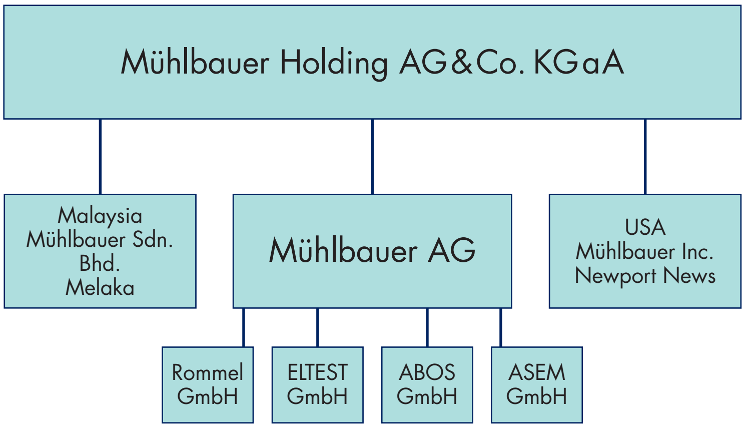
Annual Report 1998

Mühlbauer
HighTech International

OF THE MÜHLBAUER HOLDING AG&CO. KGAA

BOARDS



MANAGEMENT BOARD

Josef Mühlbauer

SUPERVISORY BOARD

Herbert Geißler	Senior Civil Servant, Chairman
Peter Drexel	Dipl.-Ing. member of the Board of Directors at Siemens AG
Wolfgang Brückl	Toolmaker

The following details refer to the Group. The separate report for the Mülbauer Holding AG & Co. KGAA can be obtained from the company.

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

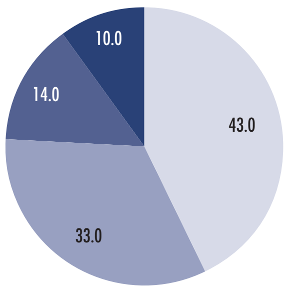
MÜHLBAUER GROUP IN FIGURES

BUSINESS FIGURES		US-GAAP Dec.31, 1998 audited	US-GAAP Dec. 31, 1997 unadited
Earnings per Business Unit	**TDM**	**105,439**	**96,769**
Card Automation	TDM	45,426	47,417
Semiconductor Backend Automation	TDM	34,971	42,578
Board Handling	TDM	14,348	0
Precision Parts	TDM	10,176	6,774
übrige	TDM	518	0
Earnings per Region	**TDM**	**105,439**	**96,769**
Germany	TDM	49,088	38,330
Rest of Europe	TDM	23,454	27,473
Africa	TDM	5,490	0
North America	TDM	8,069	5,806
South America	TDM	2,663	0
Asia	TDM	16,121	25,160
Australia	TDM	36	0
Other	TDM	518	0
Employees		**756**	**676**
Full time staff		595	589
Trainees and part-time staff		161	87
Earnings before tax[1]	**TDM**	**20,980**	**27,808**
Net income[1]	**TDM**	**16,689**	**17,508**
Balance Sheet Total	**TDM**	**245,589**	**119,539**
Current assets	TDM	158,816	71,448
Financial assets	TDM	25,621	0
Fixed assets	TDM	58,356	47,090
Intangible assets	TDM	2,624	865
Other fixed assets	TDM	172	136
Current liabilities	TDM	48,398	57,123
Long-term liabilities	TDM	26,758	26,960
Capital ownership	TDM	170,433	35,456
Investment in fixed and intangible assets	**TDM**	**22,741**	**9,162**
Depreciation	**TDM**	**10,040**	**7,819**

[1] including the share in the profit and loss of the phG

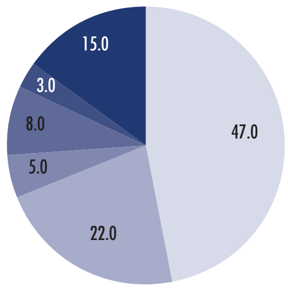
Turnover by business unit

1998 in %



Turnover by region

1998 in % (previous year in brackets)



KEY FIGURES

		US-GAAP Dec. 31, 1998 audited	US-GAAP Dec. 31, 1997 unaudidet
Earnings	DM thousand	105,439	96,769
Production costs	DM thousand	61,417	49,891
of earnings	%	58.3	51.6
Operational costs	DM thousand	27,795	20,853
of earnings	%	26.4	21.5
Operational results	DM thousand	16,227	26,026
of earnings	%	15.4	26.9
Other returns and expenditures	DM thousand	4,753	1,782
of earnings	%	4.5	1.8
Income befor taxes	DM thousand	20,980	27,808
of earnings	%	19.9	28.7
Tax on earnings	DM thousand	4,291	10,300
of earnings	%	4.1	10.6
Net income	DM thousand	16,689	17,508
of earnings	%	15.8	18.1
Simplified cash flow	DM thousand	26,729	25,327
of earnings	%	25.4	26.2
Capital ownership	DM thousand	170,433	35,456
capital ratio	%	69.4	29.7
return on equity	%	9.8	48.5
EBIT [1]	DM thousand	22,807	29,236
EBITDA [2]	DM thousand	32,847	37,055
Earnings per share [3]	DM	1.39	1.87

[1] Earnings before interest and taxes
[2] Earnings before interest, taxes, depreciation and amortization
[3] by fictively-assessed partner share

ANNUAL REPORT

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FOREWORD

VISION TO GROW

Dear shareholders and business partners,

Over the past 17 years, Mühlbauer has gone from a one-man operation to a leading provider of the latest automated systems for the chip card and semiconductor industries. This growth would never have been possible without a strong commitment and motivation from employees who share our goals and vision.

Our initial public offering on the Frankfurt Stock Exchange's Neuer Markt in July 1998 has given life to our vision for the future and prepared the company for the next millenium. Through the IPO, we are now allied with our investors and have begun work on our "Growth for the Future'' project. We have thus accepted the challenge of delivering marketable, innovative products that will consistently generate above-average growth.

FASTER PACE

To secure and add to the Mühlbauer Group's worldwide market leadership in certain segments, we will accelerate product innovations significantly, build on existing manufacturing technologies or create new ones for innovative applications, and launch the products seamlessly on worldwide markets. We have budgeted a substantial portion of future investment spending for this project. We are also stepping up our collaboration with technical schools and universities. Product development cycles are being shortened considerably, and beginning in 2000 a new machine or integrated system will be offered monthly.

SHAREHOLDER VALUE MANAGEMENT

Another core principle consists of establishing a highly motivated management team focused on shareholder value. My goal is to foster a corporate culture based on increasing shareholder value, and the management organization and teamwork responsibilities will be restructured accordingly.

A STRONG FOUNDATION

We previously achieved technological and market leadership for chip card automation. In this segment, we are a leading global player and independent systems provider.

By focusing our company's core competency on the semiconductor backend automation industry, we have enjoyed solid volume growth despite a particularly weak market environment. With the acquisition of Rommel GmbH and subsequent creation of our new P.C.Board Handling business unit, we have expanded our semiconductor backend processes through flexible handling systems, which has broadened the entire product range for the semiconductor segment.

Our Precision Parts business unit provides substantial in-house manufacturing and state-of-the-art technology and helps ensure a high degree of future flexibility for our other business segments. As more and more companies outsource production, this unit is increasingly a vital, strategic asset.

SHAPING THE FUTURE TOGETHER

We are entering new niche markets with electronic end-user products such as chip cards, LED's and smart labels, which we have developed in partnership with customers. We can leverage our technological leadership to grow further in these segments. We focus on customers above all else, and by significantly expanding our worldwide distribution and service expertise, we can satisfy their needs. Therefore, we plan to enter developing markets by way of acquisitions or the establishment of our own subsidiaries.

More than ever, our company's success will depend on generating results from first-class products, developed, manufactured and sold by highly motivated employees. In times of rapid growth, flexibility and a quick response are essential. Employees must have an open mind, company loyalty, an understanding of new developments and a sense of commitment to the task at hand. Markets and technological developments are evolving rapidly, so long-term business success requires a willingness to take action. The company's management team, employees and I accept this responsibility wholeheartedly.
In the past, employees represented the company's only human capital. Today, shareholders are a welcome addition, and we are happily committed to the goal of increasing shareholder value.

Roding, March 1999

Josef Mühlbauer

Key-figures of the Mühlbauer-share

Offering price	DM	96.00
High	DM	204.38
Low	DM	101.00
Share price Mar. 26,1998	DM	145.12
Income before taxes/share[1]	DM	2.86
Dividend/share[2]	DM	0.90
Dividend	DM million	1.74
Dividend payout/Net income available to common shareholders[1, 2]	%	64.90
Dividend payout incl. tax crediting/ Net income available to common shareholders[1, 2]	%	92.80

[1] Related to the group (per Dec. 31,1998)
[2] Conditioned to the approval of the general shareholders' assembly

MÜHLBAUER'S STOCK

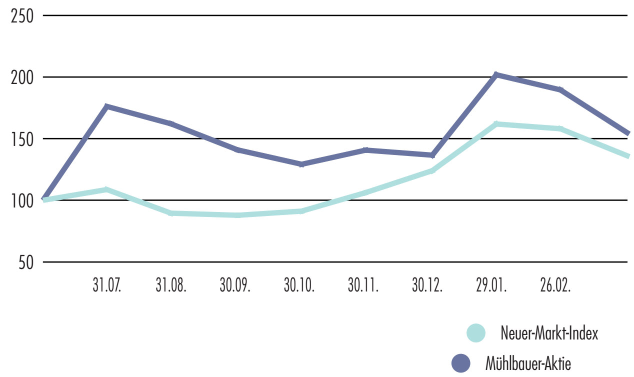
THE IPO AND THE SHARE PRICE TREND

On July 10, 1998, our common stock began trading on the Neuer Markt of the Frankfurt Stock Exchange. Just prior to the initial public offering, demand was very strong, as reflected by the fact that the issue was oversubscribed 46 times. The offering price of DM 96.00 was at the high end of the range, and the first price was substantially higher at DM 130.00.

In the weeks following the IPO, the shares reached a high of more than DM 190. Despite strong quarterly earnings and the successful acquisition of Rommel GmbH in September, the stock price weakened considerably in late summer as the market trended downward. In September, it traded at a low of just over DM 100, with the 30-day average bottoming out in early November. Subsequently, the shares continued to post gains, closing out the year at DM 131.10. In January, this trend accelerated, such that by February the stock price was again near its all-time high.

Development of the share price

1998-99 in %



In the future, we will step up our implemention of the shareholder value concept and strengthen investor relations. In 1999, we will take part in several investor conferences such as the SG Cowen conference in Cannes, France, where European tech stocks are featured.

