

Annual Report 2012



Move to improve

# Key figures

		2012	2011	Change %
Sales	TEUR	237,168	213,225	11.2
Research and development expenses	TEUR	26,134	29,539	(11.5)
EBIT <sup>1</sup>	TEUR	15,626	28,065	(44.3)
Pretax profit margin	%	6.5	13.2	(50.0)
Net earnings	TEUR	12,623	21,966	(42.5)
Earnings per share	EUR	0.84	1.51	(44.4)
Free cashflow	TEUR	17,862	(4,566)	490.4
Working capital <sup>2</sup>	TEUR	35,326	51,332	31.2
Working capital-intensity <sup>3</sup>	%	14.9	24.1	38.2
Gross capital expenditures without capitalized development costs	TEUR	23,312	29,146	(20.0)
Equity ratio	%	67.4	68.1	(1.0)
Dividend per share <sup>4</sup>	EUR	1.00	1.00	0.0
Share price (Year-End-Close)	EUR	20.10	21.95	(8.4)
Market Capitalization (Year-End-Close)	TEUR	295,390	322,577	(8.4)
Employees (Average per year)	number	2,762	2,618	5.5

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

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

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

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

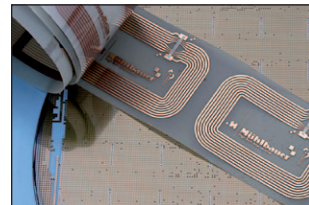
# Our markets

## Cards & TECURITY®



Mühlbauer is the only company in the world that offers its customers a complete technology platform for the production of innovative card applications and security documents from a single source – starting with industry-based card applications for such sensitive areas as banking or mobile telephony through to security-oriented identification systems such as ID cards, healthcare cards, driver’s licenses or electronic passports in the public sector, and fully automatic and biometric access and border controls – in its core business area Cards & TECURITY®. Apart from hardware systems, Mühlbauer also offers comprehensive software-based solutions for the capture and verification of data and for the complete control of production. Customers from the card industry as well as government-related organizations and public authorities benefit equally from more than 30 years of technology and market expertise and from the proven project experience resulting from more than 300 ID projects worldwide.

## Semiconductor Related Products



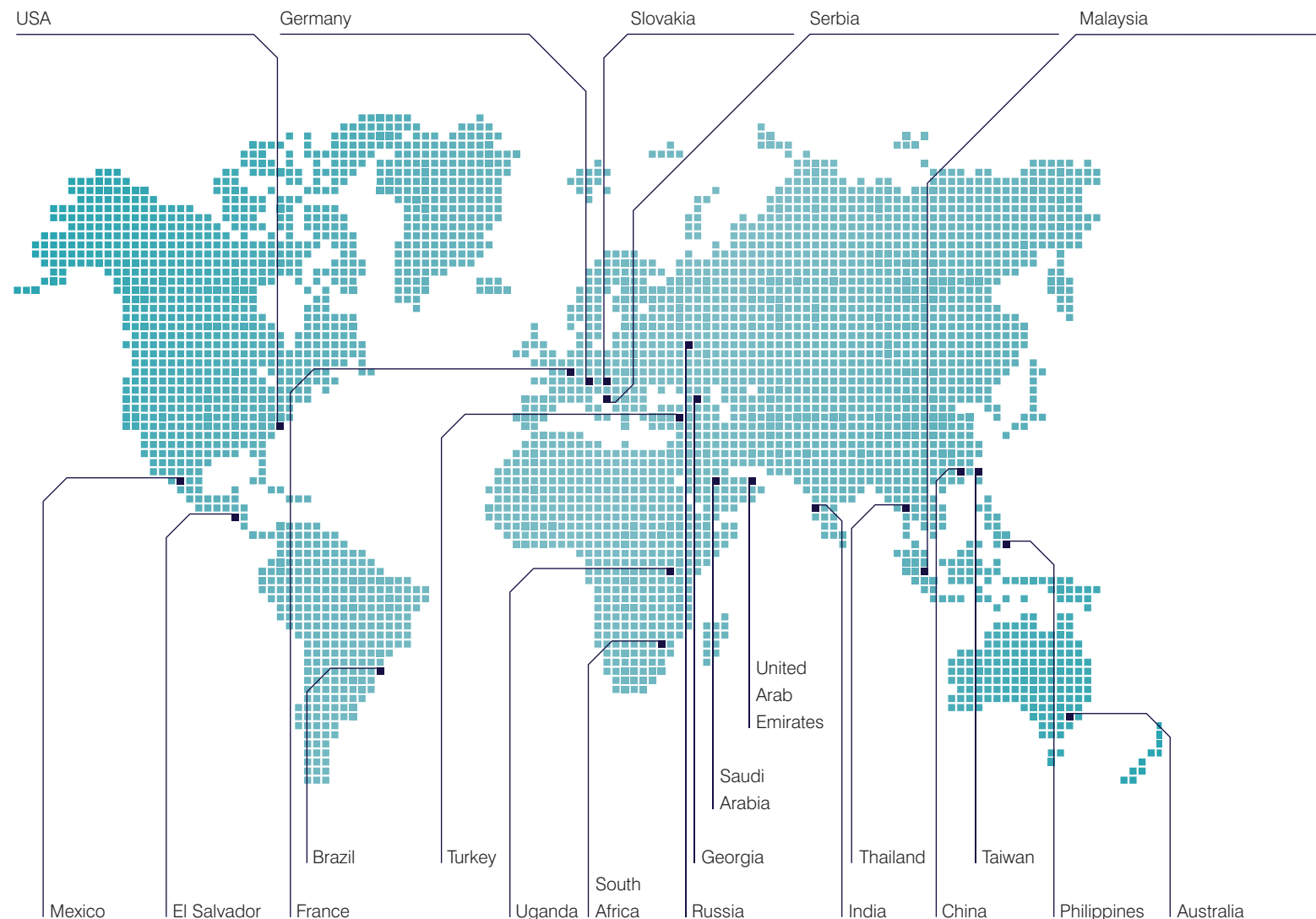
In Semiconductor Related Products, Mühlbauer offers a complete Smart Label factory for the production and personalization of RFID inlays for the contactless identification of goods and flows of goods and for their subsequent conversion to Smart Labels for the security, supply and textile industries, as well as the retail industry. By specializing in sophisticated automation processes and processing particularly small, extremely thin components and semiconductors, the company develops and produces innovative systems for specific niche applications in the semiconductor backend area. The product portfolio also comprises carrier tape and die sorting systems, as well as systems for flip chip bonding. In order to identify electronic components and modules, Mühlbauer develops and manufactures marking systems for the traceability of components – primarily for the automotive and electronics industries. Moreover, Mühlbauer has recently been utilizing its competence to develop modern production concepts for the flexible thin-film solar technology.

