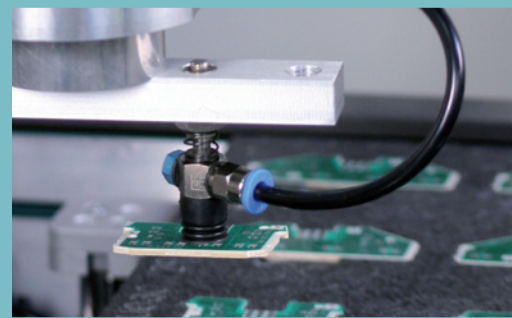




**Mühlbauer**  
High Tech International

Interim report

2. Quarter 2008



# Content

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Interim Management Report . . . . .	03
Consolidated Statements of Income . . . . .	10
Consolidated Balance Sheets . . . . .	11
Consolidated Statements of Cashflows . . . . .	12
Consolidated Statements of Changes in Shareholders' Equity . . . . .	13
Notes . . . . .	14
Financial Calendar . . . . .	24

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Group overview		Q2/2008	Q2/2007	1HY/2008	1HY/2007
Order income	EUR million	54.2	42.2	102.4	75.9
Order backlog	EUR million	83.4	86.6	83.4	86.6
Sales	EUR million	44.4	30.7	87.6	65.1
EBIT	EUR million	7.5	3.9	14.6	7.8
EBT	EUR million	7.4	5.2	15.0	9.3
Net earnings	EUR million	5.7	3.4	11.4	5.9
Earnings per share	EUR	0.39	0.21	0.78	0.37
Employees	Number	1,816	1,670	1,816	1,670

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# Interim Management Report

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## IMPORTANT NOTICE

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

## OVERVIEW OF THE BUSINESS DEVELOPMENT IN THE GROUP

Based on a large order for the complete transfer of technology and expertise for the production of electronic ID documents and the call of placed orders for the provision of technology and software solutions for *Cards & TECURITY®* applications, the Mühlbauer technology group is able, in Q2 2008, to continue the positive development of the previous quarter with a strong increase in orders and sales and to make a significant contribution to consolidated net earnings.

In Q2 2008, material events were:

- Order income rose 28.4% to EUR 54.2 million (42.2) – 65.2% growth in the core business area *Cards & TECURITY®* to EUR 33.7 million (20.4)
- At EUR 83.4 million, order backlog lagged slightly year-on-year (86.6)
- Growth in all business areas leads to considerable growth of group sales<sup>1</sup> of 45.0%, to EUR 44.5 million (30.7)
- At EUR 7.5 million, EBIT has almost doubled year-on-year (3.9) – EBIT margin at 17.0% (12.6%)
- Earnings before taxes were EUR 7.4 million – an increase of 42.3% year-on-year (5.2)
- Earnings per share climb from EUR 0.21 in the previous year to EUR 0.39
- Strong increase of free cashflow – EUR +7.0 million against EUR +1.2 million year-on-year

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If no other statement, figures in brackets from reference period of the previous year.

<sup>1</sup> The sales figures are the gross value before the deduction of earnings of EUR 0.1 million (PY: EUR 0.1 million) for Q2.

## FRAMEWORK CONDITIONS

### Global economy

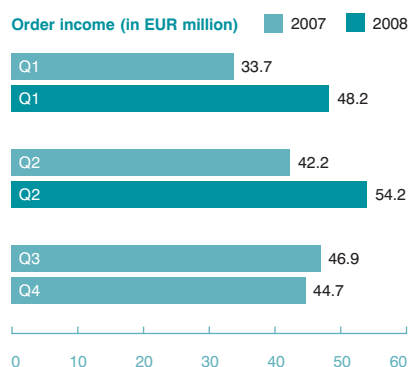
In Q2 2008 the global economy on a whole lost its momentum. Apart from the declining growth of the US American economy, the turbulences on the financial market as well as the rising raw material and food prices were causative factors. While growth continued to develop stably in the newly industrializing countries, economic growth in the euro zone slowed down even further. Despite the unfavorable global economic environment, the much anticipated deflation had not already taken hold of Germany.

### Industry development

Even in Q2 2008, the Cards & TECURITY® market benefits from the worldwide introduction of new innovative ID documents and chip cards. The process of transformation toward new electronic passports and ID cards, in particular, contributed to the growth of the industry, as did the replacement of EMV magnetic stripe cards with bank cards incorporating a chip. On the RFID market, however, the overall stable development of the market continued as anticipated. RFID is increasingly being used in the areas of supply chain management, logistics and ticketing, while retail has already implemented initial steps toward RFID at the sales level. In the general semiconductor industry, in which Mühlbauer is positioned in select niches, growth continued at a low level in Q2. The newly industrializing countries, including China, India and Latin America, are still the most important markets. In accordance with expectations, the markets relevant to Traceability have developed positively, which has led to a rise in investments in the traceability of electronic components.

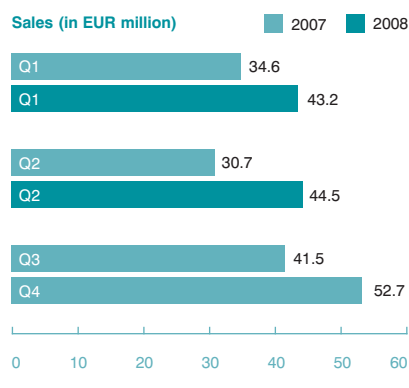
### Business development

#### Order income and order backlog



Demand for technology solutions and products by Mühlbauer continued unabated in Q2. With new orders worth EUR 54.2 million (42.2) the order book reports year-on-year growth of 28.4%. Order income in Cards & TECURITY® was particularly strong. Based on the order volume of EUR 12.6 million from a large order of a European country for the complete transfer of technology and expertise for the production of electronic ID documents placed in the reporting period, and additional orders of production solutions for innovative card applications, the core business area achieved an order income of EUR 33.7 million (20.4) – an increase of 65.2% over the second quarter of the previous year. In Semiconductor Related Products order income totaled EUR 10.8 million (12.9). While the semiconductor-related area thus lagged the comparatively high order income for the same period of the previous year by 16.3% due to the weak semiconductor environment, Precision Parts & Systems declined only slightly year-on-year, at EUR 5.0 million (5.2). The business area Traceability, which again benefited from the sustained demand for systems for the marking of electronic components, continued its growth. In this area, order income rose by 27.0% from EUR 3.7 million to EUR 4.7 million. With regard to cumulated order income for the first half of 2008, Mühlbauer recorded a year-on-year increase of 34.9%, thus reporting a new half-yearly record high of EUR 102.4 million. The order backlog to the end of the first half of 2008 amounted to EUR 83.4 million (86.6), thus lagging the year-on-year value slightly by 3.7%.

