

# Key Figures

		2006	2005	Change %
Sales	TEUR	160,676	147,932	8.6
Research and development expenses	TEUR	17,081	15,264	11.9
EBIT <sup>1</sup>	TEUR	34,437	33,074	4.1
Pretax profit margin	%	23.70	23.40	1.3
Net earnings	TEUR	27,728	23,020	20.5
Earnings per share	EUR	1.90	1.59	19.5
Free cashflow	TEUR	2,447	22,726	(89.2)
Working capital <sup>2</sup>	TEUR	45,460	24,894	82.6
Working capital-intensity <sup>3</sup>	%	28.3	16.8	68.2
Capital expenditures	TEUR	9,176	6,272	46.3
Equity ratio	%	80.1	76.2	5.1
Dividend per share <sup>4</sup>	EUR	1.25	0.90	38.9
Share price (Year-End-Close)	EUR	29.35	40.80	(28.1)
Market Capitalization (Year-End-Close)	TEUR	431,330	599,600	(28.1)
Employees (Average per year)	number	1,529	1,433	6.7

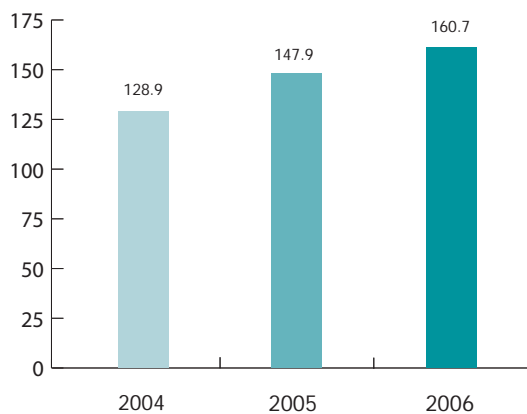
<sup>1</sup> Earnings before interest and tax

<sup>2</sup> Non interest current assets – non interest current liabilities

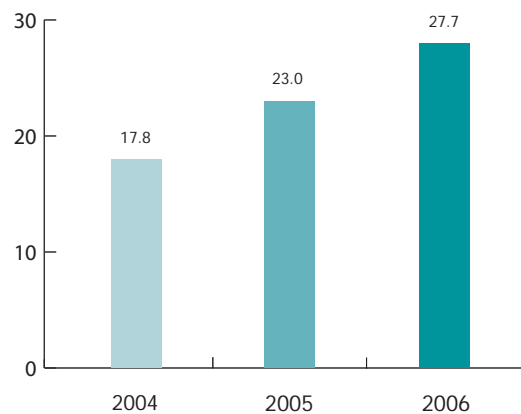
<sup>3</sup> Working capital / Sales

<sup>4</sup> Subject to the approval of the AGM

Sales in EUR million



Net earnings in EUR million







*This annual report is dedicated to the employees of the Mühlbauer Group.*



---

Our claim is to be a strong and responsible company in a global context, which takes part in designing the future. This message goes out to all our partners: customers, shareholders and business associates. Thank you for your confidence in us. We would also like to

thank our employees, we demand a lot of and also get a great deal in return.

Their commitment and competence is highly appreciated and motivates us to implement our corporate strategy for reaching our company targets.

---

# Table of Contents

---

02 Interview with the CEO

---

## Company Profile

06 Cards & TECURITY®  
08 Smart Label  
10 Semiconductor Related Products  
12 Traceability  
14 Precision Parts & Systems  
16 Service & Support

---

18 The Mühlbauer share  
20 Corporate Governance

---

## Consolidated Financial Statements

24 Management Report  
24 Overview of the 2006 financial year  
25 The company and framework conditions  
28 Earnings situation  
30 Financial situation  
31 Asset situation  
33 Value-oriented control parameters  
34 Sustainability Report  
35 Factor Input  
37 Employment  
38 Other details  
38 Events after the 2006 financial year  
38 Risk Report  
40 Outlook  
43 Important notice  
44 Consolidated Statements of Income  
45 Consolidated Balance Sheets  
46 Consolidated Statements of Cashflows  
47 Consolidated Statements of Changes in Shareholders' Equity  
48 Notes

---

79 Auditor's Report  
80 Report of the Supervisory Board  
82 Several years overview  
84 Technical Glossary  
86 Financial Glossary

25 – this figure played a particularly important role in the past financial year. After all, in 2006, Mühlbauer turned 25. On the occasion of this milestone in the history of the Mühlbauer Group, the founder and CEO of the company, Josef Mühlbauer, is today granting us an insight into the successful development of the company and providing information on the past financial year.

## 25 years of Mühlbauer – A strong

Mr Mühlbauer, in 1981 you started out producing precision parts on your own. Mühlbauer has since developed to become a one-stop provider for the so-called TECURITY® market and is involved in several highly sensitive ID projects. How did this rapid development come about? From the very beginning, the focus in the production of precision parts for a range of industries was on customer requirements. No questions asked. My business evolved around custom-made parts of the very highest quality. As a competence center for production technology, this area currently in fact produces precision parts and systems for highly sensitive industries, e.g. aerospace and motor sports. But even back then it rapidly became clear that customers require more than just perfectly produced parts. The first orders placed by the semiconductor industry, for the development of entire machines, decisively influenced the company's orientation. In 1988, the company entered the Smart Card business. In this area, it was and is our goal to offer our customers the entire bandwidth of system solutions they need for the production of intelligent identification documents. By the way, the same applies to Smart Labels, an area we have been active in since 1996. The fact that the entire technology and market expertise is offered on a one-stop basis is the most distinctive feature of the Mühlbauer Group's core business and one that renders us unique. Our strong customer focus is another feature we have retained. We flexibly adjust our system solutions to all customer requests, while rapidly and precisely implementing projects. All this renders us an interesting partner – worldwide.

*Was the Mühlbauer Group once again successful in 2006? What do the figures tell us?*

Our product and market diversification strategy has proved its worth again. The figures say it all. At EUR 160.7 million, we have once again achieved record sales. This means we have obtained an increase of 8.6% over the previous year. EBIT has risen to EUR 34.4 million – a 4.1% increase. Naturally, we would like our shareholders to participate in this positive development. We will therefore forward a proposal to the Annual General Meeting suggesting the payment of a dividend of EUR 1.00 and – on the occasion of the 25 year company anniversary – an additional special dividend of EUR 0.25 per share.

*In 2006, the share did not benefit from the strong performance of the Group – is it time to rethink your strategy?*

Mühlbauer is not a company that orients its strategy on short-term volatilities. Since the company's public listing in 1998, the focus of our Investor Relations work is long term. Mere orientation on quarterly results does not comply with our understanding of shareholder value. We want to offer our shareholders a sustained outlook for their investment; this involves responsible and future-oriented action. This is something I not only owe our investors but also our more than 1,600 employees, who have a secure workplace here and who further the goals of the company on a daily basis. I am confident that this strategy will also be honored by the stock market.

*Electronic passports, Smart Cards, RFID radio labels – applications that have partly been forecast to undergo tremendous growth. Will Mühlbauer be able to benefit from them?*

As a global market leader in both the Cards & TECURITY® and in the Smart Label area, we are excellently positioned to benefit. Our customers – including governments and authorities – value our longstanding competence highly. More than 50 ID projects are a sure sign of confidence.

foundation for the future









No matter on which part of our globe Smart Cards are produced, Mühlbauer is part of the process. I am convinced that our one-stop solutions in the Smart Card industry will continue to meet on high demand. After all, our customized system solutions can be tailored to meet customer requirements precisely.

This is an approach we have also taken in Smart Labels. Be it inlay production or the processing of a label to a finished tag or ticket, our customers get exactly what they need. Even though we are yet at the outset of a promising market development – we are already excellently prepared for the future.

*The Mühlbauer Group is currently developing a technological base in Malaysia. Why did you take this step?*

In accordance with our claim “Worldwide close to our customers”, it is always our goal to be strongly represented, particularly in growth regions, to benefit from the market and from customers. In future we are expecting stronger market growth, especially in Asia. Sufficient reason to get in on the act at an early stage. We have had a sales and service location in Malaysia for many years and can benefit from this longstanding experience. As a result, it is almost a matter of course for us to develop a new technological foothold there, in line with the existing companies. Thanks to the additional site in Malaysia we will be able to service the Asian region even better and faster, benefit from the favorable general conditions, while at the same time increasing our flexibility.

*You often mention the rising competitive pressure. How does the Mühlbauer Group handle this? How is Mühlbauer preparing for the future?*

One of the factors here are, of course, our products. With the goal of being faster and better than others, we constantly work at making our systems even more efficient. In addition, we are permanently extending our product portfolio so that we can always offer our customers the full range of technology expertise. Research and Development play an extremely important role in view of the intensity of our competition and the short life-cycles of high-tech products. As a result, the Mühlbauer Group awards them a very high status. Our R & D area alone employs approximately 300 technicians and engineers.

However, I consider our corporate culture, which urges us to give our best, to play as important a role. Through special and regular training we therefore promote the identification of our employees with our very own corporate culture. It is based on corporate values such as customer orientation, quality awareness, technological strength and the utmost in speed – which, to us, are not merely catchwords but an integral part of our self-image and a decisive factor for our global success. We are all aware of the fact that our actions can contribute decisively to the company's success – and this is an incentive for us all.

*Mr Mühlbauer, thank you for your time.*

*A changing world is forever making new demands. Smart Cards and electronic passports are replacing conventional ID. Mühlbauer and its staff are blazing the trail for those companies that enable and push ahead this development – in a dialogue between experience and innovation.*

# Cards & TECURITY®

Try to imagine life without Smart Cards. We use them on a daily basis, as a means of payment, for information and for the purpose of identification. The idea behind Smart Cards evolved as a result of our modern society that increasingly requires machine-readable data media of the size of a credit card. The first cards featured magnetic strips. To minimize manipulation, however, intelligence has, so to speak, since been integrated into the chip card. The incorporation of micro-electronic circuits gave birth to our modern Smart Card.

These days the Smart Card has become a mass product, although it often still remains unique: as inimitable and distinctive as its holder. It is a long way from a silicon chip to a personalized, machine-readable ID card – and no one knows this better than the Mühlbauer Group. Smart Cards are high performers: they must be hard to forge and easy to test for authenticity. Authorized bodies want to read and compare the data quickly. Chip cards need to be robust and durable, as well as flexible. Sophisticated production technologies are required for all this to become possible. And this is precisely where Mühlbauer's core business lies. Mühlbauer offers complete solutions for all feasible applications – from planning to technology transfer to production support. Experience, exceptional expertise and an indefatigable will to perform have made the Mühlbauer technology group the market leader for this segment.

In recent years, Smart Card's function as proof of identity, in particular, has gained importance. A total of 27 countries already participate in the Visa Waiver program, which enables entry into the USA without a visa and requires machine-readable ID. A market with tremendous potential has evolved around ePassports. Other applications, however, such as electronic driver's licenses or health cards have also boosted demand. Mühlbauer's reaction towards this development is innovative personalization, data recording and product management systems. After all, we are always open to our customers' requests. In the UK, we provide the technology for the production of the electronic driver's license. Spain purchases personalization solutions for the world's first decentralized ID card project from Mühlbauer. In Portugal and eight further countries we are involved in the production of the biometric ePassport.



We are permanently expanding our international presence and pushing ahead our innovative strength, the momentum and the unconditional motivation required to not only remain the leader in our core business Cards & TECURITY®, but to constantly further extend our market position.





Control

OPTICAL AND ELECTRIC TEST





*RFID technology has become part of our daily lives, as it can easily be integrated into labels or tickets meanwhile. In developing system solutions for smart label production, Mühlbauer apply an extremely high benchmark: the requirements of our international customers.*

## Smart Label

The first prototypes of the RFID (Radio Frequency Identification) technology were generated as early as the 1960s; however, the commercial uses of this technology were only identified once an attractive price-performance ratio became possible, in the course of the miniaturization and mass production of high-tech components. Smart Labels consist of a chip and an antenna, which transmits the encrypted information stored in the chip to a reading device. They are so flat that they can even be integrated into conventional labels and could revolutionize logistics processes.

Smart Labels unite the benefits of conventional labels with the modern opportunities offered by RFID and are gaining ground worldwide. Mühlbauer is a global leader in the area of production technologies for Smart Labels, not least due to the fact that it recognized RFID's potential at a time when many considered its marketing more of a vision than a reality. And that, although the benefits of these intelligent labels are obvious. No visual contact is required and several can be read at once. They are durable and hard to forge, although they can be supplemented, deleted or modified. All this renders RFID flexible, fast and safe – ideal for today's dynamic global economy, where it is not enough that goods are unambiguously identified but where it is also important that the traceability of products is guaranteed.



An increasing number of chain stores and providers of logistics services are utilizing RFID technology for their warehouse and inventory management. Experience has shown that this helps to reduce throughput times, avoid errors and minimize loss, which results directly in cost savings. However, Smart Labels are also to provide protection against forgery. The best known example of this is surely the tickets for the 2006 Soccer World Cup, which were equipped with RFID to prevent illicit trading and ticket fraud. Mühlbauer has effectively supplemented its portfolio in

the Smart Label area. The new converting lines can produce complete RFID labels or tickets, thus closing the gap between inlay production and the ready-to-use final product. Mühlbauer can now offer complete production lines and its entire expertise for each step of the production process.

It is undisputed that the RFID market will grow in the years to come. Greater international efforts at standardization show how far this technology has spread and to what extent it is being successfully used, even beyond corporate and national borders. Mühlbauer, however, has long exceeded the planning stage. Technologically mature high-speed systems already ensure that all types of Smart Label currently requested by the market can be produced at a high quality. Furthermore, the constant further development of these systems ensures that Mühlbauer can react flexibly towards future market requirements.

*Ideas originate in the minds of individuals, whereas innovations are virtually always the result of committed team work. Mühlbauer brings together a range of different competences. This is the basis not only for our technological lead but also for the quality of our products.*

# Semiconductor Related Products

Microelectronics was founded in 1947, with the invention of the transistor, even though the resultant devices were anything but small, compared to modern standards. These days, wafers, ultra-thin discs made of high purity, monocrystalline silicon are used as substrate for integrated circuits. Without such microchips our modern world simply would not function. It is integrated into mobile phones, watches and clocks, Smart Cards, Smart Labels and consumer electronics as well as into highly complex technical systems used in aerospace.

The trend in recent years is towards ever smaller, faster and cheaper components. To Mühlbauer, system solutions in semiconductor technology are more than only a niche – thanks to its specialization on particularly small and thin components, they represent an important basic competence, from which other areas such as Smart Label or Cards & TECURITY® benefit. Our commitment is primarily focused on areas where high quality requirements make particularly high demands on production technologies and machine concepts, e.g. flip chip bonding, a modern assembly method for semiconductors that not only saves time but often represents the only sensible technology that can be used for complex circuits. Our system solutions secure observance of the highest quality standards; on the one hand, through the application of precise production procedures and, on the other, through comprehensive testing methods in the optical, mechanical and electronic areas. This is something we place great value on.



Absolute customer satisfaction plays a key role on highly competitive markets. The fact that these are not mere shells of words and that Mühlbauer takes its responsibility very seriously is shown by the Five Star Semiconductor Equipment Supplier award for the highest level of customer satisfaction, bestowed on Mühlbauer by VLSI

Research Inc. this year. To us, the trust placed in us is both a commitment and a motivation to develop the next generation of machines for flip chip bonding, which is to raise production efficiency further, through ever higher placement speeds – to the benefit of our customers. In Carrier Tape the company is considering new punching procedures for the placement process as the trend is towards ever smaller and lighter dice. Image processing is another area that is currently experiencing quite a bit of upwind. In 2006, testing systems for print and coin inspection, in particular, proved to be special highlights.

In chip production, Mühlbauer consistently focuses on its strengths, which amounts to quality and reliability. Although developments in microelectronics occur at a breathtaking rate, we continue to set new benchmarks, globally. We do not adapt to progress – we make it happen.







**Mühlbauer**  
High Tech International





*In times of extreme specialization, reliability is what counts – this applies not only to people but also to components. This is why demand for the traceability of products is growing. With Traceability, Mühlbauer employees make their contribution towards this area.*

# Traceability

Only a few generations ago the components even of sophisticated devices were comprehensible. Now we deal quite naturally with complex products consisting of hundreds of components. At first glance no one can say how many and which manufacturers are involved in a final product. The fact that this level of anonymity bears risks was particularly rapidly shown with regard to electronic products – and these can since be found virtually anywhere. We use them and rely on them, not least when we are dealing with personal safety issues. A good example of this is the automotive industry. But Traceability has become commonplace, even in completely other areas, as is shown by the European directive on the traceability of groceries.

Traceability can be of interest in two respects: as downstream tracing from manufacturers to consumers and vice versa, as upstream tracing. The idea behind Traceability is to render process chains and flows of goods more transparent, to delimit errors, reduce liability risks and to increase product safety in general. This is rendered possible by an unambiguous, machine-readable marking that is applied via the inkjet process, labeling or laser technology. What may initially sound trivial, actually proves to be a sophisticated task. After all, the marking procedure must not only be fast but also highly precise, so that the marking is easily legible, even on the most minute components. All marked components can now be clearly allocated to the respective manufacturer, even if it has long become part of a device that has been installed in a car, for example.

The Mühlbauer Group has specialists for the marking of printed circuit boards. While these are located at a separate site, the concept of the provider of a complete solution is consistently realized here as well. Laser marking, printing and labeling stations are only one of the many facets of Traceability, which is why Mühlbauer also offers scanning stations and data management systems, as well as a wide range of board handling machines. A technical milestone was reached in 2006 with the new CO2 laser marking system, a system that not only features the utmost in precision but also offers a range of technical characteristics which ensure that the system leaves hardly anything to be desired with regard to handling, speed and reliability.

These days, quality is no longer enough, it must be able to be proven in all its details. While our traceability systems contribute to the required product transparency, clear structures and open communication within the Mühlbauer Group are important prerequisites for our rapid and targeted mode of operation – a vital ingredient of customer satisfaction.





*Precision is something that arises even prior to the very first stage of production – in the heads of our employees. Apart from the necessary skills and abilities, we already convey to our trainees and apprentices a high awareness of quality, thus laying the foundation for first class products, even in Precision Parts.*

# Precision Parts & Systems

What does precision mean? Accurate to the millimeter used to be a real mark of quality and could in fact be taken literally. However, rising demands toward the accuracy of precision parts were accompanied by ever better production opportunities and these days accuracy is no longer measured in millimeters but in micrometers or even nanometers. As yet, an end to this development is not in sight. The specifications of highly complex systems are constantly upping demands.

Mühlbauer set out with precision parts in 1981 and until this very day Precision Parts & Systems is a core business area and important factor of success of the Mühlbauer Group. More than 400 highly qualified skilled workers face the challenges of exacting areas such as aerospace, medical technology, semiconductor technology, assembly automation, metrology/optics and motor sports on a daily basis.

The various techniques used in the production of precision parts range from the layout of materials to CNC milling and turning, sheet metal forming and toolmaking to surface technology. Mühlbauer offers the entire range, including process management, quality assurance and logistics. From planning to production and through to assembly, all our work processes and production results are oriented on customer requirements, be it an individual part or a complete system. On request we can put together customized service packages. In so doing, the quality

of the material used and of the work provided is an important issue – but not the only one. Other important issues are flexibility, brief delivery periods and absolute observance of deadlines. With a capacity of approx. 60,000 machine hours per month at two production sites we meet the often high requirements of our international customers – within cycle time while providing the highest possible quality.



Our state-of-the-art machines that are constantly updated and extended form the basis of our high production competence. And, it is not only our customers who benefit from this.

After all, our own machine production also utilizes the excellent production and testing opportunities, including required precision parts.

Mühlbauer is in global demand, as a partner for the production of precision parts. However, we do not only invest in the latest production methods to guarantee our high quality long-term, but also in our employees' expertise – in other words: we invest in the future.











*At Mühlbauer, Service & Support are vital components of all approaches to a solution. A worldwide network of committed and competent engineers and technicians ensures that our customers always receive support fast, efficiently and reliably.*

## Service & Support

Originally, the provision of service and support was very closely tied to persons. However, in the course of time, new methods of communication opened up alternative opportunities. These days support is often provided via electronic data transmission. The general trend towards replacing people with machine-based processes in service, can, however, quickly become a one-way street. Which is why Mühlbauer utilizes the options offered by modern communication but also counts on its competent, flexible and committed service team and personal contact to its customers.

As a result of the varied and flexible structure of our Service & Support area, we can always meet the individual requirements of our international customers. We rapidly transfer the problems of our customers directly to the respective specialist department, via an extended hotline. Sometimes the right answer to a question is all it takes to solve a problem. Our service technicians, however, can establish diagnoses, alter configurations or import software updates using remote service tools. And, should the on-site presence of a Mühlbauer service technician be required, even this does not pose a problem. With numerous locations on five continents we support a worldwide service network and, within a period of 24 hours, at most, we can be where our help is required.

Ultimately, the avoidance of errors is always better than remedying errors, which is why our service does not start when the first problems crop up. Maintenance or budget agreements for services and spare parts also contribute to a consistently smooth production procedure, as does a widespread range of training offers. Our customers increasingly request spare parts leasing and not only because it is financially attractive. Spare parts leasing is the implementation of a spare parts store on-site, which customers can use as required, while financing is effected in installments. Required materials are thus always available.

Our service does not start after the successful acquisition of a customer. As both paper and pictures only say so much and may not even be accurate, interested parties are given the opportunity to see our machines in action, while visiting our model production. Consultation does not get any more hands on than this. We stay in touch with our customers, even if they are not experiencing any technical hitches. If customers experience staff shortages we offer to temporarily support the production team, to guarantee full capacity utilization of the machines.

System solutions by Mühlbauer work around the clock, worldwide. This entails a huge amount of responsibility, which we have always accepted and which we will continue to take very seriously in future. Our entire service team is committed to providing the best possible service to our most important partner on a daily basis: to our customers.



# The Mühlbauer share

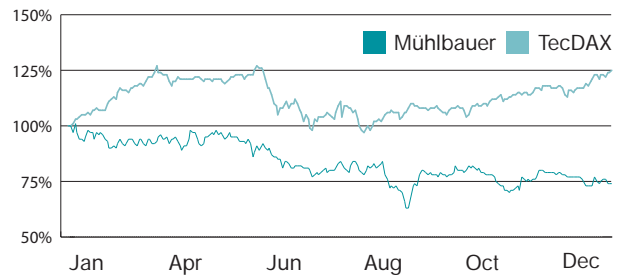
## Brisk stock markets

Despite a weakening of US growth, global economy achieved high global economic growth, which was neither markedly dampened by interim instability in the Middle East nor by the resultant temporary price hikes of energy products. Global stock markets largely developed quite positively; however, in the course of 2006 they were characterized by considerable momentum. In so doing, they seemed to follow the same trend: after initially pursuing the positive course of the previous year, the price bottomed out in May and June before recovering in the second half of the year. The most important indexes thus ended 2006 quite positively year-on-year – in part even sporting double-digit growth. The DAX rose by 22.0%, followed by the Dow Jones at 16.3% and the EURO STOXX at 15.1%. The Nikkei was unable to continue its performance of the previous year. With an increase of 6.9%, it lagged behind the previous year's growth (40.2%).

## Development of the Mühlbauer share

While the TecDAX, which is dominated by solar energy companies, developed clearly positively at the beginning of the year under review, the Mühlbauer share – listed both in the Prime All share and in the index for owner-managed, medium-sized businesses (GEX) – was unable to continue its outperformance of 2005. Until mid-April 2006 the price was volatile and developed laterally – with a slight upwards curve; the further development of the price was, however, interrupted by a decline in sentiment on the stock markets. The prime reason for this was the slowdown in economic activities in the US. The core inflation rate in the USA rose and interest rates climbed, while a weakening of economic growth became apparent. As a result, investors regrouped their investments. They reduced their proportion of higher risk shares and thus their investment in technology shares such as Mühlbauer. European and, in particular, German stock markets followed the US American example. Furthermore, in the summer the capital market started evaluating the markets relevant to Mühlbauer, namely TECURITY® and Smart Label more critically. Analysts and investors were afraid that the plans of many countries regarding the implementation of security-oriented ID systems and the

recovery of the Smart Label industry could possibly further delay and negatively impact market growth. After the share reached its all-year low of EUR 24.90 in mid-August and dialog with the capital market was further intensified, a slight recovery occurred in the following months, which resulted in a closing price of EUR 29.35. The performance of the Mühlbauer share was thus -28.1% year-on-year and was clearly beaten by the TecDAX, which experienced growth of 25.5% over the same period.



To the year-end, the market capitalization of Mühlbauer Holding AG & Co. KGaA amounted to EUR 431.3 million (PY: EUR 599.6 million). With an average trading volume<sup>1</sup> of 6,628 shares (PY: 7,959 shares) per trading day and a recorded trading volume of EUR 52.0 million for the whole of 2006, the share approximately ranges midfield in the Prime All Share Index.

## Special dividend scheduled

The Mühlbauer Group is one of few technology companies that has uninterruptedly involved its shareholders in the company's success by means of a dividend since its IPO. This profit-oriented dividend policy will be continued for the 2006 financial year. The personally liable shareholder and the Supervisory Board will therefore make the following proposal to the Annual General Meeting: payment of a dividend of EUR 1.00 per share plus a special dividend of EUR 0.25, on the occasion of the 25-year anniversary of the company. This is an increase of EUR 0.35 or around 39% over the previous year.<sup>2</sup>

<sup>1</sup> Total from Xetra and on-floor trading <sup>2</sup> subject to agreement by the Annual General Meeting

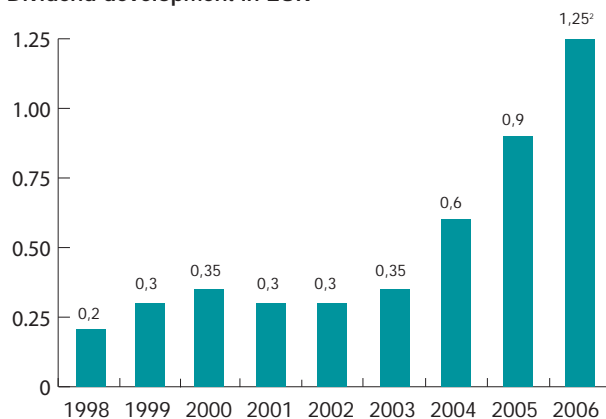
### Extensive dialog with investors

Mühlbauer continued its constant dialog with investors and analysts in the year under review and provided ample opportunity to obtain substantiated information on the company in a timely manner, thanks to its transparent communication.