## Precision Parts & Systems



Within Precision Parts & Systems, Mühlbauer manufactures highly precise parts at two independent production sites in Germany and Slovakia, to meet the extremely high demands toward quality and precision. With its longstanding competence, the business area thus manufactures high-quality products for security-sensitive industries such as the aerospace industry, electronics industry and medical technology.

# Mühlbauer – Worldwide close to the customer



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# To our shareholders, business partners and employees



Josef Mühlbauer

## Ladies and Gentlemen,

He who wishes to create a successful future must know the past and draw the right conclusions from it. This accurately describes the situation that the Mühlbauer Group currently finds itself in. With 2012, we have an intensive and challenging year to look back on. If you recall the past year and look beyond the short-term horizon, it becomes very clear that the past year marked a key step toward a successful future for our company.

The Mühlbauer Group had room for rapid growth in the past years. We are a global player. We operate on every continent on the planet, have more than 30 different locations and joint ventures worldwide, employ employees from just about every nation on earth and are the world leader in several of our numerous markets (in some of them, way out in front of our closest competitors). The past years have however shown us, that it is important given precisely this background never to rely on what you already have. Instead, it is important to constantly scrutinize yourself, develop continuously and approach the future with confidence and consistency, however with the appropriate degree of caution.

This is why we in particular took an intensive and self-critical look at the processes internal to the group in the past year and thus began to systematically orient the processes and procedures within our company toward the future and make them as efficient as possible. We thus (to name one example) redid the entire IT structure of our company to achieve a significant reduction in internal administration processes and thus also a reduction in time lost to bureaucracy and associated costs. In line with this step and for the same reasons, we have also decided to change stock market segments, and our shares will be listed in the Entry Standard starting in July 2013. Despite our new direction, we will stick to our dividend policy, which has been implemented without fail since our IPO, and also propose a dividend distribution of EUR 1 (previous year EUR 1) for the past year to the Annual General Meeting.

I would like to express my sincere gratitude to our employees – you deserve it above all. You showed great motivation and dedication in the past year as you went down this not always so easy path with us. Let's continue to go down the path in the coming years with the same amount of courage and enthusiasm and thus ensure long-term success for the Group together.

I would also like to express my heartfelt thanks to the clients and partners of the Mühlbauer Group for putting your trust in us. Most of you have already been with us for several years and I look forward to more close cooperation in the future.

Even though our financial results in the past year may perhaps not have lived up to our expectations, we succeeded in increasing our sales in the past year again by EUR 23,9 million (11,2%) to EUR 237,1 million in spite of these numerous measures. In addition, the measures we took contributed to breaking old habits, pursuing new paths and increasing in efficiency in order to thus make the company fit for a successful future. However, this is a continuous and long-term process, which we hope to bring to a close in 2013.

Mühlbauer has invested heavily in the future in the past years and will continue to have this policy – without management losing its awareness of the current situation. That, my dear readers, is how we lay the foundation for a successful future, so that we can continue to bring in the profits that we are used to from past years in the future.



*Achieving success – together*

*Success is based on the competencies of each individual person, in particular, however, on the bundling of these individual competencies and the cooperation of individuals within a team. Many of the executives of the Mühlbauer Group were trained within the technology group and are therefore very familiar with the structures and processes within the company, its business and markets. Brief and clear decision-making processes enable us to react flexibly and rapidly to our customer's and business associates' requirements and to changes on our markets.*

Ladies and gentlemen: since it was founded, Mühlbauer has been a company that lives off of its visions and innovations. If we consistently continue to go down this path in the future while remaining sufficiently down to earth, we can make sure that the Mühlbauer Group succeeds in the long term.

Sincerely,

Josef Mühlbauer  
Personally Liable Shareholder

# The Mühlbauer Share

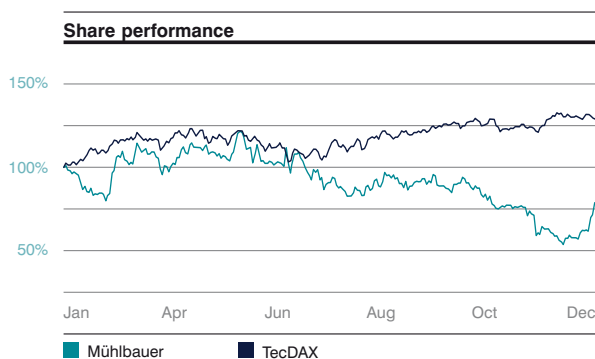
## The stock markets – Contrary to expectations

