate	5.50%	4.40%
Future pay increase	3.50%	3.00%
Future pension increase	2.00%	1.50%
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 2007	31 December 2006
Cash value of the backed pension commitments	4,327	4,514
Fair value of the plan assets	(5,374)	(4,510)
Financial status	(1,047)	4
Unrealized actuarial profits (losses)	(255)	(930)
Other long-term assets	(1,302)	(926)

The development of the cash value of the backed pension commitments, at TEUR 4,327 (PY: TEUR 4,514), the fair value of the plan assets at TEUR 5,374 (PY: TEUR 4,510) and the actuarial profits/(losses) from experience-based adjustments is represented as follows:

in TEUR	2007	2006
Cash value of the backed pension commitments at the beginning of the year	4,514	4,196
Current service cost	446	457
Interest expenses on obligations	199	178
Actuarial profits/(losses)	(832)	(317)
Cash value of the backed pension commitments at the end of the year	4,327	4,514

in TEUR	2007	2006
Fair value of the plan assets at the beginning of the year	4,510	3,505
Expected earnings on plan assets	173	175
Actuarial profits/(losses)	(188)	(95)
Payments made by the company	879	925
Fair value of the plan assets at the end of the year	5,374	4,510

in TEUR	2007
Experience-based profits/(losses) from the plan assets	
(a) Value	(189)
(b) in % of the plan assets	(4.0%)
Experience-based profits/(losses) from the scope of obligations	
(a) Value	155
(b) in % of the backed pension commitments	4.0%

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 expenses from plan assets amounted to TEUR 15 (PY: earnings TEUR 80) in the year under review.

The company is expected to make a payment of TEUR 200 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	2007	2006
Accruals for pension obligations as per 1 January	(926)	(510)
Amounts recorded as income		
Current service cost	446	457
Interest expenses on obligations	199	178
Expected earnings on plan assets	(173)	(175)
Amortization of past service costs	-	-
Amortization of actuarial losses	31	49
	503	509
Contributions to plan assets	(879)	(925)
Accruals for pension obligations as per 31 December	(1,302)	(926)

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 303 (PY: TEUR 282) in the reporting period. Furthermore, the company paid employer contributions to the statutory pension insurance fund of TEUR 4,036 (PY: TEUR 3,886).

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 2007 financial year is represented in the consolidated statements of changes in shareholders' equity.

(28) SHAREHOLDERS' EQUITY

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 2009 – with the approval of the Supervisory Board – but only by a maximum of EUR 4,018,688.00 (authorized capital 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 26 April 2007, the personally liable shareholder is authorized - until 30 September 2008 - 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 187,502 of the company's own shares held at the beginning of the year (computed par value of EUR 240,002.56), the company disposed of 20,262 shares (PY: 13,805 shares) with a computed par value of EUR 25,935.36 (PY: EUR 17,670.40) for a market price of EUR 23.45 per share in the course of the asset formation campaign

undertaken on behalf of employees of the Mühlbauer Group. Last year, an additional 140 shares with a computed par value of EUR 179.20 were sold to service the right to acquire shares that had been granted to employees of the Mühlbauer Group. Furthermore 990 additional shares with a computed par value of EUR 1,267.20 were also issued last year to employees free of charge of in the form of anniversary shares. The proceeds from the sale of shares served to strengthen operating capital.

As per 31 December 2007, the company held 167,240 own shares with a computed par value of EUR 214,067.20. The percentage of own shares in the ordinary share capital was 2.66% as per 31 December 2007. 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 2007	31 December 2006
Premium from capital increases	59,557	59,557
Balance from the premium applicable to the purchase/disposal of own shares (pro rata)	(851)	(1,300)
Share-based adjustment item (reserve in respect of expenditure resulting from conversion schemes or stock option programs)	1,784	1,622
Withdrawal from additional paid-in capital to adjust the ordinary share capital to the euro	(7)	(7)
	60,483	59,872

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 2007	1,158	101	1,259
Adjustment to market values	500	-	500
Currency adjustments	-	(189)	(189)
Deferred taxes in equity	(14)	-	(14)
Reclassification in income statement	(1,230)	-	(1,230)
As per 31 December 2007	414	(88)	326

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 1.25 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 7,640, 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 9,734 (57.27%). Taxes of TEUR 1,251, 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 16,999 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 exercised within the period	-	-	-
Outstanding options as per 31 December	26	1,158	110
- thereof exercisable on 31 December	26	1,158	110
Weighted share price on the exercise date in EUR	-	-	-
Increase of additional paid-in capital (in TEUR)	-	-	-

In the financial year, earnings (before taxes) of TEUR 0.1 (PY: 0.3) were taken into consideration.

The market value of the stock purchase programs is determined on the respective reporting date, on the basis of the Black-Scholes model. In so doing, the following parameters were applied:

	Tranche 4
Expected dividend yield	0.0%
Expected volatility	55.2%
Risk free rate of interest	2.5%
Expected maturity (in years)	2.0
Market value of the option in EUR	45.73

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 untermiated 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 23.45 in the financial year amounted to 20,262.

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 2007 and 2006:

	2007	2006
Expected dividend yield	0.0%	0.0%
Expected volatility	35.8%	21.0%
Risk free rate of interest	3.7%	2.5%
Expected maturity (in years)	0.3	0.3
Market value of the option in EUR	31.10	38.90

The difference between the purchase and market price of TEUR 162 (PY: TEUR 158) 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.