Following our successful U.S. road show late in the fall of 1998, we have planned more road shows for 1999. We are targeting Asia, Europe and the U.S. Regular press conferences and DVFA (German Financial Analysts Association) events will further enhance the Mühlbauer Group's transparency and openness to investors.

The listing of Mühlbauer-Holding AG & Co. KGaA shares on the Neuer Markt requires a new approach to investor relations. We welcome increased transparency with regard to our sales and earnings trends and strategic goals. Therefore in 1999 we will increase our "news flow" and publish financial reports well before they are due.

The personally liable shareholder and the supervisory board are recommending a dividend of DM 0.90 per share to the general shareholders'assembly.

CARD AUTOMATION

SMART SOLUTIONS FOR A SMART WORLD

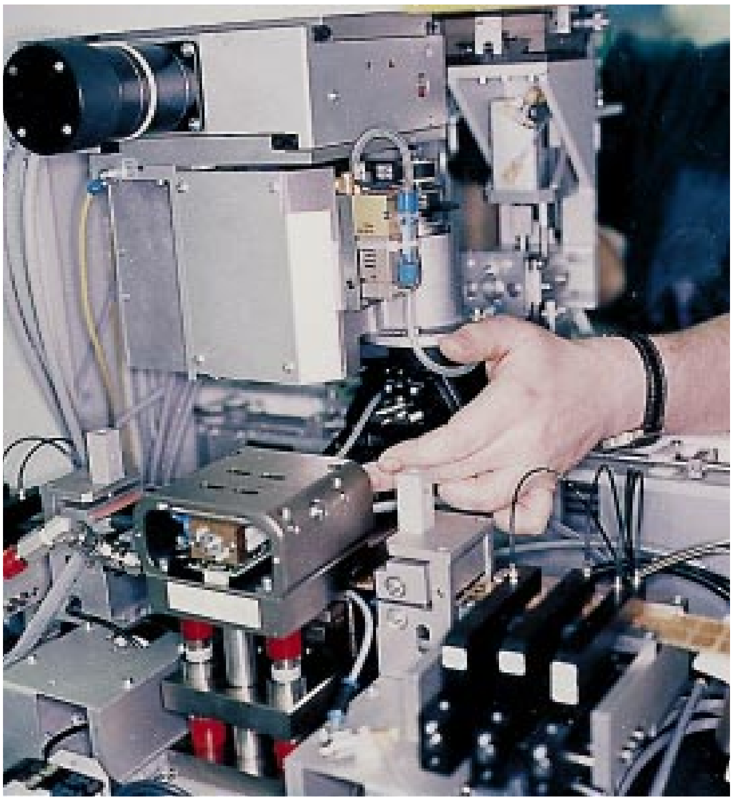
Our Card Automation unit develops, manufactures and sells production systems for the card industry. The product range extends to four segments: chip production, card manufacturing, customization and packaging and contactless and dual interface cards. Mühlbauer products can thus be used to manufacture the entire range of chip card applications, including smart, contactless, dual interface, smartmedia/multimedia cards and smart labels.

In our IC-module production segment, the processes of die and wire bonding, encapsulation, testing and film-lamination are offered. The card assembly covers from sheet collecting and card punching, over milling, implanting and inspecting, the plug-punching process for smart cards used in mobile phones. In the product-sector personalization, we offer the processes of personalization and pre-personalization.

In the pre-personalization phase, the operating system is loaded onto a card, with personalized data subsequently loaded electronically. This personalized data can also be applied to the card's surface using a printer or laser. Finished cards can be packaged either individually or in stacks. Through a fourth product segment, Mühlbauer offers intelligent, comprehensive solutions for manufacturing and customizing contactless and dual interface cards.

This business unit thus offers flexible overall solutions for virtually the entire production process of smart cards – from chip production to personalization and packaging. Our extensive distribution and service networks in Europe, Asia and America, including company sales representatives in the key markets, ensure market access and proximity to our customers worldwide.

We are a lean, totally product-oriented company. Combining the highest degree of innovation with customer focus, we constantly develop new product ideas in order to keep pace with the rapid technological changes in the semiconductor industry.



Naturally, we leverage synergies with our Semiconductor Automation business unit and implement them jointly. Thus the Card Automation unit has the backing of more than 130 engineers and technicians to make the technologies of tomorrow a reality today.

The business unit's objective is a constant, market-driven extension of the product range and the strategic expansion of the international distribution and service networks. This ensures close customer relationships and satisfaction. New distribution and service facilities were recently opened in China, Taiwan and the U.K., and more are planned.

We are constantly expanding our product range both in terms of new manufacturing processes as well as capacity. Our goal is to offer production solutions tailored to each specific demand, from the low end to the high end.

As examples of its innovative prowess, the unit has already developed such new product solutions as multimedia/smart-media cards and smart labels. Further product developments for the booming credit card market are also in the pipeline. With these products, we will gain an increasing share of the rapidly growing market. "Turnkey solutions worldwide" is our motto.

In the 1998 fiscal year, the Card Automation unit posted sales of DM 45.4 million, with Europe accounting for around 61% of sales, America 11%, Asia 16% and other countries about 12%.

SEMICONDUCTOR BACKEND AUTOMATION

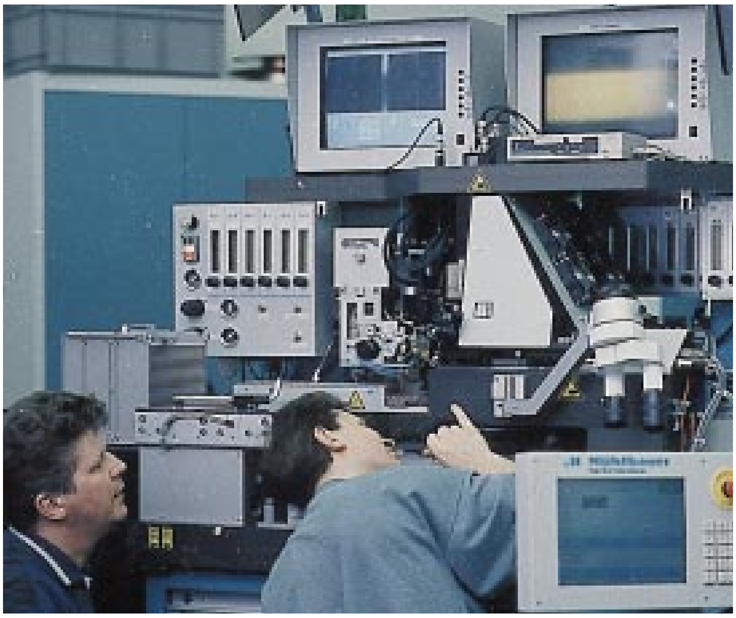
PERFECTION IN BACKEND

The Semiconductor Backend Automation business unit includes the Assembly & Packaging, Testing & Packaging und Carrier Tape segments. These segments develop and manufacture highly automated assembly and handling systems for promising niche applications in the semiconductor industry. These segments do not depend on mass market applications such as memory chips, which are themselves subject to sharp cyclical fluctuations. Instead, investments are concentrated largely in innovative technologies, such as the rapidly growing LED segment, power and discrete devices and smart labels, a promising market in the future.

Across the entire manufacturing chain, Mühlbauer offers a uniquely comprehensive product range, from die and wire bonding, encapsulation and testing to packaging of components. This broad spectrum sets the Mühlbauer Group apart, positioning us perfectly to meet demand for comprehensive, integrated solutions in the semiconductor backend industry. Through partnering work with customers, we are the market leader worldwide for high-speed epoxy die bonds (LEDs for example) as well as for integrated smart label assembly lines. We have thus established an excellent foundation upon which to develop the Semiconductor Backend Automation business unit in the years ahead.

This business unit's goals in 1998 included repositioning its entire technological know-how and product range on promising niche markets, as well as positioning itself in market segments with outstanding future prospects, such as optoelectronics, power and discrete devices and smart labels.

We made consistent progress on recently begun projects to further the business unit's technological leadership as a comprehensive provider in the Semiconductor Backend industry. In that respect, the successful marketing of the new DB 200 equipment as the world's fastest epoxy die bonder for small dies was a major highlight. Through increased research and development efforts, other product segments are also being extended. The "Mechatronik" pilot project, in particular, is

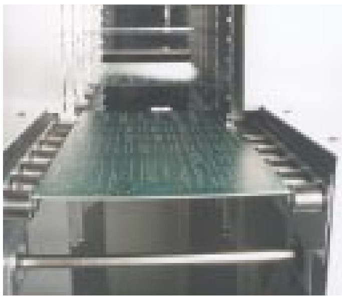


essential in assuring the company's future growth. This collaborative project with leading universities involves the first-ever industrial application of machinery, electronics and software as part of an integrated, modular system. By end-1999, the first machine using the Mechatronik concept should be completed.

Another key development area involves the chip-on-board project begun in 1998. In line with the trend of miniaturization and increased electronics performance, new equipment concepts and technologies focusing on bare die on flex applications in flip chip technology are being developed at our new technology center in Dresden.

In the carrier tape machine segment, i.e. systems for manufacturing deep-draw packing belts, the product range has been steadily extended up to a width of 200mm. This segment is especially profitable, since these belts enable components for mobile phones and laptop computers to be packaged for further automization during assembly.

Despite weakness in the semiconductor industry over the past two years, the Semiconductor Backend Automation business unit posted very satisfactory sales of DM 35,0 million. Europe still accounts for the bulk of sales at 56%, with Asia contributing 26% and America 18%. The business unit is well equipped for the future, given its excellent, close customer contacts as well as a revolutionary technological platform. This platform will lead to innovative applications in market segments of the semiconductor industry, which is again posting sharp growth.



BOARD HANDLING

SMART PRINTED CIRCUIT BOARD (P.C.BOARD) HANDLING

The Board Handling business unit is the most recent addition to the Mühlbauer Group. The unit is represented by Rommel GmbH, the leading European address in P.C.Board Handling. Founded in 1980 in Ehingen near Ulm, the company was acquired by the Mühlbauer Group in the fall of 1998. It currently has around 60 employees.

The integration of Rommel offers significant advantages to both companies. On the one hand, Mühlbauer provides Rommel GmbH with an extremely efficient worldwide distribution system. On the other, the acquisition of Rommel fills an existing hole in the Mühlbauer Group's Semiconductor Backend Automation business. In the die and wire bonding business, there were no opportunities to combine Mühlbauer's processes with so-called handling solutions. These systems are becoming increasingly important. Of special importance is the chip-on-board technology, for which Mühlbauer is very well positioned with combined handling solutions.

The product range covers the entire spectrum in the printed circuit board handling industry. Rommel offers loading and unloading systems, Magazine-puffer-systems, rotation and reversal stations, as well as conveyor belts and inline labelling stations.