Pessimism was the dominant sentiment on the stock market at the beginning of 2012. "Sentiment has never been this gloomy" was the headline in Handelsblatt in the middle of January, for example. However, in the past year it became clear that the stock market is speculative and that it is very difficult to make reliable forecasts. Even though the stock market landscape offered everything but optimal conditions due to natural disasters, civil wars and financial crises, the DAX closed out the trading year, contrary to forecasts, with an increase of nearly 30 percent. After having fallen from its highest value of the year to date of around 7,150 points in the middle of March to under 6,000 points in the beginning of June (headwind came in particular from the elections in Greece and France as well as the economic trend in Spain), the index recovered over the course of the rest of the year, with the upward impetus on the German stock market waning for the time being after a strong surge in the summer. The reasons for this were in particular related to the economic environment, especially the economic situation in Europe. After the middle of November, the Dax had one last spurt and finished at 7,612 points at the end of a very successful year. The other key indexes, such as the TecDAX, MDAX and SDAX followed the DAX step by step for the most part and finished with a significant increase. International market indicators also went up in comparison to the first day of trading. The American Dow Jones ended the year with an increase of 7.3 percent, with 14.4 percent for the NASDAQ, 22.9 percent for the Japanese NIKKEI, 25.7 percent for the Indian SENSEX and 9.4 percent for the Russian RTS.

One key factor for the future performance of the stock exchanges in the coming year will continue to be the European financial and debt crisis. As long as uncertainty remains concerning the outcome of the crisis, it is nearly impossible to make reliable forecasts for the 2013 trading year. The predictions for the trends on the stock markets are accordingly also subject to controversy. According to Deutsche Bank, the decline in risks in the Euro zone has significantly expanded the investment universe and stock (especially European stock) should perform well under 2013 economic conditions that are to be robust and stable. With that in mind, Deutsche Bank forecast that the DAX would be at around 8,000 points by the end of 2013. However, not all forecasts are equally optimistic. For example, NordLB warns that investors could have their high hopes for the market in 2013 dashed and they must be prepared for losses on the stock market.

## Performance of Mühlbauer stock

Contrary to the trend – is an accurate description of the performance of Mühlbauer stock in the past year. While the key benchmark indexes experienced a low between March and June,



Mühlbauer stock reached its year-high of EUR 26.55 at the end of April after an opening price of EUR 22.15. Starting at this point in time, the price experienced a negative trend, which was contrary to the key market indicators. In particular, the adjustment and revision of the outlook, which was prompted by the increasing competitive pressure from Asia, a significant slow-down of the semiconductor industry and a disturbing trend for the global economy, had a negative effect on the stock. In conjunction with the publication of the third-quarter report, the stock again came under pressure and fell at the beginning of December to a year-low of EUR 16.33. The performance of the stock then experienced a slight upward trend and closed out an intense and challenging year at EUR 20.10, a decline of 9.3 percent in comparison to the year's first day of trading.

The Supervisory Board Resolution dated December 11, 2012 resolved that the Company would switch from the Prime Standard on the regulated market to the Entry Standard on the Frankfurt Stock Exchange. In the opinion of Management, the Entry Standard is the market segment that best suits the Company, which is highly active in projects. At the same time, the switch in segments goes hand in hand with a substantial reduction in the organizational expenses associated with having the stock listed on the regulated market, as well as a considerable reduction in costs. The admission of the stock on the Entry Standard, an exchange-regulated segment, is expected at the beginning of the day on July 10, 2013. Until that date, the Company's stock will continue to be listed on the Prime Standard of the regulated market on the Frankfurt Stock Exchange.

Since its IPO in 1998, Mühlbauer has had a reliable dividend policy with a long-term orientation, and the Company has never deviated from this policy even in tough times, and also will not deviate from it in the future. The Company would like to thank its shareholders this year as well, who have remained loyal to the Group in spite of the results of the past year, which perhaps did not meet our expectations, and would like to show its appreciation with a dividend distribution of EUR 1 (past year EUR 1). The dividend yield in relation to the year-end share price is thus 5.0%.

From day one, Mühlbauer has offered institutional and private investors, analysts and representatives of the financial and economic press the maximum possible transparency and information. In addition to international conferences, such as the Berenberg Bank and Goldman Sachs Inaugural German Corporate Conference at the end of September in Munich, within the scope of which Mühlbauer presented itself by holding a public speech and conducting numerous one-on-one meetings, Mühlbauer feels very strongly about personal contact with investors. In numerous phone calls, Management provided information about Mühlbauer's financial situation, business strategy and prospects openly, honestly and in great detail. In addition, at the Annual General Meeting in Roding, the Company provides information about all key developments and events and gives shareholders the opportunity to ask Management and the Supervisory Board questions.

The Company makes all key information concerning the Company and Mühlbauer stock available to shareholders and investors on its website. All interim reports and annual reports as well as press releases and ad-hoc disclosures can be found in Investor Relations. All notices concerning securities transactions and information about corporate governance are also published here. With the new design of its website, Mühlbauer took an additional step toward presenting all key information to its shareholders and investors more clearly.

Regardless of the change to the Entry Standard, the Group will also maintain its open and transparent information policy. The Company will therefore continue to seek dialogue with institutional investors, analysts and private shareholders in the future in order to provide them with as detailed information as possible and thus solidify their trust in the long-term.