Capital management

Management primarily pursues the goal of an adequate return on equity. Investments, dividends and current expenses should preferably be financed from existing capital as well as generated cashflow.

**(29) LIABILITY AND OTHER
FINANCIAL OBLIGATIONS**

	31 December 2007 TEUR	31 December 2006 TEUR
Contractual obligations:		
Obligations from purchase and service agreements	13,405	11,089
Obligations from tenancy agreements	546	334
Total contractual obligations	13,951	11,423

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

	2007 TEUR	2006 TEUR
2007	-	10,822
2008	13,684	274
2009	204	139
2010	52	56
2011	6	35
2012	1	35
thereafter	4	62
Total	13,951	11,423

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

	31 December 2007 TEUR	31 December 2006 TEUR
Contingent liabilities:		
Guarantees, sureties and agreements	2,002	5,193
Conditional benefits from public authorities	9,207	9,937
Total contingent liabilities	11,209	15,130

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

	2007 TEUR	2006 TEUR
2007	-	4,616
2008	2,202	1,516
2009	2,385	1,891
2010	676	511
2011	3,893	3,898
2012	1,909	1,850
thereafter	144	848
Total	11,209	15,130

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 3,553 (PY: TEUR 3,574) of the benefits can be demanded to be returned by the reporting date of 31 December 2007. 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 2007, amounts to TEUR 5,654 (PY: TEUR 6,363).

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 4 (PY: TEUR 330) on the reporting date of 31 December 2007.

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 2007 and 31 December 2006:

Sales by application area	2007 TEUR	2006 TEUR
Smart Identification	96,345	91,814
Semiconductor Related Products	30,447	39,361
Precision Parts & Systems	18,753	16,061
Traceability	13,956	13,689
	159,501	160,925
Deductions in earnings	(367)	(249)
	159,134	160,676

Sales by region	2007 TEUR	2006 TEUR
Europe (excluding Germany)	56,612	40,126
Asia	43,905	63,882
Germany	43,233	41,564
The Americas	8,110	10,697
Other countries	7,641	4,656
	159,501	160,925
Deductions in earnings	(367)	(249)
	159,134	160,676

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)

Additional information about geographical areas in TEUR	Europe (excl. Germany)					Consolidated 2006
	Germany 2006	Germany 2006	Asia 2006	The Americas 2006	Other countries 2006	
Long-term assets (excl. financial instruments)	51,352	40	954	35	20	52,401
Investments in fixed assets	6,348	22	592	10	2	6,974
Investments in intangible assets	5,252	-	1	-	-	5,253
Deferred tax assets	32	-	-	10	-	42
Pension obligations	(926)	-	-	-	-	(926)

The statement of regional breakdown are 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, 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:

	2007 TEUR	2006 TEUR
Cash provided by (used for) operating activities	25,609	8,583
Cash provided by (used for) investment activities	(3,427)	(12,836)
Subtotal	22,182	(4,253)
Transition to free cashflow		
Gains/(losses) from the sale of fixed assets and intangible assets	248	261
Currency differences from the translation of long-term assets	-	1
Realized net gains/(losses) from short and long-term marketable securities	1,045	2,265
Proceeds from disposals of long-term assets	(1,277)	(321)
Payments from long-term loans	2,395	-
Proceeds from sale of long-term assets (marketable securities)	(8,652)	(3,999)
Investments in long-term assets (marketable securities)	1,672	3,876
Proceeds from sale of short-term assets (marketable securities)	(27,485)	(24,734)
Investments in short-term assets (marketable securities)	26,266	29,351
Free cashflow	16,394	2,447

Dividend distributions in the financial year were comprised as follows:

	2007 TEUR
Dividends paid to shareholders of the limited partnership	7,640
Statutory earnings transfer by the company to Mühlbauer Holding AG & Co. Verwaltungs KG in respect of the 2006 financial year	9,735
Total dividend payments and earnings transfers	17,375

F. OTHER NOTES

No events of major significance occurred after the 2007 financial year.

It is the opinion of the personally liable shareholder that since the implementation of the half-income assessment method, a tax law problem exists, by which his share of profits is subject to taxation in the full amount and not only in the half-income amount, even though these profits are “consumed” by the KGaA from dividend income (so-called capitalistic point of view).

The personally liable shareholder therefore filed a lawsuit in the Nürnberg tax court in June 2007, after the internal revenue office responsible for the company voiced its intentions to revise its previous view that the so-called cooperated interpretation applies to the assessment of profits of a KGaA, and therefore the half-income assessment method insofar applies to the share of profits of the personally liable shareholder, just like computed dividends are contained in the share of profits in the sense of § 20 para. 1 No. 1 and 2 EStG (German income tax law).

Because the proceeding is still in the early stage, the company cannot assess the outcome of the proceeding. With the complaint procedure, the personally liable shareholder demands the application of the so-called cooperated interpretation in the taxation of a KGaA. In case of a successful outcome, this would have no consequence to the company, as the company has undertaken its assessment of taxable earnings corresponding to the prevailing view of the internal revenue office according to the so-called cooperated interpretation. In case the personally liable shareholder is not successful with the outcome of his filed complaint, the company will receive a tax reimbursement on the target date 31 December 2007 in the amount of approx. TEUR 7,036 in addition to interest. Concurrently, the company would have to refund to the personally liable shareholder share of profits reduced by applicable taxes in the amount of TEUR 5,674 in addition to interest.