### Sales<sup>2</sup>



The globally active Mühlbauer Group continued its positive sales development. In Q2, sales climbed 45.0% year-on-year to EUR 44.5 million (30.7), as a result of growth in all business areas. Mühlbauer recorded the highest sales increase in its core business area Cards & TECURITY®, which benefited in particular from the call of card production equipment and ePassport personalization solutions. In the period under review, Mühlbauer achieved sales of EUR 24.6 million in Cards & TECURITY® – 58.7% more year-on-year (15.5). With EUR 10.1 million (7.0), sales in Semiconductor Related Products were 44.3% higher year-on-year, while Traceability extended its sales volume by 31.4%, to EUR 4.6 million (3.5). Precision Parts & Systems contributed sales of EUR 5.2 million (4.7). This corresponds to a year-on-year increase of 10.6%. On a half-yearly comparison, sales rose 34.3%, from EUR 65.3 million to EUR 87.7 million.

As a result of the regional concentration of the company's project business recorded in Q2, Europe became the largest export region for Mühlbauer's system solutions in the

If no other statement, figures in brackets from reference period of the previous year.

<sup>2</sup> The sales figures are the gross value before the deduction of earnings of EUR 0.1 million (PY: EUR 0.1 million) for Q2.

reporting period with a share in sales of 71.9% (54.4%). Asia contributed 16.6% (34.1%) to quarterly sales, while the North and South American markets extended their share in sales based on projects to 11.1% (5.7%) year-on-year. In the remaining regions Africa and Australia, the share in sales dropped to 0.4% (5.8%). In-depth information on regional sales development can be found on page 20 of the notes.

## EARNINGS, FINANCIAL AND ASSET SITUATION

In Q2 2008, the Mühlbauer technology group recorded a strong increase in earnings. At EUR 7.5 million, earnings before interest and taxes (EBIT) almost doubled compared to the same period of the previous year (3.9), while earnings per share rose from EUR 0.21 to EUR 0.39.

### Earnings

One of the reasons for the significant increase in earnings is the relative decline in cost of sales from 59.0% to 57.2% year-on-year, which is due to both the change in product mix and the higher year-on-year level of utilization of existing production capacities and the resultant economy-of-scale effect. The virtually unchanged administrative expenses were, however, offset by significantly higher selling expenses as well as higher research and development costs. Selling expenses therefore increased by EUR 1.0 million, due primarily to the higher risk provisions for trade accounts receivable concluded in Q2 2008, while earnings of EUR 0.3 million from the discontinuation of such risks were recorded for the same period of the previous year. The increase of research and development costs by EUR 1.5 million is largely due to the lower capitalization share, which, at EUR 0.3 million, is EUR 0.6 million lower than in the previous year (EUR 0.9 million), as well as general cost increases. The rise of other expenses by EUR 0.4 million is predominantly the result of one time charges in connection with the use of certain development results. On a quarterly comparison, the securities and interest result included in the financial result (minus EUR 0.1 million; PY: plus EUR 1.3 million) was EUR 1.0 lower year-on-year, largely due to the unfavorable capital market environment. Expenses of EUR 0.5 million, from the market valuation of loans, also impacted the result negatively. In Q2 the tax rate was 22.9% against 35.1% year-on-year. The declining tax rate is predominantly the result of the reduction of the income tax rate for German group companies, resolved in the course of passing the 2008 German Corporate Tax Reform. Furthermore, the tax gains of certain group companies abroad, achieved in the reporting period, are not subject to income tax due to tax exemptions over several years, which has resulted in a further decline of the group's tax rate. In the second quarter of the previous year, however, the initial losses of two group companies abroad, in respect of which no deferred tax assets were formed due to a tax exemption over several years, resulted in an increase of the group's tax rate. After deduction of tax expenses, net income for Q2 totaled EUR 5.7 million, after EUR 3.4 million year-on-year.

At EUR 14.6 million, earnings before interest and taxes (EBIT) in the first half of 2008 were EUR 6.8 million higher year-on-year (EUR 7.8 million). This corresponds to an EBIT margin of 16.7% (11.9%). Apart from the significantly higher level of half-yearly sales, the change in product mix, the higher utilization of production capacities and the resultant economy of scale effects were responsible for this increase in result, leading to a higher gross profit on sales performance (EUR 37.8 million; PY: EUR 25.5 million). The sales growth is associated with rising expenditure. Compared to 1HY 2007, earnings are impacted by EUR 3.0 million higher selling expenses and EUR 2.5 million higher research and development costs. Net earnings in 1HY 2008 totaled EUR 11.4 million, against EUR 5.9 year-on-year. Earnings per share more than doubled in the same period, from EUR 0.37 to EUR 0.78.

**Cashflow** At EUR 14.3 million, cashflow from operating activities in the first half of the current financial year, was slightly higher year-on-year (EUR 14.1 million). In 1HY 2008, earnings before tax, which were EUR 5.7 million year-on-year and the EUR 3.9 million lower payments of income tax, are offset by an increase of EUR 6.6 million in working capital (EUR 1.4 million) and the lower inflows from the disposal of short-term securities, balanced against outflows from the purchase of such securities, of EUR 3.3 million (EUR 7.5 million). In 1HY 2008, at minus EUR 6.6 million, cashflow from investment activities was significantly lower year-on-year (plus EUR 1.5 million). In the previous year surplus funds of EUR 7.0 million from the disposal and purchase of long-term securities were recorded, while EUR 1.0 million was spent on the purchase of such securities in 1HY 2008. At EUR 7.0 million, free cashflow was markedly higher year-on-year (EUR 1.2 million). The dividends of EUR 14.5 million (EUR 17.4 million) to shareholders and the personally liable shareholder in Q2 2008 were paid from the free cashflow, sales of securities and liquid funds. In the same period net liquidity rose from EUR 29.4 million to EUR 32.2 million.