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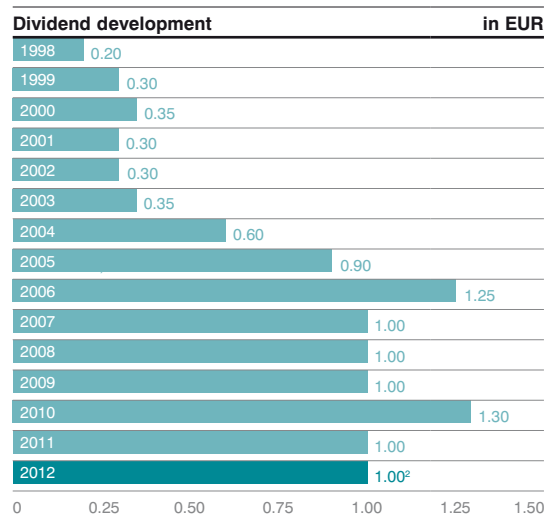
7 May 2013\* . . . . . Quarterly report I/2013  
16 May 2013 . . . . . Annual General Meeting, Roding  
8 August 2013\*. . . . . Quarterly report II/2013  
March 2014\* . . . . . Annual Report 2014

## Change to Entry Standard

Ratios	2012	2011
<b>Share price (Xetra)</b>		
Annual high (in EUR)	26.55	49.65
Annual low (in EUR)	16.33	19.82
Year end (in EUR)	20.10	21.95
<b>Market capitalization<sup>1</sup></b>		
Annual high (in EUR thousand)	390,179	729,656
Annual low (in EUR thousand)	239,986	291,274
Year end (in EUR thousand)	295,390	322,577
<b>Share values</b>		
Earnings (in EUR)	0.84	1.51
Dividend (in EUR)	1.00 <sup>2</sup>	1.00
<b>Trading volume (in share certificates)<sup>3</sup></b>		
Average per trading day	5,188	10,516
Whole year (in million share certificates)	1.3	2.7