(30) EVENTS AFTER THE REPORTING DATE

(31) POTENTIAL CHANGES IN THE TAX BASE

**(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	Valuation balance sheet in acc. w. IAS 39					
		Book value 31 Dec. 2007	Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect in 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.

in TEUR	Valuation category according to IAS 39	Valuation balance sheet in acc. w. IAS 39					Fair value with effect in income	Fair value 31 Dec. 2006
		Book value 31 Dec. 2006	Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect in income		
Assets								
Cash and cash equivalents	-	11,311	11,311	-	-	-	11,311	
Trade accounts receivable	LaR	31,441	31,441	-	-	-	31,441	
Other financial receivables	LaR	2,698	2,698	-	-	-	2,698	
Other loans	LaR	-	-	-	-	-	-	
Other primary financial assets								
Held-to-Maturity investments	HtM	-	-	-	-	-	-	
Available for sale financial assets	AfS	33,343	-	32,192	1,151	-	33,343	
Derivative financial assets								
Without effective hedge relationship	FAHfT	98	-	-	-	98	98	
With hedge relationship	-	50	-	-	-	50	50	
Liabilities								
Financial debt	FLAC	-	-	-	-	-	-	
Trade accounts payable	FLAC	7,655	7,655	-	-	-	7,655	
Other financial liabilities	FLAC	3,460	3,460	-	-	-	3,460	
Aggregated according to valuation classes								
Loans and receivables (LaR)		34,139	34,139	-	-	-	34,139	
Held-to-Maturity investments (HtM)		-	-	-	-	-	-	
Available for sale financial assets (AfS)		33,343	-	32,192	1,151	-	33,343	
Financial assets held for trading (FAHfT)		98	-	-	-	98	98	
Financial liabilities measured at amortized cost (FLAC)		11,115	11,115	-	-	-	11,115	

The book value of cash and cash equivalents, short-term trade accounts receivable and payable, short-term and other short-term liabilities of the company correspond closely to the fair value on 31 December 2007, due to their short maturity.

Net result by valuation categories

in TEUR - 2007	From interest	From revaluation			From retirements	Net result 2007
		At fair value	Currency translation	Value adjustment		
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.

in TEUR - 2006	From	From revaluation			From	Net result 2006
	interest	At fair value	Currency translation	Value adjustment	retirements	
Loans and receivables (LaR)	264*	-	(12)	(793)	-	(541)
Held-to-Maturity investments (HtM)	319	-	4	-	-	323
Available for sale financial assets (AfS)	991	-	(15)	-	2,041	3,017
Financial assets held for Trading (FAHfT)	-	380	-	-	-	380
Financial liabilities measured at amortised cost (FLAC)	(39)	-	(115)	-	-	(154)
Total	1,535	380	(138)	(793)	2,041	3,025

* Included herein is interest income of value adjusted assets in the amount of TEUR 11.

The difference resulting from value adjustments in the categories loans and receivables to value adjustments in trade accounts receivable (notes (15)) are due to additional value adjustments for other assets. The expense position also includes value adjustments, directly applied to trade accounts receivable, which were not preceded by any anticipated value adjustments. Interest from financial instruments are recognized in the financial results (notes (10)).

The valuation adjustments for trade accounts receivable, assigned to the category loans and receivables, are recognized in selling expenses (notes (6)).

Also carried in the category loans and receivables are commission expenses in the amount of TEUR 327 (PY: TEUR 1,137).

(33) RISK MANAGEMENT AND FINANCIAL DERIVATIVES

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 2007, earnings and thereby shareholders' equity would have been TEUR 221 lower (TEUR 504 lower on 31. December 2006). If the value of the euro in regards to all other currencies had been 10% stronger on 31 December 2007, earnings would have been TEUR 103 lower (TEUR 113 lower on 31 December 2006). 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 2007, earnings would have been TEUR 77 lower (TEUR 18 on 31 December 2006), while total shareholders' equity would have been increased by TEUR 244 (TEUR 367 on 31 December 2006). If the market interest rates would have been lower by 100 basis points on 31 December 2007, earnings would have been TEUR 80 higher (TEUR 18 on 31 December 2006), while total shareholders' equity would have been increased by TEUR 255 (TEUR 385 on 31 December 2006).

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 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

31 December 2006 in TEUR	due within 1 month	due after 1 month
Financial liabilities	-	-
Trade accounts payable	6,875	779
Other financial liabilities	3,442	18
Total	10,317	797

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 2007, the company had arrangements in place for independent short-term and unsecured lines of credit in the amount of TEUR 20,000 (PY: TEUR 21,200) with several financial institutions. Of these lines of credit on 31 December 2007, TEUR 17,661 (PY: TEUR 17,510) 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 2007, shareholders' equity would have increased by TEUR 1,842 (PY: TEUR 1,901). 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. 2007	Book value on 31 Dec. 2006
Forward exchange contracts – Fair Value Hedges	-	50
Forward exchange contracts – without hedge relationship	-	98
Total	-	148

Gains and losses from hedging activities are as follows:

in TEUR		Gain or (loss) from hedging instruments		Gain or (loss) from hedging position	
Hedging instrument	Hedged position	2007	2006	2007	2006
Fair Value Hedges	Trade accounts receivable	17	2	(24)	(2)

The Declaration of Conformity in accordance with § 161 AktG (German Stock Corporation Act) was issued in December 2007 and posted to the internet so that shareholders can access it whenever required.