**Assets** The group's balance sheet total increased only slightly by 1.1% to EUR 176.5 million against 31 December 2007 (PY: EUR 174.6 million). In so doing, the level of short-term assets included in the balance sheet total also rose only slightly from 64.7% to 65.2%. The equity ratio dropped from 81.2% to 77.9%. As a result of the extension of business, working capital rose by EUR 6.6 million to EUR 52.7 million. The increases in trade accounts receivable (EUR 4.5 million), inventories (EUR 4.3 million), other current assets (EUR 2.4 million) and tax receivables (EUR 1.7 million) are primarily offset by a rise in trade accounts payable (EUR 3.1 million) and other accruals (EUR 2.1 million) as well as paid deposits (EUR 1.1 million). Long-term assets advanced by EUR 0.3 million. The increase of long-term receivables from other loans (EUR 1.1 million) and securities (EUR 0.9 million) is largely offset by a decline of intangible assets (EUR 1.4 million) and trade accounts receivable (EUR 1.1 million). Shareholders' equity dropped from EUR 141.7 million to EUR 137.5 million in 1HY 2008. The dividend payment and distribution of profits to the personally liable shareholder amounting to EUR 14.5 million played a crucial role with regard to the decline of shareholders' equity. Earnings before tax of EUR 11.4 million, achieved in 1HY 2008, had a major influence on the increase of shareholders' equity.

## FACTOR INPUT

**Investments** Gross investments of the Mühlbauer Group in fixed and intangible assets during Q2 2008 totaled EUR 1.9 million (2.3). As a result, the total investment volume for the first half of 2008 amounted to EUR 3.2 million (4.9). Investments in Q2 related primarily to expenses for the extension of the company's buildings and machine park and for the establishment of a distribution and customer center for traceability solutions at the German sites Stollberg and Ehingen. Investments were also made in respect of the US American Customer Relation Center, which has already commenced construction, and the purchase of machinery for the technology site Slovakia.

**Research and development** In Q2 2008, research and development expenses of the Mühlbauer Group totaled EUR 5.8 million (4.3) and rose to EUR 12.1 million (9.5) in the first half of 2008. Based on sales, this corresponds to a R&D rate of 13.8%, against 14.6% in the previous year. In the Cards & TECURITY® area Mühlbauer extended its existing product portfolio by a further high-speed solution for the personalization of GSM/UMTS cards (GSM 5000) and by new process modules, such as chip coding and laminating units for personalization technology. Furthermore, Mühlbauer developed machinery for the milling and hologram application processes used in the production of card bodies as well as for the mailing of card applications with a higher throughput. In the business area Semiconductor Related Products, Mühlbauer has completed its TAL 20.000 – the by far fastest machine on the market for the chip assembly of antennae – so that it can be produced in series, while developing a

flexible system for strap production, the FCM 20.000. In addition, Mühlbauer established a high-performance die sorter system (DS 15.000) for its niche market in semiconductor backend, which can process die flexibly for a range of different products. In Traceability the technology group focused on the further development of test and sorter cells..

To the end of 1HY 2008 the Mühlbauer Group employed 1,816 staff, against 1,670 in the same period of the previous year. The need for additional staff results from the internationalization of the group in connection with the development of new sites abroad. In doing so, the number of highly qualified engineers and technicians in the R&D area has risen – it climbed to 338 (332) employees. At 14.5% (12.5%) the company's training rate remained high. At the end of the reporting period 264 (208) adolescents were employed by Mühlbauer as apprentices or trainees in 14 different jobs.

## Employment

### POTENTIAL CHANGES TO THE TAX BASIS

No changes occurred within the reporting period with regard to the suit filed by the personally liable shareholder, contesting the taxation of earnings related to him, which is described in detail in the notes (31) of the 2007 Annual Report.

### RISK REPORT

Against the background of a systematic and efficient risk management system, risks at Mühlbauer are delimited and manageable. At the moment, risks constituting a threat to the continuity of the company are not discernible. The group encounters all temporary volatility from the increasing project business and resultant changes with regard to the probability of cost, liquidity and personnel risks with intensive controlling measures, to be able to react to unfavorable developments with countermeasures in a timely manner. Our professional project management and intensive project controlling of large projects ensures that we meet our predetermined goals and can quickly identify any deviations from these goals. The company confronts risks arising from the use of certain development results with systematic research, analysis and valuations to develop – also in coordination with external advisors – corresponding reactive strategies. Market opportunities and entrepreneurial risks that could potentially arise from the group's continuing internationalization expansion in Asia, Eastern Europe and the USA were and will continue to be closely monitored and assessed. The statements contained in the risk report of the 2007 Annual Report still apply.

## OUTLOOK

**Global economy** In view of the considerable strains, global economic growth will lose headway in the 2008 financial year and gain considerably slower than in previous years. The greatest risks to the global economy are currently the crisis in the US American real estate and finance sector and the high rates of inflation worldwide. According to leading institutes of economics, the high growth dynamics of the newly industrializing countries (NICs) will, however, protect the global economy from a major collapse. Nonetheless, the economic growth of the NICs is likely to diminish as a result of inflation reducing measures. The economy in the euro zone will also expand, despite the oppressive appreciation of the common currency, however, it will record growth below the level of the previous year. For Germany the institutes of economics expect a growth of gross domestic product of 2.2% for the current year.