## Dividends

## Active and open dialogue with the capital market



## Contact Investor Relations

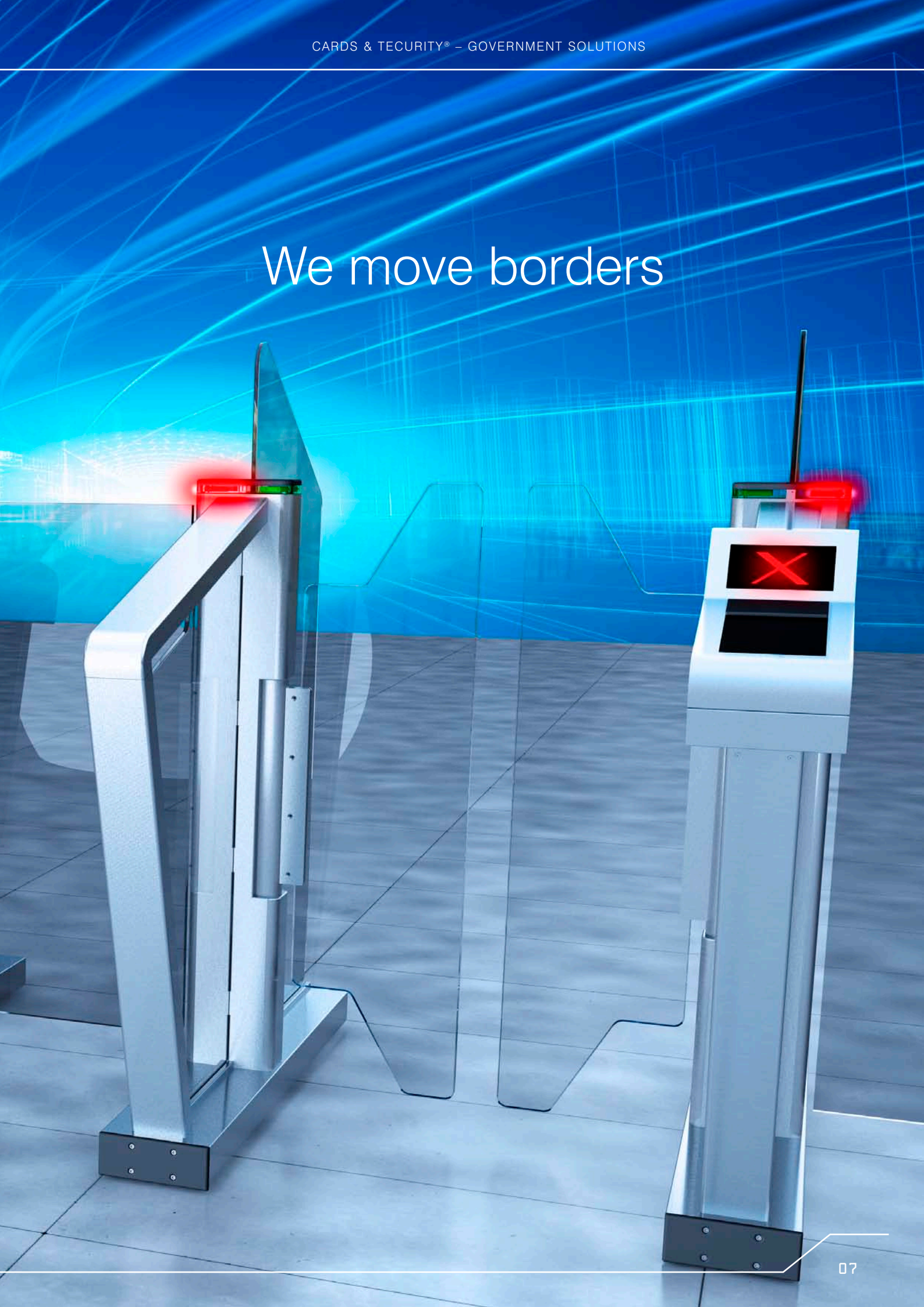
## Financial calendar







We move borders





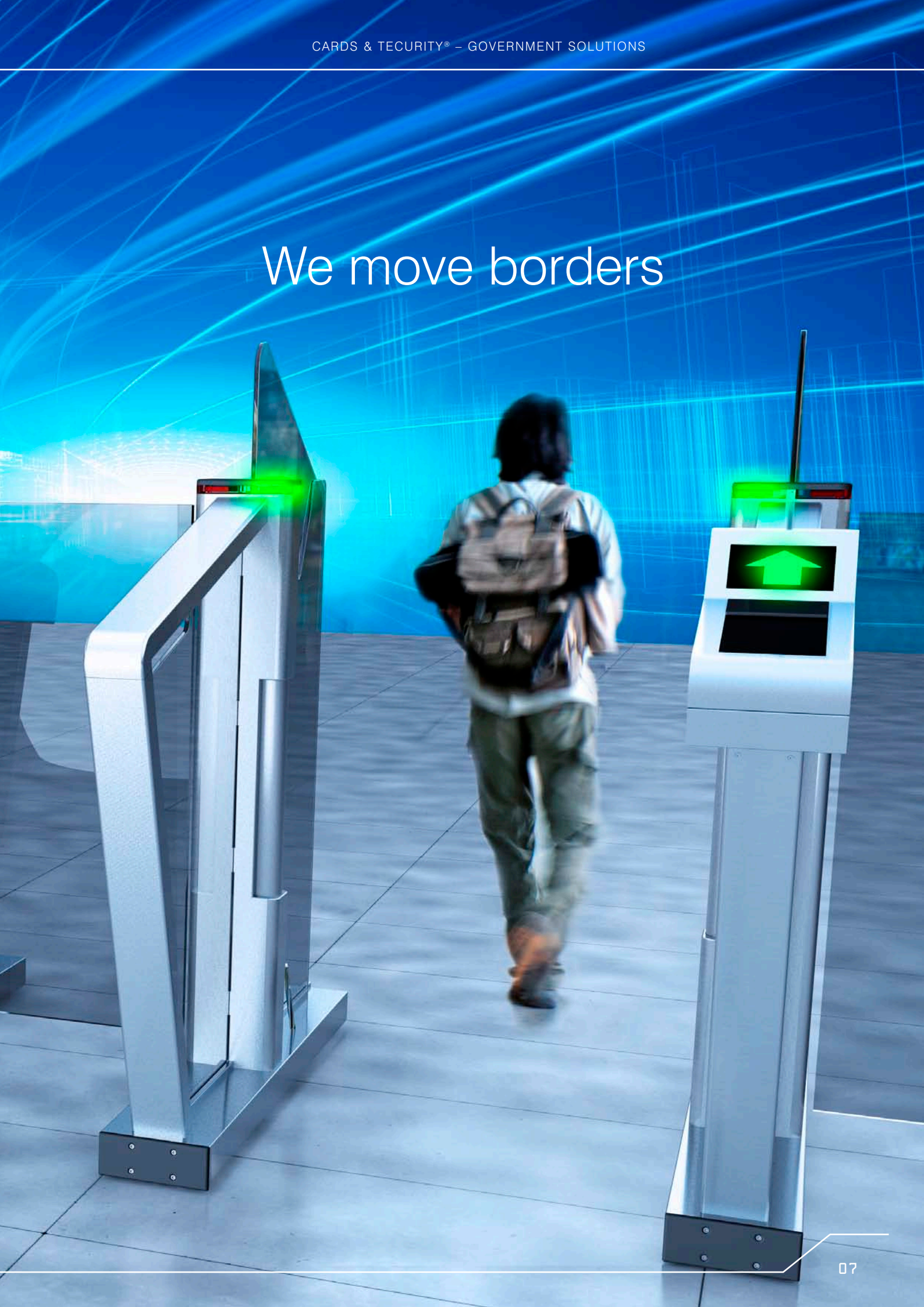
## Cards & TECURITY® – Government Solutions

The global rise in demand for virtually unrestricted mobility, while enjoying the highest possible level of security and without disregarding travelers' comfort is one of the greatest challenges of modern times. Thanks to our progressive solutions for state-of-the-art ID documents, we meet these challenges on a daily basis. As an innovation leader in the area of document-based security, we

play a worldwide leading role with regard to the complete transfer of technology and expertise for the production of the most innovative types of ID documents. Our modern border control systems enable the successful management of the globally rising visitor and passenger numbers now and in future, and the provision of the highest possible degree of security and comfort to travelers.



We move borders



# Corporate Governance

## DECLARATION OF CORPORATE GOVERNANCE

A correct, fair and transparent business management is not only part of the self-image and tradition of the Mühlbauer Holding AG & Co. KGaA, but is also an essential component of responsible and reliable management, as well as for a sustainable corporate compliance – the compliance with legal and ethical commitment in all corporate areas. To us, a credible and in a conscientious way applied corporate governance therefore represents a fundamental claim that covers all areas of the company and takes top priority in our daily work. In so doing, it is our primary goal to confirm the confidence placed on our management by investors, business associates, customers and the public by our daily activities and to maintain this confidence as a basis for sustained corporate development.

In the following sections the company explains the key components of its management practices:

### 1. Corporate Governance report

On 26 February 2002, the Government Commission German Corporate Governance Code presented a code of conduct for the Management and Supervisory Boards of publicly listed companies (German Corporate Governance Code, hereinafter also referred to as the "Code"). Once a year, the Management and Supervisory Boards of a company that is publicly listed in Germany are legally required to declare – by means of a Declaration of Conformity – whether the current version of the Code was and is complied with or which recommendations of the Code were or are not applied. In this context, the German Corporate Governance Code is oriented solely to the conditions and circumstances of a joint stock corporation. Mühlbauer Holding AG & Co. KGaA therefore independently investigated and determined in what way the Code could be correspondingly applied to a partnership limited by shares.