The remuneration for the audits executed in the financial year amounts to TEUR 126. TEUR 1 of the other services provided by the auditor in the previous year has been recorded as expense.

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 2007 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 2007, receivables existed of TEUR 1,758 (PY: TEUR 1,251), resulting from taxes paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG. In addition, as per 31 December 2007, 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,

(34) CORPORATE GOVERNANCE

(35) INFORMATION ON THE RENUMERATION OF THE AUDITOR

(36) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS

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, Dr. Peter Drexel was paid a total of TEUR 5 (PY: TEUR 5) and the Supervisory Board member Dr. Frank Scholz TEUR 2 (PY: TEUR 2). The amounts paid to the Supervisory Board members Dr. Thomas Zwissler and Dr. Peter Drexel 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 38 (PY: TEUR 15) in the year under review.

In the 2007 financial year, the Management Board of Mühlbauer Aktiengesellschaft received fixed remuneration totaling TEUR 971 (PY: TEUR 741) and variable pay amounting to TEUR 195 (PY: TEUR 176). Of this fixed remuneration, TEUR 253 is allocated to other financial reporting periods. An additional TEUR 645 (PY: TEUR 635) were allocated to pension and postretirement benefits.

For the claim of benefits from closely related family members TEUR 89 (PY: TEUR 46) were expanded in the reporting year.

The companies Mühlbauer Aktiengesellschaft, ASEM Präzisions-Automaten-GmbH and takelD GmbH rent office 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 tenancy is indefinite and can be terminated by either party under observance of a notice period of six months in accordance with German legislation. In the year under review, rental costs amounted to TEUR 316 (PY: TEUR 311).

Mühlbauer Aktiengesellschaft utilizes certain services in respect of the conveyance of passengers, sales promotion and staff development, provided by companies that are indirectly controlled by Mr. Josef Mühlbauer. Mühlbauer Aktiengesellschaft paid TEUR 237 (PY: TEUR 241) for such services in the year under review. In the year under review, the Mühlbauer Aktiengesellschaft has sold to Mr. Josef Mühlbauer assets in the amount of TEUR 391 in addition to the statutory VAT-tax.

(37) NUMBER OF EMPLOYEES

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

	2007 Number	2006 Number
Production and assembly	884	806
Research and development	318	289
Administration and sales	178	145
	1,380	1,240
Apprentices, trainees and part-time employees	330	289
	1,710	1,529

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

	2007 Number	2006 Number
Germany	1,565	1,447
Asia	101	57
The Americas	16	15
Europe (excluding Germany)	23	5
Others	5	5
Total	1,710	1,529

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 2007 financial year the following persons were appointed to the Supervisory Board of Mühlbauer Holding AG & Co. KGaA:

	Age	End of term	Membership on further Supervisory Boards and other comparable committees
Dr. Thomas Zwissler Chairman (since 29 April 2003)	39	2008	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)
Dr. Peter Drexel Vice Chairman (since 29 April 2003)	63	2008	Member of the Divisional Management Board of Siemens AG
			External seats:
			Member of the Supervisory Board
			• Mühlbauer Beteiligungs AG, Roding (Vice Chairman)
			Member of Advisory Board:
			• KARL MAYER Textilmaschinenfabrik GmbH, Obertshausen
			Group seats:
			Member of the Supervisory Board
			• Mühlbauer Aktiengesellschaft, Roding (Vice Chairman)
Dr. Frank Scholz (since 29 April 2003)	46	2008	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 6,273 is distributable. The statutory share in profits of TEUR 8,357, 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 1.25) 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 07 March 2008 by the personally liable shareholder.

Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien

The personally liable shareholder

(38) CORPORATE BODIES OF THE COMPANY

(39) PROPOSAL FOR THE APPROPRIATION OF EARNINGS

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 1 January 2007 to 31 December 2007. 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 general partner. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform 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 the parent company's general partner, 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, 10 March 2008

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

(Dr. Grottel)

(Mühlhuber)

Wirtschaftsprüfer

Wirtschaftsprüfer

Report of the Supervisory Board

The past financial year was characterized by the company's activities to further internationalize the operative business, as well as by the development in the human resources area and the organization of the company. The Supervisory Board actively assisted in this process, 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

No changes of the composition of the Supervisory Board were made in the reporting period.

Meetings of the Supervisory Board

In four ordinary meetings – on 14 March, 16 May, 3 September and 26 November – 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 been systematically optimized in recent years and 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 meeting on 14 March, 2007, the Supervisory primarily focused on the company's annual statement of accounts and the consolidated financial statement of 31 December 2006. In the meeting dated 3 September 2007 the Supervisory Board mainly discussed product strategies. Human resources development and organizational structure were focused on in the meeting on 16 November 2007.