The systems developed in this business are characterized by maximum flexibility and performance with regard to their dependability, operating speed and throughput. Moreover, they stand out thanks to their excellent design. The combination of all these factors makes for a successful product. The worldwide potential for the Group's most recent addition is significant, and remains to be exploited jointly.

Rommel posted 1998 sales of DM 14.3 million, up more than 62% from the DM 8.8 million recorded in 1997. Significant growth is also expected in the future, since printed circuit board production will continue to grow.

Given that Germany accounted for more than 90% of the P.C. Board Handling business unit's sales, other markets in Europe and beyond will be targeted for expansion. This expansion should result from both internal growth and collaboration with distribution firms. A new product line is being developed in order to respond in a more targeted and flexible manner to the diverse demands of various markets.

In 1999, fully automating the inline labelling stations will be another priority. These stations serve to print and affix labels on circuit boards. This area has tremendous future growth potential, a trend that was already evident in 1998. Three separate models are planned that will cover the full range of customer needs.

This potential will be realized through increased R&D efforts, which are based on years of acquired know-how in board handling and implemented using the most up-to-date equipment.

PRECISION PARTS

EXPERTISE, QUALITY AND INNOVATION – PRECISION UNDER ONE ROOF

The Precision Parts business unit is the foundation on which the current company was built. Today, it still remains a vital component of the company's success, manufacturing precision parts and systems used by other Mühlbauer Group business units. It also offers outside customers a high degree of flexibility.

By leveraging internal synergies, development cycles are shortened and time to market is minimized. In-house manufacturing provides approximately 90% of the parts used by the three other Mühlbauer Group business units for their products, which ensures the company's high-quality reputation.

In addition to its high quality, the business unit's breadth of services, dependability and on-time shipments have established its reputation in the European market. This reputation for quality, high-value precision parts and systems "made by Mühlbauer" now extends even beyond Europe and has helped the company win new customers. With more than 270 highly skilled employees at the Roding and Stollberg facilities, Mühlbauer now ships to the aerospace, automotive and semiconductor industries as well as leading medical technology companies. The company has stepped up its marketing effort through increased advertising and trade show participation, which in turn help increase its name recognition.

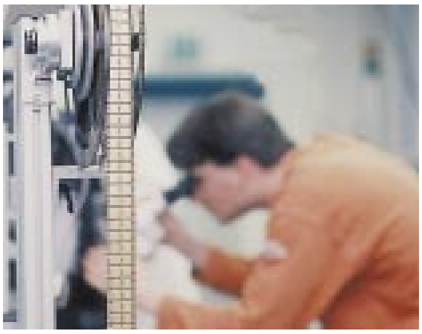
The business unit assumes total responsibility, from planning to product delivery. This allows customers to realize cost savings in planning, contracting and execution, and enables them to concentrate on their core competencies.

Mühlbauer offers "expertise under one roof," which has boosted demand for its services as a systems provider. More and more, the development of new and upgraded complete systems is being outsourced along with overall responsibility. Mühlbauer offers a complete range of products and services, from single parts to complete systems.

Dependable system providers like Mühlbauer Group are in demand, because ever-shorter turnaround times and the accelerated pace of technological change make it prohibitive to change suppliers.

The Mühlbauer Group's outsourcing is increasingly establishing itself as a very high-level service, as partnering becomes common and ties between suppliers and customers become closer. Our outsourcing services also reflect highly trusting relationships, for which our stable finances play no small part. Only providers with the most modern equipment, the fastest turnaround times, the highest quality and value-based pricing can survive in the market. For this, we are exceptionally well-equipped. In the future, the Precision Parts business unit will become even more state-of-the-art than it is today. With the construction and expansion of the Stollberg facility, the company now has two highly modern manufacturing plants. Over the next three years, we will invest an additional DM 10 million in high tech manufacturing equipment. The ongoing new capital investment make it possible not only to upgrade existing equipment, but also exploit new technologies such as high-speed milling machines. We are expanding our core competencies in a focused manner so that we may be the best in this business line.

Including intercompany revenues, the 1999 sales target for the Precision Parts business unit is circa DM 50 million. The unit is sure to record above-average growth thanks to the continued development of well-functioning partnerships with innovative German and foreign firms as well as the success of their promising products.



RESEARCH AND DEVELOPMENT

WE STANDARDIZE INNOVATION

This adage has characterized the Mühlbauer Group since its founding in 1981 and will continue to do so in the future. Our business is focused on the future, as reflected by our products. The group's core competencies will be further extended across all the business units and products, in order to boost the firm's future innovative capacities.

In 1998, the Mühlbauer Group invested strongly in Research and Development. At 13 % of sales, this spending is relatively high. Through these investments, significant discoveries have found applications in new, highly productive manufacturing technologies. They will also provide a technological advantage in the future.

A new Dresden facility is being added to existing R&D centers in Munich-Oberhaching, Roding and Stollberg. In the first construction phase, the Dresden facility will cover around 3,000 square meters. The R&D center will open in 1999 and begin development work.

The search for increasingly productive manufacturing processes in chip cards and semiconductor backend is one of the R&D unit's major technological challenges. The objective is to be able to offer customers specific and highly productive manufacturing processes for the latest chip card and semiconductor backend applications.

Today, more than 130 engineers and technical experts are focussing their efforts on applied research as well as the development of new machines and upgrading of existing ones. The young R&D teams also work on pilot projects such as "Mechatronik," which is the first-ever industrial application of

machine, electronics and software as part of an integrated, modular system. The project is being carried out in cooperation with leading universities and has shown good results. Construction of a machine integrating this revolutionary concept is planned for 1999.

Close ties are maintained with reknowned German technical universities as well as the Fraunhofer Institute. Considerable technology transfers result from collaborative projects, which lead to the development of new products and manufacturing technologies by Mühlbauer.

The teams also focus their R&D efforts on discovering future technologies, which ensure that Mühlbauer will stand out in the automated equipment market for highly sophisticated chip card and semiconductor backend manufacturing.

Work begun last year on promising technologies such as Chip on Board, Chip on Flex or Flip Chip continue to receive substantial backing. The chip-on-board technology, which consists of installing silicon chips on circuit boards, is especially promising. The chip-on-flex and flip-chip technology is a vast potential future market that covers products such as smart labels, with a diverse range of possible applications and markets. The Mühlbauer Group's R&D teams have produced tailored solutions for customers as well as further optimized mass production solutions with regard to manufacturing and throughput.

EMPLOYEES

HUMAN CAPITAL IS THE FUTURE

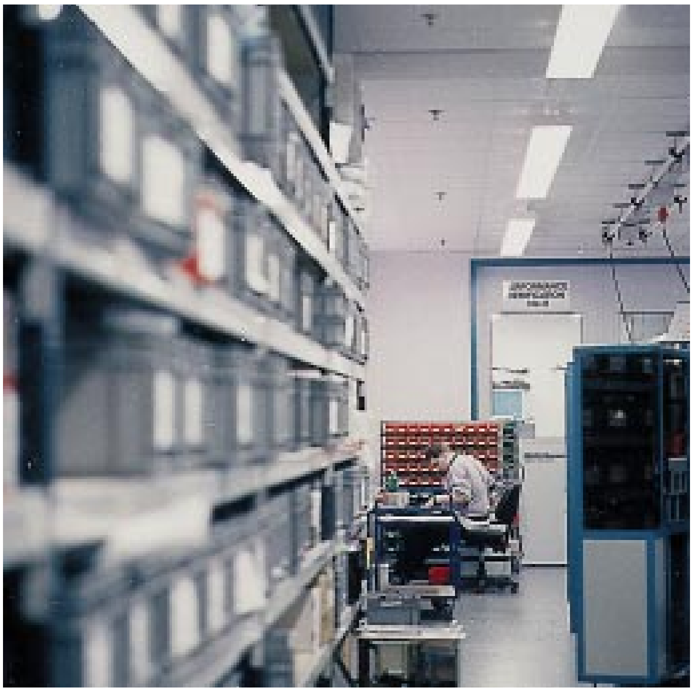
The Mühlbauer Group also stands by this adage, since future success and flexibility will depend on highly motivated employees. Essential in this respect are apprenticeship training and continuing education for our employees.

We emphasize the importance of sales and manufacturing apprenticeship training. Young team-oriented employees are recruited in order to build up a highly skilled workforce that shares the Mühlbauer philosophy. We believe in giving these apprentices real responsibility early on, because only then they do learn the importance of each employee's contribution to the company's future.

This approach naturally requires that each employee willingly assumes responsibility and learns the company philosophy, which has turned out to be the case. As part of the IPO, employees could subscribe shares and received preferential treatment during the allocation. The response was very strong, with nearly 80% of all employees taking a stake in the company. At the same time, a management participation program was implemented with targets based on business operations and financial performance.

The worldwide network of subsidiaries fosters international contacts even for apprentices, who may complete short programs in the subsidiaries to learn the company's international business. This approach to training has become a strategic success factor for the Mühlbauer Group.

We also recruit students working on their degrees or gaining business experience. In the future, recruiting from technical schools will be stepped up through direct interviews and at recruiting conferences for graduates. In this fashion, we have close ties with our employees, which is rare for such a young company. In more than isolated cases, employees who recently completed an apprenticeship at Mühlbauer have received



their Abitur diploma by following the vocational path before completing an advanced degree at a technical university. Today they have returned as engineers and apply their expertise on research, development and manufacturing state-of-the-art products for Mühlbauer.

The workforce has become a cultural melting pot thanks to the company's global philosophy and reach. With more than 10 different nationalities and cultures working closely together within the Group, and with numerous international customers, our employees have broken down barriers and fostered a sense of understanding for other cultures. As a result, Mühlbauer relates well with customers and plays to their particular needs.

It is also very important that employees are able to unleash their potential and continue to grow. In order to improve communications on an international scale, all employees are offered English courses. Aside from pedagogical instruction, employees also have the possibility of taking diverse professional and personal continuing education courses. Mühlbauer thus improves the quality of its employees.

The working environment and the perspective given each employee also works out very positively for the individuals involved. Working in a successful company whose average worker is under age 30 is gratifying. A good example is the extremely low absentee rate due to illness of 1.46% in 1998.

MANAGEMENT REPORT

THE COMPANY

The Mühlbauer Group, one of the world's leading independent producers of intelligent machines for perfecting semiconductors and smart cards, sees itself first and foremost as a responsible partner for its customers, and stands for absolute precision, reliability and calculability. Further growth stems from the clear strategic focus on core technological competencies coupled with a strong innovatory thrust and flexibility of approach.

The company is organized into four interdisciplinary teams or business units. A paramount principle within the Group is the exploitation of synergies between all four business units. Ongoing know-how transfer guarantees consistently high quality standards and the overall success of the enterprise.