In the context of roadshows and capital market conferences in Germany, the UK, France and the USA, as well as more than 40 one-on-one meetings, management responded to the questions of institutional investors and analysts and provided information on the economic situation, its corporate strategy and the prospects of the company. The well attended Capital Markets Day, which was held for the second time at the company's headquarters offered an excellent opportunity for capital market players to establish their own image of the company and to discuss business and strategy development issues.

Timely, active communication with all investors is one of the pillars of our Investor Relations work. In so doing, our internet presence, which we constantly update and extend, plays an increasingly important role. The Investor Relations pages of our website provide all relevant information on the company, such as ad-hoc publications, press releases, financial publications, director's dealings, Corporate Governance disclosures and presentations. Information on the current analyst coverages can also be found there.

### Dividend development in EUR



Ratios	2006	2005	Ratios	2006	2005
<b>Share price (Xetra)</b>			<b>Share values</b>		
Annual high (in EUR)	39.70	43.90	Earnings (in EUR)	1.90	1.59
Annual low (in EUR)	24.90	26.71	Dividend <sup>2</sup> (in EUR)	1.25	0.90
Year end (in EUR)	29.35	40.80			
<b>Market capitalization<sup>3</sup></b>			<b>Trading volumes (in share certificates)<sup>1</sup></b>		
Annual high (in EUR thousand)	583,434	645,158	Average per trading day	6,628	7,959
Annual low (in EUR thousand)	365,932	392,532	Whole year		
Year end (in EUR thousand)	431,330	599,600	(in million share certificates)	1.7	2.0

### Financial calendar

15 March 2007: Accounts press and analysts' conference, Frankfurt a. M.  
 26 April 2007: Annual General Meeting, Roding  
 3 May 2007: Quarterly report I/2007  
 1 August 2007: Quarterly report II/2007  
 30 October 2007: Quarterly report III/2007  
 March 2008: Annual report 2007

### Contact data Investor Relations

Mühlbauer Holding AG & Co. KGaA  
 Josef-Mühlbauer-Platz 1  
 93426 Roding, Germany  
 eMail: investor-relations@muehlbauer.de  
 Telefon: +49 (9461) 952-1653  
 Fax: +49 (9461) 952-8520

<sup>1</sup> Total from Xetra and on-floor trading <sup>2</sup> subject to agreement by the Annual General Meeting <sup>3</sup> with regard to total capital



# Corporate Governance

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

Mühlbauer Holding AG & Co. KGaA passed its own Corporate Governance Codex (subsequently also referred to the 'internal Codex'), above and beyond legal requirements. The personally liable shareholder and the Supervisory Board have agreed to the company's own Corporate Governance Codex, which is largely based on the version dated 12 June 2006. Additionally, all members of the Management Board of Mühlbauer Aktiengesellschaft (hereinafter referred to as "Management") voluntarily and individually declared their compliance with the provisions set out in its Codex.

Amendments added to the German Corporate Governance Codex on June 2006 were, after being discussed in the Supervisory Board, integrated in the internal Codex.

In December 2006, the personally liable shareholder and Supervisory Board issued the Declaration of Conformity for 2006 and posted it to the company's Internet site ([www.muehlbauer.de](http://www.muehlbauer.de)) for public access. The Declaration states which provisions of the German Corporate Governance Codex the company corresponded and corresponds with and which recommendations of the Codex were or are not applied.

Mühlbauer Holding AG & Co. KGaA meets most target provisions of the Codex in its legal form. The personally liable shareholder and the Supervisory Board have, however, also decided that the company will not conform to several provisions. The provisions that were not conformed to in the past and will not be conformed to in future

are presented in the following section, including the reasons for non-conformity:

## **Deductible on D&O insurance**

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

## **Remuneration and individualized details on management's remuneration**

As opposed to the German Corporate Governance Codex (Figure 4.2.3 para. 3 clause 4), the stock option plans resolved by the Annual General Meeting in the past do not include any cap for extraordinary, unforeseeable developments. Irrespective of the fact that a stock option plan does not currently exist at Mühlbauer Holding AG & Co. KGaA, stock options have so far neither been issued to the personally liable shareholder nor to members of management. The company does not consider there to be a necessity to determine a cap as the future distribution of stock options is scheduled to be effected on an individual basis and in small tranches only.

The Chairman of the company's Supervisory Board will not provide the Annual General Meeting with information on the basic principles of the remuneration system and their amendment (Codex Figure 4.2.3 para. 4).

Individualized details of the remuneration of the personally liable shareholder's representative are provided in the Annual Report (section 285 sentence 1 no. 9 lit. a sentence 5 to 9 and section 314 subsection 1 no. 6 lit. a sentence 5 to 9 of the German Commercial Code) due to the resolution passed at the Annual General Meeting held on 4 May 2006. Further individualized details of the members of the Management Board of Mühlbauer Aktiengesellschaft are not provided in the notes to the consolidated financial statements, as management is collectively responsible for the management of the company (Codex Figure 4.2.4).

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

An explanation of management's remuneration components is provided in the notes. A more extensive disclosure and explanation of the remuneration system, the annual allocation of pension provisions, material contents of agreements in the event that a member of management retires as well as details on the fringe benefits paid by the company are not provided in the form of a remuneration report (Codex Figure 4.2.5 para. 2 and 3).

The contents of stock option plans and remuneration systems are the result of intensive discussions within the Group. The publication of details in excess of those legally required would increase the risk of a targeted solicitation of executives, as details of the remuneration structure would subsequently also be transparent to competition.

#### **Formation of committees on the Supervisory Board**

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

#### **Composition of the Supervisory Board and remuneration of its members**

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

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

The appointment of the previous representative of the per-

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

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

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

#### **Transparency**

As per 31 December 2006, the personally liable shareholder held a total of 3,296,852 shares in his sole participation in SECURA Vermögensverwaltungs GmbH. The ownership represents 52.50% of the shares issued by Mühlbauer Holding AG & Co. KGaA. The Supervisory Board held 300 shares (which corresponds to 0.00%) and the management of Mühlbauer Aktiengesellschaft 72,477 shares (which corresponds to 1.15%). Neither the personally liable shareholder, the Supervisory Board nor the management of Mühlbauer Aktiengesellschaft held options or other derivatives as per 31 December 2006.

#### **Accounting and audit of the financial statements**

Before presenting the recommendation for the appoint-

ment of the external auditor, the Supervisory Board obtained a statement from the external auditor explaining to what extent relationships exist between the external auditor, his corporate bodies, the audit manager of the company or its corporate bodies. There were no doubts as to the independence of the external auditor. In addition, the Supervisory Board came to an agreement with the external auditor, in accordance with Figure 7.2.3 of the Codex, that the external auditor shall immediately report all events and findings made in the course of the audit, that are relevant to the responsibilities of the Supervisory Board.

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

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

The personally  
liable shareholder

The  
Supervisory Board



---

**Consolidated Financial Statements**

24	Management Report
24	Overview of the 2006 financial year
25	The company and framework conditions
28	Earnings situation
30	Financial situation
31	Asset situation
33	Value-oriented control parameters
34	Sustainability Report
35	Factor Input
37	Employment
38	Other details
38	Events after the 2006 financial year
38	Risk Report
40	Outlook
43	Important notice
44	Consolidated Statements of Income
45	Consolidated Balance Sheets
46	Consolidated Statements of Cashflows
47	Consolidated Statements of Changes in Shareholders' Equity
48	Notes

---

79	Auditor's Report
80	Report of the Supervisory Board
82	Several years overview
84	Technical Glossary
86	Financial Glossary

# Management Report

## OVERVIEW OF THE 2006 FINANCIAL YEAR

**The Mühlbauer technology group systematically implemented its strategy and consistently pushed ahead the positioning of the company. The 2006 financial year is a proof of this development. We have grown further, have improved results and have more than just made our way on our markets. No matter where Smart Cards are produced on our globe, Mühlbauer is involved. Our innovative technology solutions and systems assist customers along the entire process chain. Major developments in the 2006 financial year were:**

- Mühlbauer qualified as a partner to further states with regard to the introduction of new electronic passports and assists Slovenia and Portugal with innovative personalization solutions in automatic identity checks, to facilitate cross-border travel. Furthermore, important ID card projects were agreed with Norway and Spain. Overall, Mühlbauer therefore has references from over 50 ID projects globally, which recommend us to other states as a reliable partner to governments and authorities.
- With the sale of the first complete Smart Label production system for the production of inlays and the manufacture of self-adhesive labels or RFID tickets to China, Mühlbauer has positioned itself on a strategically important market as a provider of one-stop solutions.
- In the 2006 financial year we pushed globalization of the Sales & Support areas ahead and documented our claim in respect of worldwide customer proximity with our new sales and service sites in India and South Africa. We will press ahead expansion in Asia with the development of a technological base in Malaysia, which commenced in the year under review, and start with the development and production of existing and new technology solutions there.
- Sales rose from EUR 147.9 million in the 2006 financial year by 8.6% to a new record high of EUR 160.7 million. Sales growth was supported by all business areas, whereas regional sales development showed considerable differences. While Western, Central and Eastern Europe (excluding Germany) and the Asian countries recorded significant sales increases of 27.5% and 38.4%, respectively, sales in Germany and America dropped by 7.3% and 51.4%.
- Earnings before interest and taxes (EBIT) improved from EUR 33.1 million to EUR 34.4 million, which corresponds to an EBIT margin of 21.4% (PY: 22.3%).
- Consolidated net earnings benefited from the further distinct improvement in financial results and rose EUR 4.7 million, from EUR 23.0 million to EUR 27.7 million, due also to the extraordinary gains from the capitalization of a claim for a tax refund. The earnings per share of EUR 1.90 were thus 19.4% higher than in the previous year (PY: EUR 1.59). Adjusted for extraordinary gains, earnings per share climbed to EUR 1.74 and were thus considerably above the previous year's value.
- Due to the funds used for financing net current assets (working capital) and higher investment expenditures in the year under review, the Group reported a free cashflow of EUR 2.4 million (PY: EUR 22.7 million). In the same period, total liquidity dropped from EUR 57.0 million to EUR 44.7 million.
- The personally liable shareholder and the Supervisory Board will continue their dividend policy, which is oriented on the earnings strength of the company, and intend to propose the payment of a dividend of EUR 1.00 plus a special dividend of EUR 0.25 to the Annual General Meeting – as a result of the 25th anniversary of the company – i.e. a total dividend of EUR 1.25 (PY: EUR 0.90) per no par share entitled to a dividend.
- With its technology solutions, Mühlbauer is active on growth markets featuring high potential. Due to the high level of preparedness of many states to invest in the implementation of security-oriented ID systems, an intensification of demand for RFID Smart Label technologies, anticipated by market experts and a moderate accelera-

tion of growth in the semiconductor industry, Mühlbauer is expecting – also as a result of its good positioning – the positive business development of the Mühlbauer Group to continue over the next two years.

## THE COMPANY AND FRAMEWORK CONDITIONS

**The company.** Mühlbauer Holding AG & Co. KGaA was formed in May 1998, from what was originally a one-man-business, founded in 1981 by Josef Mühlbauer. The Mühlbauer Group can look back on a 25 year old tradition that is characterized by pioneering achievements in mechanical engineering and plant construction. The technology group has since become a global and independent consultant and manufacturer of technologically innovative security solutions in a market segment the company refers to as the TECURITY® market. With approx. 1,600 employees and a worldwide sales and service network, Mühlbauer is the leading provider of production systems for the Smart Card industry. It is our goal to achieve sustained income and to constantly increase the value of the company. In so doing, we want to take the lead in all our business areas and grow more rapidly than our competitors. For this purpose, Mühlbauer is pursuing a strategy of earnings-oriented growth. It is based on technology competence and is driven by continuous innovations in our range of products. Hereby, we focus on rapidly growing and future-oriented areas of our market, which is why we are extending our presence globally without neglecting our primary market in Europe. As the leading provider worldwide, with approx. 100 different standard and customized products, Mühlbauer offers a comprehensive range from a single source. This ensures that we can continuously extend our position in the globalized markets of TECURITY® and the Smart Label industry.

Satisfied customers are a prerequisite for Mühlbauer's growth: we want our customers to see Mühlbauer as their most efficient and reliable partner on the markets relevant to us. We have therefore oriented our business policy on increasing their competitiveness with the assistance of our products and services. Our technological competence and our market expertise, which are part of our most valu-

able assets, form the basis for this. We ensure the continued existence of our company through innovations, as we use them to open up new applications and can offer our customers better solutions and extend business contacts.

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

In its core business area SmartID, Mühlbauer is the only company in the world to offer the entire range of system solutions for the manufacture of all card types from a single source. Mühlbauer system solutions are used in the production of ID cards, ePassports, eVisa, contact and contactless cards, dual interface cards and multimedia cards. Furthermore, our manufacturing technologies in the product area Smart Label cover all procedures currently utilized on the market in the production of Smart Labels for the security, service and textile industries and for retail.

The area Semiconductor Related Products develops, produces and sells innovative technology solutions for specific niche applications in the back-end area of the semiconductor industry, high-tech test and carrier tape systems and is an OEM partner of well-known global companies.

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

In two independent manufacturing centers in Germany, the area Precision Parts produces highly precise individual components for industries that are sensitive towards security technology issues, such as aerospace, motor sports and medical technology; due to its longstanding manufacturing competence this area also supports the sale of high-quality products from the above areas.



### Economic framework conditions

**Global economy.** In 2006, the upswing of the global economy continued with growth of worldwide real gross domestic product (GDP) of approx. 4%. While the pace of expansion slowed down slightly over the previous year, it still exceeded the trend growth rate. The reason for this is largely due to the fact that the upturn lost some of its momentum in the industrialized countries. In the USA, in particular, economic momentum decreased in the past year. This is, on the one hand, due to the tightening of the monetary policy from an expansive to a neutral rate and, on the other hand, to the weaker real estate market, which has in the past resulted in a strong rise of private assets in households, thus stimulating consumption, in particular. Japan's strong upturn also declined distinctly over 2005. Rising corporate investments and the noticeable extension of private consumer spending were unable to compensate for flagging impulses from abroad and strongly declining investments by public authorities. China and India continued to sport strong economic growth. The slackening of the boom in China that observers have been anticipating for some time, still has not occurred and investments continued at a high rate. In 2006, the investment volume of the Indian national economy was strong, particularly in the industrial sector. It was the first time in years that the economy once again improved markedly in the euro zone and underwent an upturn. Both foreign and domestic demand triggered considerable momentum, as fixed asset investments, in particular, were strongly extended. Investments in construction rose distinctly and private consumption increased slightly. For the first time in a long while, Germany's economy also gained significant impetus. While exports rose strongly, the economy was this year again largely fueled by domestic demand.

**The market for digital security and contactless identification.** In 2006, the market for digital security and contactless identification – also referred to as the TECURITY® market – was characterized by the rising interest of many governments and authorities in electronic identification documents, to meet the general demand for more security and flexibility. Apart from the EU directive for passports and travel documentation, which committed the EU member states to introduce electronic passports by mid-2006, the Visa Waiver program was a further stimulus for conversion. In this program, 27 participating states had made a commitment toward the USA to introduce – by October 2006 – an electronic passport with integrated chip that is capable of storing both personal and biometric data. In August, for example, Portugal and Slovenia, alongside other states, started the public issue of electronic passports. A large number of other states are planning to introduce it in the near future. A rise in demand was also observed among innovative card applications, for example ID cards, driver's

licenses and debit cards with EMV chip: Spain ended its pilot phase for the first decentralized ID card project and commenced the implementation of further personalization systems nationally. As Spanish authorities are able now to issue fully functional ID cards on-site, citizens no longer have to schedule lengthy waiting periods from application to receipt of the ID card.

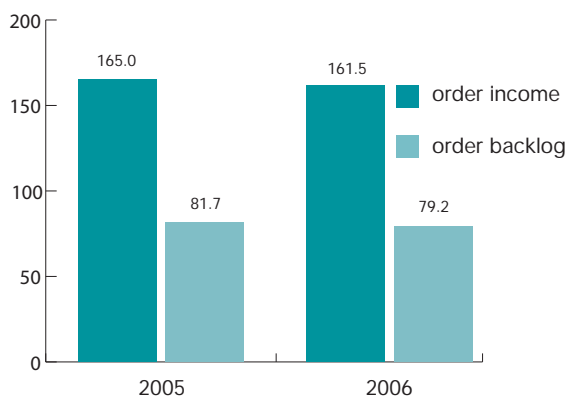
**Global market interest in the RFID technology has also consolidated.** Although the explosive growth forecast by several research institutes in respect of the year under review did not materialize, partly due to delays in the introduction of new chip generations, the use of the RFID technology still gained ground worldwide in 2006. Apart from large trade chains – Wal Mart announced its decision to extend RFID to a further 500 stores and 300 suppliers – numerous other industries and companies have recognized the benefits of contactless identification as a key to greater efficiency and economy, particularly in the areas of logistics and supply chain management, and have thus pushed ahead the use of RFID. While, until recently, the application of this technology was hardly noticed in everyday life, RFID has since gained greater publicity, due to its growing range of applications: contactless readable tickets communicate with RFID access control systems, e.g. at the FIFA World Cup 2006, some hospitals are already using radio chips for patient identification and several libraries use Smart Labels for the identification of books, documents and CDs. On a region by region basis, Asian countries, in particular, displayed major interest in the RFID technology in 2006. The greatest volume in RFID technology so far was requested from China, which intends to introduce more than 125 million contactless readable RFID tickets for its railway system.

**The market growth of the semiconductor industry has increased further.** Whilst the semiconductor sector grew at a rate of approx. 7% in 2005, it recorded a growth of approx. 9.4% in the 2006 calendar year, according to the calculations of SIA (Semiconductor Industry Association). Here again, a regional shift of market share toward the Asian countries was recorded.

### Business development

**Order income and order backlog.** With the order income of EUR 161.5 million achieved in the 2006 financial year, the Mühlbauer Group lags the previous year's value (PY: EUR 165.0) by only a slight 2.1%. On 31 December 2006, the order backlog dropped 3.1% to EUR 79.2 million (PY: EUR 81.7 million). At 89.1%, the foreign share of present orders increased only slightly over the previous year (PY: 88.6%) and amounted to EUR 70.6 million (PY: EUR 72.4 million). Domestic orders declined 7.2% against the previous year's value, from EUR 9.3 million to EUR 8.6 million.

Consolidated order income and order backlog in EUR million



The core business area SmartID contributed EUR 92.6 million to order income. Compared to the previous year (PY: EUR 101.6 million) this corresponds with a decline of 8.9%, which can be rated positively, in view of the efforts to compensate the temporary stagnation in the Smart Label area with technology solutions for the production and personalization of security-oriented ID systems – also referred to as Cards & TECURITY®, in brief. At the same time, further significant reference orders on the personalization of electronic passports with biometric data were signed with Slovenia and Portugal. Furthermore, important ID card projects were concluded with Norway and Spain, which recommend us to other states as a reliable partner of governments and authorities. The order backlog on 31 December 2006 dropped 4.3% over the previous year, from EUR 63.4 million to EUR 60.7 million.

In the 2006 financial year the area Semiconductor Related Products slightly lagged the order income of the previous year, at EUR 38.7 million (PY: EUR 39.2 million). While demand for the product lines Flip Chip technology and Vision systems was greater than in the year before, the product line OEM experienced a downturn, due to the increasing shift of production by our customers to Asia. Mühlbauer is counteracting this trend with the development of production capacity in Malaysia, which commenced in the 2006 financial year. Furthermore, the disposal of the coating technology area in the middle of the 2006 financial year resulted in considerably lower order income in this product line. The order backlog, however, remained virtually unchanged at EUR 12.3 million (PY: EUR 12.5 million).

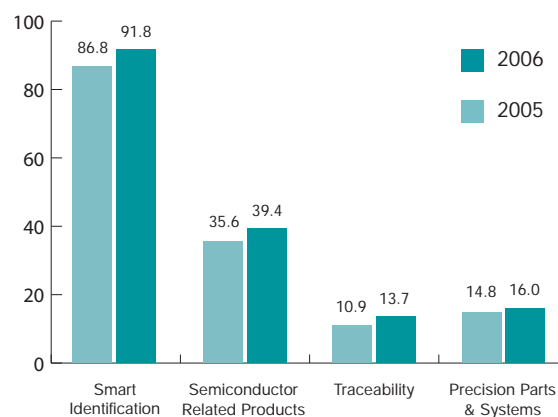
In the past financial year, Traceability, in particular, benefited from the high demand for components for the tracking of products and modules. It recorded order income of EUR 13.2 million. This represents a distinct increase of 21.5% over the previous year (PY: EUR 10.9 million). In contrast with this industry in general, Mühlbauer has thus succeed-

ed in extending its position. As a result of the fact that sales in the 2006 financial year exceeded order income, the order backlog dropped 24.0% year-on-year, to EUR 1.9 million (PY: EUR 2.5 million).

Precision Parts recorded strong growth in order income in the 2006 financial year and, at EUR 17.0 million, achieved 27.2% higher orders year-on-year (PY: EUR 13.3 million). The company's longstanding competence in the production of highly complex modules for highly sensitive industries and the further extension of the company's comprehensive and flexible production concept – together with excellent quality and adherence to deadlines – renders the product area a much sought-after partner for the production of highly precise parts and components. At the year-end the order backlog was 29.4% above the previous year's value of EUR 3.3 million and amounted to EUR 4.3 million on 31 December 2006.

Sales<sup>1</sup>. In the 2006 financial year sales of the Mühlbauer Group rose by 8.7%, from EUR 148.1 million to EUR 160.9 million. All four areas – SmartID, Semiconductor Related Products, Traceability and Precision Parts & Systems – contributed to this growth.

Sales development by applications in EUR million



In the core business area SmartID growth was primarily achieved with the technology solutions of the product line Cards & TECURITY® for the production and personalization of security-oriented identification documents. Sales growth in the Smart Label product line was, however, somewhat lower than in the previous year, due to temporary overcapacities and the resultant interim stagnation. Despite this, sales rose by 5.7% to a new record high of EUR 91.8 million (PY: EUR 86.8 million).

Semiconductor Related Products pushed sales from EUR 35.6 million by 10.7% to EUR 39.4 million. While the strate-

<sup>1</sup> Sales figures are the gross values before subtraction of any deductions on sales proceeds of EUR 0.2 million (PY: EUR 0.2 million)

The percentages were determined on the basis of the exact figures and may differ from the rounding figures

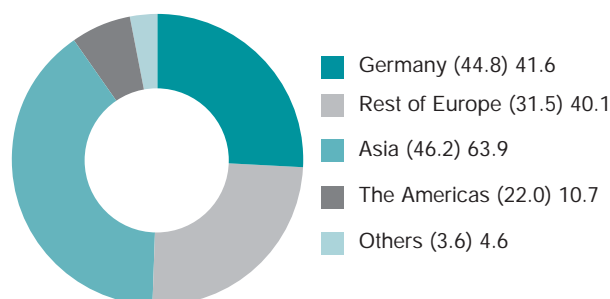
gically important product lines Flip Chip Technology and Vision Systems both achieved a significant sales increase, the coating technologies in the product line Coating & Drying experienced declining sales, due to the disposal of this product line mid-2006. A drop in sales was also recorded for the product line OEM, which was in particular due to the product shifts of our customers to Asia.

Sales in Traceability rose from EUR 10.9 million to EUR 13.7 million, which corresponds with strong growth of 25.7% and connects smoothly with the good development of the previous year. Growth was also benefited by the positive developments in the product lines Board Handling and Traceability.

In Precision Parts & Systems, the positive development on the market resulted in a sales increase of 8.6%, to EUR 16.0 million (PY: EUR 14.8 million), while growth was primarily recorded in the mechanical engineering, automotive and medical technology industries.

Sales development by region shows considerable variation: while at 27.5%, the regions Western, Central and Eastern Europe (excluding Germany) and 38.4%, the

Regional breakdown of sales in EUR million (previous year)



Asian countries produced significant growth, sales in Germany and America dropped by 7.3% and 51.4%, respectively. The foreign share in total sales of the Mühlbauer Group was once again extended, due to strong growth abroad and rose to 74.2% year-on-year.

## EARNINGS SITUATION

Earnings before interest and taxes (EBIT) and earnings before taxes. In the year under review, the Mühlbauer technology group achieved earnings before interest and taxes (EBIT) of EUR 34.4 million. This corresponds to growth of 4.1% over the previous year's value of EUR 33.1 million. The earnings increase reflects both the extension of sales in all business areas and the currency gains of EUR 0.2 million (PY: loss of EUR 0.7 million) included in the ratios for the reporting period. At 21.4%, the EBIT margin was almost 1.0% lower than in the previous year (PY: 22.3%). The reasons for this are cost increases in all functional areas.

While sales grew 8.6% during the year under review, gross profit on sales developed somewhat below average, at 7.5%. A breakdown of the cost of sales – which advanced from 56.5% in the previous year to 56.9% in the reporting period – shows that material expenses and changes in inventory rose slightly, at 9.6%, largely as a result of the increase in price of individual raw materials whereas other expenses climbed strongly, at 32.4%, due in particular to the extension of travel in connection with the further internationalization of business. At 7.8% and 4.9%, personnel expenditure and depreciation, however, partly developed only weakly in contrast to the cost of sales.