Apart from few exceptions, all members of the Supervisory Board attended every Supervisory Board meeting. In each meeting the members of the Supervisory Board could assure themselves of the personally liable shareholder's correct business conduct. Furthermore, the chairman of the Supervisory Board continuously obtained information on all major corporate developments and decisions by the personally liable shareholder and the Management. If required, the Supervisory Board made decisions in writing or by phone.

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. Measures which are subject to the approval of the Supervisory Board were presented for decision making. All decisions were made unanimously.

Committees

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

Financial accounting

The 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 on 31 December 2007. 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 personally liable shareholder met the required measures according to § 91 para. 2 AktGt.

On 12 March 2008, 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 2007.

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 2007.

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 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 2007 financial year and discussed it in its meeting dated 12 March 2008. 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 2007 financial year.

Roding, 12 March 2008

For the Supervisory Board

Dr. Thomas Zwissler
Chairman

Several years overview ¹		2007	2006	2005	2004	2004	2003	2002	2001	2000	1999
		IFRS	IFRS	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP
Consolidated Balance Sheets											
Short-term assets	TEUR	112,939	109,001	105,128	91,735	90,001	72,217	79,031	83,167	92,764	85,849
Cash and cash equivalents	TEUR	16,425	11,311	13,507	20,365	20,365	12,597	13,110	2,206	3,618	1,451
Marketable securities	TEUR	21,062	21,819	32,687	13,561	13,255	3,498	2,261	2,592	6,609	17,449
Trade accounts receivables, net	TEUR	29,536	30,106	21,985	22,462	21,703	20,348	19,161	19,645	30,868	21,179
Other short-term assets	TEUR	4,770	4,598	2,441	2,461	2,301	1,521	1,095	1,444	2,382	2,782
Tax receivables	TEUR	1,233	1,360	976	670	161	26	59	5,148	3,034	2,864
Inventories	TEUR	39,913	39,807	33,532	32,216	32,216	34,227	43,345	52,132	46,253	40,124
Long-term assets											
Financial assets	TEUR	8,248	12,859	11,088	10,141	10,440	9,241	7,383	7,749	10,762	9,819
Marketable securities	TEUR	4,562	11,524	10,809	10,134	10,440	9,241	7,383	7,749	10,762	9,819
Trade accounts receivables, net	TEUR	1,536	1,335	279	7	0	0	0	0	0	0
Other financial assets	TEUR	2,150									
Fixed assets	TEUR	39,987	40,123	39,018	39,472	46,765	41,333	41,189	45,169	38,871	31,903
Land and Buildings, net	TEUR	26,276	25,683	27,343	28,916	34,202	29,995	31,625	32,479	25,711	21,511
Technical equipment, net	TEUR	8,217	8,895	5,965	5,010	6,174	6,016	*	*	*	*
Furniture and office equipment, net	TEUR	5,315	5,168	5,510	5,481	6,320	5,282	9,539	12,621	11,416	10,392
Assets in progress	TEUR	179	377	200	65	69	40	25	69	1,744	0
Intangible assets	TEUR	9,604	10,010	8,412	6,870	482	877	1,025	1,398	2,009	1,220
Goodwill	TEUR	0	0	0	0	0	468	468	468	548	643
Software and licenses	TEUR	1,001	1,039	638	411	482	409	557	930	1,461	577
Capitalized development costs	TEUR	8,603	8,971	7,774	6,459	0	0	0	0	0	0
Other long-term assets	TEUR	3,853	3,236	609	262	1,308	1,888	804	459	529	0
Long-term tax assets	TEUR	2,389	2,268	0	0	0	0	0	0	0	0
Deferred tax assets	TEUR	162	42	99	234	0	201	804	459	529	0
Other long-term assets	TEUR	1,302	926	510	28	1,308	1,687	0	0	0	0
Short-term liabilities	TEUR	29,396	30,411	35,000	32,535	31,664	17,724	20,254	23,138	27,021	19,256
Debt	TEUR	21	0	960	1,023	1,023	1,025	1,050	3,525	2,054	3,037
Trade accounts payable	TEUR	6,068	7,655	6,150	8,383	7,028	4,751	7,038	5,646	6,781	5,040