**Industry development** As it is not so much economic decisions but rather structural decisions that affect the potential of growth of the market for electronic ID systems and chip cards, it can be assumed that the demand for innovative and reliable technology and software solutions for the production of security-oriented documents in smart card and passport formats will continue positively. Here the focus is on the interest of states and public authorities in guaranteeing a higher level of security and flexibility by switching to new innovative ID applications. Apart from the rise in demand for electronic passports, ID cards, driver's licenses or health cards, the greater implementation of border crossing systems for biometric control, e.g. at airports or borders, is therefore scheduled for the future. Moreover, a further intensification of demand for EMV and GSM/SIM cards is to be expected. The previous EMV magnetic stripe cards are increasingly being replaced by chip cards, while developing and newly industrializing countries are contributing to a rise in demand for GSM/SIM cards. The contactless identification of goods and objects by means of the RFID technology is also being pushed ahead. RFID is being used more and more frequently to optimize logistics processes or in ticketing for secure access control. According to a current estimate by the market research company ABI Research, the RFID market has the potential to grow with a compound annual growth rate of 15% until 2013. The outlooks of market researchers in respect of the semiconductor market, which were still quite varied at the end of Q1, have now converged. Semiconductor Industry Association (SIA), the industry expert, has reduced its growth outlook from 7.7% to 4.3% for the entire year, while the market researcher Gartner is forecasting a 4.6% growth of the industry. On the markets relevant to Traceability, it is expected that demand for marking technologies – resulting in the traceability of products and subsequently to an improvement of quality – will result in further investments.

**Business development** The Mühlbauer technology group is expecting to continue the good development of sales and earnings in the current year, while this will primarily be driven by the demand for system solutions from the Cards & TECURITY® area. Several countries and public authorities are currently still at the beginning of a transformation and implementation process involving innovative security-oriented ID systems and will require systems to realize their ID projects. Furthermore, in many countries the next step, namely the introduction of automatic border verification solutions, is being targeted. The increasing demand for EMV bank cards and GSM/SIM cards is also relevant to the development of the business area Cards & TECURITY®. It should continue to exert a positive influence on the need for Smart Card production systems. Moreover, the business area Semiconductor Related Products is expected to undergo an intensification of demand. While short-term delays are possible in the product line Smart Label, due to fluctuations in supply and demand, the increasing use of RFID labels in supply chain management and ticketing should medium- to long-term result in the growth anticipated by many experts. The Mühlbauer technology group is excellently prepared for this growth, thanks to its unique global competence in RFID Smart Label production – starting with the production of inlays, through to converting, testing and sorting. As a result of the increasing market maturity of its new high-performance machine solutions, Mühlbauer is also ideally positioned in promising niches of the semiconductor



industry to benefit strongly from a future development of demand. The positive development of business in the Traceability and Precision Parts & Systems areas should continue in the second half of 2008, subject to the fact, however, that the market environment remains favorable.

### **IMPORTANT NOTICE**

This Interim Management Report contains future-oriented statements; statements that are not based on historical facts but on current plans, assumptions and estimates. Forward-looking statements are only applicable to the period in which they are made. 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 in other sections of the Annual Report 2007 and other parts of this interim report.

**CONSOLIDATED STATEMENTS OF INCOME (IFRS) FROM JANUARY 1 TO JUNE 30, 2008  
OF MÜHLBAUER HOLDING AG & Co. KGaA<sup>1)</sup>**

	Notes	April 1. - June 30, 2008 TEUR	April 1. - June 30, 2007 TEUR	January 1. - June 30, 2008 TEUR	January 1. - June 30, 2007 TEUR
<b>1. Sales</b>		<b>44,405</b>	<b>30,656</b>	<b>87,555</b>	<b>65,126</b>
2. Cost of sales	(3)	(25,384)	(18,094)	(49,713)	(39,658)
<b>3. Gross profit</b>		<b>19,021</b>	<b>12,562</b>	<b>37,842</b>	<b>25,468</b>
4. Selling expenses	(4)	(3,593)	(2,558)	(7,486)	(4,518)
5. Administrative expenses		(1,918)	(1,986)	(3,814)	(3,913)
6. Research and development		(5,801)	(4,303)	(12,077)	(9,529)
7. Other income		256	178	640	312
8. Other expenses	(5)	(438)	(33)	(520)	(56)
<b>9. Operating income</b>		<b>7,527</b>	<b>3,860</b>	<b>14,585</b>	<b>7,764</b>
10. Financial result					
a) Financial income	(6)	529	1,637	1,570	2,000
b) Financial expenses	(6)	(630)	(308)	(1,131)	(422)
<b>11. Income before income taxes</b>		<b>7,426</b>	<b>5,189</b>	<b>15,024</b>	<b>9,342</b>
12. Income taxes		(1,701)	(1,821)	(3,631)	(3,462)
<b>13. Net earnings</b>		<b>5,725</b>	<b>3,368</b>	<b>11,393</b>	<b>5,880</b>
<b>Earnings per share in EURO</b>					
basic	(7)	0.39	0.21	0.78	0.37
fully diluted	(7)	0.39	0.21	0.78	0.37
<b>Weighted average of shares</b>					
basic	(7)	6,113,711	6,094,947	6,113,711	6,094,947
fully diluted	(7)	6,113,713	6,095,080	6,113,713	6,095,080