In the sales area, the market offensive was continued, pushing selling expenses from EUR 9.3 million in the previous year by 23.1% to EUR 11.4 million. Selling expenses thus make up 7.1% of sales – after 6.3% in the previous year. The further expansion of the Group also led to an in-

## Consolidated statements of income in millions

	2006 EUR	%	2005 EUR	%	+/- EUR	%
<b>Sales</b>	<b>160.7</b>	<b>100.0</b>	<b>147.9</b>	<b>100.0</b>	<b>12.8</b>	<b>8.6</b>
Cost of sales	(91.4)	(56.9)	(83.5)	(56.5)	(7.9)	9.4
<b>Gross profit</b>	<b>69.3</b>	<b>43.1</b>	<b>64.4</b>	<b>43.5</b>	<b>4.9</b>	<b>7.5</b>
Selling expenses	(11.4)	(7.1)	(9.3)	(6.3)	(2.1)	23.1
Administrative expenses	(7.7)	(4.8)	(6.6)	(4.5)	(1.1)	15.2
Research and development expenses	(17.1)	(10.6)	(15.3)	(10.3)	(1.8)	11.9
Other income	1.4	0.9	0.7	0.4	0.7	115.8
Other expenses	(0.1)	(0.1)	(0.8)	(0.5)	0.7	(89.3)
<b>Operating income (EBIT)</b>	<b>34.4</b>	<b>21.4</b>	<b>33.1</b>	<b>22.3</b>	<b>1.3</b>	<b>4.1</b>
Financial result	3.6	2.3	1.6	1.1	2.0	124.3
<b>Income before income taxes</b>	<b>38.0</b>	<b>23.7</b>	<b>34.7</b>	<b>23.4</b>	<b>3.3</b>	<b>9.6</b>
Income taxes	(10.3)	(6.4)	(11.7)	(7.9)	1.4	(11.7)
<b>Net earnings</b>	<b>27.7</b>	<b>17.3</b>	<b>23.0</b>	<b>15.5</b>	<b>4.7</b>	<b>20.4</b>



crease in general administrative expenses. These rose 15.2%, from EUR 6.6 million in the previous year to EUR 7.7 million. Their share in sales therefore rose from 4.5% in the prior year to 4.8% in the year under review. Research and development expenses rose further by 10.2% to EUR 18.3 million (PY: EUR 16.6 million) in order to implement the product offensive. Even after taking into consideration the capitalization of development costs and the settlement of depreciation, research and development expenditure climbed 11.9%, to EUR 17.1 million. The rate of capitalization rose from 18.4% to 23.8%, year-on-year. Other income and expenses largely comprise effects outside the core activities of the Group, business transactions not related to the year under review and other transactions not directly related with the company's core business. The upturn of the balance from minus EUR 0.1 in the previous year to plus EUR 1.3 million in the reporting period largely results from unrealized and realized price gains in connection with intragroup settlements and financial derivatives and higher insurance payouts than in the previous year.

**Financial result.** The financial result developed excellently. The distinct increase by 124.3% is largely due to the very strong securities trading result and net interest income and the completed repayment of all debt as per 30 June 2006. The discontinuation of depreciation on financial assets (PY: EUR 0.2 million) also had a positive effect.

**Earnings before taxes.** The improvement of operating result and financial result brought about a further EUR 3.3 million increase of earnings before taxes to EUR 38.0 million (PY: EUR 34.7 million), which corresponds to a 9.6% rise. The profit margin underwent a slight improvement to 23.7%, against 23.4% in the prior year.

**Income taxes.** In the year under review income taxes resulted in expenses of EUR 10.3 million (PY: EUR 11.7 million). Compared with the earnings before taxes of EUR 38.0 million (PY: EUR 34.7 million) this amounts to an effective tax rate of 27.1% against 33.6% in the previous year. The decline of the tax rate is largely due to the capitalization of a claim for the payment of a corporation tax credit of EUR 2.3 million. The tax rate, adjusted for extraordinary gains, totaled 33.0%.

**Net earnings.** All these individual effects resulted in the fact that our net earnings increased by EUR 4.7 million in the year under review: net earnings amounted to EUR 27.7 million (PY: EUR 23.0 million); the post tax profit margin was 17.3%, after 15.5% in the previous year and earnings per share climbed to EUR 1.90 (PY: EUR 1.59).

**Dividend.** The company wants to continue its dividend policy of previous years and enable shareholders of the limited partnership to once again participate in the income of the past financial year. The personally liable shareholder and Supervisory Board intend to propose to the Annual General Meeting the payment of a dividend of EUR 1.00 plus a special dividend of EUR 0.25 – on the occasion of the company's 25th anniversary – from the net income for the year, which amounts to a total dividend of EUR 1.25 (PY: EUR 0.90) per no-par share with dividend entitlement. The remaining net income for the year shall be carried forward. Subject to the approval of the Annual General Meeting the total payout to the shareholders of the limited partnership amounts to approx. EUR 7.6 million at 6.1 million shares with dividend entitlement. The personally liable shareholder will receive EUR 9.7 million, in accordance with his shareholding.

## FINANCIAL SITUATION

**Cashflow.** The cashflow demonstrates the origin and utilization of cashflows in the reporting periods. It thus plays a key role in evaluating the financial situation of the company. The outflows from investing and financing activities are determined in an indirect relation to payments. The inflows from operating activities are indirectly derived from the consolidated profit for the year. With the free cashflow, we provide our investors with a ratio which shows the change in liquidity, taking into account investments. Free cashflow is defined as an inflow from operating activities and outflow from investing activities, adjusted by the purchase and disposal of securities and financial assets as well as the resultant net profits and losses, payments from the disposal of fixed assets as well as the resultant profits and losses and currency differences from the translation of fixed assets. The liquid funds shown in the cashflow statement comprise cash and cash equivalents and marketable securities, insofar as these have a maturity of a maximum of three months.

At EUR 13.2 million, cashflow from operating activities in 2006 was EUR 18.9 million below the level of the previous year (PY: EUR 32.1 million). While cash generated from operating activities dropped EUR 23.0 million, from EUR 48.0 million to EUR 25.0 million, largely due to the significant rise of working capital (plus EUR 21.0 million; PY: minus EUR 5.8 million), this was offset by the EUR 4.0 million lower income tax payment.

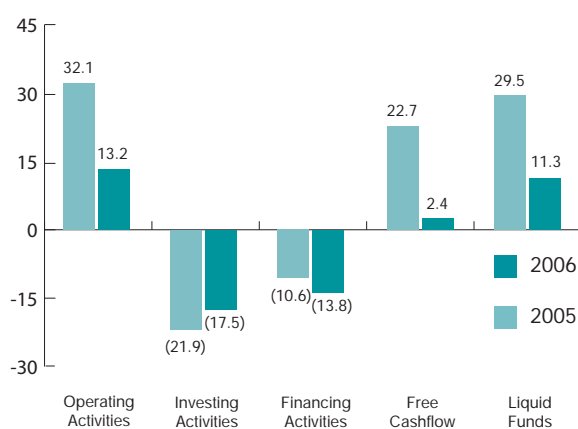
In the reporting period, the outflow from investing activities declined from EUR 21.9 million to EUR 17.5 million. The payments largely related to investments in fixed assets, intangible assets and capitalized development costs totaling EUR 13.3 million (PY: EUR 10.5 million). Furthermore, in the year under review, net payments of EUR 4.5 million (PY: EUR 11.7 million) were made in respect of investments. Year-on-year, this resulted in an overall decline of outflows from investing activities by EUR 4.4 million.

The outflow in financing activities of EUR 14.2 million (PY: EUR 11.1 million) was offset by an inflow of EUR 0.4 million (PY: EUR 0.5 million). The outflow is primarily due to the dividend for the 2005 financial year, which was EUR 3.0

million higher than in the previous year and EUR 0.2 million higher withdrawals for personal tax payments of the personally liable shareholder. The dividend payout proposed in respect of the 2006 financial year is not yet included in the cashflow statement for 2006, as no resolution has been passed so far and no outflows have occurred.

As the total of the individual cashflows, liquid funds dropped EUR 18.2 million year-on-year, from EUR 29.5 million on 31 December 2005 to EUR 11.3 million. Total liquidity, including the longer-term deposits and securities, declined by EUR 12.3 million, from EUR 57.0 to EUR 44.7 million.

Cashflow in EUR million from



**Free cashflow.** At EUR 2.4 million, free cashflow was EUR 20.3 million below the level of the previous year, largely due to the development of the Group previously explained. The downturn is characterized by the higher investments for the modernization and extension of the asset portfolio, temporary substantially higher financial requirements for the preliminary financing of orders – linked to the extension of sales – and a higher capital commitment of working capital from the further broadening of the product portfolio.

**Capital requirements and refinancing.** In the 2007 financial year we will require capital to finance operating activities, pay our other liabilities, provided they occur, and for the scheduled execution of investments. We meet these requirements through cashflow from current business,

### Consolidated statements of cashflows in millions

	2006 EUR	2005 EUR	+/- EUR	%
Cash provided by operating activities	13.2	32.1	(18.9)	(58.9)
Cash used for investing activities	(17.5)	(21.9)	4.4	(20.3)
Cash used for financing activities	(13.8)	(10.6)	(3.2)	30.4
Free cashflow	2.4	22.7	(20.3)	(89.2)
Liquid funds	11.3	29.5	(18.2)	(61.6)

available funds and disposable securities as well as short-term loans of a total of EUR 21.2 million, available at the end of 2006, of which EUR 3.7 million had been utilized by 31 December 2006.

## ASSET SITUATION

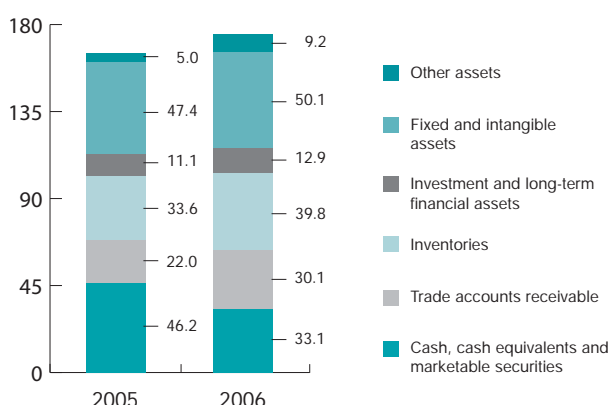
The balance sheet total of the company rose 6.0% year-on-year to EUR 175.2 million (EUR 165.3 million) due to the continued extension of business volume.

**Short-term assets.** Short-term assets rose from EUR 106.2 million to EUR 109.0 million. The absolute increase of short-term assets was offset by a relative decline of the ratio of short-term assets to total assets from 64.2% to 62.2%. Inventories rose by EUR 6.2 million to EUR 39.8 million. The increase is primarily due to a higher stock of unfinished goods, which largely resulted from the extension of module and component production in the context of the company's scheduled product diversification. In line with the extended product portfolio, raw materials, auxiliary and operating materials also experienced an upturn. Trade

accounts receivable rose significantly from EUR 22.0 million to EUR 30.1 million. The reason for this growth is the decreasing preparedness of customers to provide preliminary financing for their orders by paying deposits and the project-related agreement of longer terms of payment. As a result, the ratio of the average trade accounts receivable portfolio to sales rose from 14.6% to 17.5%. Liquidity (including the marketable securities held in short-term assets) dropped from EUR 46.2 million to EUR 33.1 million, for the reasons explained in "Free Cashflow". Its share in the balance sheet total also declined from 27.9% to 18.9%.

**Long-term assets.** Long-term assets rose EUR 7.1 million to EUR 66.2 million. The ratio of long-term assets to the balance sheet total advanced correspondingly from 35.8% to 37.8%. The share of financial assets climbed from EUR 11.1 million by EUR 1.8 million or by 16.0% to EUR 12.9 million – due to a year-on-year increase in marketable securities by EUR 0.7 million and EUR 1.1 million higher trade accounts receivable with a residual term of more than a year. Fixed assets rose EUR 1.1 million and totaled EUR 40.1 million. Net additions in fixed asset investments of EUR 7.3 million related to the modernization and extension of the production network and the technological maintenance of the modernity of the asset investments.

Balance sheets structure for assets in EUR million



The additions are offset by disposals at residual values of EUR 0.8 million and depreciations over the financial year of EUR 5.2 million. Net additions in intangible assets of EUR 5.1 million related to the introduction of new software systems for the improvement of performance in certain subareas and to a range of development projects that were initiated or gained market maturity, which involved the capitalization of corresponding development costs. On the reporting date the book value of the intangible assets thus increased by EUR 8.4 million to EUR 10.0 million. Long-term tax receivables comprise the claim for payment of a corporation tax credit capitalized during the year under review. The deferred tax assets dropped EUR 0.1 million to EUR

### Consolidated balance sheets in millions

	2006 EUR	%	2005 EUR	%	+/- EUR	%
Short-term assets	109.0	62.2	106.2	64.2	2.8	2.6
Long-term assets						
Financial assets	12.9	7.4	11.1	6.7	1.8	16.0
Fixed assets	40.1	22.9	39.0	23.6	1.1	2.8
Intangible assets	10.0	5.7	8.4	5.1	1.6	19.0
Long-term taxes receivable	2.3	1.3	0.0	0.0	2.3	0.0
Deferred tax assets	0.0	0.0	0.1	0.1	(0.1)	(100.0)
Other long-term assets	0.9	0.5	0.5	0.3	0.4	81.6
<b>Total assets</b>	<b>175.2</b>	<b>100.0</b>	<b>165.3</b>	<b>100.0</b>	<b>9.9</b>	<b>6.0</b>
Short-term liabilities	30.4	17.3	35.0	21.2	(4.6)	(13.1)
Long-term liabilities	4.5	2.6	4.1	2.5	0.4	10.0
Shareholders' equity	140.3	80.1	126.2	76.3	14.1	11.2
<b>Total liabilities</b>	<b>175.2</b>	<b>100.0</b>	<b>165.3</b>	<b>100.0</b>	<b>9.9</b>	<b>6.0</b>

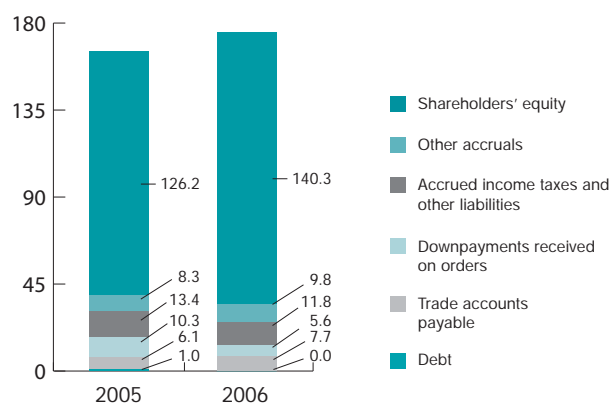
The percentages were determined on the basis of the exact figures and may differ from the rounding figures



0.05 million. Other fixed assets rose by EUR 0.4 million to EUR 0.9 million and comprise the plan assets that exceed the pension liabilities.

**Short-term liabilities.** On the liabilities side the short-term liabilities dropped EUR 4.6 million to EUR 30.4 million. Short-term trade accounts payable climbed from EUR 6.1 million to EUR 7.7 million and other accruals from EUR 8.3 million to EUR 9.8 million. The rise in other accruals accounts for the higher risks arising from sales activities and personnel obligations, in particular. The bank loans that amounted to EUR 1.0 million in the previous year were fully repaid in 2006; deposits received dropped 45.3% to EUR 5.6 million. Other short-term liabilities declined from EUR 6.4 million to EUR 4.7 million, largely as a result of the legal alteration of liabilities in respect of social insurance carriers.

Balance sheets structure for liabilities in EUR million



**Long-term liabilities.** On the reporting date, long-term liabilities amounted to EUR 4.5 million (PY: EUR 4.1 million). These include only the deferred taxes that IFRS has determined as long-term liabilities.

**Shareholders' equity.** Shareholders' equity rose from EUR 126.2 million to EUR 140.3 million. The increase is primarily due to the very good earnings situation, which is the result of the rise in consolidated net earnings for the year to EUR 27.7 million (+20.4%). The rise was partially compensated for by the dividends paid to shareholders in the financial year. The shareholders' equity ratio improved from 76.3% to 80.1%.

Long-term capital, consisting of shareholders' equity and long-term liabilities, provides 218.7% coverage for the long-term assets. At 168.1% (PY: 171.7%) the extended coverage of long-term assets (long-term capital in relation to the total of long-term assets and 50% of inventories) achieved a solid level.

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

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

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

Mühlbauer Holding AG & Co. KGaA is represented solely by the personally liable shareholder. He is not subject to the personnel competence of the Supervisory Board and can therefore not be dismissed. In accordance with the statutes of the company, the right of approval, which shareholders of a limited partnership are entitled to in respect of

extraordinary transactions, is excluded. The statutes, however, contain a catalog of transactions – also exceeding ordinary business proceedings – that require the approval of the Supervisory Board and enable it to influence material legal transactions and activities of the personally liable shareholder. Several resolutions of the Annual General Meeting require the approval of the personally liable shareholder; these include amendments to the statutes and the approval of the annual financial statements.

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

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

The personally liable shareholder is authorized to increase the ordinary share capital once or several times by 15 April 2009 – with the approval of the Supervisory Board – but only by a maximum of EUR 4,018,688.00 (authorized capital I), by issuing new, no-par bearer shares against cash and/or non-cash contributions. The shareholders shall, on principle, be granted subscription rights. With the approval of the Supervisory Board, the personally liable shareholder is, however, entitled to

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

As per the resolution of the Annual General Meeting of 4 May 2006, the personally liable shareholder is authorized – until 31 October 2007 – to acquire shares of the company with a calculatory share in the subscribed capital of a maximum of 10%, i.e. up to 627,920 shares, to be able to offer these to third parties in the context of mergers with other companies or in the context of the acquisition of businesses or participations, to collect them, offer them to holders of subscription rights for purchase or to offer them to employees and/or members of the company's management or an associated company for purchase.

## VALUE-ORIENTED CONTROL PARAMETERS

Within the Mühlbauer Group, the value-orientation of management extends across the entire production process of the product portfolio. From Procurement to Production, Research and Development to Sales – the implementation of the mission statement of value-oriented management is based on clearly defined ratios. Differentiated by time periods, these control parameters that are integrated into a controlling concept, support period-related business management, thus enabling management to orient decisions on the goal of an enhancement in value and to communicate results both within the Group and externally. This controlling concept implemented by the Mühlbauer Group also enables a targeted control and coordination of the activities of decentrally controlled areas and the business

Ratios (Selection)	2006	2005
1 Investment rate	37.8%	35.8%
2 Rate of circulation	62.2%	64.2%
3 Inventories to total capital	22.7%	20.3%
4 Rate of inventory turnover	4.4	4.5
5 Turnover time of inventories in days	82	80
6 Period of payment in days	58	54
7 Equity ratio	80.1%	76.3%
8 Return on equity	20.8%	19.4%
9 Total return on capital	16.3%	14.7%
10 Equity-to-fixed-assets ratio	349.7%	323.5%
11 Personnel expenses ratio	33.8%	33.7%
12 Material costs ratio	35.3%	32.1%
13 R&D ratio	10.6%	10.3%
14 EBIT ratio	21.4%	22.3%

1 **Investment rate** = Long-term assets / Total assets

2 **Rate of circulation** = Short-term assets / Total assets

3 **Inventories to total capital** = Inventories / Total assets

4 **Rate of inventory turnover** = Annual sales / Average inventories

5 **Turnover time of inventories in days** = Average inventories \* 360 days / Annual sales

6 **Period of payment in days** = Average trade accounts receivable \* 360 days / Annual sales

7 **Equity ratio** = Equity / Total assets

8 **Return on equity** = Consolidated net earnings or loss / Average equity

9 **Total return on capital** = Consolidated net earnings or loss / Average total assets

10 **Equity-to-fixed-assets ratio** = Equity / Fixed assets

11 **Personnel expenses** = Personnel expenses / Annual sales

12 **Material costs** = Material costs / Annual sales

13 **R&D ratio** = Research and development costs / Annual sales

14 **EBIT ratio** = Earnings before interest and taxes / Annual sales

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

processes under decentralized responsibility. The values determined in accordance with IFRS form the basis of our reporting system.

Above and beyond the individual value-added chains, earnings before interest and taxes (EBIT), pretax profit margin (earnings before taxes based on sales) and free cashflow (cashflow from operating activities minus cashflow from investments) are the key control parameters of the Mühlbauer Group. The form in which value-oriented management is practiced within the individual value-added areas varies. Not only the values of purchase volumes are monitored in Procurement, investment rates are also watched. The activities in Production are controlled on the basis of cost rates and expense ratios, prices, productivity ratios as well as absolute and relative values on the development of inventory. We use the R&D ratio (R&D investment expenditure based on sales) to depict our research and development activities. In Sales, order income and sales, supplemented by ratios from the report on the accounts receivable management, such as the terms of accounts receivable, represent the primary control parameters.

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

## SUSTAINABILITY REPORT

As a globally active company, the Mühlbauer Group complies not only with legal but also with high ethical requirements. To us, sustainable action and social responsibility are integral components of our corporate policy and are therefore consistently implemented.

**Quality.** As a producer of high-tech system solutions, Mühlbauer utilizes all technical and operational opportunities available to ensure the high quality of its products and efficient working procedures. Because of this, all business processes are continually evaluated and improved – in the context of quality management. Apart from the annual cer-

tification in accordance with DIN EN ISO 9001, by an independent external auditor, Mühlbauer's own auditors also continually monitor the management system in the context of set audit programs. If functions or processes are found to deviate, corresponding measures can be taken at an early stage.

**Environmental protection.** At its production sites in Roding and Stollberg, Mühlbauer employs 411 staff in the production of highly precise components for Mühlbauer's product portfolio and other highly sensitive industries. The raw materials used in production are primarily aluminum, stainless steel, cast iron scrap, plastic, titanium and copper. Areas of particular environmental relevance are

- surface treatment systems
- central wastewater treatment system for process water from preliminary and final surface treatment
- waste management systems
- hazardous substances store
- central oil store
- gas station for company vehicles

fuel oil tanks for the operation of the combined heat and power plants. In these areas, technically trained staff and plant security enable the optimum prevention of and defense against environmental damage. When handling hazardous substances they comply strictly with legal requirements and guidelines. Furthermore, waste materials are reduced through waste prevention or recycled.

**Workplace health and safety.** To guarantee optimum workplace health and safety, employees in all departments are regularly briefed in respect of possible threats and risks and receive training on how to handle emergencies. Fire safety and first aid facilities are available as are technical monitoring and fire alarm systems for the reporting of failures. Apart from workplace safety, workplace health promotion activities are also a big issue at Mühlbauer. It is an important contribution to efficient work and illness prevention. In a modern fitness center, including an associated wellness area, employees can balance their job demands through physical activity. Under expert instruction, physical stress at the workplace can be compensated for or avoided through health-oriented fitness training. Furthermore, all necessary and officially required occupational medical checks of employees are offered by the existing company medical officer, who is also available in the event of accidents at work, emergencies and acute illnesses. The measures and services offered by Mühlbauer become evident in the form of low illness costs: Company-wide the average quota of employees on sick leave only amounted to 5.4 days (PY: 5.1 days) and is significantly below the German average.

**Personnel development.** As a company that employs approx. 1,600 staff across the group, Mühlbauer bears a ma-



job responsibility towards its staff and the environment in which the company is active. We take this responsibility seriously. Currently, Mühlbauer provides 238 apprentices and trainees with the opportunity of completing qualified apprenticeships and traineeships in several technical and clerical jobs, thus rapidly making their way into the paid workforce. Apart from the widespread range of training opportunities, the company also offers several further education options, including language and computer literacy courses and qualification measures for the gaining of key qualifications for personal development on which EUR 0.2 million (PY: EUR 0.2 million) of external costs were spent in the year under review.

**Social responsibility.** Corporate social commitment has always played a major role within Mühlbauer Group. Under the management of the Josef Mühlbauer Foundation, created by the company founder, Josef Mühlbauer, the foundation supports selected social initiatives and projects through large monetary donations. Furthermore, the company repeatedly supports charitable purposes within the region through monetary and in-kind donations. Even the annual "Mühlbauer-Run", that has become a well-known event in the region, is part of the company's social commitment: as a result of the high level of staff participation in the races that are tied to a fund-raising campaign, substantial funds are raised and subsequently used for charitable purposes.

**FACTOR INPUT**

**Investments**

At EUR 9.2 million, gross investments in intangible and fixed assets (fixed asset investments) were EUR 2.9 million higher than the previous year's value of EUR 6.3 million and significantly exceeded the corresponding depreciation, as in the previous year. The brisk investment activities of the company generate the conditions for the extension of business activities and are thus the cornerstone of the company's future innovative strength.

The rise in intangible assets is primarily due to the procurement of a document management and the introduction of a new personnel management system.

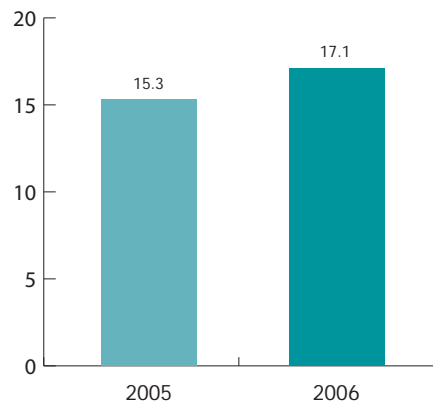
Fixed asset investments primarily targeted the modernization and extension of the production network. The projects with respect to the extension of the production sites, already commenced in previous years, have been pushed ahead at a correspondingly high level and were completed on schedule. The investments also focused on improving the performance of the sub areas and on keeping the technological equipment up-to-date. The key focus of the company's investment activities was on the plants at the Roding and Stollberg sites.

The investment rate as ratio of fixed asset investments to sales is 6.1%. The investments were fully financed from the operative cashflow.

**Research and development**

Since the company's foundation, continual technical innovation and further development has resulted in an extension of our expertise. To continue to meet the requirements of our customers and to further extend our market leadership with the assistance of innovations, we resort to a growing and continually broadening knowledge base. In our development centers, about 300 engineers and technicians, partly in cooperation with customers, universities and research institutes, successfully realize new system solutions in ever briefer development and production cycles. Our strong commitment in the Research and Development area is also reflected in the number of property rights applied for. In the past financial year the Mühlbauer Group applied for 35 new patents (PY: more than 20), thus increasingly securing its developments strategically. Due to the high level of significance that the Research and Development area holds, the Mühlbauer Group invested EUR 17.1 million (PY: EUR 15.3 million) and thus 11.9% more in this area than in the previous year. Based on sales, this corresponds with an R&D rate of 10.6% (PY: 10.3%).

Expenditures in research and development in EUR million



**SmartID.** As a provider of complete solutions in the SmartID area, Mühlbauer strives to extend its technological competence along the entire process chain, starting with production machines for chip module and card manufacturing, via data capture and verification systems through to software solutions. In the centralized personalization of ID documents and GSM cards, newly developed IDENTIFIER and SCP personalization systems enable high throughputs of excellent quality. The decentralized product portfolio for the personalization of cards and passports was also extended and now not only offers optical black and white laser personalization but also opportunities for color per-

The percentages were determined on the basis of the exact figures and may differ from the rounding figures

sonalization. In combination with the newly developed portable data capture system ID MOBILE, Mühlbauer thus offers its customers the utmost in flexibility, both in the capturing of biometric data, for example, and in the personalization of the ID document.