Advance payments	TEUR	6,769	5,646	10,330	4,704	4,704	329	1,604	4,565	2,976	2,119
Other short-term liabilities	TEUR	5,226	4,723	6,385	5,496	5,496	4,959	5,312	4,757	4,338	3,249
Accrued income taxes	TEUR	1,962	2,540	2,919	7,230	6,424	2,135	760	217	5,326	2,618
Other accruals	TEUR	9,350	9,847	8,256	5,699	6,989	4,525	4,490	4,428	5,546	3,193
Long-term liabilities	TEUR	3,492	4,519	4,109	5,112	10,052	9,898	10,925	12,980	13,598	14,706
Convertible bonds	TEUR	0	0	0	0	0	0	37	39	49	71
Debt	TEUR	0	0	0	925	925	1,913	3,001	3,883	5,057	6,351
Investment grants received	TEUR	**	**	**	**	7,369	5,993	5,832	6,721	6,020	4,922
Deferred tax liabilities	TEUR	3,492	4,519	4,109	4,187	1,758	1,274	1,681	2,013	2,191	3,121
Postretirement and postemployment benefit liabilities	TEUR	0	0	0	0	0	718	374	324	281	241
Shareholders' Equity	TEUR	141,743	140,299	125,146	110,833	107,280	97,934	98,253	101,824	104,316	94,829
Ordinary share capital	TEUR	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	4,986	4,967
Own shares	TEUR	(214)	(240)	(259)	(285)	(285)	(261)	(219)	(22)	(21)	(32)
Fixed capital contributions	TEUR	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	66	66
Additional paid-in capital	TEUR	60,483	59,872	59,319	58,739	57,995	57,901	58,351	60,086	61,018	58,203
Other comprehensive income	TEUR	326	1,259	2,219	1,429	1,403	1,032	156	260	(201)	(452)
Retained earnings	TEUR	76,090	74,350	58,809	45,892	43,109	34,204	34,907	36,442	38,468	32,077
Total assets and liabilities	TEUR	174,631	175,229	164,255	148,480	148,996	125,556	129,432	137,942	144,935	128,791
Change yoy											
Short-term assets	%	3.6	3.7	14.6		24.3	(9.3)	(4.5)	(10.4)	8.7	5.7
Investment and long-term financial assets	%	(35.9)	16.0	9.3		13.0	25.2	(4.7)	(28.0)	9.6	(25.0)
Fixed assets	%	(0.3)	2.8	(1.2)		13.1	0.3	(8.8)	16.2	21.8	6.9
Intangible assets	%	(4.1)	19.0	22.4		(45.0)	(14.4)	(26.7)	(30.4)	64.7	(9.1)
Other fixed assets	%	19.1	431.4	132.4		(30.7)	134.8	75.2	(13.2)		(100.0)
Short-term liabilities	%	(3.3)	(13.1)	7.6		79.6	(12.5)	(12.5)	(15.4)	32.3	(16.5)
Long-term liabilities	%	(22.7)	10.0	(19.6)		(0.1)	(9.4)	(15.8)	(2.2)	(0.2)	(2.8)
Shareholders' Equity	%	1.0	12.1	12.9		9.5	(0.3)	(3.5)	(2.4)	10.0	8.8
Key figures											
Gross capital expenditures without capitalized development costs	TEUR	6,908	9,176	6,272	11,706	11,706	6,224	2,338	13,099	14,137	7,825
Depreciation and amortization	TEUR	7,066	6,741	6,172	6,424	6,424	6,190	6,656	7,319	6,216	5,443
Working Capital ²	TEUR	46,077	45,460	24,894	26,297	25,578	39,624	45,260	59,215	57,776	49,321
Working Capital-Intensity ³	%	29.0	28.3	16.8	20.4	20.0	41.6	49.6	66.2	52.4	69.4
Capital Employed ⁴	TEUR	96,970	96,519	72,834	72,667	74,133	83,521	87,474	105,782	98,656	82,444
Net cash position	TEUR	42,028	44,654	56,043	42,112	42,112	22,398	18,703	5,139	13,878	19,331
Equity ratio	%	81.2	80.1	76.2	74.6	72.0	78.0	75.9	73.8	72.0	73.6
Employees											
Average per year	Number	1,710	1,529	1,433	1,338	1,338	1,262	1,274	1,299	1,206	898
Production and assembly	Number	884	806	758	729						
Research and development	Number	318	289	265	220						
Administration and sales	Number	178	145	144	132						
Trainees and part-timers	Number	330	289	266	257	257	263	269	261	261	210
Skilled workers	Number					553	515	521	574	542	392
Salaried employees	Number					528	484	484	464	403	296
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	18,805	18,786
Total issued and outstanding shares ⁶	TStück	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,692	14,677
Dividend per share ⁷	TEUR	1.00	1.25	0.90	0.60	0.60	0.35	0.30	0.30	0.35	0.30
Share price (Year-End-Close)	TEUR	24.19	29.35	40.80	26.71	26.71	20.50	10.30	29.60	84.00	41.00
Market Capitalization (Year-End Close) ⁸	TEUR	355,498	431,330	599,600	392,532	392,532	301,268	151,369	435,004	1,234,128	601,757