THE MARKETS

The chip card market continues to boom worldwide, whereby the European home market of the chip card is playing a pioneering role of sorts, producing powerful innovations in new fields of application such as multimedia, Internet and identification systems. In Asia and America, some highly promising projects are in the pipeline.

The semiconductor market is now emerging from its recent trough, as reflected in a somewhat improved investment climate. Large growth rates are expected in the field of optoelectronic chips and LEDs. Europe will continue to rank second in the global semiconductor market in 1999. The impacts of the crisis in Asia, a key market for companies that build production facilities for the electronics industry, should not be exaggerated, since demand there is likely to prove steady in the long term.

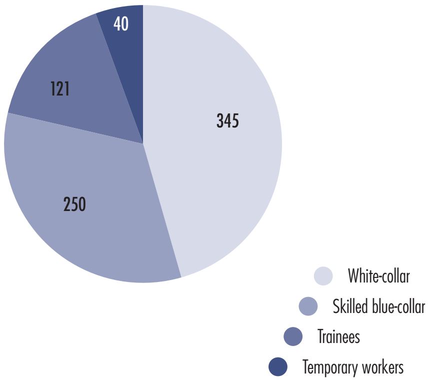
In the precision parts manufacturing segment, the firm trend towards outsourcing continued. Orders are becoming more and more complex and are no longer confined to Germany. Throughout Europe, the need for high-precision turnkey systems is very large.

RESEARCH AND DEVELOPMENT - MANY NEW PROJECTS FOR THE NEXT MILLENNIUM

Mühlbauer possesses a very high level of innovational competence compared to other mechanical engineering companies in Germany and abroad. Its R&D spendings amounted to 13 percent of total sales, with the result that the company was once again well above the industry average during the reporting year. Our innovational thrust will be upheld in years to come, so this ratio will be further increased in order to enlarge upon and consolidate our technological leadership in all segments of relevance to the company.

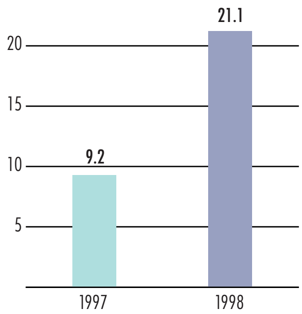
Workforce structure

1998 (Average)



Investments

1997-98 in DM million



During the reporting year, Mühlbauer had an average 129 employees in the research and development division, which is directly accountable to customers in the decentralized business units.

One of the greatest technological challenges is the "Mechatronic 2000" project initiated by Mühlbauer. Mechatronic is a technological process that integrates elements of mechanical engineering, process engineering, electronic engineering and information technology. The aim of these efforts is to develop, with the help of highly skilled personnel with first-class qualifications in the fields of electronics and mechanics, complex machines capable of maximum productivity and improved output. In addition to utilizing its own innovational strengths, Mühlbauer has decided to seek competent partners and research facilities, in appropriate joint ventures, with whom solutions can be developed for the benefit of customers.

HUMAN RESOURCES

At the end of 1998, the Mühlbauer Group had a total staff of 902. This was 225 more than at the end of the previous year. The increase, of around 33%, includes those employees who joined the Group at the end of 1998 through the integration of Rommel GmbH. Disregarding the impact of this acquisition, the total number of staff increased by around 18%.

INVESTMENTS

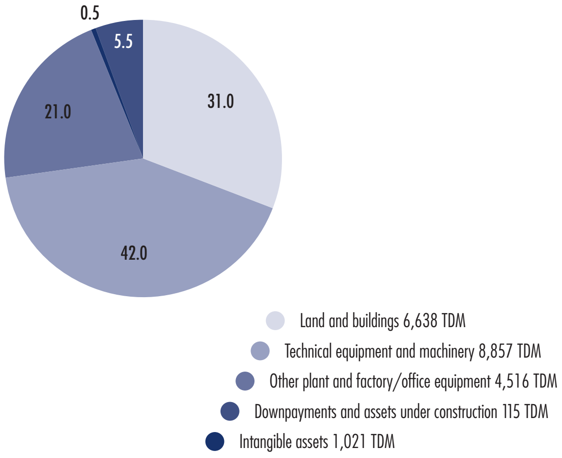
A total of DM 20.1 million was invested by the Mühlbauer Group during the reporting year in order to expand and modernize the plant and buildings (excluding the assets of Rommel GmbH and the associated goodwill). Taking investments in intangible assets into consideration, investments accounted for around 20 percent of total sales.

The main focus of Group investment activity concerned the further expansion of the manufacturing centre in Stollberg (total investment around DM 20 million), which now operates on a global scale.

Mühlbauer is planning further intensification of its own research and development activities in future in order to safeguard and increase its technological leadership on the world's markets, in the future as well. With this aim in mind, the Group is investing around DM 5 million in the 1999 business year to establish and grow a research and development centre in Dresden. Construction work for expanding the development centre at the company headquarters in Roding (total investment volume around DM 10 million) is planned for early 2000.

Composition of investments[1]

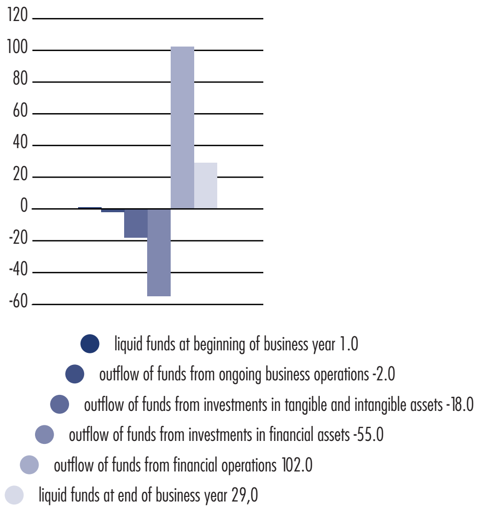
1998 in %



[1] *excl. assets of Rommel GmbH and the associated good will*

Financing

1998 in DM million



FINANCING

The Group's financial strength was substantially increased as a result of going public, and gives the Group the requisite security for weathering the future. The equity ratio at the end of the year under review was more than 69%, compared to 30% the previous year. External borrowings, which could be repaid without losses, are being reduced in the current business year. Except for the assumption of debt as part of the Rommel takeover, there were no new borrowings.

Total cash flow in 1998 amounted to minus two million DM (compared to minus 4 million DM in 1997). This decline from 1997 to 1998 is mainly attributable increases in depreciation/ amortization and investment grats.

Investments in tangible assets were primarily for building construction as well as technical plant and machinery for the Stollberg and Ehingen factories. Investments in financial assets, at DM 55 million, relate to capital investments resulting from the share issue proceeds.

The cash flow from financing operations, at DM 102 million, shows the influx of capital from the share issue on the stock exchange minus the costs thereby incurred.

SALES

Catering to the market with a comprehensive range of machinery, the Mühlbauer Group succeeded in increasing Group operating revenues by around 9 % – partly through acquisitions – to DM 105.4 million (previous year: DM 96.8 million, without Rommel GmbH).

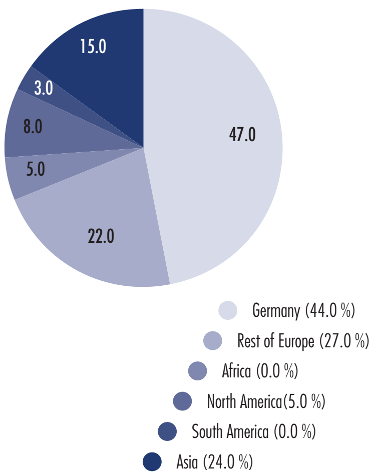
Domestic sales rose 5.5% to DM 49.1 million, signifying a small increase in sales on the German market following high growth rates in preceding years. Foreign sales amounted to DM 55.8 million (previous year: DM 59.1 million). This persistently high percentage of foreign sales is clear evidence for the company's global focus on business partners throughout the world.

With the exception of the Asian region, which was hit by price falls caused by excess capacities, trends were otherwise positive in the various regions of the world. The strongest growth in volume terms, at DM 5.5 million, occurred in Africa. In North America, sales were boosted by 39 percent to DM 8.1 million.

The rest of Europe accounted for DM 23.5 million in sales (previous year: DM 28.1 million). The European market consolidated its position as the largest market.

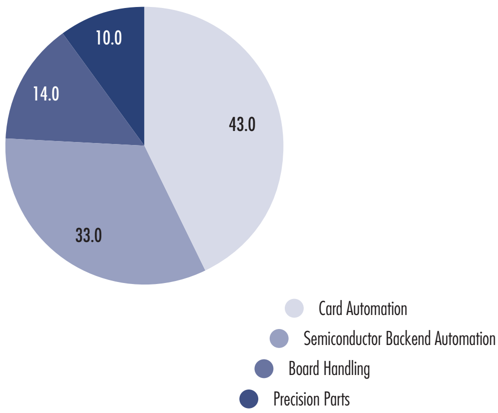
Turnover by region

1998 in % (previous year in brackets)



Turnover by business unit

1998 in %



The biggest contribution to Group sales, accounting for DM 45.4 million in the past business year, or 43% of total sales, was achieved with trade in smart card production machinery, these activities being concentrated in the Smart Cards business unit. The Semiconductor Backend Automation business unit within the Mühlbauer Group generated a further DM 35.0 million (33%) in revenue from the sale of machinery and plant.

The Board Handling business unit, which is positioned after the Semiconductor Backend Automation business unit and with Rommel GmbH now forming an integral part of operations for the first time, achieved sales totalling DM 14.3 million (14%). This signifies an increase of more than 62 percent on the previous year's sales.

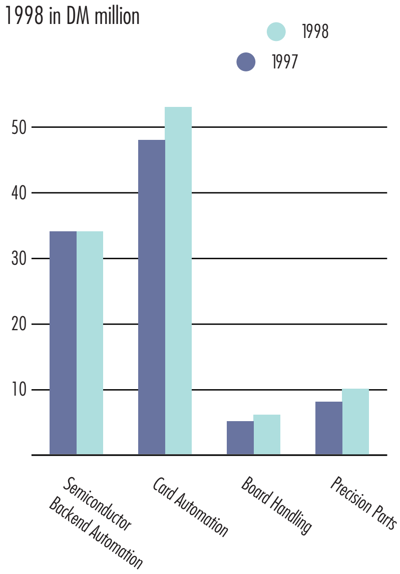
The Precision Parts business unit contributed DM 10.2 million (10%) to the total sales volume. This is an advance of more than 50 percent on the previous year (DM 6.8 million).