Mühlbauer does not only offer hardware systems but also the entire range of software processes for the complete production chain in the ID area. The software of the web-based data enrollment system getID, was adapted for the decentralized ID MOBILE solution and together with the corresponding hardware it enables optimum data capture and processing in accordance with ICAO requirements. In addition, ID management systems such as Mühlbauer getID DEOS (Data Enrollment Online Server) and Mühlbauer SDM (Security Document Management), which enable and control matching and synchronization with linked databases, underwent further development. In connection with the improved production management system Mühlbauer INCAPE, which serves as a central interface to the backend systems, the processing of data and processes can be rendered easy.

The Mühlbauer Group has also succeeded in positioning itself as the worldwide leading provider of complete solutions in the area of Smart Label production lines. Our range of TAL machines for high-throughput Flip Chip assembly was extended by TAL 20000, thus increasing the achievable machine throughput by almost 100%. At the lower end of the price range, we once again extended our portfolio of machines on the basis of our Flip Chip Moulder technology. Apart from production systems for the manufacture of inlays, systems for the production of labels are offered to our customers now. Due to the development of the Converting Line CL 15000, which converts the inlay featuring electronic functions to the actual self-adhesive label, Mühlbauer is the only equipment manufacturer in the world capable of offering a complete solution – from the chip to the ready converted label. Our “Smart Label factory” has thus become a “one-stop shop” for our customers and their specific requirements.

**Semiconductor Related Products.** With our newly developed high-volume Die Sorter generation, we provide customers in the semiconductor backend area with even more efficient and productive systems, the processing speed, quality and service-friendliness of which do more than merely meet the market’s demands. The focus was also on efficiency and precision in the further development of our Carrier Tape systems. Both the single- and the multi-track systems of the CT 8/24 series experienced further modernization and improvement, were issued a more compact form and completed their development as series-produced machines.

In the Image Processing area, the complex print control system PI-Sheet was realized, a system that combines the utmost in inspection precision and process stability. SIF 2500, a machine for the verification, measurement and sorting of coins and similar products, underwent consistent further development and has finally been completed so that it can be produced in series.

**Traceability.** The requirements towards systems for the reading or marking of highly complex electronic components are constantly rising. The focus is on efficiency and flexibility. In addition, the trend towards special customized systems on the basis of standard components is rising. In Traceability, Mühlbauer reacted towards these requirements with several new developments and adjustments of laser marking lines as well as labeling stations, thus achieving optimized process times and process security. The product portfolio in this area is completed by the development of new automatic incoming goods scanners that record markings.

#### **Procurement**

The focus of the 2006 financial year was on the continued volatility of steel and aluminum prices. In so doing, the “Buy centrally, procure decentrally” process, successfully practiced by Mühlbauer for many years, once again proved its worth. Thanks to the centralized purchasing platform, volume bundling was pushed ahead further, thus creating an even better market position over providers, guaranteeing continual procurement at all times and covering the demand for raw materials at very good conditions. In parallel, the internationalization of purchasing was pressed ahead with. At the newly developing technological base in Malaysia, the company has commenced the installation of a parallel purchasing platform to further reinforce Mühlbauer’s competitiveness in Asia.

In the year under review expenditure for acquired services and the purchase of raw, auxiliary and operating materials totaled EUR 56.8 million (PY: EUR 47.5 million).

To optimize procurement results holistically, the purchasing department encourages development partnerships by incorporating suppliers into the R&D process at an early stage, via project purchasers. The objective here is the utilization of external potential for innovation and the joint achievement of a significant contribution towards extending Mühlbauer’s technological lead, without losing our independence.

In 2006, a key focus of purchasing activities was on the optimization and electronification of purchasing processes. The implementation of a document management system for the electronic processing and archiving of purchasing

documents, which was commenced in 2005, was consolidated and extended to cover further processes in the 2006 financial year, in order to increase purchasing's efficiency and productivity. Additional focuses were on the scheduled introduction of a partnership model in the area of non-production related materials, in which the emphasis is on the optimization of business processes and the reduction of the number of variants and suppliers. Mühlbauer expects the independent management by a select consortium of suppliers and the outsourcing of related logistics responsibilities to result in considerably simpler processing and a lower capital commitment.

Our close cooperation and partnership with suppliers, based on a win-win relationship, our modern procurement management as well as long-term delivery schedules and volume bundling provide us with a wide range of tools that enable us to ensure on-schedule delivery, even in difficult situations – such as on international commodities markets – and to relativize the impact of rising prices on our production materials.

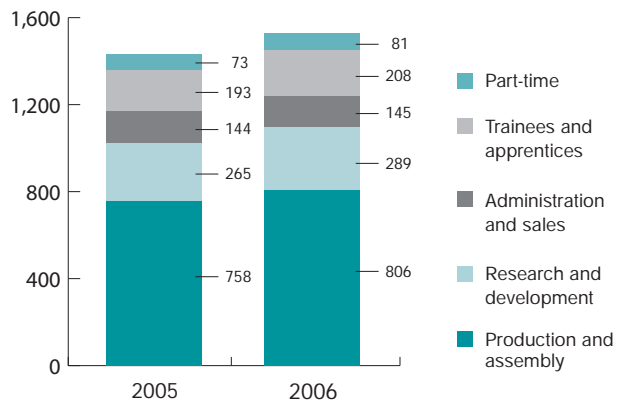
**EMPLOYMENT**

It is our claim, within global economy, to be a strong company that participates in designing the future. A fundamental requirement for this is a strong team, which acknowledges the corporate culture that has developed over the 25 years of the company's existence and expresses it in its actions. To us, strong commitment, responsibility, flexibility, speed and openness, team spirit and loyalty are not just keywords, but the foundation of our corporate philosophy and independence.

For the intersection between the corporate strategy and individual objectives to be as large as possible and to strengthen the employees' identification with the company, the Mühlbauer Group pursues not only a top-down but also a bottom-up strategy in staff development. In this context, top-down means that our executives – at all levels – regularly participate in seminars and workshops in our modern training center, to meet the growing and rapidly changing requirements of leadership in an international group of companies. On top of that, our managers regularly participate in cultural trainings to incorporate the core values and the self-image of the company and pass these on to the team. Furthermore, we place great value on only promoting suitable staff to executive positions. For this reason, regular ability analyses are performed to identify

suitable employees and strengthen their methodical and social competences via customized training measures. We also apply this strategy to our trainees and apprentices: we identify the most efficient at an early stage and offer them additional encouragement and interesting prospects within the company – already during their training.

Development of the average employee structure



The training of young people has played a major role since the existence of the Mühlbauer Group. We continually pursue this commitment in a modern training center including a training workshop and computer facilities and every year we give numerous young people the opportunity to complete qualified professional training in more than 15 different jobs requiring training. The Mühlbauer Group currently provides training to 238 (PY: 222) trainees and apprentices. This corresponds to a share in training of 14.8% (PY: 15.2%). We consider the qualified training and further education of staff a key commitment, which the Group will continue to take seriously in future.

On the reporting date the Mühlbauer Group employed 1,608 staff – 147 more than in the previous year (PY: 1,461). Due to the increasing level of internationality of the Mühlbauer Group, several new employees were recruited, particularly in Asia and the Group's new technological base in Malaysia. In the year under review, personnel expenditure of the Mühlbauer Group amounted to EUR 54.4 million. This represents an increase of 9.0% over the previous year (EUR 49.9 million). Salaries and wages account for EUR 44.9 million (PY: EUR 41.1 million). Social security contributions amounted to EUR 9.5 million (PY: EUR 8.8 million), which corresponds to an increase of 8.6%.

The percentages were determined on the basis of the exact figures and may differ from the rounding figures



## OTHER DETAILS

Mühlbauer Holding AG & Co. Verwaltungs KG is the personally liable partner of Mühlbauer Holding AG & Co. KGaA. The personally liable shareholder of Mühlbauer Holding AG & Co. Verwaltungs KG is Mühlbauer Beteiligungs Aktiengesellschaft. Mr. Josef Mühlbauer is the CEO of Mühlbauer Beteiligungs Aktiengesellschaft. The total remuneration for his work in respect of the individual group companies amounted to a total of TEUR 561, of which TEUR 420 relate to components that are not results-based and TEUR 141 relate to results-based components. Apart from the position filled and the performance achieved in the respective group companies, the earnings situations of these companies form the criteria for the calculation of the total amount of remuneration. The fixed share of basic remuneration independent of result is paid in the form of a monthly salary. Additionally, Mr. Josef Mühlbauer receives non-cash remuneration, consisting of values that are taxable, in accordance with tax guidelines, e.g. company car and insurance payments. Insofar as such non-cash remuneration cannot be consolidated into a lump sum by the respective group company, Mr. Josef Mühlbauer must pay tax on the non-cash elements. The royalties paid to Mr. Mühlbauer as results-related remuneration are based on earnings before tax achieved by the respective group companies.

## EVENTS AFTER THE 2006 FINANCIAL YEAR

No events of major significance occurred after the reporting date 2006.

## RISK REPORT

The purpose of all business activities is the generation and utilization of opportunities as the basis of future success and future liquidity, in order to secure entrepreneurial responsibility. At the same time, however, every opportunity also bears inherent risks. It is therefore the responsibility of opportunity and risk management to systematically identify risks and evaluate these with regard to the probability of their occurrence and the extent of damage they may cause. The controlled handling of risks is to secure the asset, financial and earnings situation of the Group and enable management to counteract unfavorable developments at an early stage.

The opportunity and risk management system of the Mühlbauer Group has been established within the company for several years and is subject to continual development. Sensitization of all staff to identify, notify and monitor risks at an early stage is communicated and executed

across the Group. Every new employee is trained in how to handle risks and is correspondingly sensitized. Employees have access to a comprehensive documentation on the company's opportunity and risk management in the intranet. Newly identified risks can be notified to the risk committee or directly to a member of the Management Board quickly and uncomplicatedly by means of brief interaction paths via the intranet.

The risk report, which results from the half-yearly risk inventory of all group companies, is drawn up centrally and is used by management to control the company, in addition to other reporting elements. It provides information on all individual risks of the Group, presents their development in chronological order and breaks them down into individual area portfolios. Their evaluation on the basis of "probability of occurrence" and "extent of damage" in dependence on earnings before interest and taxes (EBIT) is effected by the respective executive responsible for the risk. A plausible explanation on how the ratios are calculated, a statement of countermeasures and their scheduled implementation are compulsory and are discussed in detail at the meetings of the risk committee.

Every executive is responsible for monitoring the implementation and effectiveness of the opportunity and risk management. At the same time, the efficiency of the system is monitored by an independent third party. Through internal audits, this third party examines, on the basis of random samples, the implementation of the mentioned risk minimization measures and draws up an audit report, which lists further optimizations of the individual countermeasures, where necessary, and documents the consistent implementation and improvement of risk minimizing measures. As in previous financial years, the auditors have evaluated the early recognition system utilized in the year under review. They have ascertained that it meets legal requirements. Currently no developments can be discerned within the Mühlbauer Group, which pose a risk to the company as a going concern. Risks can, however, never be fully excluded. Thus, natural catastrophes, an escalation of terrorist activities, possible pandemics or amendments of taxes or customs duties on individual export markets, could possibly impact the sale of technology solutions. Irrespective of this, the Mühlbauer Group is currently experiencing the following risks, which could prove a considerable negative impact on the asset, financial and earnings situation of the Group.

**Business environment and industry risks.** Once the market gains increasing momentum and cost and competitive pressure intensify, it is extremely important that our products and services are adjusted to market requirements. Internal analyses and research on the market environment,

customer needs and on competition must constantly be kept up-to-date, to be able to react to changes at an early stage. In so doing, we utilize a wide variety of sources of information that need to be sufficiently exploited in order to be able to correctly depict the development of the market.

Missing or insufficient customer care can result in a decline of customer satisfaction and negatively impact our business activities. It is therefore our goal to further intensify cooperation with consumers, to keep ongoing contact and develop trust-based relationships with our customers. The key account manager plays a major role in this, as a result of which we focus on subjecting the role of our key account management to continual development, so that the person holding this position is able to provide optimum customer care worldwide and recognize new trends.

The markets relevant to Mühlbauer make high demands on the company's product and services portfolio. The company therefore always strives to take the lead in the development and introduction of innovative technologies, through its high technical competence and flexibility. In so doing, customer requirements must be met with high-quality and optimum product solutions, as repeated complaints could result in a deterioration or even permanent loss of market access. High quality standards in the product area, close cooperation and agreement with our customers, interdisciplinary communication and a goal-oriented mode of operation are therefore indispensable.

When realizing large projects, the technological implementation, specific legal issues, sales, logistics and stable financing repeatedly present new challenges to the company. Experienced and competent project teams from the different areas ensure the coordinated processing of such projects within the deadline. This risk is additionally met by developing a risk-oriented contract management that is tailored to the individual requirements of the project partners involved, and by monitoring every large project individually, for reasons related to risk policy.

Mühlbauer strives to position itself, its machine and solution concepts, on the market at a very early stage, thus gaining technological and market leadership. There is therefore a potential risk that our technologies are copied by other companies. We counteract this risk by continually monitoring the market, securing our key technologies and procedures through patents, the targeted further development of our technological lead and the further extension of our international organization.

**Technology risks.** As a provider of complete solutions, Mühlbauer is a player on a market that is characterized by

fast moving technologies and constantly changing customer requirements. Our business success largely depends on our ability to launch the products and services demanded by customers on the market at an early stage. Time delays caused by incorrect approaches when developing new products must be avoided through the selection of the appropriate basic technology. The recruitment and targeted training of internal specialists, who generate new process techniques and develop these to market maturity – also in close cooperation with associates and research facilities – represent risk minimization measures as does the constant monitoring of the market.

Qualitative defects of our machines and the resultant bringing into circulation of defective end products by our customers, hold potential risk for the rise of consequential damage caused by a defect. Preventive measures such as internal product qualifications when developing new machines and consultation when installing a QM system for production and further development at the customer, together with corresponding contract designs, help to keep risk at a manageable level.

When procuring specific components and services, we rely on individual external suppliers. In so doing, there is a potential dependency risk, which can result in considerable delays in development or our production, in particular in the event of long terms of delivery or quality defects. We therefore continuously try to improve supplier and process qualification, to further extend our second source strategy and conclude quality assurance agreements.

A company with great involvement in research and development must take into consideration that the development of new products involves new technological solutions for processes and machine technologies, while the violation of foreign trade marks can disrupt development, production and sales. Mühlbauer protects itself against possible infringements of property rights by systematically executing research, to determine and evaluate third-party property rights.

**IT risks.** In the information technology area, the Group utilizes a bundle of different measures to protect itself against unauthorized data access and data abuse. Sensitization regarding data security and data abuse issues, authorization management, encryption concepts, state-of-the-art firewall and virus protection software solutions and the execution of penetration tests by external service providers to test the Group's IT security, are measures that keep risk in this area at a manageable level.

**Personnel risks.** The Mühlbauer Group is dependent on

highly qualified specialists and executives with regard to the realization of its corporate goals. The company's objective here is to recruit staff within a highly competitive environment and to retain their enthusiasm long-term. Mühlbauer counteracts this risk with intensive training and further education programs. While a customized trainee program has been developed for trainees and apprentices, the further development of loyal staff members, so that these can in future accept leadership responsibilities, is being pushed ahead. In so doing, Mühlbauer's corporate culture is incorporated into all staff development concepts.

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

**Fiscal risks.** Currency risks are met by hedging instruments and the regular, intensive monitoring of a bundle of early warning indicators. Credit risks that can result from payment default or delay, are minimized by an effective accounts receivable management, that includes escalation processes. Extensive creditworthiness checks, in particular in respect of new business with greater order volumes and regular reporting keep the risk at a manageable level. With regard to the disclosure requirements on opportunity and risk management codified in § 315 para. 2 HGB (German Commercial Code) relating to the use of financial instruments, we refer to the corresponding statements provided in the footnote 30 "Derivative financial instruments" in the Notes.

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

## OUTLOOK

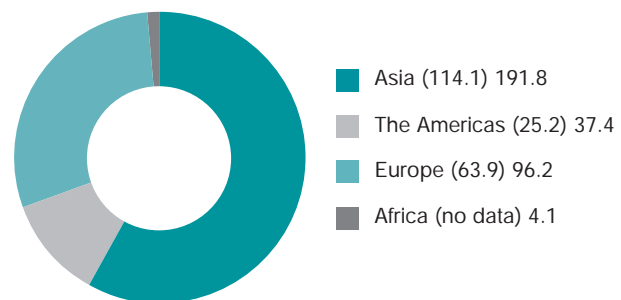
**Global economy.** For some time now, the general conditions of the global economy have deteriorated slightly. Leading economic research institutes are therefore anticipating the rate of expansion for 2007 to lose some of its momentum. With a real GDP of a good 3%, it will once again exceed the trend increase slightly. At a regional level, the rise of real GDP in the USA will continue to decline, as investments in the real estate sector will drop significantly and the positive impulses on private consumption will additionally be discontinued, as a result of the downturn in capital gains. Japan's growth in 2007 will be lower than previously due to its less expansive monetary policy,

a slightly restrictive financial policy and an overall weakening global economy. The Chinese and Indian national economies will continue to expand strongly in the coming year, however, overall their momentum will slow down somewhat due to the fact that exports will decline as a result of the slightly weaker dynamics of global economy that are triggered by the USA. Economic expansion will remain strong in the euro zone; it will, however, decelerate due to the dropping expansive effect of the monetary policy and the weakening of the worldwide boom. Referring to the development of the economic situation the experts are also anticipating a significant reduction of growth in Germany. The reasons for this are, on the one hand, the weakening economic momentum and, on the other hand, the drop in real buying power of the households, caused by the increase in value added tax. This renders a declining development of consumer spending likely. However, currently there are no indications of global recession so that the world economy can be expected to grow solidly over the next two years.

**Industry development.** While the Smart Card technology has already made its way into many sectors and is constantly extending its areas of application, the TECURITY® market, in particular, is predicted to grow strongly in future. This is due to the global rise in interest of governments and authorities to raise security and provide their citizens with greater mobility and flexibility by means of electronic identification documents. When crossing borders, for example, electronic passports enable the rapid and time-saving identification of their user, while numerous safety features incorporated into the documents restrict abuse and improve security. Many states have therefore already commenced the replacement of conventional passports with electronic documents – also due to international agreements and the entry regulations established by many countries. It is expected that this trend will continue over the next few years, as a large number of other governments have already entered the development stage or are

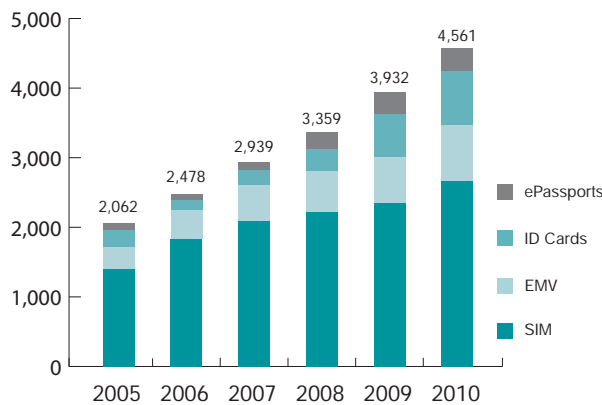
Worldwide ePassport and other applications shipment 2010 in mill. units (2007)

Source: Gartner



planning to convert to electronic passports in the near future. Meanwhile, Europe is already starting the integration of the second generation of electronic passports. These do not only store a facial image but also additional biometric data such as fingerprints. In Germany, the introduction of the second ePass level is scheduled to occur in 2007. Apart from the ePass, the introduction of electronic ID cards is being pushed ahead at a global level. Germany, for example, is planning to introduce the new eID card in 2008. This eID card is to feature additional benefits: apart from the ability to access information and application forms online, it is to enable entire transactions without involving visits to authorities and in a completely paperless manner, simply via internet. Asia is also expected to achieve high rates of growth. By the end of 2008, China is expected to have issued around one billion ID cards to replace conventional ID. However, the increasing worldwide replacement of traditional ID systems with electronic passports or ID cards is not the only potential for growth in this area. The market for further chip-based card applications such as healthcare cards or driver's licenses is also growing worldwide. In addition, developing and newly industrializing countries, in particular, hold prospects for growth, due to the spread of mobile telephones and the resultant rise in demand for GSM and mobile phone cards there.<sup>2</sup> The market research institute Gartner, for example, expects the number of Smart Cards issued to rise to 2.94 billion in 2007 (2005: 2.06 billion).<sup>3</sup>

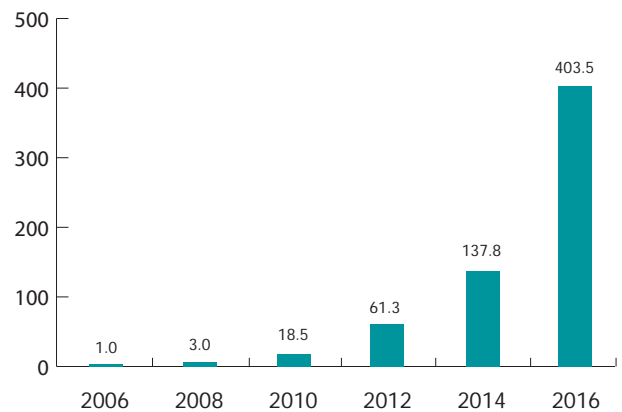
Worldwide Smart Card Shipment in mill. units  
Source: Gartner



Experts are anticipating growth of the RFID market to accelerate even further. Pilot projects are increasingly to be brought to the status of standard applications, which should result in a more widespread use and thus lead to a distinct rise of market growth in the Smart Label sector – and of the RFID industry in general. Greater demand is primarily expected from China and India. Industry experts believe that especially these countries have pent-up demand

for the RFID technology, which should affect demand positively. While only approx. 100 million RFID tags were sold to China in 2005, the market research institute In-Stat has forecast an increase to 2.9 billion RFID tags for 2009.<sup>4</sup> The enforcement of international standards plays a decisive role in the future global market growth of RFID, while the development of the cost situation is another factor. In this respect, a positive signal could render the use of RFID technology for day-to-day applications in the ticket and label sector even more attractive. It can also be considered a sure fact that technological innovations and the continual further development of Smart Labels as well as project- and customer-specific solutions will increasingly contribute to growth in this area.

Market for RFID labels bn. units  
Source: IDTechEX, 2007



The majority of experts expects a moderate growth for the semiconductor industry. While the Semiconductor Industry Association (SIA) forecast industry growth of approx. 9.4% for 2006, it has forecast a growth hike of 10% for 2007 and expects the current growth cycle to climax in 2008, at 10.8%.<sup>5</sup> The industry analysts also agree on the fact that the semiconductor market will continue to be subject to cyclical volatility, while extreme fluctuation is to be a thing of the past. The investment behavior of semiconductor manufacturers thus appears to stabilize, which could entail positive effects for equipment producers, according to industry experts.

Premises on which the outlook of the Mühlbauer Group is based. Mühlbauer retains its strategy of product and market diversification. We are assuming an unchanged legal structure of Mühlbauer Holding AG & Co. KGaA and its continued organization into the business areas SmartID, Semiconductor Related Products, Traceability and Precision Parts & Systems. Possible changes in the circle of consolidation through disposals and acquisitions shall be disregarded in the following consideration.

<sup>2</sup> Omnicard-Newsletter, September 2006 <sup>3</sup> www.gartner.de <sup>4</sup> Omnicard-Newsletter, April 2006 <sup>5</sup> www.sia-online.org

The percentages were determined on the basis of the exact figures and may differ from the rounding figures



Our outlooks take into account our risk and opportunity considerations and are based on our operative evaluation and the medium-term forecasts in respect of the business areas. Apart from our longstanding experience in the individual business areas, these are also backed by the market forecasts of our customers and assessments of independent institutes such as Gartner in respect of the Smart Card market or IDTechEX regarding the development of the Smart Label market.

Our operative valuation is assuming a stable development of our prices, a moderate development of raw material prices and a rise of personnel and marketing costs.

**Business development outlook.** We are expecting the good business development of the Mühlbauer Group to continue over the next two years.

Our investments in the future will remain at a high level in order to ensure corporate growth long-term through innovations. The rate of research and development expenditure in relation to sales shall be retained at over 10%. With regard to investments in fixed assets, we are anticipating expenditures of up to EUR 7 million. The lion's share will be invested in the global orientation and internationalization of the Group. With the development of a technological base in Malaysia, which was kicked off in the year under review, we will push ahead expansion in Asia and commence the development and production of both existing and new technology solutions there. If the year develops as scheduled, a further development site shall be generated in the Slovakian city of Nitra. Our new sales and service sites in India and South Africa consolidate our presence and document our claim of worldwide customer proximity.

**Outlook for the SmartID area.** Business development in the SmartID area will continue to be very strongly characterized by the Cards & TECURITY® area throughout 2007 and 2008. Here, opportunity is very positive, due to the preparedness of many states to make major investments. As a result of the implementation of security-oriented ID systems in Smart Card and passport formats, in accordance with international standards, demand for innovative and reliable technology and software solutions is growing. We are already able to supply a wide and efficient range of system solutions and are well prepared for growth. In this area the greatest risks are delays in realizing planned projects or the fact that certain projects do not result in firm orders, as anticipated.

However, to Mühlbauer the focus is not solely on the Cards & TECURITY® area. In times of flexible, fast and reliable data transmission, the use of the RFID technology is

increasingly gaining importance. Here we are operating on a future-oriented market. With our mature technology solutions for the production of RFID SmartLabels, we can see an opportunity to benefit strongly from the intensification of growth expected in this area. The major risk we can see in this area is the delay of the forecast market development or the fact that forecasts do not come about as scheduled.

**Outlook for the business area Semiconductor Related Products.** After a slackening of demand in Semiconductor Related Products in the second half of 2006, demand should initially stabilize again and then even grow, as a moderate acceleration of growth has been forecast for the semiconductor industry in 2007 and 2008. We consider a deterioration of market prospects and an intensification of competition to be the greatest risks in this area.