<sup>1)</sup> uncertified

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

**CONSOLIDATED BALANCE SHEETS (IFRS) AS AT JUNE 30, 2008  
OF MÜHLBAUER HOLDING AG & Co. KGaA**

	Notes	June 30, 2008 <sup>1)</sup> TEUR	December 31, 2007 <sup>2)</sup> TEUR
<b>ASSETS</b>			
<b>Short-term assets</b>			
Cash and cash equivalents		9,545	16,425
Marketable securities	(8)	17,173	21,062
Trade accounts receivable	(9)	34,065	29,536
Other current assets	(10)	7,197	4,770
Tax receivables		2,918	1,233
Inventories	(11)	44,207	39,913
		<b>115,105</b>	<b>112,939</b>
<b>Long-term assets</b>			
<b>Investment and long-term financial assets</b>			
Marketable securities		5,468	4,562
Trade accounts receivable	(9)	389	1,536
Other loans		3,293	2,150
		<b>9,150</b>	<b>8,248</b>
<b>Fixed assets</b>			
Land and buildings		26,073	26,276
Technical equipment		7,805	8,217
Furniture and office equipment		5,025	5,315
Buildings and equipment in progress		1,355	179
		<b>40,258</b>	<b>39,987</b>
<b>Intangible assets</b>			
Software and licenses		689	1,001
Capitalized development costs		7,525	8,603
		<b>8,214</b>	<b>9,604</b>
<b>Other long-term assets</b>			
Long-term tax receivables		2,413	2,389
Deferred tax assets		76	162
Plan assets	(12)	1,280	1,302
		<b>3,769</b>	<b>3,853</b>
		<b>176,496</b>	<b>174,631</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Short-term liabilities</b>			
Financial liabilities		20	21
Trade accounts payable		9,199	6,068
Downpayments		7,868	6,769
Other liabilities		4,507	5,226
Accrued income taxes		2,672	1,962
Other accruals		11,428	9,350
		<b>35,694</b>	<b>29,396</b>
<b>Long-term liabilities</b>			
Deferred tax liabilities		3,278	3,492
		<b>3,278</b>	<b>3,492</b>
<b>Shareholders' equity</b>			
Ordinary share capital		8,038	8,038
Own shares	(13)	(202)	(214)
Fixed capital contribution		(2,980)	(2,980)
Additional paid-in capital	(13)	60,677	60,483
Other comprehensive income	(13)	(1,014)	326
Retained earnings	(13)	73,005	76,090
		<b>137,524</b>	<b>141,743</b>
		<b>176,496</b>	<b>174,631</b>

<sup>1)</sup> uncertified <sup>2)</sup> certified

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

**CONSOLIDATED STATEMENTS OF CASHFLOWS (IFRS)  
OF MÜHLBAUER HOLDING AG & Co. KGaA<sup>1)</sup>**

	January 1. - June 30, 2008 TEUR	January 1. - June 30, 2007 TEUR
<b>Cash provided by operating activities</b>		
1. Net earnings	11,393	5,880
2. + Income taxes	3,631	3,462
3. + Interest expenses	90	79
4. - Interest incomes	(181)	(178)
<b>Adjustments for non cash expenses and income</b>		
5. +/- Expenses/(income) from employee profit-sharing programs	75	155
6. +/- Depreciations/(appreciations) to fixed assets	3,097	3,210
7. +/- Depreciations/(appreciations) to intangible assets	333	349
8. +/- Depreciations/(appreciations) to capitalized development costs	1,985	876
9. +/- (Gains)/losses from the sale of fixed assets	(78)	(35)
10. +/- Currency differences from the transition of long-term assets	-	9
11. +/- Realized net (gains)/losses from short- and long-term marketable securities	(259)	(963)
12. +/- (Gains)/losses from the change in fair value of financial instruments	(47)	100
13. +/- (Increase)/decrease of deferred tax assets	102	(361)
14. +/- Increase/(decrease) of deferred tax liabilities	(200)	107
<b>Changes in long-term assets and working capital</b>		
15. +/- (Increase)/decrease of inventories	(4,294)	(5,722)
16. +/- (Increase)/decrease of trade accounts receivables and other short-term assets	(7,212)	2,173
17. +/- Increase/(decrease) of trade accounts payables and other liabilities	6,915	5,715
18. + Proceeds from sales of short-term marketable securities (available-for-sale papers)	27,166	17,664
19. - Acquisitions of short-term marketable securities (available-for-sale papers)	(23,869)	(10,153)
20. = Cash generated from operating activities	18,647	22,367
21. - Income tax paid	(4,509)	(8,400)
22. - Interest paid	(4)	(70)
23. + Interest received	147	165
24. = Cash provided by operating activities	14,281	14,062
<b>Cashflow from investing activities</b>		
25. + Proceeds from disposals of fixed assets	116	777
26. +/- (Increase)/decrease of other loans	(1,380)	-
27. - Purchase of fixed assets	(3,085)	(4,854)
28. - Purchase of intangible assets	(333)	(279)
29. - Expenditures for capitalized development costs	(906)	(1,161)
30. + Proceeds from sales of long-term marketable securities (available-for-sale papers)	-	8,652
31. - Acquisitions of long-term marketable securities (available-for-sale papers)	(977)	(1,672)
32. = Cash used for investing activities	(6,565)	1,463
<b>Cashflow from financing activities</b>		
33. +/- Increase/(decrease) of short-term financial liabilities	(1)	1
34. + Proceeds from sales of own shares	131	475
35. - Dividends paid	(13,364)	(15,718)
36. +/- Tax withdrawal personally liable shareholder	(1,114)	(1,657)
37. = Cash used for financing activities	(14,348)	(16,899)
38. +/- Increase/(decrease) of currency exchange rate changes	(248)	(46)
39. = Net increase/(decrease) in cash and cash equivalents (Total of lines 24, 32, 37 and 38)	(6,880)	(1,420)
40. + Liquid funds on January 1	16,425	11,311
41. = Liquid funds on June 30	9,545	9,891

<sup>1)</sup> uncertified

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	Other comprehensive income/(loss)			Total TEUR
							Cumulative transaction adjustments TEUR	Available for-sale- securities TEUR	Retained earnings TEUR	
<b>Balance January 1, 2007<sup>1)</sup></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>
Net earnings		-	-	-	-	-	-	-	5,880	5,880
Other comprehensive income/(loss)	(13)	-	-	-	-	-	(46)	(306)	-	(352)
Total comprehensive income/(loss)	(13)	-	-	-	-	-	(46)	(306)	5,880	5,528
Deferred compensation	(13)	-	-	-	-	155	-	-	-	155
Proceeds from sales of own shares	(13)	-	20,262	26	-	449	-	-	-	475
Dividends	(13)	-	-	-	-	-	-	-	(17,375)	(17,375)
<b>Balance June 30, 2007<sup>2)</sup></b>		<b>6,279,200</b>	<b>(167,240)</b>	<b>7,824</b>	<b>(2,980)</b>	<b>60,476</b>	<b>55</b>	<b>852</b>	<b>62,856</b>	<b>129,083</b>
<b>Balance January 1, 2008<sup>1)</sup></b>		<b>6,279,200</b>	<b>(167,240)</b>	<b>7,824</b>	<b>(2,980)</b>	<b>60,483</b>	<b>(88)</b>	<b>414</b>	<b>76,090</b>	<b>141,743</b>
Net earnings		-	-	-	-	-	-	-	11,393	11,393
Other comprehensive income/(loss)	(13)	-	-	-	-	-	(438)	(902)	-	(1,340)
Total comprehensive income/(loss)	(13)	-	-	-	-	-	(438)	(902)	11,393	10,053
Deferred compensation	(13)	-	-	-	-	75	-	-	-	75
Proceeds from sales of own shares	(13)	-	9,245	12	-	119	-	-	-	131
Dividends	(13)	-	-	-	-	-	-	-	(14,478)	(14,478)
<b>Balance June 30, 2008<sup>2)</sup></b>		<b>6,279,200</b>	<b>(157,995)</b>	<b>7,836</b>	<b>(2,980)</b>	<b>60,677</b>	<b>(526)</b>	<b>(488)</b>	<b>73,005</b>	<b>137,524</b>