SALES AND ORDER SITUATION

Thanks to the persistently high level of demand for capital goods, the company recorded an order intake volume during the first half of the year that was well above the relevant figures for the previous year. Incoming orders received by the Smart Card Automation business unit reached DM 28 million during the first half of the business year, a new record for the company, leading to total orders of DM 57 million for the Group as a whole – a level well above the average. As the year progressed, however, incoming orders tended to lose momentum. On the whole, new orders failed to meet the volume being dispatched, with the result that the order backlog fell by the end of the business year to just over DM 24 million (compared to DM 24.7 million the previous year). Market turbulence led to customers exercising restraint as far as new orders were concerned, thus leading to shifts in order volumes. Despite these trends, incoming orders totalled around DM 102 million, thus exceeding the previous year's volume (DM 94 million) by more than 8 percent.

Incoming orders

1998 in DM million



NET INCOME

In the reporting year, the Group achieved a net income after tax and before deduction of the profit share allocated to the personally liable shareholder (DM 14 million) of DM 16.7 million. The return on sales before taxes and before deduction of the profit share allocated to the personally liable shareholder was around 20 percent, a figure well above average and clear evidence of the profitability of the Mühlbauer Group. The takeover of Rommel GmbH, with financial effect as of Jan. 1, 1998, was included in the annual figures for 1998 (see Note (4) on acquisitions in the annual financial statement).

The Group financial result was significantly improved from -DM 1,402 million to -DM 127,000. The improvement is due to the interest income earned on proceeds from going public; this income was invested on the international money markets until such time as it is needed for acquisitions and investments.

PROSPECTS

In 1999, Mühlbauer will concentrate its energies on consolidating and expanding upon its core competencies, on enhancing activities in markets of the future, on cutting-edge technologies, further increases in productivity and profitability, and on improving its range of high-standard services.

We are eagerly facing up to the competitive environment for innovations. Armed with the latest production technology, we will be collaborating with customers to open up new, dynamic growth markets. Thanks to our highly flexible and independent approach, we are able to continue offering customers everything they expect from a supplier of systems and production equipment. Finely tuned and sustained exploitation of synergies will lead to enhanced mobilisation of our technological competence and consolidation of our market position. With an even stronger customer orientation, we will expand our sales and service activities in all segments worldwide and intensify our penetration of the market.

State-of-the-art high-performance technologies, well-trained and highly motivated teams, combined with a solid financial basis are the guarantee for continued business growth. The CEO is confident of achieving the planned targets.

SUPERVISORY BOARD REPORT

Through ongoing written and oral reports from the management board and in two meetings since the company's going public, the supervisory board was informed of the company's business and any significant events and has every reason to believe that they are in order. The ongoing consultation involved mainly the company's earnings and financial situation, acquisition activity and human resources issues.

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

The accounting methods, financial statements for 1988 and the management report have been examined by the elected auditor, RTK-Revisions- und Treuhandgesellschaft, Kröniger, Niedner, Scherbauer GmbH, Munich. The audit opinion is unqualified, in accordance with article 322 of the German Commercial Code (HGB). After its own review, the supervisory board approved without exception the results of that review and the management board's proposed attribution of the Group profit on Mar. 19, 1999. The supervisory board recommends to the general shareholders' assembly to adopt the annul financial statement of the Mühlbauer Holding AG & Co. KGaA for the year ending December 31, 1998 as submitted.

The supervisory board thanks management and the employees and recognizes their accomplishments of the past year.

Roding, in March 1999

Herbert Geißler

Herbert Geißler
Chairman

GLOSSARY

Assembly & packaging	Assembly and packaging of semiconductors.
Bare die on flex	Technology of producing semiconductor components by attaching dice on to flexible carrier material.
Carrier tape	Packaging strap especially for transporting electronic components.
Cavity	Sinking a bed into a chip card before placing the chip.
Chip on board	Attaching and/or wiring dice on to carrier material such as circuit boards.
Chip on flex	See bare die on flex.
Credit cards	Cards in which credit limits are not paid in advance. Payment is carried out after receipt of goods or services.
Die bonding	Positioning a small silicon chip on carrier material.
Die, Dice	Silicon crystal with a single semiconductor-type microcontroller.
Dual-interface card	Type of card uniting the functions of contact and non-contact card technologies.
Epoxy die bonds	Attaching dice on to carrier material using an adhesive process (epoxy process).
Flip-chip technology	Process of turning dice 180° either for further processing or attaching on to carrier material.
GSM cards	The global system for mobile communications is an international, terrestrial mobile telephone system which has in the meantime extended beyond Europe and has developed into a world standard. Chip cards with a special normed size for use in mobile telephones.
Implantation	Embedding a chip in a plastic card.
(Adhesive film) Laminates	Attaching a heat-activated adhesive film on to the reverse side of a module.
Magnetic strip card	Card with magnetic strip which acts as carrier of data.
Mechatronik	New profession combining skills originally found in mechanics, software and electronics.
Module	Carrier material for a die with prepared contact elements.
Non-contact cards	Cards in which the transfer of energy and/or data is carried out by means of electromagnetic fields.
PC board	Printed circuit board or printed card inserted with semi-conductor components.
PC board handling	Transport system for printed cards.
Personalising	Process of allocating data to a card by entering personal data on to a chip, magnetic strip or card surface.
Plug-in	A small format chipcard used particularly in GSM.
Plug punching	Pressing out a small chipcard from a normal-sized card for use in mobile telephones.
Pre-personalising	Loading an operating system on a chip.
Printed circuit board production	Space-saving technology in printed board component insertions.
Smart card	Chipcard, a plastic card with a chip module.
Smart label	Non-contact identification system.
Smartmedia/Multimedia card	Card application used particularly in digital cameras or as a means of storing music.
Spilling	Protection for the chip and its wire tie by applying a sealing compound on the reverse side of the chip.
Testing & packaging	Testing, labelling and packaging semi-conductors for further processing.
Turn-key solutions	Ready-to-use, total solutions.
Wafer	Very thin semiconductor disc or plate made of silicon from which many separate chips can be produced. The wafers are sliced, thereby defining the so-called dice.
Wire bonding	Fully automatic process of wiring a die to carrier material.

CONSOLIDATED FINANCIAL STATEMENT

CONTENTS

AS AT DEC. 31,1998 OF MÜHLBAUER AG & CO. KGAA

CONSOLIDATED BALANCE SHEETS

ASSETS	Notes	US-GAAP Dec. 31,1998 audited DM thousand	US-GAAP Dec. 31,1997 unaudited DM thousand
Current assets			
Liquid assets	(3)	28,504	1,043
Marketable securities	(3),(5)	33,549	0
Trade receivables	(3),(6)	13,907	15,630
Inventories	(3),(7)	76,612	53,746
Prepaid expenses		381	240
Other current assets		5,863	789
		158,816	**71,448**
Financial assets			
Marketable securities	(5)	25,621	0
		25,621	**0**
Tangible assets	(3),(8)		
Land		1,989	1,603
Buildings		36,975	32,159
Factory and office equipment		19,392	13,328
		58,356	**47,090**
Intangible assets	(3),(9)		
Goodwill		1,414	0
Software and licences		1,210	865
		2,624	865
Other assets	(3)	**172**	**136**
		245,589	**119,539**

EQUITY AND LIABILITIES			
Short-term liabilities			
Short-term loans	(10)	2,054	2,624
Short-term portion of long-term loans	(12)	2,609	657
Trade payables	(3)	10,657	6,354
Downpayments received on orders		1,806	3,316
Shareholders loans		105	9,887
Other short-term liabilities		6,373	6,742
Accruals for taxes on income	(3)	14,448	10,132
Deferred taxes	(11)	5,537	14,092
Other accruals for pensions	(3),(11)	4,809	3,319
	(3)	**48,398**	**57,123**
Long-term liabilities			
Convertible bonds	(14)	149	0
Long-term loans	(12)	14,968	17,432
Investment grant received	(3),(13)	8,480	5,359
Deferred taxes	(3),(11)	2,632	3,696
Accruals for pension	(3)	529	473
		26,758	**26,960**
Shareholders equity	(3),(4),(15),(16)		
Subscribed capital (par value DM 5, 2,000,000 common shares authotized, 1,940,000 common shares issued and outstanding as at Dec. 31,1998)		9,700	3,000
Fixed capital constributions		100	100
Additional paid in capital		114,299	0
Retained earnings		45,616	32,356
Unrealized gains and losses on marketable securities, net of taxes	(3),(5)	718	0
		170,433	**35,456**
		245,589	**119,539**

The Notes that follow are an integral part of the consolidated financial statements!

AS AT DEC. 31,1998 OF MÜHLBAUER AG & CO. KGAA

CONSOLIDATED INCOME STATEMENTS

	Notes	US-GAAP Jan. 01.- Dec. 31,1998 audited DM thousand	%	US-GAAP Jan. 01.- Dec. 31.1997 unaudited DM thousand	%
1. Sales	(3),(4),(17)	105,439	100.00	96.769	100.00
2. Cost of sales		61.417	58.25	49,891	51.56
3. Gross margin		**44,022**	**41.75**	**46,878**	**48.44**
4. Operating expenses					
a. Sales and general administration expenses	(3)	21,698	20.58	15,548	16.07
b. Research and development expenses		6,097	5.78	5,305	5.48
5. Operating income	(4)	**16,227**	**15.39**	**26,025**	**26.89**
6. Other income and expense					
a. Interest income		1,700	1.61	26	0.03
b. Interest expense		1,827	1.73	1,428	1.48
c. Other income		4,880	4.63	3,185	3.29
7. Income before taxes on income		20,980	19.90	27,808	28.74
8. taxes on income	(11),(15)	4,291	4.07	10,300	10.64
9. Net income for the year, including profit share of the personally liable shareholder	(4),(16)	**16,689**	**15.83**	**17,508**	**18.09**
10. Profit share of the general partner	(4),(15)	14,000	13.28	0	0.00
11. Net income available to common shareholders	(3),(4)	**2,689**	**2.55**	**17,508**	**18.09**

Earnings per common share in DM	
basic	2.89
basic pro forma	1.39
fully diluted	2.87
fully diluted pro forma	1.38

Weighted average of common shares outstanding	
basic	930,139
basic pro forma	1,940,000
fully diluted	935,353
fully diluted pro forma	1,945,214

The Notes that follow are an integral part of the consolidated financial statements!