¹ Certain US-GAAP figures were transferred to IFRS² Non interest short-term assets – non interest current liabilities³ Working capital/Sales⁴ Working capital + Fixed assets⁵ Common stock and fixed capital contribution of the personally liable shareholder⁶ Obtained on total stock capital⁷ 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 ¹		2007	2006	2005	2004	2004	2003	2002	2001	2000	1999
		IFRS	IFRS	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP
Consolidated Income Statements											
Sales											
by applications	TEUR	159,134	160,676	147,932	128,939	128,180	95,204	91,317	89,422	110,322	71,026
Smart Identification	TEUR	96,345	91,814	86,861	54,850	54,541	39,335	50,651	47,781	48,552	34,984
Semiconductor Related Products	TEUR	30,447	39,361	35,564	49,325	48,875	35,619	22,103	24,464	42,427	22,159
Traceability	TEUR	18,753	13,689	10,893	7,390	7,390	5,679	6,641	7,366	8,616	5,421
Precision Parts & Systems	TEUR	13,956	16,061	14,789	17,603	17,603	14,680	12,085	10,116	10,981	8,597
Other	TEUR	(367)	(249)	(175)	(229)	(229)	(109)	(163)	(305)	(254)	(135)
by regions	TEUR	159,134	160,676	147,932	128,939	128,180	95,204	91,317	89,422	110,322	71,026
Germany	TEUR	43,233	41,564	44,828	53,360	53,068	45,316	43,369	38,059	33,545	27,244
Other Europe	TEUR	56,612	40,126	31,471	34,197	34,122	21,175	26,799	24,422	41,482	23,559
Africa	TEUR	6,819	4,604	3,560	5,428	5,278	2,380	179	947	1,410	53
North America	TEUR	5,449	6,018	13,595	8,302	8,227	4,221	3,392	2,545	6,478	5,598
South America	TEUR	2,661	4,679	8,420	2,136	2,136	403	852	3,740	2,592	1,324
Asia	TEUR	43,905	63,882	46,160	25,382	25,215	21,676	16,766	19,479	25,016	13,356
Australia	TEUR	822	52	73	363	363	142	123	535	53	27
Other	TEUR	(367)	(249)	(175)	(229)	(229)	(109)	(163)	(305)	(254)	(135)
Cost of sales	TEUR	(94,931)	(91,406)	(83,518)	(75,365)	(76,205)	(63,007)	(61,370)	(60,758)	(65,662)	(39,061)
of sales	%	(59.7)	(56.9)	(56.5)	(58.5)	(59.5)	(66.2)	(67.2)	(67.9)	(59.5)	(55.0)
Gross profit	TEUR	64,203	69,270	64,414	53,574	51,975	32,197	29,947	28,664	44,660	31,965
of sales	%	40.3	43.1	43.5	41.5	40.5	33.8	32.8	32.1	40.5	45.0
Operating expenses											
Selling and administrative	TEUR	(17,242)	(19,075)	(15,926)	(14,719)	(16,799)	(16,616)	(16,682)	(13,486)	(14,697)	(13,093)
of sales	%	(10.8)	(11.9)	(10.8)	(11.4)	(13.1)	(17.5)	(18.3)	(15.1)	(13.3)	(18.4)
Research and development	TEUR	(20,280)	(17,081)	(15,264)	(13,048)	(14,006)	(11,392)	(10,761)	(10,244)	(9,854)	(6,092)
of sales	%	(12.7)	(10.6)	(10.3)	(10.1)	(10.9)	(12.0)	(11.8)	(11.5)	(8.9)	(8.6)
Other income¹	TEUR	1,000	1,409	653	1,535	4,447	4,357	3,475	3,549	3,885	2,404
of sales	%	0.6	0.9	0.4	1.2	3.5	4.6	3.8	4.0	3.5	3.4
Other expenses¹	TEUR	(1,270)	(86)	(803)	(104)	*	*	*	*	*	*
of sales	%	(0.8)	(0.1)	(0.5)	(0.1)	*	*	*	*	*	*
EBITDA²	TEUR	33,477	41,178	39,246	33,662	32,041	14,736	12,635	15,802	30,210	20,627
of sales	%	21.0	25.6	26.5	26.1	25.0	15.5	13.8	17.7	27.4	29.0
EBIT³	TEUR	26,411	34,437	33,074	27,238	25,617	8,546	5,979	8,483	23,994	15,184
of sales	%	16.6	21.4	22.4	21.1	20.0	9.0	6.5	9.5	21.7	21.4
Financial result											
Financial income	TEUR	2,970	3,747	2,335	1,048	1,109	1,673	1,101	6,397	5,623	3,792
of sales	%	1.9	2.3	1.6	0.8	0.9	1.8	1.2	7.2	5.1	5.3
Financial expenses	TEUR	(937)	(171)	(741)	(409)	(415)	(728)	(2,290)	(8,317)	(4,537)	(1,483)
of sales	%	(0.6)	(0.1)	(0.5)	(0.3)	(0.3)	(0.8)	(2.5)	(9.3)	(4.1)	(2.1)
EBT⁴	TEUR	28,444	38,013	34,668	27,877	26,311	9,491	4,790	6,563	25,080	17,493
of sales	%	17.9	23.7	23.4	21.6	20.5	10.0	5.2	7.3	22.7	24.6
Income taxes	TEUR	(9,330)	(10,285)	(11,648)	(10,054)	(9,374)	(2,977)	(1,871)	(1,012)	(7,383)	(3,669)
of sales	%	(5.9)	(6.4)	(7.9)	(7.8)	(7.3)	(3.1)	(2.0)	(1.1)	(6.7)	(5.2)
Ordinary income net of tax	TEUR	19,114	27,728	23,020	17,823	16,937	6,514	2,919	5,551	17,697	13,824
of sales	%	12.0	17.3	15.6	13.8	13.2	6.8	3.2	6.2	16.0	19.5
Extraordinary gains	TEUR	0	0	0	0	0	0	587	0	0	0
of sales	%	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Net earnings	TEUR	19,114	27,728	23,020	17,823	16,937	6,514	3,506	5,551	17,697	13,824
of sales	%	12.0	17.3	15.6	13.8	13.2	6.8	3.8	6.2	16.0	19.5
Change yoy											
Sales	%	(1.0)	8.6	14.7		34.6	4.3	2.1	(18.9)	55.3	31.7
Gross profit	%	(7.3)	7.5	20.2		61.4	7.5	4.5	(35.8)	39.7	42.0
EBIT	%	(23.3)	4.1	21.4		199.8	42.9	(29.5)	(64.6)	58.0	40.7
EBT	%	(25.2)	9.6	24.4		177.2	98.1	(27.0)	(73.8)	43.4	63.1
Ordinary income net of tax	%	(31.1)	20.5	29.2		160.0	123.2	(47.4)	(68.6)	28.0	62.0
Net earnings	%	(31.1)	20.5	29.2		160.0	85.8	(36.8)	(68.6)	28.0	62.0
Key figures											
Earnings per share											
basic	EUR	1.31	1.90	1.59	1.23	1.17	0.41	0.20	0.35	1.02	0.68
fully diluted	EUR	1.31	1.90	1.59	1.23	1.17	0.41	0.20	0.35	1.02	0.68
Tax rate for EPS calculation	%	34.10	28.70	34.80	37.20	36.87	38.10	45.30	21.60	40.50	43.05
Order income	TEUR	167,451	161,508	165,001	174,659	174,659	99,308	85,884	93,604	136,255	92,167
Order backlog	TEUR	72,972	79,172	81,672	67,209	67,968	27,794	31,820	48,076	56,436	30,598
Personal costs	TEUR	57,732	54,364	49,890	45,044	45,110	39,922	38,093	37,888	39,236	27,984
Return on equity (before tax)	%	20.1	27.1	27.7	25.2	24.5	9.7	4.9	6.4	24.0	18.4
Return on Capital Employed ⁵	%	27.2	35.7	45.4	37.5	34.6	10.2	6.8	8.0	24.3	18.4
Consolidated Statements of Cashflow											
Cash provided by (used for)	TEUR	25,609	13,200	32,133	40,893	38,879	16,054	23,398	15,159	15,307	(6,037)
operating activities											
Cash provided by (used for)	TEUR	(3,427)	(17,453)	(21,888)	(14,707)	(21,737)	(7,344)	(1,864)	(9,872)	(4,701)	(751)
investing activities											
Cash provided by (used for)	TEUR	(16,879)	(13,832)	(10,606)	(9,127)	(9,131)	(8,921)	(10,243)	(6,840)	(8,558)	(6,335)
financing activities											
Net Increase/(Decrease)	TEUR	5,303	(18,085)	(361)	17,059	8,011	(211)	11,291	(1,553)	2,048	(13,123)
in cash and cash equivalents											
Free cashflow	TEUR	16,394	2,447	22,726	27,163	27,171	10,590	20,519	(2,156)	(63)	(9,018)
of sales	%	10.3	1.5	15.4	21.1	21.2	11.1	22.5	(2.4)	(0.1)	(12.7)