<sup>1)</sup> certified <sup>2)</sup> uncertified

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

# Notes

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## 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, Malaysia and Slovakia. Sales are effected globally, via the company's own sales and services network and trade representations in different countries.

#### Principles of presentation

The present unaudited and unrevised consolidated interim financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS) and the relevant interpretation of the International Accounting Standards Board (IASB) for interim reporting, as applicable in the European Union. As a result, these consolidated interim financial statements notes do not contain all the information and notes required by the IFRS for consolidated financial statements at the end of a financial year.

In the personally liable shareholder's view, the present unaudited and unrevised consolidated interim financial statements contain all adjustments necessary to reflect the actual earnings situation of the interim result. The results for the reporting period ending on 30 June 2008, do not necessarily enable the drawing of conclusions with regard to the development of future results.

In the context of drawing up consolidated interim financial statements in accordance with IAS 34 'Interim Financial Reporting', the personally liable shareholder has to make assessments, estimates and assumptions that impact the application of reporting principles within the group and the statement of assets and liabilities as well as income and expenses. The actual results may deviate from these estimates.

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**Principles of consolidation**

The accounting principles applied to the consolidated interim financial statements correspond with those of the last consolidated financial statements at the end of the financial year. A detailed description of accounting principles is provided in the notes to the consolidated financial statements of our 2007 Annual Report.

**Changes in the scope of consolidation**

On 19 June 2008 the company entered into a joint venture agreement with two other companies. The background to this agreement is the purchase of a 45% share in a project company. The company will account for this participation using the equity method.

**(2) SUMMARY OF KEY  
ACCOUNTING PRINCIPLES**

## B. EXPLANATIONS TO THE CONSOLIDATED STATEMENT OF INCOME

**(3) COST OF SALES** Apart from directly attributable costs such as those related to materials, personnel, power and overheads, cost of sales also comprise the balance of devaluations and revaluations on inventories. In Q2 2008 this resulted in expenses of TEUR 763 (PY: TEUR 599) and in 1HY 2008 to TEUR 2,210 (PY:TEUR 2,663).

**(4) SELLING EXPENSES** Selling expenses in Q2 2008 comprise expenses from the appropriation of value adjusted trade receivables of TEUR 1,062 (PY: TEUR earnings 264). In 1HY 2008, these expenses amounted to TEUR 1,142 (PY: earnings TEUR 1,054).

**(5) OTHER EXPENSES** The change in other expenses largely results from the formation of accruals in connection with the utilization of specific development results.

<b>(6) FINANCIAL RESULT</b>	<b>1 Apr. - 30 June 2008 TEUR</b>	<b>1 Apr. - 30 June 2007 TEUR</b>	<b>1 Jan. - 30 June 2008 TEUR</b>	<b>1 Jan. - 30 June 2007 TEUR</b>
Realized income from securities and financial assets	101	1,290	570	1,388
Interest and dividend income	211	310	779	547
Other interest and similar earnings	217	37	221	65
<b>Financial income</b>	<b>529</b>	<b>1,637</b>	<b>1,570</b>	<b>2,000</b>
Realized losses from securities and financial assets	(132)	(262)	(311)	(305)
Interest and similar expenses	(498)	(46)	(820)	(117)
<b>Financial expenses</b>	<b>(630)</b>	<b>(308)</b>	<b>(1,131)</b>	<b>(422)</b>
<b>Total</b>	<b>(101)</b>	<b>1,329</b>	<b>439</b>	<b>1,578</b>

**(7) EARNINGS PER SHARE** The basic and diluted earnings per share are calculated as follows:

		<b>1 Apr. - 30 June 2008</b>	<b>1 Apr. - 30 June 2007</b>	<b>1 Jan. - 30 June 2008</b>	<b>1 Jan. - 30 June 2007</b>
Income before income taxes	TEUR	7,426	5,189	15,024	9,342
Portion of share capital in total capital	%	42.73	42.73	42.73	42.73
Portion of income before income taxes applicable to the shareholders of the limited partnership	TEUR	3,172	2,217	6,419	3,992
Effective tax rate	%	23.78	43.26	25.51	43.97
Effective tax amount	TEUR	754	959	1,637	1,755
Portion of net earnings for the year applicable to the shareholders of the limited partnership	TEUR	2,418	1,258	4,782	2,236
Weighted average of common shares	No.	6,279,200	6,279,200	6,279,200	6,279,200
Repurchased shares (weighted)	No.	(165,489)	(184,253)	(165,489)	(184,253)
Weighted average of shares outstanding	No.	6,113,711	6,094,947	6,113,711	6,094,947
Dilution effects from subscription rights of employees and executives	No.	2	133	2	133
Weighted average of shares outstanding (diluted)	No.	6,113,713	6,095,080	6,113,713	6,095,080
Basic earnings per share	EUR	0.39	0.21	0.78	0.37
Diluted earnings per share	EUR	0.39	0.21	0.78	0.37



**C. EXPLANATIONS ON THE CONSOLIDATED BALANCE SHEET**

in TEUR	30 June 2008	31 Dec. 2007
<b>Securities of the category "available-for-sale"</b>		
Shares and comparable securities	14,988	18,424
Bonds	2,185	2,638
	<b>17,173</b>	<b>21,062</b>

**(8) MARKETABLE SECURITIES**

In Q2 2008, earnings of TEUR 20,256 (PY: TEUR 16,798) were achieved from the sale of shares and comparable securities and TEUR 25,716 (PY: TEUR 17,782) in 1HY 2008. The resultant losses amounted to TEUR 33 (PY: income of TEUR 1,181) in Q2 2008. In 1HY 2008, this generated gains of TEUR 242 (PY: TEUR 1,269). Payments for the purchase of shares and comparable securities amounted to TEUR 10,667 (PY: TEUR 8,207) in Q2 2008 and TEUR 22,881 (PY: TEUR 10,152) in 1HY 2008.