**Outlook for the business areas Traceability and Precision Parts & Systems.** We foresee further growth for the business areas Traceability and Precision Parts & Systems. Our optimism in the Traceability area is, on the one hand, backed on the investments of our customers into new sites as a result of the on-going relocation of production. On the other hand, the remaining production sites must also be prepared for competition, which should also result in investments. While the company is primarily targeting market leadership in this area with laser marking systems and reading applications, the product line Automation with mature systems in the backend area and solar technology should make a greater contribution to earnings from 2007 onwards. In 2007 and 2008, Precision Parts should resume its positive development and continue to benefit from the production of highly precise parts and components for highly sensitive industries. We believe the greatest risks to be fiercer competition and a significant decline of general economic conditions.

**Long-term outlook.** The agenda for the years to come has been set. The brief version of our strategy, which has been built on a solid foundation, is profitable growth. Our comprehensive and innovative product portfolio is oriented both on solutions and exceptionally high demands. Highly flexible and state-of-the-art production areas enable rapid reactions and are, at the same time, the guarantee that the highest quality standards are met. Our globally active Sales delivers our technology solutions and services everywhere, worldwide. We enjoy a longstanding cooperation with our business partners. Our corporate culture at Mühlbauer is something that fascinates people and with which competent and loyal employees identify. At the same time, our customers benefit from fast decisions, direct communication and rapid implementation.

## IMPORTANT NOTICE

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

**CONSOLIDATED STATEMENTS OF INCOME (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2006  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Jan. 01 - Dec. 31, 2006		Jan. 01 - Dec. 31, 2005	
		TEUR	%	TEUR	%
<b>1. Sales</b>	(3)	<b>160,676</b>	<b>100.0</b>	<b>147,932</b>	<b>100.0</b>
2. Cost of Sales	(5)	(91,406)	(56.9)	(83,518)	(56.5)
<b>3. Gross profit</b>		<b>69,270</b>	<b>43.1</b>	<b>64,414</b>	<b>43.5</b>
4. Selling expenses	(6)	(11,421)	(7.1)	(9,280)	(6.3)
5. Administrative expenses	(7)	(7,654)	(4.8)	(6,646)	(4.5)
6. Research and development	(8)	(17,081)	(10.6)	(15,264)	(10.3)
7. Other income	(9)	1,409	0.9	653	0.4
8. Other expenses	(9)	(86)	(0.1)	(803)	(0.5)
<b>9. Operating income</b>		<b>34,437</b>	<b>21.4</b>	<b>33,074</b>	<b>22.3</b>
10. Financial result					
a) Financial income	(10)	3,747	2.4	2,335	1.6
b) Financial expenses	(10)	(171)	(0.1)	(741)	(0.5)
<b>11. Income before income taxes</b>		<b>38,013</b>	<b>23.7</b>	<b>34,668</b>	<b>23.4</b>
12. Income taxes	(11)	(10,285)	(6.4)	(11,648)	(7.9)
<b>13. Net earnings</b>		<b>27,728</b>	<b>17.3</b>	<b>23,020</b>	<b>15.5</b>
<b>Earnings per share in EURO</b>					
basic	(12)	1.90		1.59	
fully diluted	(12)	1.90		1.59	
<b>Weighted average of shares</b>					
basic	(12)	6,086,439		6,072,107	
fully diluted	(12)	6,086,640		6,072,459	

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

**CONSOLIDATED BALANCE SHEETS (IFRS) AS AT DECEMBER 31, 2006  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Dec. 31, 2006 TEUR	Dec. 31, 2005 TEUR
<b>ASSETS</b>			
<b>Short-term assets</b>			
Cash and cash equivalents	(13)	11,311	13,507
Marketable securities	(14)	21,819	32,687
Trade accounts receivable, net	(15)	30,106	21,985
Other current assets	(16)	4,598	3,510
Tax receivables	(17)	1,360	976
Inventories	(18)	39,807	33,532
		<b>109,001</b>	<b>106,197</b>
<b>Long-term assets</b>			
<b>Investment and long-term financial assets</b>			
Marketable securities	(19)	11,524	10,809
Trade accounts receivable, net	(15)	1,335	279
		<b>12,859</b>	<b>11,088</b>
<b>Fixed assets</b>			
Land and buildings, net	(20)	25,683	27,343
Technical equipment, net	(20)	8,895	5,965
Furniture and office equipment, net	(20)	5,168	5,510
Buildings and equipment in progress	(20)	377	200
		<b>40,123</b>	<b>39,018</b>
<b>Intangible assets</b>			
Software and licenses	(21)	1,039	638
Capitalized development costs	(21)	8,971	7,774
		<b>10,010</b>	<b>8,412</b>
<b>Long-term tax receivables</b>	(22)	<b>2,268</b>	<b>0</b>
<b>Deferred tax assets</b>	(11)	<b>42</b>	<b>99</b>
<b>Other long-term assets</b>	(26)	<b>926</b>	<b>510</b>
		<b>926</b>	<b>510</b>
		<b>175,229</b>	<b>165,324</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Short-term liabilities</b>			
Debt	(23)	0	960
Trade accounts payable		7,655	6,150
Downpayments received on orders		5,646	10,330
Other liabilities	(24)	4,723	6,385
Accrued income taxes	(25)	2,540	2,919
Other accruals	(25)	9,847	8,256
		<b>30,411</b>	<b>35,000</b>
<b>Long-term liabilities</b>			
Deferred tax liabilities	(11)	4,519	4,109
		<b>4,519</b>	<b>4,109</b>
<b>Shareholders' equity</b>			
Ordinary share capital (par value 1.28 EUR; 6,380,000 ordinary shares authorized; 6,279,200 ordinary shares issued, there of 6,091,698 ordinary shares outstanding)	(27)	8,038	8,038
Own shares	(27)	(240)	(259)
Fixed capital contribution	(27)	(2,980)	(2,980)
Additional paid-in capital	(27)	59,872	59,319
Other comprehensive income	(27)	1,259	2,219
Retained earnings	(27)	74,350	59,878
		<b>140,299</b>	<b>126,215</b>
		<b>175,229</b>	<b>165,324</b>

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



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

	Jan. 01 - Dec. 31, 2006 TEUR	Jan. 01 - Dec. 31, 2005 TEUR
<b>Cash provided by operating activities</b>		
1. Net earnings	27,728	23,020
2. + Income taxes	10,285	11,648
3. + Interest expenses	148	507
<b>Adjustments for non cash expenses and income</b>		
4. +/- Expenses/(income) from employee profit-sharing programs	188	121
5. +/- Depreciations/(appreciations) to fixed assets	6,128	5,780
6. +/- Depreciations/(appreciations) to intangible assets	614	392
7. +/- Depreciations/(appreciations) to capitalized development costs	3,144	1,727
8. +/- (Gains)/losses from the sale of fixed assets	(261)	(161)
9. +/- Currency differences from the transition of fixed assets	(1)	(10)
10. +/- Realized net (gains)/losses from short- and long-term marketable securities	(2,265)	(889)
11. +/- (Gains)/losses from the change in fair value of financial instruments	(222)	(32)
12. +/- (Increase)/decrease of deferred tax assets	57	135
13. +/- Increase/(decrease) of deferred tax liabilities	473	12
<b>Changes in working capital</b>		
14. +/- (Increase)/decrease of inventories	(6,275)	(1,316)
15. +/- (Increase)/decrease of trade accounts receivables and other short-term assets	(12,391)	(531)
16. +/- (Increase)/decrease of trade accounts payables and other liabilities	(2,310)	7,634
17. = Cash generated from operating activities	25,040	48,037
18. - Income tax paid	(11,827)	(15,799)
19. - Interest paid	(13)	(105)
20. = Cash provided by operating activities	13,200	32,133
<b>Cashflow from investing activities</b>		
21. + Proceeds from disposals of fixed assets	321	294
22. - Purchase of fixed assets	(7,947)	(6,755)
23. - Purchase of intangible assets	(992)	(670)
24. - Expenditures for capitalized development costs	(4,341)	(3,042)
25. + Proceeds from sales of long-term marketable securities (available-for sale-papers)	3,999	300
26. - Acquisitions of long-term marketable securities (available-for sale-papers)	(3,876)	(4,850)
27. + Proceeds from sales of short-term marketable securities (available-for sale and held-to-maturity papers)	24,734	2,588
28. - Acquisitions of short-term marketable securities (available-for sale and held-to-maturity papers)	(29,351)	(9,753)
29. = Cash used for investing activities	(17,453)	(21,888)
<b>Cashflow from financing activities</b>		
30. - Repayment of long-term debts	0	(925)
31. +/- Increase/(decrease) of short-term debts	(960)	(63)
32. + Proceeds from sales of own shares	384	485
33. - Dividends paid	(12,006)	(9,033)
34. +/- Tax withdrawal personally liable shareholder	(1,250)	(1,070)
35. = Cash used for financing activities	(13,832)	(10,606)
36. +/- Increase/(decrease) of currency exchange rate changes	(90)	429
37. = Net increase/(decrease) in cash and cash equivalents (Total of lines 20, 29, 35 and 36)	(18,175)	68
38. + Liquid funds on January 1	29,486	29,418
39. = Liquid funds on December 31	11,311	29,486

We refer to additional informations on page 74 of the accompanying notes.

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

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

	Notes	Total number of shares	Own shares Number	Ordinary share capital TEUR	Fixed capital TEUR	Additional paid-in capital TEUR	Sonstige Rücklagen		Retained earnings TEUR	Total TEUR
							Cumulative transaction adjustments TEUR	Available for-sale- securities TEUR		
<b>Balance Dec. 31, 2004</b>		<b>6,279,200</b>	<b>(222,404)</b>	<b>7,753</b>	<b>(2,980)</b>	<b>58,739</b>	<b>(238)</b>	<b>1,667</b>	<b>46,734</b>	<b>111,675</b>
Net earnings		-	-	-	-	-	-	-	23,020	23,020
Other comprehensive income/(loss) (27)		-	-	-	-	-	429	361	-	790
Total comprehensive income/(loss) (27)		-	-	-	-	-	429	361	23,020	23,810
Deferred compensation (27)		-	-	-	-	121	-	-	-	121
Proceeds from sales of own shares (27)		-	19,967	26	-	459	-	-	-	485
Dividends (27)		-	-	-	-	-	-	-	(9,876)	(9,876)
<b>Balance Dec. 31, 2005</b>		<b>6,279,200</b>	<b>(202,437)</b>	<b>7,779</b>	<b>(2,980)</b>	<b>59,319</b>	<b>191</b>	<b>2,028</b>	<b>59,878</b>	<b>126,215</b>
Net earnings		-	-	-	-	-	-	-	27,728	27,728
Other comprehensive income/(loss) (27)		-	-	-	-	-	(90)	(870)	-	(960)
Total comprehensive income/(loss) (27)		-	-	-	-	-	(90)	(870)	27,728	26,768
Deferred compensation (27)		-	-	-	-	188	-	-	-	188
Proceeds from sales of own shares (27)		-	14,935	19	-	365	-	-	-	384
Dividends (27)		-	-	-	-	-	-	-	(13,256)	(13,256)
<b>Balance Dec. 31, 2006</b>		<b>6,279,200</b>	<b>(187,502)</b>	<b>7,798</b>	<b>(2,980)</b>	<b>59,872</b>	<b>101</b>	<b>1,158</b>	<b>74,350</b>	<b>140,299</b>

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

# Notes

## A. GENERAL INFORMATION

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

#### Description of business activities

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

#### Principles of presentation

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

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

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

The consolidated financial statements are drawn up in euro, which represents both the functional currency and the reporting currency of the company. Insofar as no other rep-

resentation is pointed out, all amounts shown in these consolidated financial statements relate to thousand euro ("TEUR"). Negative values are represented in brackets.

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

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

- Trade accounts receivable: Mühlbauer takes precautions against bad debts. These deductions represent assumptions in respect of the anticipated loan losses, which require the utilization of assessments when estimating the impact of these bad debts on the trade accounts receivable. The company makes additional assumptions so that it can map the economic content of specific contracts from the sales of goods and services and distribute them across the respective fair values of the individual elements. These assumptions represent the expected processing of such contracts that require the use of assessments when estimating the impact of these contracts on the trade accounts receivable.
- Inventories: In its valuation, Mühlbauer takes into account inventory risks resulting from higher stockholding periods and the reduced ability to realize inventory assets. The valuation of these inventory risks represents assumptions in respect of the anticipated market development and the resultant ability to realize the inventory assets, which render the utilization of assessments necessary when estimating the impact of these inventory risks on inventories.

- **Development expenses:** When investigating the intrinsic value of the capitalized development costs, the company, on principle, targets the opportunity to draw a future economic benefit from the utilization of any resulting products. Factors such as the overall market and competitive assessment and the corresponding marketability risks as well as alterations of base technologies can result in a value adjustment.
- **Accruals:** The valuation of pension obligations is based on a method that takes into account the various parameters, such as percentage of discount, the expected salary, wage and pension trend as well as earnings from plan assets. If these parameters develop considerably different than expected, this can impact pension obligations significantly. The formation of other accruals is based on assumptions in respect of the obligations. The assumptions can entail risks and insecurities that may lead to the fact that the actual obligations deviate considerably from the amounts currently estimated.

Any change of estimate is recorded for the respective period and offset against the item in respect of which it was formed.

**Interpretations and amendments of published standards, which must be applied from 2006 onwards**

The amendment of IAS 19 "Employee benefits" must be applied to reporting periods commencing on or after 1 January 2006. The amendments introduce the opportunity of an alternative method for the recording of actuarial gains and losses. Moreover, the amendments may result

in further accounting requirements for the joint schemes of several employers, who hold insufficient information to apply accounting to performance-oriented schemes. Additionally, new information must be provided in the notes.

Further publications and amendments:

- IAS 21 (Amendment)  
"The Effects of Changes in Foreign Exchange Rates"
- IFRS 1 (Amendment)  
"First-time Adoption of International Financial Reporting Standards"
- IFRS 6  
"Exploration for and Evaluation of Mineral Resources"
- IFRS 6 (Amendment)  
"Exploration for and Evaluation of Mineral Resources"
- IAS 39 (Amendment)  
"Financial Instruments: Recognition and Measurement"
- IFRS 4 (Amendment)  
"Insurance Contracts"
- IFRIC 4  
"Determining whether an Arrangement contains a Lease"
- IFRIC 5  
"Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- IFRIC 6 "Liabilities arising from Participation in a Specific Market"
- IFRIC 7  
"Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8  
"Scope of IFRS 2"

The initial application of these standards or amendments resulted in extended statements in the notes, in particular.



### Standards, interpretations and amendments of published standards, that need not yet be urgently applied

The following standards, interpretations and amendments of standards and interpretations have already been passed but are as yet only mandatory in respect of future reporting periods (the company waived its right to voluntarily apply the standards, interpretations and amendments prematurely):

- IFRS 7  
"Financial Instruments: Disclosures"
- IFRS 8  
"Operating Segments"
- IAS 1 (Amendments)  
"Presentation of Financial Statements" – Capital Disclosures
- IFRIC 9  
"Reassessment of Embedded Derivatives"
- IFRIC 10  
"Interim Financial Reporting"
- IFRIC 11  
"IFRS 2 — Group and Treasury Share Transactions"
- IFRIC 12  
"Service Concession Arrangements"

Apart from the possible effects of these standards, interpretations and amendments on the Notes, the company is not expecting this to affect the consolidated financial statements materially.

## (2) SUMMARY OF KEY ACCOUNTING PRINCIPLES

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise not only Mühlbauer Holding AG & Co. KGaA but also all sub-

subsidiaries in respect of which the company exercises control through the majority of voting rights, be it directly or indirectly. Capital consolidation is effected in accordance with the purchase method. In so doing, the purchase cost of the shares purchased is offset against the newly valued pro-rata equity applicable to the parent company. The assets and debts of the subsidiary acquired are stated at their fair value. Remaining active differences are capitalized and subjected to an annual impairment test. Negative differences are directly credited to earnings.

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

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

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

On 31 December 2006, the scope of consolidation of the company not only comprised Mühlbauer Holding AG & Co. KGaA but also a further 9 subsidiaries in Germany and 6 abroad as well as a special fund.

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

#### German companies

Name and registered office	Share in equity in %	Shareholders' equity in TEUR	Annual result in TEUR
ASEM Präzisions-Automaten-GmbH, Dresden	100	2,601	398
MB ID3 GmbH, Roding <sup>1)</sup>	100	25	-
MB ID4 GmbH, Roding <sup>1)</sup>	100	25	-
Mühlbauer Aktiengesellschaft, Roding	100	77,418	20,549
Mühlbauer ID Services GmbH, Roding	100	554	489
Rommel GmbH, Ehingen	100	3,569	400
Systronic Systemlösungen für die Elektronikindustrie GmbH, Flein	100	1,074	244
takeID GmbH, Oberhaching	100	(23)	(5)
Tema GmbH, Schwelm	100	1,110	825
Special fund (separate assets) <sup>2)</sup>	100	23,542	728

<sup>1)</sup> Initial consolidation on 1 January 2006 <sup>2)</sup> Financial year from 1 December to 30 November

**Foreign companies:**

Name and registered office	Share in equity in %	Shareholders' equity in TEUR <sup>3)</sup>	Annual result in TEUR <sup>4)</sup>
Muehlbauer, Inc., Newport News, Virginia, USA	100	820	(117)
Muehlbauer (India) Private Limited, New Delhi, India <sup>5)</sup>	100	-	-
Muehlbauer Middle East FZ-LLC, Dubai, United Arab Emirates	100	354	362
Muehlbauer (PTY) Limited, Midrand, South Africa <sup>6)</sup>	100	(43)	(42)
Muehlbauer Technologies Sdn. Bhd., Melaka, Malaysia <sup>7)</sup>	100	1,078	9
Muehlbauer Sdn. Bhd., Melaka, Malaysia	100	2,237	537

<sup>3)</sup> Translation at the exchange rate on the reporting date 31 December 2006 <sup>4)</sup> Translation at the transaction rate <sup>5)</sup> Initial consolidation on 1 March 2006  
<sup>6)</sup> Initial consolidation on 1 July 2006 <sup>7)</sup> Initial consolidation on 13 July 2006

**CHANGES IN THE SCOPE OF CONSOLIDATION**

On 16 December 2005, the Group founded MB ID3 GmbH, headquartered in Roding, as a so-called shelf company. Entry into the Regensburg Commercial Register was effected on 1 February 2006 as HRB 10050. The purpose of MB ID3 GmbH is the administration of the company's assets.

On 16 December 2005, the Group founded MB ID4 GmbH, headquartered in Roding, as a so-called shelf company. Entry into the Regensburg Commercial Register was effected on 1 February 2006 as HRB 10051. The purpose of MB ID4 GmbH is the administration of the company's assets.

On 27 February 2006, the Group founded Muehlbauer (India) Private Limited, headquartered in Bangalore, India, and had it entered into the Karnataka, Bangalore Commercial Register as U72100KA2006PTC038605. On 17 May 2006, the partners' meeting resolved to relocate the headquarters of the company from Bangalore to New Delhi. The entry of the relocation of the company's headquarters into the New Delhi Commercial Register has not yet been effected. Muehlbauer (India) Private Limited has the function of a sales, trading and service company for a firmly defined licensed territory allocated to it. The purpose of the company is, in particular, the sale of "SmartID" technologies and the service and support for such technologies and products. The subscribed capital of the company amounts to INR 500,000 and is divided into as many no-par value shares, each with a calculatory share in the subscribed capital of INR 1.

On 30 June 2006, the Group founded Muehlbauer (PTY) Limited. Entry into the Commercial Register of Pretoria, South Africa, was effected as 2003/001180/07. The registered office of Muehlbauer (PTY) Limited is Midrand, South Africa. Muehlbauer (PTY) Limited has the function of a sales, trading and service company for a firmly defined licensed territory allocated to it. The purpose of the company is, in particular, the sale of "SmartID" technologies and

the service and support for such technologies and products. The subscribed capital of the company amounts to ZAR 1 and is divided into 1 share.

On 13 July 2006, the Group founded Muehlbauer Technologies Sdn. Bhd. Entry into the Commercial Register of Malaysia was effected as 740763H. The registered office of Muehlbauer Technologies Sdn. Bhd. is Melaka, Malaysia. The purpose of the company is the research and development, production and sale of innovative technology solutions and products for both the semiconductor and cards and TECURITY® industries. The subscribed capital of the company amounts to MYR 25 million and is divided into as many no-par value shares with a calculatory share in the subscribed capital of MYR 1 per no-par value share. By the end of the reporting period, MYR 5 million of the subscribed capital had been deposited.

**ALTERATION OF REPORTING METHODS**

Tax payments of TEUR 1,250 (PY: TEUR 1,070) paid by the company in the year under review, on account of the personally liable shareholder, were no longer offset against his share in profits contained in retained earnings but were instead allocated to other accounts receivable and other assets. The new structure of the balance sheet results in an alteration of balance sheet related key figures such as working capital and equity ratio. The previous year's figures have been represented so that they are comparable.

**CURRENCY TRANSLATION**

The annual financial statements of subsidiaries drawn up in foreign currencies are translated in accordance with the concept of the functional currency. As the subsidiaries are economically independent entities, the functional currency of the subsidiary corresponds with the respective local currency. In so doing, the exchange rate on the reporting date is used for the items on the balance sheet – with the exception of shareholders' equity, which is translated at historic exchange rates – while the items on the statement of income are translated using the exchange rate at the

time of the transaction. Any differences in the currency translation of assets and debt over the translation of the previous year, as well as differences in translation between the statement of income and the balance sheet are listed separately within shareholders' equity at "Other comprehensive income", with no effect on the income statement.

In the individual financial statements, transactions in for-

ign currencies are valued using the exchange rate on the date the transaction was initially executed. Any gains or losses on exchange that occurred until the reporting date and resulted from the valuation of monetary assets and debts have an effect on the income statement.

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

Currency:		Rate on reporting date 31 December 2006 EUR	Rate on reporting date 31 December 2005 EUR	Average rate 2006 EUR	Average rate 2005 EUR
Malaysia	MYR 100	21.4509	22.2997	21.6486	21.1917
South Africa	ZAR 1	0.1075	0.1334	0.1172	0.1261
USA	USD 1	0.7574	0.8443	0.7960	0.8030
United Arab Emirates	AED 1	0.2062	0.2298	0.2167	0.2186

## REALIZATION OF SALES AND OTHER OPERATING INCOME

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

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

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

Under certain circumstances it may be necessary to apply the criteria to individual delimitable components of an entire agreement to depict the economic content of the transaction appropriately. With regard to the division of the entire agreement value, the so-called "Relative Fair Value Method" is to be utilized. According to this method, the agreement value must be divided up at the ratio of the fair values of the individual elements.

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

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

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at market value and comprise cash, demand deposits and other short-term highly liquid financial assets with an original term of three months, at most. On the balance sheet, advances on current accounts that have been utilized are shown under short-term liabilities as debt.

## TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable with a term of up to one year are valued at their fair value, trade accounts receivable with a term of more than one year are valued at amortized cost in accordance with the effective interest rate method. Default risks are taken into consideration through value adjustments. The company controls such risks through a consistent management of receivables fitted with escalation processes and linked to regular reporting as well as an extensive creditworthiness check of new customers.

## INVENTORIES

Inventories in the form of unfinished and finished products

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

## FINANCIAL ASSETS

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

Classification is dependent on the respective purpose for which the financial assets were acquired. Management determines the classification of the financial assets on initial recording and checks the classification on every reporting date.

Financial assets are listed as short-term assets if they are either held for trading purposes or are most likely realized within 12 months after the reporting date.

Mühlbauer is subject to fluctuations of interest rate and price. A significant share of the interest and price sensitive assets and debts relate to marketable securities held in fixed and current assets and in cash and cash equivalents. Marketable securities with fixed and variable rates of interest are subject to an interest rate risk. On the basis of the current market estimate, the interest rate risk is considered to be low.

## FIXED ASSETS

Fixed assets are reported at acquisition or production cost

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

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

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

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

## INTANGIBLE ASSETS

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

Intangible assets are stated at amortized acquisition and production costs. In so doing, concessions, licenses,



trademarks and software are, on principle, depreciated on a straight-line basis over a period of 3 to 5 years.

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

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

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

## DEFERRED TAX ASSETS

Deferred taxes result from different valuations in the annual financial statements drawn up in accordance with IFRS and tax balance sheets of the group companies as well as from consolidation measures, insofar as these differences balance out in the course of time. Moreover, deferred tax assets must be taken into account for future asset benefits from tax-related loss carryovers. The delimitation of deferred taxes is effected in accordance with IAS 12 "Income taxes". The tax rates current in the individual countries on the reporting date or resolved and known future tax rates are applied in accordance with the "Liability method". Deferred tax assets and deferred tax liabilities are only offset if the law allows for this. Deferred tax assets are not discounted in accordance with the regulations of IAS 12 "Income taxes". Deferred taxes for reporting and valuation

differences as well as for tax-related loss carryovers are only taken into account insofar as their realization has been sufficiently substantiated.

## DERIVATIVE FINANCIAL INSTRUMENTS

To hedge risk positions from currency fluctuations the company also utilizes derivative financial instruments such as forward exchange deals and currency swaps. The hedging transactions cover risks from booked basic business and additionally from pending delivery and service activities. With regard to derivative financial instruments, the Mühlbauer Group is exposed to a credit risk through non-fulfilment of contractual agreements by the contract partner. This credit risk is minimized by only concluding basic business with contract partners of excellent creditworthiness. Corporate control and delimitation of currency risks is effected by management.

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

## PENSION AND POSTRETIREMENT BENEFITS

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

## OTHER ACCRUALS

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

## DEBT

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

Amounts due to banks with a term of less than 12 months after the reporting date are considered short-term liabilities.

## DEFERRED TAX LIABILITIES

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

## STOCK OPTION PROGRAMS

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

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

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

## B. EXPLANATIONS TO THE CONSOLIDATED STATEMENTS OF INCOME

### (3) SALES

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

### (4) COSTS OF FUNCTIONAL AREAS

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

	2006 TEUR	2005 TEUR
Material expenses (External supplies)	56,794	47,518
Personnel expenditure	54,364	49,890
Depreciation	8,848	7,026
<b>Total</b>	<b>120,006</b>	<b>104,434</b>

### (5) COST OF SALES

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

### (6) SELLING EXPENSES

In addition to the costs for the sales departments and the field staff, marketing and distribution costs also comprise advertising costs (TEUR 1,002; PY: TEUR 650) and costs for logistics (TEUR 1,611; PY: TEUR 1,250). The position also includes the major share of devaluations on trade accounts receivable. In the year under review, value adjustment expenses on trade accounts receivable and other financial assets amounted to TEUR 738 (PY: TEUR 332).