¹ No comparability due to different treatment between US-GAAP and IFRS² Earnings before interest, tax depreciation and amortization³ Earnings before interest and tax⁴ Earnings before tax⁵ 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
Emboss	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
ID	Stands for Identification or Identity Card (for instance IDD = Identity Card of the Federal Republic of Germany)
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
SD (Secure Digital) Card	Secure memory card similar to MMC multimedia cards; card application particularly used for digital cameras or as a storage medium for music, PDA, etc.

Chip card, i.e. plastic card equipped with a chip module

Ultra-flat transponders consisting of chip, antenna and substrate for identifying goods and persons

Card application used in particular for digital cameras or as storage medium for music, etc.

Ticket which can be read contactless because of the implanted inlay

Components, which are directly soldered to a board without drill holes. SMD components significantly reduce the component density of electronic circuits

RFID transponders are also termed as 'Tags'

Mühlbauer production system for the manufacture of Smart Inlays (Smart Inlay = antenna and functional chip)

Terms a market for technologically sophisticated and security-relevant solutions, taken from the two words Technology and Security

Testing, labeling and packaging semiconductor components for further processing

Pursuing and tracing back units from the raw material to the end product

Antenna located on a Smart Label between flexible carrier layers

Turn-key product and services solutions

Verification, if the user of an ID card really is the legal holder

Measuring and controlling components using camera systems and software

Ultra-thin and silicon semiconductor disk for producing many individual chips. The dice are sawn from the surface of the wafer

Finished components on a wafer-basis, which are subject to further processing

Fully automated process for wiring dice with carrier material

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

Total of cash and cash equivalents and marketable securities

Net sales less cost of 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)

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)

Assets intended for short-term business activities

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

A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond)

Codex of the government commission "Deutscher Corporate Governance Kodex", summarizing principles and recommendations of responsible corporate governance for publicly traded companies in Germany

Earnings before interest and taxes. This is the measure that Mühlbauer uses to evaluate the operating performance

A measure to determine the operative profits, displayed by the EBIT in relation to sales

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

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

Smart Card

Smart Label

Smart Media and Multi Media Cards

Smart Ticket / RFID Ticket

SMD (Surface Mounted Device)

Tag

TAL (Tag Assembly Line)

TECURITY®

Testing & Packaging

Traceability

Transponder

Turn-Key Solutions

Verification

Vision Technology

Wafer

Wafer Level Package

Wire Bonding

Balance sheets

Gross cash position

Gross profit on sales

Capital employed

Cashflow

Current assets

Defined Benefit Obligation (DBO)

Derivate

German Corporate Governance Codex

EBIT

EBIT margin

EBITDA

Equity ratio

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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