Earnings from the disposal of bonds were TEUR 950 (PY: TEUR 1,801) in Q2 2008 and TEUR 1,450 (PY: TEUR 2,801) in 1HY 2008. The resultant gains amounted to TEUR 2 (PY: loss of TEUR 63) in Q2 2008 and TEUR 17 (PY: loss of TEUR 97) in 1HY 2008. Payments for the purchase of bonds were TEUR 988 in both Q2 and 1HY 2008.

The earnings achieved from the sale of funds were largely utilized for the distribution of profits and for investments (we refer to the consolidated statements of cashflows).

in TEUR	30 June 2008		Total	31 December 2007		Total
	With a residual term of up to 1 year	With a residual term of more than 1 year		With a residual term of up to 1 year	With a residual term of more than 1 year	
Trade accounts receivable	36,170	389	36,559	30,500	1,536	32,036
Less value adjustments	(2,105)	-	(2,105)	(964)	-	(964)
	<b>34,065</b>	<b>389</b>	<b>34,454</b>	<b>29,536</b>	<b>1,536</b>	<b>31,072</b>

**(9) TRADE ACCOUNTS RECEIVABLE**

Other current assets include advance payments of TEUR 3,857 (PY: TEUR 694).

**(10) OTHER CURRENT ASSETS**

**(11) INVENTORIES**

in TEUR	30 June 2008	31 Dec. 2007
Raw materials, auxiliary and operating materials	7,418	6,818
Unfinished products	31,842	27,962
Finished products and trade goods	4,947	5,133
	<b>44,207</b>	<b>39,913</b>

In Q2 2008, inventory assets were devalued by TEUR 763 (PY: TEUR 598) and in 1HY 2008 by TEUR 2,210 (PY: TEUR 2,663).

**(12) PENSION AND POSTRETIREMENT BENEFITS**

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

in TEUR	1 Jan. - 30 June 2008	30 June 2008	1 Jan. - 31 Dec. 2007	31 Dec. 2007
<b>Accruals for pension obligations at the beginning</b>		<b>(1,302)</b>		<b>(926)</b>
Amounts recorded as income				
Current service cost	98		446	
Interest expenses on obligations	119		199	
Expected earnings on plan assets	(96)		(173)	
Amortization of actuarial losses	-	121	31	503
Contributions to plan assets		(99)		(879)
<b>Accruals for pension obligations at the end</b>		<b>(1,280)</b>		<b>(1,302)</b>

**(13) SHAREHOLDERS' EQUITY** **Own shares**

On the basis of the resolution passed by the Annual General Meeting on 29 April 2008, the personally liable shareholder is authorized to purchase company shares of up to 10% of the current ordinary share capital until 30 September 2009, for specific pre-defined purposes.

Of its stock of 167,240 own shares with a nominal value of EUR 214,067.20 at the beginning of the financial year, 840 shares with a nominal value of EUR 1,075.20 were ceded in the form of anniversary shares free of charge. In the course of the asset formation campaign undertaken on behalf of employees of the Mühlbauer Group 8,405 own shares were disposed with a nominal value of EUR 10,758.40 for a price per share of EUR 15.51. This corresponds to a portion of the ordinary share capital of 0.13%. The profit totalling TEUR 131 will be used to enhance the working capital. As per 30 June 2008 the company holds a stock of 157,995 own shares of a nominal value of EUR 202,233.60. At this point in time, the percentage of own shares in the ordinary share capital is 2,52%.

### Other comprehensive income

The following table shows the development of the changes in equity that do not affect income.

in TEUR	Financial assets of the category "available-for-sale"	Difference due to currency translation	Total
Status as per 01 January 2008	414	(88)	326
Adjustments to market values	(673)	-	(673)
Currency adjustments	-	(438)	(438)
Deferred taxes in shareholders' equity	29	-	29
Reclassification in income statement	(258)	-	(258)
<b>Status as per 30 June 2008</b>	<b>(488)</b>	<b>(526)</b>	<b>(1,014)</b>

### Appropriation of earnings

The Annual General Meeting on 29 April 2008 resolved the payment of a dividend of EUR 1.00 per no par value share entitled to participate in the profits. Apart from the payment of a total dividend of TEUR 6,121 to the shareholders of the company, the appropriation of earnings also includes the transfer of profits and losses of the company, laid down in the partnership agreement, to the personally liable shareholder, Mühlbauer Holding AG & Co. Verwaltungs KG, of TEUR 8,357, due in parallel. Taxes of TEUR 1,758, paid by the company and to be borne by the personally liable shareholder are deducted from this amount.

### Stock purchase programs

As per 30 June 2008 110 granted options of Tranche 4 are expired. On the basis of specific accomplished personal or team goals, the employees of the Mühlbauer Group held a total of 1,184 subscription rights at the end of the reporting period. Every single subscription right authorizes its holder to subscribe to one common share issued to the bearer.

The average exercise price is EUR 27.85. All subscription rights can be exercised without observing a waiting period. The company intends to make use of its right to make cash payments to beneficiaries instead of transferring shares, thus meeting all subscription rights from cash and cash equivalents.

Moreover, neither the personally liable shareholder nor the Supervisory Board held subscription rights or comparable securities in accordance with § 160 (1) No. 5 AktG (Stock Corporation Act).