The latest amendments to the German Corporate Governance Code of May 2012 were discussed in the Supervisory Board with the personally liable shareholder and management and incorporated into the company's own Corporate Governance Code.

In November 2012 the personally liable shareholder and the Supervisory Board issued a Declaration of Conformity for 2012 and made it available to the public on the company's homepage ([www.muehlbauer.de](http://www.muehlbauer.de)). The declaration explains which provisions of the current German Corporate Governance Code the company observed and which recommendations of the Code were or are not applied.

Many of the target provisions of the German Corporate Governance Code are met by the legal form of Mühlbauer Holding AG & Co KGaA. However, the personally liable shareholder and the Supervisory Board have also decided that the company will not correspond with several provisions of the German Corporate Governance Code's recommendations of the new version of the German Corporate Governance Code dated 15 May 2012 ("Code 2012").In

November 2011, the following Declaration of Conformity in accordance with § 161 AktG (German Stock Corporation Act) was issued and subsequently provided to shareholders on the website of Mühlbauer Holding AG & Co. KGaA at [www.muehlbauer.de](http://www.muehlbauer.de) on a sustained basis:

**Declaration of Compliance pursuant to § 161 of the German Stock Corporation Law on the observance of the Government Commission German Corporation Governance Code.**

The personally liable shareholder and the Supervisory Board of the Mühlbauer Holding AG & Co. KGaA (hereinafter referred to as the "Company") declare that all recommendations of the Government Commission German Corporate Governance Code of May 15, 2012 published in the official part of the Federal Bulletin on June 15, 2012 ("Code 2012") have been and shall be observed with the following exceptions:

The D&O insurance for the Supervisory Board does not include a deductible. A deductible would restrict opportunities for acquiring members for the Supervisory Board with extensive entrepreneurial experience and the Company is of the opinion that such deductible would not increase the motivation and sense of responsibility of the members of the Supervisory Board (Code 2012 section 3.8 paragraph 3).

When filling management positions in the Company and the companies associated with it (hereinafter referred to as the "Mühlbauer Group"), the Company attaches importance to diversity. However, the focus here is on the technical qualification of the candidates (men and women) (Code 2012 Section 4.1.5).

The Chairman of the Supervisory Board will not disclose any information on the Company's remuneration system and possible modifications to the Annual Shareholders' Meeting (Code 2012 section 4.2.3 paragraph 6).

The Company, due to the legal structure of the KGaA, does not have a Managing Board, but a Personally Liable Shareholder, the Mühlbauer Holding AG & Co. Verwaltungs KG (hereinafter referred to as "Verwaltungs KG"), whose personally liable shareholder is in turn the Mühlbauer Beteiligungs AG. The Company shall not pay any remuneration to the Verwaltungs KG. An explication of the remuneration schemes, as well as an individualized explanation on the nature of the remuneration of the Personally Liable Shareholder or details on the fringe benefits paid by the Company are therefore not possible (Code 2012 sections 4.2.4 and 4.2.5)

**Deductible for D&O insurance**

**Diversity regarding to the filling of management positions**

**Disclosure and explanation of the remuneration of the Management**



The Verwaltungs KG shall be reimbursed – according to § 7 Section 7 of the Articles of Association of the Company – for all expenses that may arise and are related to management activities according to § 10 of the Articles of Association of the Company and are generally reasonable. The expenses to be reimbursed include those expenses of the Mühlbauer Beteiligungs AG resulting from its function as an unlimited partner of the Personally Liable Shareholder, especially the remunerations paid by the Mühlbauer Beteiligungs AG to its members of the Management Board. Only the Supervisory Board of the Mühlbauer Beteiligungs AG decides on those remunerations. The Supervisory Board of the Company is not responsible for it. This applies in the same way for the members of the Management Board of the Mühlbauer AG, whose remunerations are stipulated by the Supervisory Board of the Mühlbauer AG.

However, the total amount of remuneration of the member of the management bodies of the Mühlbauer AG and the Mühlbauer Beteiligungs AG (hereinafter referred to as the "Management") for the performance of their tasks in the Mühlbauer Group shall be provided in the notes to the Consolidated Financial Statements as information for the shareholders. They will be accounted for as components which are linked to financial success and as components with a long-term incentive effect or according to the relevant international accounting principles.

### Secondary employment

According to the law, the Personally Liable Shareholder may not do any business in business lines of the Company for his/her own account or the account of a third party, nor be member of the Management Board or CEO or personally liable shareholder of a similar company without express permission of the Supervisory Board. Any secondary activities out of the scope of application of this compulsive statutory reservation of consent may be taken by the Personally Liable Shareholder even without previous approval of the Supervisory Board. The interests of the corporation and the expectations towards responsible decisions of the Management are preserved sufficiently by the legally compulsory regulations and other contractual obligations of the Management (Codex 2012 section 4.3.5).

### Formation of Supervisory Board committees

As long as the Supervisory Board of the Mühlbauer Holding AG & Co. KGaA only consists of three members, no committees shall be formed (Code 2012 Section 5.2 paragraph 2, 5.3.1 clause 1, 5.3.2 clause 1 and 2, 5.3.3).

### The composition of the Supervisory Board

Referring to Code 2012 section 5.4.1 paragraph 2, the Supervisory Board shall specify concrete objectives regarding its composition that take into account the international activities of the Company, potential conflicts of interest, an age limit to be defined for the members of the Supervisory Board and diversity under consideration of the specific situation of the Company. Considering the fact that the Supervisory Board of the company only consists of three members, of which only two are elected by the Annual General Meeting, is not reasonable, in the opinion of the Supervisory Board, to mention any concrete objectives regarding its composition before the date of new elections to the Supervisory Board. As a consequence, such objectives shall not be published in the Corporate Governance Report. However, the Supervisory Board will take a decision about convenient candidates for the Supervisory Board in a timely manner before the next election to the Supervisory Board. For the selection of the candidates, the focus will be on technical aspects. There will neither be an age limit nor a quota or a certain number of seats for female and male members. In the opinion of the company, neither the age nor the gender of a person are criteria that allow for the drawing of conclusions as to whether or not a Supervisory Board mandate can be appropriately or successfully perceived.