### (7) ADMINISTRATIVE EXPENSES

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

### (8) RESEARCH AND DEVELOPMENT

In accordance with IAS 38 "Intangible Assets", all research costs under this position are directly recorded as expenses. The costs from the development of a product which is ready for the market are capitalized if they meet the criteria for the capitalization of development costs. The non-capitalizable development costs are listed under this position. Research and development expenses and depreciation on capitalized development costs before capitalized own funds amounted to TEUR 21,422 (PY: TEUR 18.306) in the past financial year. Research costs include refunds for research and development of TEUR 863 (PY: TEUR 684).

**(9) OTHER INCOME AND EXPENSES**

	2006 TEUR	2005 TEUR
Gains from the sale of fixed and current assets	513	170
Canteen earnings	336	308
Insurance and other reparations	211	48
Foreign currency profits (losses)	161	(744)
Earnings from the sale of recycling materials	149	93
Rental income	13	-
Other	26	34
Donations	(41)	(49)
Losses from the sale of fixed assets	(45)	(10)
<b>Total</b>	<b>1,323</b>	<b>(150)</b>

**(10) FINANCIAL RESULT**

	2006 TEUR	2005 TEUR
Interest and dividend income	791	918
Other interest and similar earnings	372	472
Realized income from securities and financial assets	2,584	945
<b>Financial income</b>	<b>3,747</b>	<b>2,335</b>
Interest and similar expenses	(148)	(507)
Expenses from the valuation of assets and debts	(3)	(178)
Realized losses from securities and financial assets	(20)	(56)
<b>Financial expenses</b>	<b>(171)</b>	<b>(741)</b>
<b>Total</b>	<b>3,576</b>	<b>1,594</b>

**(11) INCOME TAXES**

Income taxes contain the income tax paid and owed by

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

	2006 TEUR	2005 TEUR
Actual national tax expenditure	12,039	11,681
Actual international tax expenditure	1	66
<b>Actual tax expenditure</b>	<b>12,040</b>	<b>11,747</b>
Relating to other periods	5	9
(Earnings) from the dissolution of accrued income taxes	(26)	(18)
(Earnings) from tax imputation credits of previous years	-	(218)
(Earnings) from the application of tax credits	(2,268)	-
<b>Actual taxes on income and earnings</b>	<b>9,746</b>	<b>11,511</b>
National deferred tax expenses (gains)	610	120
International deferred tax expenses (gains)	(71)	17
<b>Taxes on income and earnings</b>	<b>10,285</b>	<b>11,648</b>

Tax expenditure comprises corporation and trade income taxes of the national companies and comparable income taxes of the international companies, offset by additional earnings resulting from the capitalization of a claim for payment of a corporation tax credit of TEUR 2,268. Other

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



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

	2006 TEUR	2005 TEUR
Changes in deferred tax assets in acc. w. the balance sheet	(57)	(135)
Changes in deferred tax liabilities in acc. w. the balance sheet	(410)	78
Changes in deferred tax assets/liabilities that do not affect income	(63)	(89)
Exchange rate fluctuation	(9)	9
<b>Deferred taxes in accordance with of income</b>	<b>(539)</b>	<b>(137)</b>

Overall, deferred tax assets from future tax benefits amount to TEUR 20 (PY: TEUR 93). All loss carryovers can be carried forward unrestrictedly.

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

	2006		2005	
	Assets TEUR	Liabilities TEUR	Assets TEUR	Liabilities TEUR
Trade accounts receivable, net	-	7	6	-
Inventories	-	130	17	121
Marketable securities	-	55	-	66
Fixed assets	325	1,735	323	1,683
Capitalized development costs	-	3,274	-	2,836
Pension accruals	469	-	326	-
Unrealized profits and losses from currency translation	3	67	2	33
Tax loss carryovers	20	-	93	-
Other	23	49	71	109
Subtotal	840	5,317	838	4,848
Balance of deferred tax assets and liabilities	(798)	(798)	(739)	(739)
<b>Total deferred taxes</b>	<b>42</b>	<b>4,519</b>	<b>99</b>	<b>4,109</b>

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

be offset. The probable realization of deferred tax assets and liabilities can be found in the following table:

in TEUR	2006		2005	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Realization within 12 months	42	375	99	559
Realization after more than 12 months	-	4,144	-	3,550
	<b>42</b>	<b>4,519</b>	<b>99</b>	<b>4,109</b>

The following table provides a reconciliation for taxes, based on the theoretical tax rate that would arise in respect of effective taxes in accordance with the statement

of income, if the regular tax rates were applied on the national and international group companies of the Mühlbauer Group:

		2006	2005
Income before income taxes	TEUR	38,013	34,668
Rate of income tax including trade tax	%	36.7	36.7
<b>Expected income tax expenditure with uniform tax burden</b>	<b>TEUR</b>	<b>(13,962)</b>	<b>(12,721)</b>
Reconciliation:			
Deviating national tax burden	TEUR	(36)	158
Deviating international tax burden	TEUR	314	335
Tax share for:			
Tax-free earnings	TEUR	874	31
Non-tax deductible expenditure	TEUR	(333)	(102)
Actual taxes relating to other periods	TEUR	21	12
Tax imputation credits from previous years	TEUR	-	218
Other tax deviations	TEUR	(58)	-
<b>Income tax expenditure before extraordinary gains<sup>*)</sup> and tax reduction on earnings related to the personally liable shareholder</b>	<b>TEUR</b>	<b>(13,180)</b>	<b>(12,069)</b>
Effective tax rate before extraordinary gains <sup>*)</sup>	%	34.7	34.8
Extraordinary gains <sup>*)</sup>	TEUR	2,268	-
<b>Income tax expenditure before tax reduction on earnings related to the personally liable shareholder</b>	<b>TEUR</b>	<b>(10,912)</b>	<b>(12,069)</b>
Effective tax rate	%	28.7	34.8
Tax savings on earnings related to the personally liable shareholder	TEUR	627	421
<b>Income tax expenditure shown</b>	<b>TEUR</b>	<b>(10,285)</b>	<b>(11,648)</b>
Tax rate in accordance with the statement of income	%	27.1	33.6

<sup>\*)</sup> Earnings from the capitalization of a claim for payment of a corporation tax credit

The tax savings on earnings related to the personally liable shareholder arises due to the fact that the corporation tax and the solidarity surcharge on the earnings of the personally liable shareholder need not be posted by the company. These taxes are directly attributable to the personally liable shareholder and are individually taxed by him, irrespective of the tax rates applicable to the company. The percentage of tax expenditure before tax reduction on earnings related to the personally liable shareholder (28.7%; PY: 34.8%) thus corresponds with the effective tax rate that is to be applied on the earnings attributable to the shareholders of the limited partnership.

## (12) EARNINGS PER SHARE

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

		2006	2005
Income before income taxes	TEUR	38,013	34,668
Portion of share capital in total capital	%	42.73	42.73
Portion of income before income taxes applicable to the shareholders of the limited partnership	TEUR	16,243	14,814
Effective tax rate	%	28.7	34.8
Effective tax amount	TEUR	4,653	5,155
Portion of net earnings for the year applicable to the shareholders of the limited partnership	TEUR	11,590	9,659
Weighted average of common shares	No.	6,279,200	6,279,200
Repurchased shares (weighted)	No.	(192,761)	(207,093)
Weighted average of shares outstanding	No.	6,086,439	6,072,107
Dilution effects from subscription rights of employees and executives	No.	201	352
Weighted average of shares outstanding (fully diluted)	No.	6,086,640	6,072,459
Basic earnings per share	EUR	1.90	1.59
Diluted earnings per share	EUR	1.90	1.59

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

sued had outstanding exercise rights been executed.

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

## C. EXPLANATIONS ON THE CONSOLIDATED BALANCE SHEETS

### (13) CASH AND CASH EQUIVALENTS

in TEUR	31 December 2006	31 December 2005
Deposits with financial institutions	11,267	13,464
Checks, cash and amounts due on demand	44	43
	<b>11,311</b>	<b>13,507</b>

The development of cash and cash equivalents that form the liquid funds in accordance with IAS 7 "Cash Flow

Statements" is represented in the statements of cashflows.

### (14) MARKETABLE SECURITIES

in TEUR	31 December 2006	31 December 2005
<b>Securities of the category "available for sale"</b>		
Shares and comparable securities	19,012	11,701
Bonds	2,807	4,007
<b>Securities of the category "held to maturity"</b>		
Shares and comparable securities	-	16,979
	<b>21,819</b>	<b>32,687</b>

Marketable securities are common short-term securities of the categories "available for sale" (in the previous year: "available for sale" and "held to maturity"). The valuation of the "available for sale" securities is effected at market val-

ue, while changes within the context of the normal volatility of market values are directly taken into account in shareholders' equity. The reporting of the "held to maturity" securities of the previous year was effected at amortized cost.

### (15) TRADE ACCOUNTS RECEIVABLE, NET

	31 December 2006			31 December 2005		
	Residual term of up to 1 year	Residual term of more than 1 year	Total	Residual term of up to 1 year	Residual term of more than 1 year	Total
Trade accounts receivable, net	32,185	1,335	33,520	23,329	279	23,608
Less value adjustments	(2,079)	-	(2,079)	(1,344)	-	(1,344)
	<b>30,106</b>	<b>1,335</b>	<b>31,441</b>	<b>21,985</b>	<b>279</b>	<b>22,264</b>

The short-term trade accounts receivable are reported at their fair value. The long-term share of these receivables is

discounted with a factor of 3.9% (PY: 3.0%). The resultant interest payable amounted to TEUR 109 (PY: TEUR 26).

**(16) OTHER CURRENT ASSETS**

in TEUR	31 December 2006	31 December 2005
Receivables from the personally liable shareholder	1,251	1,070
Receivables from the disposal of real estate	750	-
Investment and technology grants	681	173
Interest receivables	418	317
Investment allowance	343	364
Paid deposits	264	830
Deferred expenses	254	153
Sales tax receivables	210	358
Derivative financial instruments	148	1
Receivables from suppliers	74	31
Security deposits	29	9
Other	176	204
	<b>4,598</b>	<b>3,510</b>

The other current assets are reported at their fair value. If default risks or other risks exist, they are taken into consideration through value adjustments. With regard to the market values of the financial instruments, we herewith refer to information provided in note (30).

**(17) TAX RECEIVABLES**

The tax receivables of TEUR 1,360 (PY: TEUR 976) comprise reclaimable corporation tax and the solidarity surcharge of the national companies as well as comparable income taxes of the international companies.

**(18) INVENTORIES**

in TEUR	31 December 2006	31 December 2005
Raw materials, auxiliary and operating materials	7,233	6,175
Unfinished products	28,835	23,284
Finished products	3,718	4,073
Deposits paid on inventories	21	-
	<b>39,807</b>	<b>33,532</b>

Of the inventories reported on 31 December 2006, an amount of TEUR 5,384 (PY: TEUR 6,239) was valued at its

net disposal value. In the year under review, inventory assets were devalued by TEUR 4,977 (PY: TEUR 5,827).



**(19) FINANCIAL ASSETS**

in TEUR	Marketable securities of the category "available for sale"
<b>Accumulated acquisition values</b>	
1 January 2005	9,735
Additions	4,850
Retirements	-
Reclassification in other securities of current assets	(4,014)
31 December 2005	10,571
Additions	3,876
Retirements	-
Reclassification in other securities of current assets	(2,898)
<b>31 December 2006</b>	<b>11,549</b>
<b>Accumulated changes in value</b>	
1 January 2005	399
Write-ups/(depreciation)	(80)
Retirements	(1)
Reclassification in other securities of current assets	7
Adjustment of financial assets to market values not affecting income	(87)
31 December 2005	238
Write-ups/(depreciation)	-
Retirements	-
Reclassification in other securities of current assets	35
Adjustment of financial assets to market values not affecting income	(298)
<b>31 December 2006</b>	<b>(25)</b>
<b>Market values</b>	
31 December 2005	10,809
<b>31 December 2006</b>	<b>11,524</b>

Financial assets of the category "available for sale" are, on principle, stated at market value. Any changes of market values are taken into account in shareholders' equity without affecting income.

Residual term of financial assets in TEUR	31 December 2006 Acquisition values	31 December 2006 Market values
between 1 and 2 years	2,625	2,644
between 2 and 5 years	5,652	5,692
between 6 and 10 years	3,272	3,188
	<b>11,549</b>	<b>11,524</b>

**(20) FIXED ASSETS**

in TEUR	Land and buildings	Technical equipment	Furniture and office equipment	Buildings and equipment in progress	Total
<b>Accumulated acquisition values</b>					
1 January 2005	41,664	30,950	19,139	65	91,818
Currency adjustments	-	-	61	-	61
Additions	52	2,054	2,353	185	4,644
Retirements	-	(1,011)	(2,327)	(9)	(3,347)
Transfers	(66)	170	(65)	(41)	(2)
31 December 2005	41,650	32,163	19,161	200	93,174
Currency adjustments	-	-	(17)	2	(15)
Additions	580	4,241	2,058	378	7,257
Retirements	(808)	(1,007)	(1,123)	-	(2,938)
Transfers	-	85	10	(203)	(108)
<b>31 December 2006</b>	<b>41,422</b>	<b>35,482</b>	<b>20,089</b>	<b>377</b>	<b>97,370</b>
<b>Accumulated depreciation</b>					
1 January 2005	(12,748)	(25,940)	(13,658)	-	(52,346)
Currency adjustments	-	-	(46)	-	(46)
Additions	(1,557)	(1,221)	(2,197)	-	(4,975)
Retirements	-	966	2,247	-	3,213
Transfers	(2)	(3)	3	-	(2)
31 December 2005	(14,307)	(26,198)	(13,651)	-	(54,156)
Currency adjustments	-	-	12	-	12
Additions	(1,536)	(1,395)	(2,264)	-	(5,195)
Retirements	104	1,006	982	-	2,092
Transfers	-	-	-	-	-
<b>31 December 2006</b>	<b>(15,739)</b>	<b>(26,587)</b>	<b>(14,921)</b>	<b>-</b>	<b>(57,247)</b>
<b>Residual book values</b>					
31 December 2005	27,343	5,965	5,510	200	39,018
<b>31 December 2006</b>	<b>25,683</b>	<b>8,895</b>	<b>5,168</b>	<b>377</b>	<b>40,123</b>

The fixed assets acquired or produced in the financial year have been reduced by grants and allowances totaling TEUR 1,348 (PY: TEUR 1,129).

Depreciation expenses have been taken into account as follows: TEUR 2,954 (PY: TEUR 2,818) in cost of sales, TEUR 696 (PY: TEUR 734) in selling expenses, TEUR 834 (PY: TEUR 774) in administrative expenses and TEUR 711 (PY: TEUR 649) in research and development expenses.

**(21) INTANGIBLE ASSETS**

in TEUR	Software and licenses	Capitalized development costs	Goodwill	Total
<b>Accumulated acquisition values</b>				
1 January 2005	4,794	9,037	785	14,616
Currency adjustments	-	-	-	-
Additions	549	3,042	-	3,591
Retirements	(954)	(667)	-	(1,621)
Transfers	-	-	-	-
31 December 2005	4,389	11,412	785	16,586
Currency adjustments	-	-	-	-
Additions	804	4,341	-	5,145
Retirements	(120)	(3,406)	-	(3,526)
Transfers	108	-	-	108
<b>31 December 2006</b>	<b>5,181</b>	<b>12,347</b>	<b>785</b>	<b>18,313</b>
<b>Accumulated depreciation</b>				
1 January 2005	(4,383)	(2,578)	(785)	(7,746)
Currency adjustments	-	-	-	-
Additions	(322)	(1,727)	-	(2,049)
Retirements	954	667	-	1,621
Transfers	-	-	-	-
31 December 2005	(3,751)	(3,638)	(785)	(8,174)
Currency adjustments	1	-	-	1
Additions	(509)	(3,144)	-	(3,653)
Retirements	117	3,406	-	3,523
Transfers	-	-	-	-
<b>31 December 2006</b>	<b>(4,142)</b>	<b>(3,376)</b>	<b>(785)</b>	<b>(8,303)</b>
<b>Residual book values</b>				
31 December 2005	638	7,774	-	8,412
<b>31 December 2006</b>	<b>1,039</b>	<b>8,971</b>	<b>-</b>	<b>10,010</b>

The intangible assets acquired or produced in the financial year have been reduced by grants amounting to TEUR 145 (PY: TEUR 135). Due to a change in assessment regarding the future usability of individual development projects these have been fully value adjusted. Extraordinary depreciation totals TEUR 1,444 (PY: TEUR 169).

Depreciation on intangible assets of TEUR 58 (PY: TEUR 40) was recognized as income in the statement of income via cost of sales, TEUR 22 (PY: TEUR 55) in selling expenses, TEUR 50 (PY: TEUR 28) in administrative expenses and TEUR 3,523 (PY: TEUR 1,926) in research and development expenses.

**(22) LONG-TERM TAX RECEIVABLES**

In the year under review, the long-term tax receivables comprise the cash value (interest rate 3.9%) of the claim for repayment of corporation tax reported as income due to the revision of § 37 para. 5 Corporation Tax Law. This claim for repayment of corporation tax derives from the conversion of the German corporation tax system on 1 January 2001, from the tax imputation system to the half-income system. The claim arises on expiry of 31 December 2006 and is paid in 10 equal annual installments, always on the 30 September of the repayment period 2008 to 2017.

**(23) DEBT**

	31 December 2006			31 December 2005		
	Residual term of up to 1 year	Residual term of more than 1 year	Total	Residual term of up to 1 year	Residual term of more than 1 year	Total
Amounts due to banks <sup>1)</sup>	-	-	-	925	-	925
Loans from related parties	-	-	-	35	-	35
	-	-	-	<b>960</b>	-	<b>960</b>

<sup>1)</sup> thereof secured by real estate liens in 2005: TEUR 925

The company has agreed separate short-term and unsecured credits with several financial institutions as per 31 December 2006, amounting to TEUR 21,200 (PY: TEUR 25,000). Of this amount, TEUR 17,510 (PY: TEUR 20,527)

was available on 31 December 2006. The interest rate is largely based on a variable base rate of interest with a fixed margin.

**(24) OTHER LIABILITIES**

in TEUR	31 December 2006	31 December 2005
Salaries and wages	2,729	2,534
Income tax on salaries and wages	925	850
Customer liabilities	530	94
Social security contributions	320	1,636
Capital formation	69	65
Deferred income	17	38
Grants	-	496
Derivative financial instruments	-	292
Interest and amortization	-	170
Other	133	210
	<b>4,723</b>	<b>6,385</b>

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

in TEUR	As per 1 January, 2006	Difference due to currency translation	Consumption			As per 31 December, 2006
			Addition	Dissolution		
Accrued income taxes	2,919	-	(2,018)	1,639	-	2,540
Personnel and social security obligations	3,665	(4)	(2,936)	4,120	(725)	4,120
Guarantee obligations	2,004	-	(2,004)	2,919	-	2,919
Service in progress	488	-	(488)	1,062	-	1,062
Litigation risks	1,069	-	(7)	205	(422)	845
Commissions	46	-	(46)	133	-	133
Other	984	-	(900)	768	(84)	768
	<b>11,175</b>	<b>(4)</b>	<b>(8,399)</b>	<b>10,846</b>	<b>(1,231)</b>	<b>12,387</b>

Accrued income taxes include current income taxes formed for the past financial years and for the 2006 financial year. The personnel-related accruals comprise obligations from overtime, variable payments, contributions and fees, as well as leave bonuses. Based on experience, the guarantee obligations comprise accruals to the amount of guarantee claims expected from sales made. The litigation risks take into account obligations from legal disputes.

Other obligations largely comprise risk provisions for losses from pending business, costs relating to the drawing up and publishing of the annual financial statements and outstanding invoices, not yet presented by suppliers. In the year under review, a total of TEUR 1,231 (PY: TEUR 123) were dissolved. The company expects all accruals to become due or to be utilized within 12 months.



**(26) PENSION AND POSTRETIREMENT BENEFITS**

Different provisions for old age exist in respect of the employees of the Mühlbauer Group. These are generally based on the period of employment and the pay of the staff. Pension obligations exclusively comprise performance-

based pension schemes and only include entitlements for pensions to be paid in the future. The pension obligations are secured by assigned reinsurance policies.

The following actuarial parameters have been taken into consideration:

	31 December 2006	31 December 2005
Discounting rate	4.40%	4.25%
Future pay increase	3.00%	3.00%
Future pension increase	1.50%	1.50%
Staff turnover	0.00%	0.00%
Expected rate of interest on plan assets	3.50%	4.50%

The value recorded on the balance sheet in respect of "Other long-term assets" is derived as follows:

in TEUR	31 December 2006	31 December 2005
Cash value of the backed pension commitments	4,514	4,196
Fair value of the plan assets	(4,510)	(3,505)
<b>Financial status</b>	<b>4</b>	<b>691</b>
Unrealized actuarial profits (losses)	(930)	(1,201)
<b>Other long-term assets</b>	<b>(926)</b>	<b>(510)</b>

The development of the cash value of the backed pension commitments, at TEUR 4,514 (PY: TEUR 4,196), the fair value of the plan assets at TEUR 4,510 (PY: TEUR 3,505)

and the actuarial profits/(losses) from experience-based adjustments is represented as follows:

in TEUR	2006	2005
Cash value of the backed pension commitments at the beginning of the year	4,196	2,740
Current service cost	457	269
Interest expenses on obligations	178	137
Amortization of past service costs	-	160
Actuarial profits/(losses)	(317)	890
<b>Cash value of the backed pension commitments at the end of the year</b>	<b>4,514</b>	<b>4,196</b>

in TEUR	2006	2005
Fair value of the plan assets at the beginning of the year	3,505	2,491
Expected earnings on plan assets	175	137
Actuarial profits/(losses)	(95)	(34)
Payments made by the company	925	911
<b>Fair value of the plan assets at the end of the year</b>	<b>4,510</b>	<b>3,505</b>

in TEUR	2006
Experience-based profits/(losses) from the plan assets	
(a) Value	(95)
(b) in % of the plan assets	(2.0%)
Experience-based profits/(losses) from the scope of obligations	
(a) Value	147
(b) in % of the backed pension commitments	3.0%

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

The actual earnings from plan assets amounted to TEUR 80 (PY: TEUR 103) in the year under review.

The company is expected to make a payment of TEUR 879 towards plan assets in the following year.

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

in TEUR	2006	2005
<b>Accruals for pension obligations as per 1 January</b>	<b>(510)</b>	<b>(28)</b>
Amounts recorded as income		
Current service cost	457	269
Interest expenses on obligations	178	137
Expected earnings on plan assets	(175)	(137)
Amortization of past service costs	0	160
Amortization of actuarial losses	49	0
Contributions to plan assets	(925)	(911)
<b>Accruals for pension obligations as per 31 December</b>	<b>(926)</b>	<b>(510)</b>

For contribution-based pension schemes, which result in no further obligations to the companies of the Mühlbauer Group apart from the payment of contributions, the expenses from current contribution payments amounted to TEUR 282 (PY: TEUR 233) in the reporting period. Furthermore, the company paid employer contributions to the statutory pension insurance fund of TEUR 3,886 (PY: TEUR 3,356).

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

## (27) SHAREHOLDERS' EQUITY

The development of the individual components of group equity during the 2006 financial year is represented in the consolidated statements of changes in shareholders' equity.

### Ordinary share capital

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

SECURA Vermögensverwaltungs GmbH, headquartered in Metten – a company fully controlled by the personally liable shareholder – holds 3,296,852 bearer no-par value shares or a 52.50% participation in the ordinary share capital of Mühlbauer Holding AG & Co. KGaA. This value in-

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

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

Mühlbauer Holding AG & Co. KGaA is represented solely by the personally liable shareholder. He is not subject to the personnel competence of the Supervisory Board and can therefore not be dismissed. In accordance with the statutes of the company, the right of approval, which the

shareholders of the limited partnership hold in respect of extraordinary transactions, is excluded. The statutes, however, comprise a catalog of transactions – also exceeding ordinary business proceedings – that require the approval of the Supervisory Board, thus providing it with a certain measure of influence with regard to material legal transactions and other activities of the personally liable shareholder. Several resolutions of the Annual General Meeting require the approval of the personally liable shareholder, these include amendments to the statutes and the approval of the annual financial statements.

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

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

The personally liable shareholder is authorized to increase the ordinary share capital once or several times by 15 April 2009 – with the approval of the Supervisory Board – but only by a maximum of EUR 4,018,688.00 (authorized capital I), by issuing bearer no-par value shares against cash and/or non-cash contributions. The shareholders shall, on principle be granted subscription rights. With the approval of the Supervisory Board, the personally liable shareholder is, however, entitled to

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

#### Own shares

As per the resolution of the Annual General Meeting of 4 May 2006, the personally liable shareholder is authorized – until 31 October 2007 – to acquire shares of the company with a calculatory share in the subscribed capital of a maximum of 10%, i.e. up to 627,920 shares, to be able to offer these to third parties in the context of mergers with other companies or in the context of the acquisition of businesses or participations, to collect them, offer them to holders of subscription rights for purchase or to offer them to employees and/or members of the company's management or an associated company for purchase. In the year under review, no use was made of this authorization to purchase own shares.

Of the stock of 202,437 own shares, of a par value of EUR 259,119.36, in existence at the beginning of the financial year, the company disposed of 14,935 shares of a par value of EUR 19,116.80. In the course of the asset formation campaign executed by the company for the employees of the Mühlbauer Group, 13,805 of these own shares of a par value of EUR 17,670.40 were disposed of against payment and a further 140 of a par value of EUR 179.20 were disposed of against payment to service the purchase rights granted to employees of the Mühlbauer Group. The earnings were utilized to reinforce the operating capital. A further 990 shares of a par value of EUR 1,267.20 were issued to employees of the Mühlbauer Group free of charge as so-called anniversary shares, to honor their longstanding company loyalty.