To the end of the reporting period the contractual obligations from purchase and service agreements increased by TEUR 3,872 to TEUR 17,278 over 31 December 2007 (see notes (29) of the 2007 Annual Report).

## (14) LIABILITY AND OTHER FINANCIAL OBLIGATIONS

#### D. SEGMENT REPORTING

The gradual realization of Mühlbauer's strategic objective from a technology supplier to a system partner for the complete transfer of technology and expertise on the production of electronic ID documents, has prompted the company to adjust its business areas SmartID and Semiconductor Related Products to this development. While its previous core business area SmartID will, in future, focus exclusively on the transfer of technology and expertise for the production of all kinds of card and ePassport applications, under the name of Cards & TECURITY®, the product line Smart Label, which was previously managed under SmartID, will be allocated to Semiconductor Related Products. The subsequent segment information for the second quarter and the first half of 2008 are shown in accordance with the new structure. The reference periods of the previous year have been transferred correspondingly:

	Q2/2008	Q2/2007 as reported	Q2/2007 Reclassi- fications	Q2/2007
Sales by application area	TEUR	TEUR	TEUR	TEUR
Cards & Tecurity	24,573	16,081	(574)	15,507
Semiconductor Related Products	10,126	6,795	194	6,989
Precision Parts and Systems	5,198	4,327	380	4,707
Traceability	4,601	3,541	-	3,541
	<b>44,498</b>	<b>30,744</b>	-	<b>30,744</b>
Deductions on sales	(93)	(88)	-	(88)
	<b>44,405</b>	<b>30,656</b>	-	<b>30,656</b>

	1HY/2008	1HY/2007 as reported	1HY/2007 Reclassi- fications	1HY/2007
Sales by application area	TEUR	TEUR	TEUR	TEUR
Cards & Tecurity	48,406	35,820	(1,026)	34,794
Semiconductor Related Products	20,513	13,021	533	13,554
Precision Parts and Systems	10,134	10,164	493	10,657
Traceability	8,667	6,336	-	6,336
	<b>87,720</b>	<b>65,341</b>	-	<b>65,341</b>
Deductions on sales	(165)	(215)	-	(215)
	<b>87,555</b>	<b>65,126</b>	-	<b>65,126</b>

	Q2/2008	Q2/2007	1HY/2008	1HY/2007
Sales by regions	TEUR	TEUR	TEUR	TEUR
Rest of Europe	20,979	5,873	34,705	18,469
Asia	7,397	10,483	22,275	17,771
Germany	10,989	10,841	20,197	22,085
America	4,952	1,763	9,839	3,440
Other	181	1,784	704	3,576
	<b>44,498</b>	<b>30,744</b>	<b>87,720</b>	<b>65,341</b>
Deductions on sales	(93)	(88)	(165)	(215)
	<b>44,405</b>	<b>30,656</b>	<b>87,555</b>	<b>65,126</b>

## E. NOTES TO THE STATEMENTS OF CASHFLOWS

The free cashflow is derived as follows:

	1HY 2008 TEUR	1HY 2007 TEUR
Cash provided by operating activities	14,281	14,062
Cash used for investing activities	(6,565)	1,463
Subtotal	7,716	15,525
<b>Transition to free cashflow</b>		
Gains/(losses) from the sale of fixed assets and intangible assets	78	35
Currency differences from the translation of long-term assets	-	9
Realized net gains/(losses) from short and long-term marketable securities	259	963
Proceeds from disposals of long-term assets	(116)	(777)
Payments from long-term loans	1,380	-
Proceeds from sale of long-term assets (marketable securities)	-	(8,652)
Investments in long-term assets (marketable securities)	977	1,672
Proceeds from sale of short-term assets (marketable securities)	(27,166)	(17,664)
Investments in short-term assets (marketable securities)	23,870	10,153
<b>Free cashflow</b>	<b>6,998</b>	<b>1,246</b>

## F. OTHER NOTES

### (15) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS

The parties considered associated companies and persons within the meaning of IAS 24 'Related Party Disclosures' are outlined in the notes (36) of the Annual Report as per 31 December 2007. In the reporting period, major business transactions with these associated companies and persons were:

Mühlbauer Aktiengesellschaft, ASEM Präzisions-Automaten GmbH and takeID GmbH rent office space from Mr. Josef Mühlbauer. In 1HY 2008, rental costs amounted to TEUR 156 (PY: TEUR 154).

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. For these services Mühlbauer Aktiengesellschaft paid TEUR 107 in 1HY 2008 (PY: TEUR 122).

### (16) NUMBER OF EMPLOYEES

At the end of the period under review the Group employed:

	30 June 2008 Number	30 June 2007 Number
Production and assembly	956	883
Research and development	326	322
Administration and sales	177	165
	<b>1,459</b>	<b>1,370</b>
Apprentices and trainees as well as part-time employees	357	300
<b>Total</b>	<b>1,816</b>	<b>1,670</b>

Number of employees by region at the end of the reporting period:

	30 June 2008 Number	30 June 2007 Number
Germany	1,619	1,527
Asia	139	103
Rest of Europe	33	20
America	18	15
Others	7	5
<b>Total</b>	<b>1,816</b>	<b>1,670</b>

### (17) CORPORATE BODIES OF THE COMPANY

Dr. Peter Drexel, former Vice-Chairman of the company's Supervisory Board, and Dr. Frank Scholz, former member of the company's Supervisory Board, retired from the Supervisory Board with effect of 29 April 2008. In the Annual General Meeting held on 29 April 2008, Prof. Dr. Kurt Faltlhauser and Mr. Steffen Harlfinger were appointed to the Supervisory Board. In the Supervisory Board Meeting held the same day, Prof. Dr. Kurt Faltlhauser was appointed Vice-Chairman of the Supervisory Board.

This consolidated interim report was authorized to be published by the personally liable shareholder on 31 July 2008.

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

The personally liable shareholder

# Assurance of the legal representative

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

The personally liable shareholder

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Financial calendar

30 October 2008  
12 November 2008  
March 2009  
April 2009

Interim report III / 2008  
German Equity Forum  
Annual report 2008  
Annual General Meeting

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