As far as the composition of the Supervisory Board is concerned, we put the emphasis on a professional counseling and monitoring of the Management Board. Members of the Supervisory Board may also be suitable, even if they do not satisfy the criteria for independence in the sense of section 5.4.2 paragraph 1 in the German Corporate Governance Code (Code 2012 section 5.4.2).

**Financial statement**

The Personally Liable Shareholder is responsible for drawing up the half-year and quarterly reports in accordance with the respective legal provisions. They are drawn up within a tight schedule. For this reason no discussions about the half-year and any quarterly financial reports are made between the Personally Liable Shareholder and the Supervisory Board prior to the publications (Code 2012 section 7.1.2 clause 2).

The Annual Report should be publicly available within 90 days after the end of the business year. Due to organizational internal reasons, the Annual Report 2011 was not published until April 2012 (Code 2012 section 7.1.2 clause 4).

Roding, 30 November 2012

the  
Personally Liable Shareholder

the  
Supervisory Board

Mühlbauer Holding AG & Co. KGaA's understanding of good corporate governance includes the responsible handling of risks. For this purpose, a risk management system has been implemented that not only continually identifies and monitors material risks throughout the group but is itself also continuously reviewed and adapted. Further details on risk management are depicted in the risk report that also addresses the accounting-related internal control and risk management system.

**Risk management**

Uniform, comprehensive and timely information plays a major role at Mühlbauer Holding AG & Co. KGaA. Both capital market participants and the interested public are informed of business and new developments on a regular basis. Current events and developments are disseminated by means of press releases and – insofar as legally required – ad-hoc disclosures. The Annual Report, the interim reports and semi-annual financial statements are published within the set periods. A detailed list of all published capital market-related information is contained in the "Annual document" that is published in accordance with section 10 WpPG (German Securities Prospectus Act). All disclosures can of course be viewed on the homepage under Investor Relations.

**Transparency**

According to section 15a WpHG (Securities Trading Act), individuals with management responsibility and people closely associated with these must disclose the purchase or disposal of Mühlbauer shares. Mühlbauer Holding AG & Co. KGaA publishes disclosures on such transactions on its homepage.

**Share transactions**

As at 31 December 2012, the personally liable shareholder, the Mühlbauer Holding AG & Co. Verwaltungs KG, held 3,296,852 shares via his sole participation in SECURA Vermögensverwaltungs GmbH. This shareholding represents 52.50% of the shares issued by Mühlbauer Holding AG & Co. KGaA. The Supervisory Board held 5 shares (which corresponds to 0.00%) and the management board of Mühlbauer Aktiengesellschaft and Mühlbauer Beteiligungs Aktiengesellschaft, Komplementärgesellschaft by the personally liable shareholder held 323,586 shares (which corresponds to 5.15%). Neither the Management Board nor the Supervisory Board held options or any other derivatives as at 31 December 2012.

**Shareholdings**

A woman in a vibrant red, sleeveless, form-fitting dress and dark sunglasses walks through a city street at night. She is carrying several shopping bags, including a large white one with a black logo. The background is a blurred cityscape with tall buildings and lights, creating a sense of motion and urban energy. The overall color palette is dominated by reds, blues, and whites.