AS AT DEC. 31,1998 FOR MÜHLBAUER HOLDING AG & CO. KGAA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Jan. 01. to Dec. 31. 1998 audited DM thousand	1997 unaudited DM thousand
Cash flows from operations		
1. Net income for year, including profit share of personally liable shareholder	16,689	17,508
2. + Depreciation and amortization on tangible and intangible assets	+10,040	+7,819
3. -/+ Gain/Losses from sale of assets	-324	-784
4. -/+ Realized net gains/losses from marketable securities	+141	+0
5. -/+ Unrealized gains/losses from trading securities	+133	+0
6. - Securities purchased (trading securities)	-4,574	+0
7. + Proceeds from sale of (trading securities)	+645	+0
8. -/+ Increase/Decrease in stocks	-22,866	-18,084
9. -/+ Increase/Decrease in trade receivables	+1,723	-1,480
10. -/+ Increase/Decrease in other current assets	-5,074	+2,125
11. -/+ Increase/Decrease in other assets	-36	-34
12. -/+ Increase/Decrease in prepaid expenses	-141	+49
13. +/- Increase/Decrease in deferred taxes	-9,619	+1,241
14. +/- Increase/Decrease in trade payables	+4,303	-6,878
15. +/- Increase/Decrease in other accruals	+1,490	+28
16. +/- Increase/Decrease in accruals for taxes on income	+4,316	+8,973
17. +/- Increase/Decrease in pension accruals	+56	+53
18. +/- Increase/Decrease in investment grants received	+3,121	-18
19. +/- Increase/Decrease in other liabilities	-125	-8,412
20. +/- Increase/Decrease in downpayments received on orders	-1,510	-4,684
21. +/- Increase in bills payable	-244	-1,596
22. = Net cash used by operations	**-1,856**	**-4,174**
Cash flows from investing activities		
23. + Proceeds from sales of tangible assets	+591	+1,097
24. - Acquisition of Rommel	-1,750	+0
25. - Investments in tangible and intangible assets	-17,216	-9,222
26. - Investments in securities	-65,993	+0
27. - Proceeds from sales of securities	+11,196	+0
28. = Net cash used in investing activities	**-73,172**	**-8,125**
Cash flows from financing activities		
29. +/- Increase/Decrease in long-term financial liabilities	-4,878	+13,675
30. +/- Increase/Decrease in short-term financial liabilities	-570	-10,487
31. + Increase/Decrease in shareholder loans	-9,782	+9,887
32. - Convertible bonds issued	+149	+0
33. + Shareholder withdrawals	-3,429	+0
34. + Proceeds from initial public offering	+120,999	+0
35. = Net cash provided by financing activities	**+102,489**	**+13,075**
36. = Increase in cash and equivalents (Total of lines 35,28 and 22)	+27,461	+776
37. + Liquid funds on January 01.	+1,043	+267
38. = Liquid funds on December 31,	+28,504	+1,043
Additional cash flow information:		
Tax payments	9,908	69
Interest	1,827	1,428
Transactions with no impacts on cash flows of funds:		
Acquisition of land and buildings through debt assumption	4,366	0
Unrealized gains (marketable securities), net of taxes	718	0

The Notes that follow are an integral part of the consolidated financial statements!

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE MÜHLBAUER HOLDING AG & CO. KGAA

(1) THE COMPANY

Mühlbauer develops, produces and markets facilities and systems for the production of Smart Cards. In addition, the Semiconductor Backend Automation business unit designs and builds production facilities for the backend segment of the semiconductor industry. The new Board Handling business unit, resulting from the integration of Rommel GmbH, manufactures handling and automation systems. Precision parts are made by the Precision Parts business unit on a made-to-order basis. The production facilities are located at company's Head Office in Roding and at the Stollberg i. Erzgebirge branch. The central administration is also located in Roding. Further research and development activities are carried out by various subsidiaries in Germany.

(2) BASIS OF PRESENTATION

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

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

- Mühlbauer Aktiengesellschaft, Roding
- ABOS Automation, Bildverarbeitung, Optische Systeme GmbH, Oberhaching
- ASEM Präzisions-Automaten GmbH, Roding
- ELTEST Elektronische Testautomaten GmbH, Oberhaching
- Rommel GmbH, Altheim
- Mühlbauer Inc., Newport News, Virginia, USA
- Mühlbauer Sdn. Bhd., Melaka, Malaysia

Intercompany transactions have been eliminated.

(3) SUMMARY OF MAIN ACCOUNTING PRINCIPLES

FOREIGN CURRENCY TRANSLATION

Foreign currencies were converted according to Financial Accounting Standard (FAS) No. 52, the balance sheets of foreign subsidiaries were translated using the exchange rates applicable on the balance sheet date, while the income statements were translated using annual average rate of exchange. Translation adjustments are shown as a seperate component of shareholders` equity and do not impact net income. No significant translation adjustments existed.

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

		Middle rate on the balance sheet date		Annual average rate of exchange	
Currency:		audited Dec. 31, 1998 DM	unaudited Dec. 31, 1997 DM	audited Dec. 31, 1998 DM	unaudited Dec. 31, 1997 DM
Malaysia	100 MYR	44.0000	46.3000	45.1800	59.9400
USA	1 USD	1.6730	1.7921	1.7593	1.7348

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

REALIZATION OF SALES

Sales are recorded upon delivery of goods or completion of the agreed performance, adjusted for customer bonuses and rebates.

EARNINGS PER SHARE

Earnings per share were computed in accordance with SEAS 128 "Earnings per share". Under SEAS 128, presentation of basic and diluted earnings per share is required. Basic earnings per share excludes the dilutive effect of non-issued common shares, consolidated net income is divided by the weighted number of common shares outstanding. Diluted earnings per share takes into account not only the acutal number of weighted common shares outstanding but also the common stock that would be outstanding assuming management were to exercise its options to acquire common stock:

	1998 DM	pro forma 1998 DM
Earnings per share	2.89	1.39
Earnings per share (diluted)	2.87	1.38

The pro forma per share amounts reflect the earnings per share as if the shares issued in connection with the initial public offering (see Note 15) had been outstanding since Jan. 1,1998. Earnings available to common shareholders are net earnings minus the profit share of the general partner (see Note 15).

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

	1998 number	pro forma 1998 number
Weighted average shares used in computing basic earnings per share	930,139	1,940,000
Dilution impact due to exercising of stock options	5,214	5,214
Weighted average shares used in calculating diluted earnings per share	935,353	1,945,214

COMPREHENSIVE INCOME

The items of other comprehensive income are disclosed as separate components in the equity section in accordance with Financial Accounting Standard No. 130, "Reporting Comprehensive Income".

LIQUID ASSETS

The liquid assets comprise current bank balances, cash in hand and approximately DM 26 million in fixed-term deposits with a remaining term of less than three months.

TRADE RECEIVABLES

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

STOCKS

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

MARKETABLE SECURITIES

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

TANGIBLE ASSETS

Tangible assets are valued at purchase cost or manufacturing cost minus straight line or accelerated depreciation. As soon as the equal distribution of the remaining book value over the remaining service life leads to higher write-downs, assets are depreciated using the linear method of depreciation instead of the degressive method. Write-downs and special items based exclusively on fiscal regulations have not been rewarded. The applicable estimated useful lifes are as follows:

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

INTANGIBLE ASSETS

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

OTHER NON CURRENT ASSETS

Other assets represent the capitalized value of a life insurance policy taken out to cover the pension obligation.

LIABILITIES AND ACCRUALS

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

ACCRUALS FOR PENSION

The company has a pension plan for the CEO. Under the plan, the CEO receives a fixed monthly pension upon reaching the age of 65. The current value of the anticipated payments was determined in accordance with the laws of Germany and recognized actuarial principles. The fixed obligation corresponds to the US-GAAP criteria as specified in "Statement of Financial Accounting Standards No. 87" "Employers' Accounting for Pensions" (FAS 87). The computation was based on the following assumptions: an average life expectancy of 76.41 years, 6% interest rate. Other disclosures under FAS 87 were not material.

DEFERRED TAXES

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

GRANTS OBTAINED

Grants awarded from public funds by particular Bundesländer in Germany and by the European Union with the aim of supporting certain investment projects are set up initially as liabilities and amortized into income over the depreciable life of the related asset purchased or manufactured with the received grants. Government subsidies for research and development work in connection with innovative products and processes are included in income in the same period as the related research expenses.

STOCK-BASED EMPLOYEE COMPENSATION PLAN

Accounting for the variable stock options issued to employees under the stock-based employee compensation plan is made according to the provisions in APB (Accounting Principles Board) Opinion No. 25, "Accounting for Stock issued to Employees", and related interpretations. Accordingly, compensation expense for the employee stock issue plan is measured by the intrinsic method. Under this method, if, on the grant date and on other balance sheet dates, the quoted market value of the stock exceeds the amount the employee must pay to acquire the stock, compensation expense is recorded. FAS No. 123, "Accounting for Stock-Based Compensation" also applies to stock-option plans. FAS 123 stipulates that compensation cost must be measured by the fair value method. Under this method the value of an option is measured using an option pricing model. This value is distributed over the expected life of the option. However, SFAS No. 123 also allows companies to continue using the intrinsic value based method prescribed by APB No. 25 and to make pro forma disclosures of net income per share as if the fair value based method of accounting pursuant to SFAS No. 123 had been applied. The company has elected to apply the provisions of APB No. 25 and to make the pro forma disclosures prescribed by SFAS No. 123.

ESTIMATES

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the assets and liabilities shown in the balance sheet, the disclosure of contingent liabilities as at the balance sheet date and the disclosure of revenues and expenditures during the reporting period. The actual amounts may deviate from these estimates.

(4) ACQUISITIONS

Mühlbauer Holding AG & Co. KGaA has acquired, through its Mühlbauer AG subsidiary and using the purchase method, a 100-percent share in Rommel GmbH, a limited liability company domiciled in Altheim. The business of Rommel GmbH is tool manufacture, plant construction and the production of apparatus. The purchase price for Rommel GmbH was DM 6.116 million. Of that amount, DM 1.750 million was payable immediately for the acquired holdings. DM 4.366 million represented the assumption of debt for a factory site and related buildings. Rommel's retained earnings as at Dec. 31,1997 and the right to participate in profits accrued to Mühlbauer AG for the period from Jan. 1,1998 onwards.

In accordance with the applicable German accounting laws, the operating result of the company was included in the consolidated financial statements as soon as a right to participate in profits was acquired. This deviates from US-GAAP, according to which the company would have to be included in consolidation as from the date at which control over the company was actually assumed (Sept. 28. 1998). If Rommel GmbH were consolidated in accordance with US-GAAP as from Oct. 1. 1998, the following differences have resulted:

	as reported DM thousand	Adjustment DM thousand	Presentation according to US-GAAP DM thousand
Sales	105,439	-9,516	95,923
Net income available to common shareholders	2,689	-80	2,609
Profit share of the personally liable shareholder	14,000	-423	13,577
Earnings per share in DM	2.89	-0.08	2.81
Earnings per share (diluted) in DM	2.87	-0.08	2.79
Earnings per share in DM pro forma	1.39	-0.05	1.34
Earnings per share (fully diluted) in DM pro forma	1.38	-0.04	1.34

Initial consolidation resulted in goodwill amounting to DM 1.571 million, which is depreciated using the straight line method over ten years.