The following table provides an overview of the average per share subscription price to employees:

Period	Subscription price per share EUR
1 <sup>st</sup> quarter	27.47
2 <sup>nd</sup> quarter	0.54

As per 31 December 2006, the company held 187,502 own shares with a par value of EUR 240,002.56. The percentage of own shares in the ordinary share capital was 2.99% as per 31 December 2006. Own shares are reported using the par value method.

#### Fixed capital contribution

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

The Annual General Meeting can resolve the conversion of equity capital B to ordinary share capital with the agreement of the personally liable shareholder. The conversion is ef-

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

#### Additional paid-in capital

in TEUR	31 December 2006	31 December 2005
Premium from capital increases	59,557	59,557
Balance from the premium applicable to the purchase/disposal of own shares (pro rata)	(1,300)	(1,664)
Share-based adjustment item (reserve in respect of expenditure resulting from conversion schemes or stock option programs)	1,622	1,433
Withdrawal from additional paid-in capital to adjust the ordinary share capital to the euro	(7)	(7)
	<b>59,872</b>	<b>59,319</b>

The premiums from capital increases were reduced by the transaction costs of TEUR 3.907 directly attributable to capital procurement and the associated income tax benefits of TEUR 671 deducted in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation".

#### Other comprehensive income

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

in TEUR	Financial assets of the category "available for sale"	Difference due to currency translation	Total
Status as per 1 January 2006	2,028	191	2,219
Adjustment to market values	(589)	-	(589)
Currency adjustments	-	(90)	(90)
Deferred taxes in equity	66	-	66
Reclassification in income statement	(347)	-	(347)
<b>As per 31 December 2006</b>	<b>1,158</b>	<b>101</b>	<b>1,259</b>

#### Retained earnings and appropriation of earnings

Apart from the retained earnings of Mühlbauer Holding AG & Co. KGaA, retained earnings also comprise the earnings

reserves of the subsidiaries included in the consolidated financial statements as well as the effects of consolidation measures.

In addition to the payment of a dividend of EUR 0.90 per no-par value share with dividend entitlement executed in the year under review to the shareholders of Mühlbauer Holding AG & Co. KGaA, amounting to a total of TEUR 5,482, the appropriation of earnings also includes the earnings transfer of Mühlbauer Holding AG & Co. KGaA to Mühlbauer Holding AG & Co. Verwaltungs KG due in parallel as a result of the statutes. In correspondence with the capital situation, Mühlbauer Holding AG & Co. Verwaltungs KG participated in the earnings of Mühlbauer Holding AG & Co. KGaA to an amount of TEUR 7,774 (57.27%). Taxes of TEUR 1,070, paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG are deducted from this amount. The earnings from ordinary business activities on which the statutory earnings transfer is based minus trade income tax of Mühlbauer Holding AG & Co. KGaA amounted to TEUR 13,573 in the previous year.

### Stock purchase programs

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

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Subscription price in EUR	21.00	28.00	26.00	29.00
Start of the exercise period	21 Mar. 2002	28 Apr. 2004	28 Apr. 2005	12 Jul. 2005
End of the exercise period	-	27 Apr. 2009	27 Apr. 2010	30 Jun. 2008
Outstanding options as per 1 January	26	1,158	0	250
Options issued within the period	-	-	-	-
Options exercised within the period	-	-	-	(140)
Outstanding options as per 31 December	26	1,158	0	110
- thereof exercisable on 31 December	26	1,158	0	110
Weighted share price on the exercise date in EUR	-	-	-	37.19
Increase of additional paid-in capital (in TEUR)	-	-	-	4

In the financial year, earnings (before taxes) of TEUR 0.3 (PY: expenses totaling TEUR 42) were taken into consideration.

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

	Tranche 3	Tranche 4
Erwartete Dividendenrendite	0,0%	0,0%
Erwartete Volatilität	132,0%	55,2%
Risikofreier Zinssatz	2,5%	2,5%
Erwartete Laufzeit (in Jahren)	5,0	2,0
Marktwert der Option in EUR	57,31	45,73

### Stock ownership plan to employees

The company offers employees and second year apprentices and trainees (hereinafter referred to as "employees") shares at favorable conditions, within the above period. In order to qualify for shares, employees must, on principle, have been in a continuous and untermiated employment relationship or apprenticeship/traineeship in the six month period prior to the share offer as well as at the time the

shares are allocated; in addition, the purchase is subject to restrictions regarding the number of shares that can be subscribed by the employees. If the shares are subject to a uniform blocking period applicable to all participating domestic group companies, they are only freely available on expiry of the blocking period. The number of own shares issued as a result of this offer amounted to 13,805 in the financial year.



The market value of the stock ownership plans to employees is specified on the respective reporting date, on the ba-

sis of the Black-Scholes model. In so doing, the following parameters were applied on 31 December 2006 and 2005:

	2006	2005
Expected dividend yield	0.0%	0.0%
Expected volatility	21.0%	13.0%
Risk free rate of interest	2.5%	2.6%
Expected maturity (in years)	0.3	0.2
Market value of the option in EUR	38.90	27.83

The difference between the purchase and market price of TEUR 158 (PY: TEUR 79) was posted as personnel expenditure.

company for a certain number of years received one free share per year of employment. The number of own shares issued as a result of this offer amounted to 990 in the financial year. The expenses of TEUR 30 were posted as personnel expenditure.

In the reporting period, employees that have been with the

## (28) LIABILITY AND OTHER FINANCIAL OBLIGATIONS

	31 December 2006 TEUR	31 December 2005 TEUR
Contractual obligations:		
Obligations from purchase and service agreements	11,089	9,470
Obligations from tenancy agreements	334	315
<b>Total contractual obligations</b>	<b>11,423</b>	<b>9,785</b>

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

	2006 TEUR	2005 TEUR
2006	-	9,377
2007	10,822	312
2008	274	43
2009	139	27
2010	56	26
2011	35	-
thereafter	97	-
<b>Total</b>	<b>11,423</b>	<b>9,785</b>

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

	31 December 2006 TEUR	31 December 2005 TEUR
Contingent liabilities:		
Guarantees, sureties and agreements	5,193	6,267
Conditional benefits from public authorities	9,937	8,115
<b>Total contingent liabilities</b>	<b>15,130</b>	<b>14,382</b>

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

	2006 TEUR	2005 TEUR
2006	-	3,967
2007	4,616	889
2008	1,516	815
2009	1,891	1,109
2010	511	26
2011	3,898	-
thereafter	2,698	7,576
<b>Total</b>	<b>15,130</b>	<b>14,382</b>

The company received benefits from public authorities for the construction and financing of specific production facilities, under the premise that certain project-related criteria are met within a specific timeframe after receipt of the benefits. The company must meet these requirements. If these requirements are, however, not met, a maximum of TEUR 3,574 (PY: TEUR 3,344) of the benefits can be demanded to be returned by the reporting date of 31 December 2006. Furthermore, as parent company of its consolidated subsidiaries, the company has accepted co-liability for specific projects in the event that the subsidiaries do not meet obligations associated with benefits and take responsibility

for the repayment due. The maximum amount repayable by the consolidated subsidiaries on the reporting date of 31 December 2006, amounts to TEUR 6,363 (PY: TEUR 4,771).

In connection with its ordinary business activities, the company is obliged to exempt its contract partners from specific risks linked to basic business, with regard to certain sales and other agreements. The maximum amount of possible future payments for this type of agreement amounts to TEUR 330 (PY: TEUR 500) on the reporting date of 31 December 2006.

**D. SEGMENT REPORTING**

Due to the high level of integration of the individual business areas, which serves the purpose of utilizing synergy effects across all sectors, the products and services of the company do not comprise significantly different risks and earnings and are comparable, with regard to the type of product, the production process, its customers and with regard to the market processing methods. Therefore they

are not taken into account as a primary segment reporting format within the meaning of IAS 14 "Segment Reporting" and do not require formal segment reporting. Likewise, no geographical segments exist that are subject to different risks and earnings and can be defined as primary segment reporting format. However, select data on sales are provided in the following tables:

<b>Sales by application area</b>	<b>2006 TEUR</b>	<b>2005 TEUR</b>
Smart Identification	91,814	86,861
Semiconductor Related Products	39,361	35,564
Traceability	13,689	10,893
Precision Parts and Systems	16,061	14,789
	<b>160,925</b>	<b>148,107</b>
Deductions in earnings	(249)	(175)
	<b>160,676</b>	<b>147,932</b>

<b>Sales by region</b>	<b>2006 TEUR</b>	<b>2005 TEUR</b>
Asia	63,882	46,160
Germany	41,564	44,828
Rest of Europe	40,126	31,471
USA	10,697	22,015
Other	4,656	3,633
	<b>160,925</b>	<b>148,107</b>
Deductions in earnings	(249)	(175)
	<b>160,676</b>	<b>147,932</b>

## E. NOTES TO THE STATEMENTS OF CASHFLOWS

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

The liquid fund in the cashflow statement comprises all cash and cash equivalents listed in the balance sheet as well as marketable securities if these are available within three months.

The cashflow from operating activities is determined in accordance with the indirect method, by adjusting net earnings by changes in inventories, trade accounts receivable and payable, positions that do not affect income and all other positions representing cashflows in the investing or

financing areas. The cashflows from investing or financing activities were determined in relation to payments. In so doing, currency translation effects and changes in the scope of consolidation were adjusted.

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

Free cashflow is thus derived as follows:

	2006 TEUR	2005 TEUR
Cash provided by operating activities	13,200	32,133
Cash used for investing activities	(17,453)	(21,888)
Subtotal	(4,253)	10,245
<b>Transition to the free cashflow</b>		
(Gains)/Losses from the sale of fixed assets	261	161
Currency differences from the transition of fixed assets	1	10
Realized net (gains)/losses from short- and long-term marketable securities	2,265	889
Proceeds from disposals of fixed assets	(321)	(294)
Proceeds from sales of long-term marketable securities (available-for-sale-papers)	(3,999)	(300)
Acquisitions of long-term marketable securities (available-for-sale-papers)	3,876	4,850
Proceeds from sales of short-term marketable securities (available-for-sale and held-to-maturity papers)	(24,734)	(2,588)
Acquisitions of short-term marketable securities (available-for-sale and held-to-maturity papers)	29,351	9,753
<b>Free cashflow</b>	<b>2,447</b>	<b>22,726</b>

In the financial year, the dividend payments posted were comprised as follows:

	2006 TEUR
Dividends paid to shareholders of the limited partnership	5,482
Statutory earnings transfer by the company to Mühlbauer Holding AG & Co. Verwaltungs KG in respect of the 2005 financial year	7,774
<b>Total dividend payments and earnings transfers</b>	<b>13,256</b>

**F. OTHER NOTES**

**(29) EVENTS AFTER THE REPORTING DATE**

No events of major significance occurred after the 2006 financial year.

**(30) FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

The book values of the major financial instruments of the company on the reporting date are presented here in a summarized form. The book values of cash and cash equivalents and the marketable securities held until final maturity, the short-term trade accounts receivable and payable, short-term loans as well as the accruals and other short-term liabilities of the company virtually correspond with their fair value, considering their short terms until 31 December 2006. The fair values of the company's long-term trade accounts receivable and long-term tax accounts receivable are calculated on the basis of the discounted cashflow analysis, which currently has an interest rate of 3.9%.

**Forward exchange contracts**

In the context of risk management, the company utilizes derivative financial instruments to delimit foreign currency risks resulting from bilateral delivery obligations. Forward exchange deals are concluded on placement of the order or, if market expectations allow for it, at a later point in time,

to hedge currency rate fluctuations until the date of payment. This is meant to secure planned transactions, as, at the time of conclusion, the basic business itself has not been produced and only arises on realization of sales. The company currently only has forward exchange contracts in the form of forward contracts in respect of the sale of US dollars with different terms of maturity until 17 December 2007. These are valued at market value and recorded as other current assets or short-term liabilities. The change of market value is included in the consolidated statement of income under currency gains or losses.

**Currency swaps**

To hedge currency risks in US dollars, the company concluded currency swaps. The currency swaps have terms until 30 March 2007. These swaps are assessed on the reporting date and their market values reported in other current assets of short-term liabilities.

The market values are derived from the amounts at which the forward exchange deals and currency swaps are traded or listed at the reporting date. The fair values were determined on the basis of the regular daily reference prices in interbank trading.

The following table provides the book and fair values in respect of the long-term trade accounts receivable and the derivative financial instruments:

	31 December 2006		31 December 2005	
	Total volume TEUR	Fair value TEUR	Total volume TEUR	Fair value TEUR
Long-term trade accounts receivable	-	1,335	-	279
Long-term tax receivables	-	2,268	-	-
Forward exchange deals	2,359	2,233	4,147	4,406
Cross-currency swaps	682	660	771	804

In the 2006 and 2005 financial years the profits (and losses) from foreign currency hedging transactions amounted

to the following:

	2006 TEUR	2005 TEUR
Realized	21	(60)
Unrealized	148	(292)
<b>Net profit/(loss) from foreign currency hedging transactions</b>	<b>169</b>	<b>(352)</b>



**(31) CORPORATE GOVERNANCE**

The Declaration of Conformity in accordance with § 161 AktG (German Stock Corporation Act) was issued in December 2006 and posted to the internet so that shareholders can access it whenever required.

**(32) INFORMATION ON THE REMUNERATION OF THE AUDITOR**

The remuneration for the audits executed in the financial year amounts to TEUR 115 (PY: TEUR 118). Of this amount, TEUR 13 (PY: TEUR 9) pertain to other periods. TEUR 3 of the other services provided by the auditor in the previous year has been recorded as expense.

**(33) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS**

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

Moreover, the disclosure requirement in accordance with IAS 24 also extends to persons who can exercise a significant influence over the company, i.e. who participate in the financial and business policies of the company without, however, controlling these, including closely related family members. In the 2006 financial year this related to members of the Group's Supervisory Board, members of the Supervisory Board and Management Board of Mühlbauer Aktiengesellschaft and their close relatives.

As per 31 December 2006, liabilities of TEUR 8,484 (PY: TEUR 6,704), resulting from the statutory earnings transfer of the company to Mühlbauer Holding AG & Co. Verwaltungs KG existed. In addition, as per 31 December 2006, liabilities of TEUR 7 (PY: TEUR 44) existed toward Mühlbauer Beteiligungs Aktiengesellschaft. This balance results from the compensation of expenditure in connection with the management, which amounted to TEUR 8 in the previous year. A further TEUR 36 relates to loan liabilities plus accrued interest repaid in the year under review. The liabilities of TEUR 13 in respect of companies indirectly controlled by Mr. Josef Mühlbauer, reported by the company in the previous year were fully paid in the year under review.

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

Dr. Thomas Zwissler, Chairman of the Supervisory Board is also an attorney and partner of the international law firm Zirngibl Langwieser. The company occasionally provides legal consultation to the Mühlbauer Group. The fees for such services amounted to TEUR 15 (PY: TEUR 14) in the year under review.

In the 2006 financial year, the Management Board of Mühlbauer Aktiengesellschaft received fixed remuneration totaling TEUR 741 (PY: TEUR 587) and variable pay amounting to TEUR 176 (PY: TEUR 147). An additional TEUR 635 (PY: TEUR 566) were allocated to pension and postretirement benefits.

The companies Mühlbauer Aktiengesellschaft, ASEM Präzisions-Automaten-GmbH and takeID GmbH rent office space from Mr. Josef Mühlbauer, who is the CEO of Mühlbauer Beteiligungs AG and holds sole power of representation. Mühlbauer Beteiligungs AG is the personally liable shareholder of Mühlbauer Holding AG & Co. Verwaltungs KG, which is in turn the personally liable shareholder of Mühlbauer Holding AG & Co. KGaA. The term of the tenancy is indefinite and can be terminated by either party under observance of a notice period of six months in accordance with German legislation. In the year under review, rental costs amounted to TEUR 311 (PY: TEUR 297).

Mühlbauer Aktiengesellschaft utilizes certain services in respect of the conveyance of passengers, sales promotion and staff development, offered by companies that are indirectly controlled by Mr. Josef Mühlbauer. Mühlbauer Aktiengesellschaft paid TEUR 241 (PY: TEUR 154) for such services in the year under review.

**(34) NUMBER OF EMPLOYEES**

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

	2006 Number	2005 Number
Production and assembly	806	758
Research and development	289	265
Administration and sales	145	144
	<b>1,240</b>	<b>1,167</b>
Apprentices and trainees as well as part-time employees	289	266
<b>Total</b>	<b>1,529</b>	<b>1,433</b>

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

	2006 Number	2005 Number
Germany	1,447	1,375
Asia	57	39
USA	15	15
Rest of Europe	5	4
Other	5	-
<b>Total</b>	<b>1,529</b>	<b>1,433</b>

**(35) CORPORATE BODIES OF THE COMPANY**

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

Beteiligungs Aktiengesellschaft, Roding. The sole shareholder and only Management Board member of Mühlbauer Beteiligungs Aktiengesellschaft is Mr. Josef Mühlbauer.

During the 2006 financial year the following persons were appointed to the Supervisory Board of Mühlbauer Holding AG & Co. KGaA:

	Age	End of term	Membership on further Supervisory Boards and other comparable committees
<b>Dr Thomas Zwissler</b> Chairman (since 29 April 2003)	38	2008	Attorney and partner of the law firm Zirngibl Langwieser, Munich  External seats: Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding (Chairman) • Going Public Media AG, Wolfratshausen (Chairman) Group seats: Mitglied des Aufsichtsrats • Mühlbauer Aktiengesellschaft, Roding (Vorsitz)
<b>Dr Peter Drexel</b> Vice Chairman (since 29 April 2003)	62	2008	Member of the Divisional Management Board Automation and Drives of Siemens AG  External seats: Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding (Vice Chairman) Group seats: Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding (Vice Chairman)
<b>Dr Frank Scholz</b> (since 29 April 2003)	45	2008	Managing Director and partner IXION AUERBACH

**(36) PROPOSAL FOR THE APPROPRIATION OF EARNINGS**

In accordance with § 58 para. 2 AktG (German Stock Corporation Act) the dividend distribution of Mühlbauer Holding AG & Co. KGaA is based on the net income for the year shown in the annual financial statements of Mühlbauer Holding AG & Co. KGaA, drawn up according to commercial law. In accordance with the financial statements of Mühlbauer Holding AG & Co. KGaA, drawn up as required by commercial law, a net income for the year of TEUR 7,678 is distributable. The statutory share in profits of TEUR 9,735, attributable to the personally liable shareholder according to his equity share (we refer to the comments in note (27)) was deducted from the net income for the year and entered into his retained earnings. The per-

sonally liable shareholder and Supervisory Board intend to propose a dividend distribution from the net income for the year of EUR 1.00 plus an additional EUR 0.25 special dividend on the occasion of the 25th company anniversary, i.e. a total of EUR 1.25 (PY: EUR 0.90) per no-par value share with dividend entitlement and to carry forward the remaining net income for the year.

These consolidated financial statements were released for publication on 8 March 2007.

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

The personally liable shareholder

# Auditor's Report

We have audited the consolidated financial statements prepared by the Mühlbauer Holding AG & Co. KGaA comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2006 to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation are the responsibility of the parent Company's general partner. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's general partner, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Munich, 9 March 2007

**PricewaterhouseCoopers**

Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

(Hartmann)  
German Public Auditor

(ppa. Graßnick)  
German Public Auditor

# Report of the Supervisory Board

In the past financial year, further establishing the company as the leading provider of products and system solutions for the TECURITY® and Smart Label industries and further internationalizing the operative business played a key role. The Supervisory Board actively assisted in this process, which also included changes in the company's risk situation, by advising and discussing with the personally liable shareholder and Management. At the same time, the Supervisory Board performed its statutory supervisory role.

## **Composition of the Supervisory Board**

In view of the members of the Supervisory Board, no changes were made during the reporting period.

## **Meetings of the Supervisory Board**

In four ordinary meetings – on 20 March, 29 June, 7 September and 27 November – the Supervisory Board focused on the company's situation and development, strategic corporate planning and all essential business transactions. Great importance attaches to the reporting system for preparing these meetings. The reporting system has been systematically optimized in recent years and informed the Supervisory Board for the preparation of its meetings in a timely and comprehensive manner. In the meeting on 20 March, 2006, the Supervisory primarily focused on the company's annual accounts and the consolidated financial statement of 31 December 2005. Setting up a technological base in Malaysia and further internationalization measures were the main topics of the meeting on 29 June 2006.

With a few exceptions, all members of the Supervisory Board attended every Supervisory Board meeting. In the course of the individual meetings the members of the Supervisory Board could convince themselves of the person-

ally liable shareholder's correct business conduct and of the fact that he had taken all necessary measures in a timely and efficient manner. Above that, the chairman of the Supervisory Board was informed on all major corporate developments and decisions by the personally liable shareholder and Management.

The recommendations and suggestions of the German Corporate Governance Codex were repeatedly examined by the Supervisory Board. The Supervisory Board had continuously monitored its efficiency and gave its declaration of conformity pursuant to § 161 AktG (German Stock Corporation Act). Details on this matter will be separately given in the annual report. No conflicting interests among Supervisory Board members (in particular with regard to the German Corporate Governance Codex) were detected. Measures that are subject to the approval of the Supervisory Board were provided for the decision making process. Decisions were made unanimously.

## **Committees**

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

## **Financial accounting**

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, was selected as external auditor by the Annual General Meeting and appointed by the Supervisory Board. On 31 December, 2006, the external auditor audited the annual financial statement of Mühlbauer Holding AG & Co. KGaA and the consolidated financial statement as well as the status report and consolidated status report including accounting and approved them without qualification. The external auditor audited above that the company's early risk management system



pursuant to § 317 paragraph 4 of the German Commercial Code (HGB) and confirmed that the statutory management obligations are fully complied with.

On 14 March, 2007, the balance sheet meeting of the Supervisory Board was held. The Supervisory Board was provided with all necessary documents before the meeting. The Supervisory Board debated on the annual financial statement in the presence of the external auditor who gave a detailed report on the process and all major findings of the audit and provided additional information on request.

On close examination of the annual financial statement, the consolidated financial statement, the management report and the consolidated management report, the Supervisory Board approves the audit result obtained by the external auditor. The Supervisory Board therefore suggests to the Annual General Meeting to accept the financial statement of Mühlbauer Holding AG & Co. KGaA as submitted in its present form on 31 December 2006.

The Supervisory Board endorses the proposal of the personally liable shareholder to use the net income available to pay out a dividend of EUR 1.25 per share – EUR 1.00 plus a special dividend of EUR 0.25 on the occasion of the company's 25th anniversary – on the company's dividend-entitled capital stock for 2006.

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

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

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

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

The Supervisory Board examined the report on relations to affiliated companies in the 2006 financial year. It did not raise any objections against the declaration of the personally liable shareholder and the audit result of the external auditor.

The members of the Supervisory Board would like to thank the personally liable shareholder, the Management Board and all employees for their commitment in the 2006 financial year.