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

	audited Jan. 01.- Dec. 31. 1998 DM thousand	unaudited pro forma Jan. 01.- Dec. 31. 1997 DM thousand
Sales	105,439	105,609
Operating income	16,227	25,911
Net income for the year including profit share of the personally liable shareholder	16,689	17,529

(5) MARKETABLE SECURITIES

	Dec. 31,1998 Purchase cost DM thousand	Dec. 31,1998 Quoted-/ Market value DM thousand	Dec. 31,1998 unrealized profit DM thousand	Dec. 31,1998 unrealized loss DM thousand
Debt securities	29,839	29,967	206	78
Equity securities	3,715	3,582	0	133
Marketable securities classified as current assets	33,554	33,549	206	211
Non current debt securities/ Marketable securities	24,800	25,621	821	0
	58,354	**59,170**	**1,027**	**211**

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

	Dec. 31,1998 Purchase cost DM thousand	Quoted/ Market value DM thousand
Marketable securities with a remaining term of up to one year	10,267	10,193
between 1 and 5 years	28,584	28,957
between 5 and 10 years	14,447	15,030
more than 10 years	1,342	1,408
	54,640	**55,588**

Realized gains from the sale of debt securities amount to DM 106,000, compared to realized losses of DM 32,000. The gains realized from the sale of equity securities amount to DM 2,000, compared to realized losses of DM 217,000.

(6) TRADE RECEIVABLES

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Gross value of trade receivables	15,523	19,752
less		
Specific allowance	1,290	3,668
serveral allowance	326	454
	13,907	**15,630**

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

(7) STOCKS

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Raw materials and supplies, including down payments on stocks	9,564	4,871
Work in progress, including order-related development work	51,360	44,886
Finished goods	15,688	3,989
	76,612	**53,746**

(8) TANGIBLE ASSETS

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Purchase cost		
Land	1,989	1,603
Buildings	48,291	42,159
Factory and office equipment	64,321	50,468
	114,601	**94,230**
Accumulated depreciation	56,245	47,140
of which included in income statement	9,152	7,819
	58,356	**47,090**

(9) INTANGIBLE ASSETS

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Computer software (derivative)	4,571	1,909
Goodwill	1,571	0
	6,142	**1,909**
Accumulated depreciation	3,518	1,044
of which included in income statement	888	555
	2,624	**865**

(10) SHORT-TERM LOANS

As at Dec. 31,1998 and Dec. 31,1997, the credit volume available to the company on the basis of agreed credit terms with various banks in Germany, Malaysia and the United States was DM 78.2 million and DM 43.7 million respectively. The loans are not secured and carried interest at effective rates of between 5 % and 6 % as at Dec. 31,1998. The total amount of funds borrowed under the credit agreements as at Dec. 31,1998 and Dec. 31,1997 was DM 2.054 million and DM 2.624 million respectively.

(11) TAXES ON EARNINGS

The accruals for taxes on earnings, disclosed as liabilities in the balance sheet as at Dec. 31,1998, include the prospective amount of final tax settlements:

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Corporation tax	5,858	6,527
Solidarity supplement	549	485
Municipal trade tax	8,041	3,120
	14,448	**10,132**

Deferred tax assets or liabilities arise primarily from temporary differences in the computation of taxable income and the valuation of assets under financial versus tax base. Due to the elimination of special depreciations permissible for taxation purposes according to the law on support for peripheral regions (Zonenrandförderungsgesetz - ZRFG) valid until Dec. 31,1994, with transitional arrangements until Dec. 31,1996, and the Assisted Regions Act (Fördergebiets-gesetz - FGG), deferred taxes with an average load ratio for taxes on earnings calculated for each undertaking were disclosed as liabilities.

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Short-term (inventories and other)	5,537	14,092
Long-term (fixed assets)	2,632	3,696
	8,169	**17,788**

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

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Germany	4,166	10,039
Abroad	125	261
	4,291	**10,300**

(12) LONG-TERM LOANS

Long-term loans comprised the following items:

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Loan from the Bayerischer Landesanstalt für Aufbaufinanzierung, interest rate 3.5%, repayment in semi-annual payments of DM 112,000 on Jun. 30. and Dec. 31.	445	668
Loan from the Kreditanstalt für Wiederaufbau [Reconstruction Loan Corporation] (premature redemption)	0	1,275
Loan from the Schmidt Bank	0	6
Loan from the Kreditanstalt für Wiederaufbau, secured with certificated land charge amounting to DM 1.510 million,interest rate 5.75 %, repayment in semi-annual payments of DM 108,000 on Jun. 30. and Dec. 31.	924	1,140
Syndicated loan from the Schmidt Bank KGaA (DM 10 million) and the Landesanstalt für Aufbaufinanzierung (DM 5 million), secured by certificated land charge amounting to DM 15 million, interest rate varying according to tranch 1st tranch DM 5 million, interest rate 5.71% 2nd tranch DM 5 million, interest rate 5.74% 3rd tranch DM 5 million, interest rate 5.76% Semi-annual repayments of DM 938,000 on Jun. 30. and Dec. 31.	14,062	15,000
Loan from Sparkasse Ehingen, secured by land charge,interest rate 7%, monthly annuity of DM 10,000	1,200	0
Loan from Sparkasse Ehingen, secured by land charge, interest rate 5.85%, monthly annuity of DM 2,000	343	0
Various loans from Sparkasse Ehingen interest rate 6.2% to 7.50%,	603	0
Loans	**17,577**	**18,089**
less short-term portion of long-term loans	2.609	657
Long-term loans	**14,968**	**17,432**

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

	Dec. 31,1998 DM thousand
1999	2.609
2000	2.712
2001	2.144
2002	2.146
2003	1.995
Afterwards	5.971
	17.577

(13) INVESTMENT GRANTS OBTAINED

	audited Dec. 31,1998 DM thousand	unaudited Dec. 31,1997 DM thousand
Status at beginning of business year	5,767	6,627
Additions	3,399	1,430
	9,166	**8,057**
Reversals	686	2,290
Status at end of business year	8,480	5,767

(14) STOCK-BASED EMPLOYEE COMPENSATION PLAN

The Annual General Meeting held on Jun. 25, 1998 authorized the personally liable shareholder to launch a stock-based employee compensation plan involving the issue of convertible bonds, provided the Supervisory Board granted its approval. The capital stock of the company was conditionally increased by DM 300,000 through the issue of up to 60,000 individual share certificates (contingent capital I). The contingent increase in capital stock, which serves the rights conversion granted to the holders of the convertible bonds, is affected only to the extent that the holders of the issued convertibles exercise their rights to convert the bonds to stock.

The convertible bonds were offered for sale directly and indirectly to executive staff and other persons holding key positions within in the Mühlbauer Group. Shareholders in the company were excluded from subscribing. In the first stage, on Jul. 10, 1998 non interest bearing convertible bonds totalling DM 149,000 and expiring in 2003 were issued.

Each convertible bond has with a par value of DM 100 and entitles the bearer to convert the bond to an individual certificate for 20 shares in Mühlbauer Holding AG & Co. KGaA. The right of conversion can be exercised as follows: 30 % at the earliest two years after issuance (Jul. 10, 2000). The next 30 % at the earliest Jul. 10, 2001. The remaining 40 % at the earliest four years after issuance (Jul. 10, 2002) conditional on the relative growth of the quoted price for the Mühlbauer share exceeding the relative growth of the New Market Index, and the return on sales exceeding 15 percent. The price for converting bonds to stock corresponds to the selling price per share at the initial public offering (DM 96).

Applying the Black Scholes method of valuing convertible options, the weighted average market value of the convertible bonds issued in 1998 was DM 45 at the time of issue. This valuation was based on the following assumptions: volatility factor 67%, expected dividend factor 0%, risk-free interest rate 4.1%, weighted average holding period 3 years.

The company applies APB No. 25 in accounting for the Plan. No compensation expense was recorded in the financial statements for 1998. The pro forma impact on the net income for the year and the earnings per share after applying the fair value method (FAS 123) was insignificant.

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

Mühlbauer Holding AG & Co. KGaA was established on May 05, 1998 by changing the legal form of Mühlbauer Holding GmbH & Co. Beteiligungs KG (a limited partnership). In the context of that conversion, Mühlbauer Holding AG & Co. Verwaltungs KG took over the position of personally liable shareholder as well as all the shares in the company.

The DM 3 million capital stock of the company was created by converting the limited liability partnership capital of Mühlbauer Holding GmbH & Co. Beteiligungs KG, and then taken over by Mühlbauer Holding AG & Co. Verwaltungs KG. Following the change of legal form, Mühlbauer Holding AG & Co. Verwaltungs KG brought its shares in Mühlbauer GmbH into the company in return for DM 27 million in share capital for the personally liable shareholder.

At an Extraordinary General Meeting held on Jun. 25, 1998, the share capital was increased by DM 6 million in preparation for admission to the stock exchange and in order to create a contingent and an approved capital stock of DM 1.5 million each. At an Extraordinary General Meeting held on Jul. 03, 1998, the approved capital stock was increased to DM 4.5 million.

On Jul. 08, 1998, the increase in capital stock agreed upon on Jun. 25, 1998 was filed at the Commercial Registry after the new shares had been underwritten by the Dresdner Bank AG and the increase in capital stock had been implemented; the increase was registered on the same day as it was filed. At an Extraordinary General Meeting held on the same day, the contingent capital was increased to DM 4.5 million.

As part of the emission of the company's shares on the so-called "New Market" at the Frankfurt Stock Exchange, by which the shares were offered for sale to a broad public, a further DM 700,000 increase in share capital was implemented as at Jul. 29, 1998 (under the so-called Greenshoe option), with shareholders excluded from subscribing, in order to cover the multiple allocation option awarded the Dresdner Bank AG.

The equity (i.e. the fixed capital shares) of the company is thus comprised as follows:

Share capital:	DM thousand
On establishment	3,000
Share capital increase as at June 25.1998	6,000
Share capital increase as at July 29.1998	700
	9,700
Capital share of the personally liable shareholder	27,000
Total	**36,700**

The capital share of the personally liable shareholder, created by bringing in the shares held in Mühlbauer GmbH at an asset value of DM 27 million, must be valued at historical purchase cost in accordance with US-GAAP. As a consequence, the capital share is reduced from DM 27 million to DM 100,000.

CAPITAL STOCK AND SHARES

The fully paid-up share capital amounts to DM 9.7 million, divided into 1,939,999 bearer shares and one registered share. Each share entitles the bearer to one vote at the General Meeting and to a full dividend. The shares of the personally liable shareholder are excluded from any exercise of voting rights on matters relating to said shareholder or its control over the company.

CONTINGENT CAPITAL

The share capital has been increased conditionally by up to DM 300,000 through the issue of up to 60,000 individual share certificates (contingent capital I). This contingent increase in capital is for granting conversion rights to the holders of convertible bonds, which the personally liable shareholder was authorized to issue by virtue of the resolution adopted at the General Meeting held on Jul. 25, 1998. The contingent increase in capital is effected only to the extent that the holders of the issued convertibles exercise their rights to convert the bonds to stock. The new shares each participate in the profits of the company from the beginning of the year in which the right to convert bonds to stock is exercised. The share capital has been further increased by up to DM 3.9 million through the issue of up to 780,000 individual share certificates (contingent capital II). The contingent increase in capital is effected only to the extent that the personally liable shareholder requests the conversion of capital share B into capital stock. The new shares participate in profits as from the beginning of the business year in which they are issued, following exercise of the conversion rights.

APPROVED CAPITAL

The personally liable shareholder is authorized to increase the share capital of the company on one or more occasions prior to Jun. 30, 2003, with Supervisory Board approval, by issuing bearer shares against cash deposits, whereby the total increase shall not exceed DM 4.5 million. The personally liable shareholder may, with the consent of the Supervisory Board, exclude shareholders from subscribing up to a nominal DM 900,000, in order to issue the new shares at an issue price that is not significantly below the quoted price on the exchange and to exclude shareholders from subscribing in order to make the shares available for the conversion of general partner's capital.

On the balance sheet date, KGaA shares were held by the following:

Name	DM thousand	%
Mühlbauer Holding AG & Co. Verwaltungs KG	2,300	23.71
Widespread shareholdings	7,400	76.29
Total	**9,700**	**100.00**

DM 6.7 million of the widespread shareholdings result from the share capital increases described above, which were underwritten by the Dresdner Bank AG, Frankfurt/Main on condition to be offered to a broad public and that the difference between the issue price of DM 5 per share and the selling price, minus sales commission, be transferred to the company. The remaining DM 700,000 in widespread shareholdings result from the sale of shares in Mühlbauer Holding AG & Co. Verwaltungs KG in the context of the emission of shares in the company on the New Market in Frankfurt.

PERSONALLY LIABLE SHAREHOLDER

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

- Capital account I, bearing no interest, on which a capital share of DM 27 million is currently booked,
- Capital account II, bearing no interest, as a (capital) reserves account onto which a premium must be posted when the capital share is brought in and which currently displays no debit balance,
- Capital account III, bearing no interest, as a (revenue) reserves account onto which shares in earnings accruing to the personally liable shareholder but which cannot be withdrawn are posted, and which currently displays a debit balance of DM 0.00
- A carried-forward loss account, onto which the share in losses accruing to the personally liable shareholder are posted and which currently displays no debit balance, and

- A setoff account as a moveable account onto which withdrawable profit shares, withdrawals, emoluments, interest and other monetary transactions between the company and the personally liable shareholder are posted. The debit balance on the cut-off date for the annual financial statement was DM 7,841,897.00. If permitted to do so by law, the personally liable shareholder may also, during the ongoing business year and without interest being charged to the setoff account, withdraw those amounts required in order to pay the personal taxes that it or its shareholders must pay in connection with its participation in the company. Otherwise, debit and credit balances on the setoff account bear interest at a rate 2% higher than the basic interest rate of the relevant central bank.

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

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

DISTRIBUTION OF PROFITS

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

The profit or loss of the company, on which basis the profit or loss accruing to the personally liable shareholder is computed, is the annual result (net income or loss for the year) of the company, reduced by the profit share of the personally liable shareholder but not increased by his share in losses, plus the corporation tax (including taxes credited against same) disclosed in the profit and loss account and the expenses for other taxes and expenses relating to the share capital. The annual result must also be increased by the corporation tax balance associated with income from participations if this has not been accounted for as revenue. The share in profits and losses accruing to the personally liable shareholder is reduced by the proportionate corporation tax balance for its share, if this amount is included when determining the basis for calculating the annual result.

In the reporting year, the share in profits accruing to the personally liable shareholder is calculated as follows:

	Mühlbauer Holding AG & Co. KGaA DM thousand
Annual result (net income or loss for the year) before share in profits or losses by the personally liable shareholder	9,626
+ Corporation tax balance, if not already accounted for as revenue	0
+ Corporation tax expense (including taxes credited against same)	1,033
+ +Other taxes and expenses relating only to the share capital	0
Basis for computation	10,659
Share in profit or loss based on the personally liable shareholder's participation in the total capital of the company	7,842

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

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

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

(16) COMPOSITION AND DEVELOPMENT OF SHAREHOLDERS EQUITY

	Individual shares	Subscribed Capital DM thousand	Fixed capital DM thousand	Additional-paid-in capital DM thousand	Retained-earnings DM thousand	unrealized gains and losses on securities net of taxes DM thousand	Total DM thousand
Status as at Jan. 01,97 (anaudited)	**-**	**3,000**	**100**	**-**	**24,735**	**-**	**27,835**
Consolidated net income	-	-	-	-	17,508	-	**17,508**
Dividends to shareholders	-	-	-	-	(9,887)	-	**(9,887)**
Status as at Dec. 31,97 (unaudited)	**-**	**3,000**	**100**	**0**	**32,356**	**0**	**35,456**
Consolidated net income	-	-	-	-	16,689	-	**16,689**
Shareholder withdrawals (previous years)	-	-	-	-	(3,429)	-	**(3,429)**
Shares issued in connection with the initial public offering	1,940,000	6,700	-	121,940	-	-	**128,640**
Costs of share issue	-	-	-	(7,641)	-	-	**(7,641)**
Unrealized gains and losses on securities net of taxes	-	-	-	-	-	718	**718**
Status at Dec. 31, 1998	**1,940,000**	**9,700**	**100**	**114,299**	**45,616**	**718**	**170,433**

Dividends paid to shareholders and shareholder withdrawals pertain to profit entitlements dating from previous years and to withholding taxes accruing from previous years for the shareholder in the former Mühlbauer Holding GmbH & Co. Beteiligungs-KG.

Proceeds for 1,340,000 newly issued shares on the stock exchange amounted to DM 91 per share, thus totalling DM 121.940 million. The total share issue costs of DM 7,641 million, were deducted from additional paid-in capital.

At the General Meeting planned for May 06, 1999, the personally liable shareholder and the Supervisory Board recommend that a dividend of DM 0.90 per common share be paid out on the share capital of DM 9.7 million, with entitlement from Jan. 01, 1998 onwards. The dividend is payable on May 07, 1999.

(17) BUSINESS SEGMENT REPORT

As shown below, the company operates in four different segments. For purposes of reporting in accordance with FAS No. 131 "Disclosures about Segments of an Enterprise and Related Information", the company presents a single segment, as information to account for and evaluate, the operating result of the four segments are not available.

Business Units	1998 DM thousand as reported	Adjustment	1998 DM thousand under US-GAAP	1997 DM thousand unaudited
Smart Cards	45,426	-	45,426	47,417
Semiconductor Backend Automation	34,971	-	34,971	42,578
Board Handling	14,348	9,516	4,832	-
Precision Parts	10,176	-	10,176	6,774
	104,921	**9,516**	**95,405**	**96,769**
Other	518	-	518	-
	105,439	**9,516**	**95,923**	**96,769**

Sales regions	1998 DM thousand as reported	Adjustment	1998 DM thousand under US-GAAP	1997 DM thousand unaudited
Germany	49,088	8,837	40,251	38,330
Rest of Europe	23,454	659	22,795	27,473
Africa	5,490	-	5,490	-
North America	8,069	-	8,069	5,806
South America	2,663	20	2,643	-
Asia	16,121	-	16,121	25,160
Australia	36	-	36	-
	104,921	**9,516**	**95,405**	**96,769**
Other	518	-	518	-
	105,439	**9,516**	**95,923**	**96,769**

(18) TRANSACTIONS WITH RELATED PARTY

Several subsidiaries in the Group rent office premises from the personally liable shareholder. The tenancy is for an indefinite term and under German law may be terminated at any time by either party. The rental costs amounted to DM 492,000 and DM 517,000 in 1998 and 1997 respectively.

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

The Mühlbauer Holding AG & Co. Verwaltungs KG in function as the personally liable shareholder held 459,999 common shares per Dec. 31, 1998.

The CEO of the operational Mühlbauer Aktiengesellschaft held 1,010 shares per Dec. 31, 1998.

The supervisory board held 728 common shares per Dec. 31, 1998.

AUDIT OPINION

To the Board of Directors and Shareholders of Mühlbauer Holding AG & Co. KGaA. We have audited the consolidated balance sheet of Mühlbauer Holding AG & Co. KGaA as of Dec. 31, 1998, and the related consolidated statements of earnings, shareholders' equity and cash flows for the year then ended. The consolidated financial statements are comprised of: the financial statements of Mühlbauer AG, and its domestic subsidiaries as of and for the year ended Dec. 31, 1998, which were audited by Männer, Hartmann & Partner GbR Wirtschaftsprüfer, Steuerberater, and for which unqualified audit opinions were issued; the financial statements of Mühlbauer Holding AG & Co. KGaA as of and for the year ended Dec. 31, 1998, which were audited by RTK Revisions- und Treuhandgesellschaft Kröninger Niedner Scherbauer GmbH, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, and for which an unqualified audit opinion was issued. In addition, two foreign subsidiaries were included in the consolidated financial statements. Consolidated financials statements as of and for the year ended Dec. 31, 1997 are not available, as the Kommanditgesellschaft auf Aktien was established on May 05, 1998. As of Dec. 31. 1997, pro forma consolidated financial statements are presented for comparison purposes.

The financial statements are the responsibility of the company's management. Our responsibility is to express an opinion, on the basis of our audit, whether the consolidated financial statements are in accordance with US GAAP.

We conducted our audit in accordance with auditing standards generally accepted in Germany. Under these standards, an audit is to planned and performed in order to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 4 to the financial statements, under German accounting principles the company has included the results of operations of Rommel GmbH from Jan. 1, 1998. Had the acquisition of Rommel GmbH been recorded in accordance with US GAAP, revenues and income available to common shareholders would have been reduced by DM 9.516 thousand and DM 80 thousand.

On the basis of knowledge gained from our audit, we came to the following conclusion:

"In our opinion, except for the inclusion of the results of operations of Rommel GmbH from Jan. 1, 1998, the financial statements present fairly, in all material respects, the consolidated financial position as of Dec. 31, 1998 as well as the results of operations and cash flows for the year then ended in conformity with US GAAP."

Munich, March 26, 1999

GRANT THORNTON GMBH
Wirtschaftsprüfungsgesellschaft

Dr. Niedner	Scherbauer
Wirtschaftsprüfer	Wirtschaftsprüfer

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Published by: Mühlbauer Holding AG & Co. KGaA

Conception/Layout: Albrecht & Schoeller GmbH, Hamburg

Litho/Print: Druckhaus Arns, Remscheid

Photography: Uwe Aufderheide
Pfannmüller