Roding, March 2007

For the Supervisory Board

(Zwissler)  
Chairman

Several years overview <sup>1</sup>		2006	2005	2004	2004	2003	2002	2001	2000	1999	1998
		IFRS	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP
<b>Consolidated Balance Sheets</b>											
<b>Short-term assets</b>											
Cash and cash equivalents	TEUR	109,001	105,128	91,735	90,001	72,217	79,031	83,167	92,764	85,849	81,201
Marketable securities	TEUR	11,311	13,507	20,365	20,365	12,597	13,110	2,206	3,618	1,451	14,574
Trade accounts receivables, net	TEUR	21,819	32,687	13,561	13,255	3,498	2,261	2,592	6,609	17,449	17,153
Other assets	TEUR	30,106	21,985	22,462	21,703	20,348	19,161	19,645	30,868	21,179	7,110
Tax receivables	TEUR	4,598	2,441	2,461	2,301	1,521	1,095	1,444	2,382	2,782	3,193
Inventories	TEUR	1,360	976	670	161	26	59	5,148	3,034	2,864	0
	TEUR	39,807	33,532	32,216	32,216	34,227	43,345	52,132	46,253	40,124	39,171
<b>Long-term assets</b>											
<b>Investment and long-term financial assets</b>											
Marketable securities	TEUR	12,859	11,088	10,141	10,440	9,241	7,383	7,749	10,762	9,819	13,100
Trade accounts receivables, net	TEUR	11,524	10,809	10,134	10,440	9,241	7,383	7,749	10,762	9,819	13,100
Fixed assets	TEUR	1,335	279	7	0	0	0	0	0	0	0
Buildings, net	TEUR	40,123	39,018	39,472	46,765	41,333	41,189	45,169	38,871	31,903	29,837
Technical equipment, net	TEUR	25,683	27,343	28,916	34,202	29,995	31,625	32,479	25,711	21,511	19,922
Furniture and office equipment, net	TEUR	8,895	5,965	5,010	6,174	6,016	*	*	*	*	*
Buildings and equipment in progress	TEUR	5,168	5,510	5,481	6,320	5,282	9,539	12,621	11,416	10,392	9,915
Intangible assets	TEUR	377	200	65	69	40	25	69	1,744	0	0
Goodwill	TEUR	10,010	8,412	6,870	482	877	1,025	1,398	2,009	1,220	1,342
Software and licenses	TEUR	0	0	0	0	468	468	468	548	643	723
Capitalized development costs	TEUR	1,039	638	411	482	409	557	930	1,461	577	619
Long-term tax assets	TEUR	8,971	7,774	6,459	0	0	0	0	0	0	0
Deferred tax assets	TEUR	2,268	0	0	0	0	0	0	0	0	0
Other fixed assets	TEUR	42	99	234	0	201	804	459	529	0	0
	TEUR	926	510	28	1,308	1,687	0	0	0	0	88
<b>Short-term liabilities</b>											
debt	TEUR	30,411	35,000	32,535	31,664	17,724	20,254	23,138	27,021	19,256	21,914
Trade accounts payable	TEUR	0	960	1,023	1,023	1,025	1,050	3,525	2,054	3,037	2,438
Downpayments received on orders	TEUR	7,655	6,150	8,383	7,028	4,751	7,038	5,646	6,781	5,040	5,449
Other liabilities	TEUR	5,646	10,330	4,704	4,704	329	1,604	4,565	2,976	2,119	923
Accrued income taxes	TEUR	4,723	6,385	5,496	5,496	4,959	5,312	4,757	4,338	3,249	3,258
Other accruals	TEUR	2,540	2,919	7,230	6,424	2,135	760	217	5,326	2,618	7,387
	TEUR	9,847	8,256	5,699	6,989	4,525	4,490	4,428	5,546	3,193	2,459
<b>Long-term liabilities</b>											
Convertible bonds	TEUR	4,519	4,109	5,112	10,052	9,898	10,925	12,980	13,598	14,706	16,513
debt	TEUR	0	0	0	0	0	37	39	49	71	76
Investment grants received	TEUR	**	**	**	925	1,913	3,001	3,883	5,057	6,351	7,653
Deferred tax liabilities	TEUR	4,519	4,109	4,187	1,758	1,274	1,681	2,013	2,191	3,121	4,177
Postretirement and post-employment benefit liabilities	TEUR	0	0	0	0	718	374	324	281	241	271
<b>Shareholders' Equity</b>											
Ordinary share capital	TEUR	140,299	125,146	110,833	107,280	97,934	98,253	101,824	104,316	94,829	87,141
Own shares	TEUR	8,038	8,038	8,038	8,038	8,038	8,038	8,038	4,986	4,967	4,960
Fixed capital contributions	TEUR	(240)	(259)	(285)	(285)	(261)	(219)	(22)	(21)	(32)	0
Additional paid-in capital	TEUR	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	66	66	51
Other comprehensive income	TEUR	59,872	59,319	58,739	57,995	57,901	58,351	60,086	61,018	58,203	58,440
Retained earnings	TEUR	1,259	2,219	1,429	1,403	1,032	156	260	(201)	(452)	367
	TEUR	74,350	58,809	45,892	43,109	34,204	34,907	36,442	38,468	32,077	23,323
<b>Total assets and liabilities</b>	<b>TEUR</b>	<b>175,229</b>	<b>164,255</b>	<b>148,480</b>	<b>148,996</b>	<b>125,556</b>	<b>129,432</b>	<b>137,942</b>	<b>144,935</b>	<b>128,791</b>	<b>125,568</b>
<b>Change yoy</b>											
Short-term assets	%	3.7	14.6		24.3	(9.3)	(4.5)	(10.4)	8.7	5.7	122.3
Investment and long-term financial assets	%	16.0	9.3		13.0	25.2	(4.7)	(28.0)	9.6	(25.0)	0.0
Fixed assets	%	2.8	(1.2)		13.1	0.3	(8.8)	16.2	21.8	6.9	23.9
Intangible assets	%	19.0	22.4		(45.0)	(14.4)	(26.7)	(30.4)	64.7	(9.1)	203.6
Long-term tax assets	%	100.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	%	(57.6)	(57.7)		(100.0)	(75.0)	75.2	(13.2)			
Other fixed assets	%	81.6	1,721.4		(22.5)	100.0	0.0	0.0	0.0	(100.0)	25.7
Short-term liabilities	%	(13.1)	7.6		79.6	(12.5)	(12.5)	(15.4)	32.3	(16.5)	(15.3)
Long-term liabilities	%	10.0	(19.6)		(0.1)	(9.4)	(15.8)	(2.2)	(0.2)	(2.8)	(0.7)
Shareholders' Equity	%	12.1	12.9		9.5	(0.3)	(3.5)	(2.4)	10.0	8.8	380.7
<b>Key figures</b>											
Capital expenditures	TEUR	9,176	6,272	11,706	11,706	6,224	2,338	13,099	14,137	7,825	11,627
Depreciation and amortization	TEUR	6,741	6,172	6,424	6,424	6,190	6,656	7,319	6,216	5,443	5,133
Working Capital <sup>2</sup>	TEUR	45,460	24,894	26,297	25,578	39,624	45,260	59,215	57,776	49,321	27,166
Working Capital-Intensity <sup>3</sup>	%	28.3	16.8	20.4	20.0	41.6	49.6	66.2	52.4	69.4	50.4
Capital Employed <sup>4</sup>	TEUR	96,519	72,834	72,667	74,133	83,521	87,474	105,782	98,656	82,444	58,433
Net cash position	TEUR	44,654	56,043	42,112	42,112	22,398	18,703	5,139	13,878	19,331	34,736
Equity ratio	%	80.1	76.2	74.6	72.0	78.0	75.9	73.8	72.0	73.6	69.4
<b>Employees</b>											
Average per year	Number	1,529	1,433	1,338	1,338	1,262	1,274	1,299	1,206	898	756
production and assembly	Number	806	758	729							
research and development	Number	289	265	220							
administration and sales	Number	145	144	132							
Trainees and part-timers	Number	289	266	257	257	263	269	261	261	210	161
Skilled workers	Number				553	515	521	574	542	392	345
Salaried employees	Number				528	484	484	464	403	296	250
<b>Mühlbauer Holding AG &amp; Co, KGaA</b>											
Total stock capital <sup>5</sup>	TEUR	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,805	18,786	18,765
Total issued and outstanding shares <sup>6</sup>	TUnit	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,692	14,677	14,660
Dividend <sup>7</sup>	EUR	1,25	0,90	0,60	0,60	0,35	0,30	0,30	0,35	0,30	0,23
Share price (Year-End-Close)	EUR	29,35	40,80	26,71	26,71	20,50	10,30	29,60	84,00	41,00	33,52
Market Capitalization (Year-End Close) <sup>8</sup>	TEUR	431,330	599,600	392,532	392,532	301,268	151,369	435,004	1,234,128	601,757	491,403

<sup>1</sup> Certain amounts reported in previous years have been reclassified to conform to the 2005 presentation<sup>2</sup> Non interest current assets - non interest current liabilities<sup>3</sup> Working Capital/Sales<sup>4</sup> Working Capital + Fixed assets<sup>5</sup> Common stock and fixed capital contribution of the personally liable shareholder<sup>6</sup> Obtained on total stock capital<sup>7</sup> Subject to the approval to the AGM<sup>8</sup> In furniture and office equipment included

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

Several years overview		2006	2005	2004	2004	2003	2002	2001	2000	1999	1998
		IFRS	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP	US-GAAP
<b>Consolidated Income Statements</b>											
<b>Sales</b>											
by applications	TEUR	160,676	147,932	128,939	128,180	95,204	91,317	89,422	110,322	71,026	53,910
Smart Identification	TEUR	91,814	86,861	54,850	54,541	39,335	50,651	47,781	48,552	34,984	23,226
Semiconductor Related Products	TEUR	39,361	35,564	49,325	48,875	35,619	22,103	24,464	42,427	22,159	17,880
Traceability	TEUR	13,689	10,893	7,390	7,390	5,679	6,641	7,366	8,616	5,421	7,336
Precision Parts & Systems	TEUR	16,061	14,789	17,603	17,603	14,680	12,085	10,116	10,981	8,597	5,203
Other	TEUR	(249)	(175)	(229)	(229)	(109)	(163)	(305)	(254)	(135)	265
by regions	TEUR	160,676	147,932	128,939	128,180	95,204	91,317	89,422	110,322	71,026	53,910
Germany	TEUR	41,564	44,828	53,360	53,068	45,316	43,369	38,059	33,545	27,244	25,098
Other Europe	TEUR	40,126	31,471	34,197	34,122	21,175	26,799	24,422	41,482	23,559	11,992
Africa	TEUR	4,604	3,560	5,428	5,278	2,380	179	947	1,410	53	2,807
North America	TEUR	6,018	13,595	8,302	8,227	4,221	3,392	2,545	6,478	5,598	4,126
South America	TEUR	4,679	8,420	2,136	2,136	403	852	3,740	2,592	1,324	1,362
Asia	TEUR	63,882	46,160	25,382	25,215	21,676	16,766	19,479	25,016	13,356	8,242
Australia	TEUR	52	73	363	363	142	123	535	53	27	18
Other	TEUR	(249)	(175)	(229)	(229)	(109)	(163)	(305)	(254)	(135)	265
<b>Cost of sales</b>	TEUR	<b>(91,406)</b>	<b>(83,518)</b>	<b>(75,365)</b>	<b>(76,205)</b>	<b>(63,007)</b>	<b>(61,370)</b>	<b>(60,758)</b>	<b>(65,662)</b>	<b>(39,061)</b>	<b>(31,402)</b>
of sales	%	(56.9)	(56.5)	(58.5)	(59.5)	(66.2)	(67.2)	(67.9)	(59.5)	(55.0)	(58.2)
<b>Gross profit</b>	TEUR	<b>69,270</b>	<b>64,414</b>	<b>53,574</b>	<b>51,975</b>	<b>32,197</b>	<b>29,947</b>	<b>28,664</b>	<b>44,660</b>	<b>31,965</b>	<b>22,508</b>
of sales	%	43.1	43.5	41.5	40.5	33.8	32.8	32.1	40.5	45.0	41.8
<b>Operating expenses</b>											
Selling and administrative of sales	TEUR	(19,075)	(15,926)	(14,719)	(16,799)	(16,616)	(16,682)	(13,486)	(14,697)	(13,093)	(11,094)
	%	(11.9)	(10.8)	(11.4)	(13.1)	(17.5)	(18.3)	(15.1)	(13.3)	(18.4)	(20.6)
Research and development of sales	TEUR	(17,081)	(15,264)	(13,048)	(14,006)	(11,392)	(10,761)	(10,244)	(9,854)	(6,092)	(3,117)
	%	(10.6)	(10.3)	(10.1)	(10.9)	(12.0)	(11.8)	(11.5)	(8.9)	(8.6)	(5.8)
<b>Other income<sup>1</sup></b>	TEUR	<b>1,409</b>	<b>653</b>	<b>1,535</b>	<b>4,447</b>	<b>4,357</b>	<b>3,475</b>	<b>3,549</b>	<b>3,885</b>	<b>2,404</b>	<b>2,495</b>
of sales	%	0.9	0.4	1.2	3.5	4.6	3.8	4.0	3.5	3.4	4.6
<b>Other expenses<sup>1</sup></b>	TEUR	<b>(86)</b>	<b>(803)</b>	<b>(104)</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>
of sales	%	(0.1)	(0.5)	(0.1)							
<b>EBITDA<sup>2</sup></b>	TEUR	<b>41,178</b>	<b>39,246</b>	<b>33,662</b>	<b>32,041</b>	<b>14,736</b>	<b>12,635</b>	<b>15,802</b>	<b>30,210</b>	<b>20,627</b>	<b>15,925</b>
of sales	%	25.6	26.5	26.1	25.0	15.5	13.8	17.7	27.4	29.0	29.5
<b>EBIT<sup>3</sup></b>	TEUR	<b>34,437</b>	<b>33,074</b>	<b>27,238</b>	<b>25,617</b>	<b>8,546</b>	<b>5,979</b>	<b>8,483</b>	<b>23,994</b>	<b>15,184</b>	<b>10,792</b>
of sales	%	21.4	22.4	21.1	20.0	9.0	6.5	9.5	21.7	21.4	20.0
<b>Financial result</b>											
Financial income of sales	TEUR	3,747	2,335	1,048	1,109	1,673	1,101	6,397	5,623	3,792	869
	%	2.3	1.6	0.8	0.9	1.8	1.2	7.2	5.1	5.3	1.6
Financial expenses of sales	TEUR	(171)	(741)	(409)	(415)	(728)	(2,290)	(8,317)	(4,537)	(1,483)	(934)
	%	(0.1)	(0.5)	(0.3)	(0.3)	(0.8)	(2.5)	(9.3)	(4.1)	(2.1)	(1.7)
<b>EBT<sup>4</sup></b>	TEUR	<b>38,013</b>	<b>34,668</b>	<b>27,877</b>	<b>26,311</b>	<b>9,491</b>	<b>4,790</b>	<b>6,563</b>	<b>25,080</b>	<b>17,493</b>	<b>10,727</b>
of sales	%	23.7	23.4	21.6	20.5	10.0	5.2	7.3	22.7	24.6	19.9
<b>Income taxes</b>	TEUR	<b>(10,285)</b>	<b>(11,648)</b>	<b>(10,054)</b>	<b>(9,374)</b>	<b>(2,977)</b>	<b>(1,871)</b>	<b>(1,012)</b>	<b>(7,383)</b>	<b>(3,669)</b>	<b>(2,194)</b>
of sales	%	(6.4)	(7.9)	(7.8)	(7.3)	(3.1)	(2.0)	(1.1)	(6.7)	(5.2)	(4.1)
<b>Ordinary income net of tax</b>	TEUR	<b>27,728</b>	<b>23,020</b>	<b>17,823</b>	<b>16,937</b>	<b>6,514</b>	<b>2,919</b>	<b>5,551</b>	<b>17,697</b>	<b>13,824</b>	<b>8,533</b>
of sales	%	17.3	15.6	13.8	13.2	6.8	3.2	6.2	16.0	19.5	15.8
<b>Extraordinary gains</b>	TEUR	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>587</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
of sales	%	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0
<b>Net earnings</b>	TEUR	<b>27,728</b>	<b>23,020</b>	<b>17,823</b>	<b>16,937</b>	<b>6,514</b>	<b>3,506</b>	<b>5,551</b>	<b>17,697</b>	<b>13,824</b>	<b>8,533</b>
of sales	%	17.3	15.6	13.8	13.2	6.8	3.8	6.2	16.0	19.5	15.8
<b>Change yoy</b>											
Sales	%	8.6	14.7		34.6	4.3	2.1	(18.9)	55.3	31.7	9.0
Gross profit	%	7.5	20.2		61.4	7.5	4.5	(35.8)	39.7	42.0	(6.1)
EBIT	%	4.1	21.4		199.8	42.9	(29.5)	(64.6)	58.0	40.7	(27.8)
EBT	%	9.6	24.4		177.2	98.1	(27.0)	(73.8)	43.4	63.1	(24.6)
Ordinary income net of tax	%	20.5	29.2		160.0	123.2	(47.4)	(68.6)	28.0	62.0	(4.7)
Net earnings	%	20.5	29.2		160.0	85.8	(36.8)	(68.6)	28.0	62.0	(4.7)
<b>Key figures</b>											
Earnings per share											
basic	EUR	1.90	1.59	1.23	1.17	0.41	0.20	0.35	1.02	0.68	0.36
fully diluted	EUR	1.90	1.59	1.23	1.17	0.41	0.20	0.35	1.02	0.68	0.35
Tax rate for EPS calculation	%	28.70	34.80	37.20	36.87	38.10	45.30	21.60	40.50	43.05	50.69
Order income	TEUR	161,508	165,001	174,659	174,659	99,308	85,884	93,604	136,255	92,167	56,433
Order backlog	TEUR	79,172	81,672	67,209	67,968	27,794	31,820	48,076	56,436	30,598	16,481
Personal costs	TEUR	54,364	49,890	45,044	45,110	39,922	38,093	37,888	39,236	27,984	23,116
Return on equity (before tax)	%	27.1	27.7	25.2	24.5	9.7	4.9	6.4	24.0	18.4	12.3
Return on Capital Employed <sup>5</sup>	%	35.7	45.4	37.5	34.6	10.2	6.8	8.0	24.3	18.4	18.5
<b>Consolidated Statements of cashflow</b>											
Cash provided by (used for) operating activities	TEUR	13,200	32,133	40,893	38,879	16,054	23,398	15,159	15,307	(6,037)	(949)
Cash provided by (used for) investing activities	TEUR	(17,453)	(21,888)	(14,707)	(21,737)	(7,344)	(1,864)	(9,872)	(4,701)	(751)	(37,412)
Cash provided by (used for) financing activities	TEUR	(13,832)	(10,606)	(9,127)	(9,131)	(8,921)	(10,243)	(6,840)	(8,558)	(6,335)	52,402
Net Increase/(Decrease) in Cash and Cash equivalents	TEUR	(18,085)	(361)	17,059	8,011	(211)	11,291	(1,553)	2,048	(13,123)	14,041
Free cashflow of sales	TEUR	2,447	22,726	27,163	27,171	10,590	20,519	(2,156)	(63)	(9,018)	(8,612)
	%	1.5	15.4	21.1	21.2	11.1	22.5	(2.4)	(0.1)	(12.7)	(16.0)

<sup>1</sup> No comparability due to different treatment between US-GAAP and IFRS<sup>2</sup> Earnings before interest, tax, depreciation and amortization<sup>3</sup> Earnings before interest and tax<sup>4</sup> Earnings before tax<sup>5</sup> EBIT/Capital Employed<sup>\*</sup> Shown under function costs

**Adhesive Film Lamination:** Attaching a heat-activated adhesive film to the reverse side of a module

**Assembly & Encapsulation:** Assembly and encapsulation of semiconductor components

**Biometric Procedure:** Procedure for registering individual personal features (e.g. fingerprints, iris structure, facial geometry); data obtained from biometric procedures are used for the unique identification of persons

**Board Handling:** Techniques and systems for transporting printed circuit boards in industrial manufacturing and shaping, (e.g. loading and unloading stations, magazine/buffer systems, flip/turn units and conveyors)

**Border Crossing:** Hard- and software for safe and quick border crossing as well as for a clear identification of documents and persons

**Carrier Tape:** Plastic straps for transporting and providing electronic components

**Cavity:** Milled cavity in a chip card for embedding the chip

**Chip on Board:** Technique for attaching and/or wiring dice onto carrier material such as printed circuit boards

**Coating & Drying:** Coating and drying of printed circuit boards

**Contactless Card:** Cards for contactless transmission of energy and data through electromagnetic fields

**Data Capturing:** Capturing and storing biometric information

**Data Enrollment:** Data capture and processing (e.g. taking and optimizing pictures for further treatment)

**Die Bonding:** Placing small silicon chips onto carrier material

**Die Sorter:** Equipment for separating and packing good dice

**Die, Dice:** Silicon crystal equipped with an individual semiconductor-related micro-controller

**Discrete Devices:** Semiconductor products such as low-voltage transistors or diodes

**Dual Interface Card:** Card type combining the functions of contact and contactless card technologies

**Downstream tracing:** Traceability of goods along the logistics chain from producer to consumer

**EMV:** Refers to a specification for payment cards equipped with a processor chip and for the belonging card devices (POS terminals and ATMs). The letters EMV stand for the three developers of this standard: Europay, MasterCard and VISA

**Encapsulation:** Protection of the chip and its wiring by encapsulating the reverse of a chip

**Flat Component Production:** Space-saving technology in the assembly of printed circuit boards

**Flip Chip Technology:** For flipping dice 180 degrees in order to attach them to carrier material

**GSM Card:** Standardized chip card to be used in mobile phones. The "Global System for Mobile Communications" is an international terrestrial mobile telephone system

**ICAO:** International Civil Aviation Organization; sets standards regarding safety, handling and optimizing international air traffic

**ID:** Stands for Identification or Identity Card (for instance IDD = Identity Card of the Federal Republic of Germany)

**Implantation:** Embedding a chip in a plastic card

**Inkjet:** Thin jets on the print head of an inkjet printer spray ink onto the medium

**Inlay:** An inlay is part of an RFID product and consists of an antenna and an RFID microchip connected to the antenna. The inlay is further converted into the final RFID product. Such RFID products are e.g. Smart Labels, RFID tickets, contactless plastic cards, ePassports etc.

**Module:** Carrier material for dice with arranged contact elements

**Mounter:** Machines for mounting, attaching and fixing parts

**Personalization:** "Programming" individual data on a chip card module. Application of visible data on a card, a passport or visa is also known as optical personalization

**Plug Punching:** Punching out the chip from a standardized chip card for mobile phones

**Plug-In:** Small-sized chip card in particular for GSM applications

**Power Devices:** Semiconductor products such as high-voltage transistors or diodes

**Pre-Personalization:** Loading an operating system onto a chip

**Remote maintenance tool:** Via the remote maintenance tool, the service technician can carry out remote maintenance tasks on the computer (system) of the customer

**RFID Chips:** Radio Frequency Identification; components used in a high frequency range

**SD (Secure Digital) Card:** Secure memory card similar to MMC multimedia cards; card application particularly used for digital cameras or as a storage medium for music, PDA, etc.

**Smart Card:** Chip card, i.e. plastic card equipped with a chip module

**Smart Label:** Ultra-flat transponders consisting of chip, antenna and substrate for identifying goods and persons

**Smart Media and Multi Media Cards:** Card application used in particular for digital cameras or as storage medium for music, etc.

**SMD (Surface Mounted Device):** Components, which are directly soldered to a board without drill holes. SMD components significantly reduce the component density of electronic circuits

**Tag:** RFID transponders are also termed as 'Tags'

**TAL (Tag Assembly Line):** Mühlbauer production system for the manufacture of Smart Inlays (Smart Inlay = antenna and functional chip)

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

**Testing & Packaging:** Testing, labeling and packaging semiconductor components for further processing

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

**Transponder:** Antenna located on a Smart Label between flexible carrier layers

**Turn-Key Solutions:** Turn-key product and services solutions

**Upstream tracing:** Tracability from consumer to dealer, his suppliers and if required also to original manufacturer

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

**Vision Technology:** Measuring and controlling components using camera systems and software

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

**Wafer Level Package:** Finished components on a wafer-basis, which are subject to further processing

**Wire Bonding:** Fully automated process for wiring dice with carrier material



**Balance sheets:** Forms a company's financial position at the end of a fiscal year and is part of the consolidated financial statements. The balance sheets displays the origin and purpose of a company's assets

**Capital employed:** Capital employed within a certain period of time. Consists of working capital plus the residual value of fixed assets (without long-term financial assets)

**Cashflow:** The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The cashflow statement is part of the consolidated financial statements and shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by purchasing/selling goods and services), investing activities (cash outflows for sustaining future growth), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds)

**Current assets:** Assets intended for short-term business activities

**Deferred taxes:** Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pretax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit result from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes

**Defined Benefit Obligation (DBO):** A measure to determine pension liabilities. The DBO is the extent of obligations determined on the basis of the projected unit credit method at a certain point of time for both forfeitable and non-forfeitable pension rights to pension beneficiaries considering salary increases. The determined cash value for all services rendered by the pension beneficiaries at this point of time will be considered

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

**Earnings per share:** Earnings (loss) per share – Basic earnings (loss) per share ("EPS") is calculated by estimating consolidated income (loss) before taxes (EBT) related to the original shareholders in the same percentage, that the ratio of their ordinary share capital corresponds to the

total capital (fixed capital contribution of the personally liable shareholder and ordinary share capital). To determine EPS the proportional EBT has to be deducted by a specific calculated tax quote related to the original shareholders (shown in Note (8)) and divided by the weighted average number of ordinary shares outstanding during the reporting period (financial quarter or year). Diluted EPS is calculated by dividing calculated proportional net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued

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

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

**EBITDA:** Earnings before interest, taxes, depreciation and amortization. EBIT extended by depreciation on fixed assets and amortization on intangible assets shows cash flow features, since non-liquid depreciation and amortization was added to the consolidated net earnings. EBITDA is often used for start-up companies or companies with high amortization, which might generate a annual loss

**Equity ratio:** An indicator of the proportion of equity capital in the Company's financing structure, calculated as the ratio of shareholders' equity capital to total assets

**Financial status:** The difference between a pension plan's defined benefit obligation (see DBO) and the fair market value of plan assets designated to meet pension obligations as of a specific date

**Free cashflow:** Inflow and outflow of cash from operating and investing activities excluded purchases or sales of marketable securities, sales of fixed assets and realized gains or losses therefrom

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

**Goodwill:** An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under US-GAAP, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if im-

paired. An impairment assessment is done at least once a year

**Gross cash position:** Total of cash and cash equivalents and marketable securities

**Gross profit on sales:** Net sales less cost of sales

**Hedging activities:** Hedging of interest or currency risks of individual or several basic transactions, for example by making use of derivative financial instruments

**IFRS/IAS:** International Financial Reporting Standards for guaranteeing international comparability in financial reporting and meeting the information requirements of investors and other addressees through higher transparency. The individual paragraphs of the IFRS are referred to as IAS (International Accounting Standards). Mühlbauer has prepared its financial statement according to the IFRS/IAS requirements since 2005

**Market capitalization:** The market price of a publicly listed company. At Mühlbauer the market price is calculated from the market value of the share multiplied by the resulting sum of shares from the division of total capital (EUR 18,810,976) and the nominal value per share of EUR 1.28

**Net cash position:** Gross cash position minus current and non-current liabilities

**Pension expenses:** Amount of pension costs realized in the income statement. They are composed of the expenses for new pension rights, interest expenses, the expected yield for plan assets, the repayment amount for actuarial gains and losses, the repayment amount for retroactive pension plan changes as well as the repayment amount for possibly underfunded initial expenses of IAS 19 (revised 1998) during the fiscal year

**Plan assets:** Assets from an external insurance provider, which are only used for insurance purposes and cannot be obtained by other corporate creditors, and which can only flow back to the company, if they are used for direct pension payments, or if they are no longer required for insurance purposes

**Risk management:** Systematic process of identifying, assessing and monitoring various financial risk factors and of selecting and implementing measures to handle them

**ROCE:** Return On Capital Employed – an indicator of operating performance, calculated as the percentage of EBIT in relation to capital employed

**Statement of income:** Displays a company's success during the reporting period and is part of the financial statement. The statement of income includes the cost on sales and posts all major costs according to their purpose

**Stock options:** Form of employee incentive and compensation. The employee is given an option to purchase a company's shares if certain targets are met under specified conditions

**Working capital:** Working capital indicates which part of current assets generates profits without causing capital expenses in a narrow sense and is calculated by non-interest bearing current assets less current and non-interest bearing liabilities. A low working capital base is consequently to be considered positive, since a company's supplier also generates company profits

**Working capital intensity:** An indicator for determining a company's sales-related current assets, calculated as the percentage of working capital in relation to net sales

**IMPRINT:**

**Published by:** Mühlbauer Holding AG & Co. KGaA

**Print:** Raiffeisendruckerei GmbH, Neuwied

**Photography:** Mühlbauer

**Further information:** This report refers to the group. The separate report for the Mühlbauer Holding AG & Co. KGaA can be downloaded on the homepage or be obtained from the company. The English translation is for the convenience of the reader only. The original German version is the legally binding text.

**Mühlbauer Holding AG & Co. KGaA**

Headquarters: Josef-Mühlbauer-Platz 1

93426 Roding, Germany

Phone +49-9461-952-0

Fax +49-9461-952-1101

Contact Investor Relations:

[investor-relations@muehlbauer.de](mailto:investor-relations@muehlbauer.de)

Phone +49-9461-952-1653

Fax +49-9461-952-8520

Visit us on the web at:

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