We move business



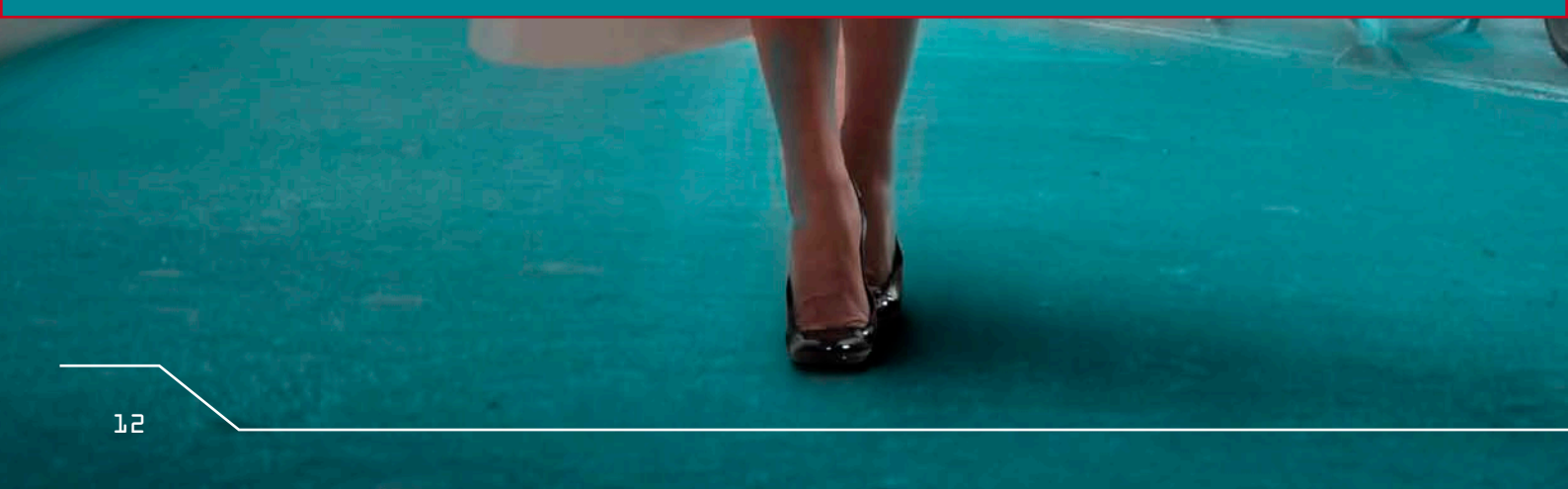




## CARDS & SECURITY® – INDUSTRY SOLUTIONS

Looking for change, entering PINs or signing sales slips will soon be a thing of the past. In future, the mode of payment will be contactless. Payments via near-field communication (NFC) merely require a wallet or a cell phone to be held near a payment terminal and within a matter of split seconds your shopping is paid for – down to the very last cent. This payment method simplifies and accelerates the entire payment procedure, thus

ensuring greater ease and comfort in the every-day life. The clients of some financial institutions or mobile phone providers can already utilize this technology for payment – with more to follow. We recognized the tremendous potential this contactless transmission of data holds at an early stage; as a pioneer, we have been developing innovative solutions for the production of contactless smart cards for quite a number of years already.







## Accounting and audit of the financial statements

Mühlbauer Holding AG & Co. KGaA draws up its consolidated financial statements and the consolidated interim statements in accordance with the International Financial Reporting Standards (IFRS). The Consolidated Financial Report for 2012 was established by the personally liable shareholder and audited by KPMG AG Wirtschaftsprüfungsgesellschaft – the auditor appointed by the 2012 Annual General Meeting – and the Supervisory Board.

Prior to electing the auditor, the Supervisory Board obtained a statement from the auditor explaining to what extent relationships existed between the auditor, the auditor's corporate bodies and audit managers and Mühlbauer or its corporate bodies. There were no doubts as to the independence of the auditor. Moreover, the Supervisory Board arrived at an agreement with the auditor – in accordance with section 7.2.3 of the German Corporate Governance Code that the auditor was to immediately report all events and findings made in the course of the audit, which were relevant to the responsibilities of the Supervisory Board. The Supervisory Board also determined that the auditor was to inform the Supervisory Board or make a note in the audit report if the auditor detected any deviations from the declaration in respect of the Code, provided by the personally liable shareholder and the Supervisory Board.

## Remuneration of Supervisory Board members

The remuneration of the Supervisory Board's members is laid down in the Articles of Association of Mühlbauer Holding AG & Co. KGaA and exclusively provides for a fixed remuneration. In the year under review, the members of the Supervisory Board received the following remuneration:

	Fixed remuneration in EUR
<b>Supervisory Board members</b>	
Dr. Jürgen Honert	10,000
Prof. Dr. Kurt Faltthäuser <sup>1)</sup>	11,800
Steffen Harlfinger <sup>1)</sup>	7,400

Dr. Jürgen Honert is also an attorney and partner of the law firm honert + partner. The firm occasionally provided legal consultation to the Mühlbauer Group. The fees for these services amounted to TEUR 42 (PY: TEUR 40) in the year under review.

<sup>1)</sup> The amounts are based on the position held within the respective corporate body of Mühlbauer Holding AG & Co. KGaA and Mühlbauer Aktiengesellschaft

## 2. Relevant information on management practices

Combining entrepreneurship with ethical principles is part of the Mühlbauer Group's self-image and a key factor for responsible and sustainable management. Responsible action that goes beyond legal regulations and standards is a key precondition for successful business development in the context of sustainable corporate compliance. For this reason, the Mühlbauer Group has developed a code of conduct for the entire Group on the basis of its corporate culture, which has grown over decades. This code of conduct defines binding principles and rules for all employees of the Group and has been published in electronic form on the Internet at [www.muehlbauer.de](http://www.muehlbauer.de). This code is intended to help employees overcome ethical and legal challenges in their day-to-day work and give guidance in the event of conflict situations. In addition, rules for dealing with complaints or notices of violations of the guidelines have been formulated. We will get to the bottom of violations in the interest of all employees and the Company and eliminate their causes. However, not only the employees of the Group have an obligation to comply with the ethical principles formulated in the code. The Group also checks in the form of audits that not only legal regulations, but also ethical and moral principles are heeded by its suppliers and business partners.

In order to be able to guarantee its customers and business partners the highest quality and offer its employees optimum conditions for a comfortable, and at the same time productive, working environment, the Mühlbauer Group developed an extensive quality management system, which is continually revised and improved. Process specifications and procedural instructions are to ensure that internal processes and procedures proceed smoothly. In addition to these internal quality assurance measures, external consultants also regularly monitor the processes and conditions within the Group. For example, the Group is certified to DIN EN ISO 9001 on an annual basis, which reviews and documents things such as continual improvement, error prevention, determination of customer satisfaction or interdisciplinary collaboration. A total of 18 companies/locations belonging to the Group are currently certified to DIN EN ISO 9001.

In addition, the Mühlbauer Group feels very strongly about the health of its employees. The Group takes all necessary measures to protect the health of its employees in the long term. In this context, in addition to a modern design of workplaces suited to meet needs and health requirements, the Group's internal fitness studio is noteworthy. In the fitness studio, employees can prevent and counteract physical disabilities, such as in the form of a lack of physical activity or postural defects, under professional supervision at discounted prices.

### 3. Mode of operation and composition of the personally liable shareholder and the Supervisory Board

#### Representation of the company by the personally liable shareholder

Due to the legal form of Mühlbauer Holding AG & Co. KGaA, the company is not represented by a Management Board but solely by the personally liable shareholder. He is also responsible for the management of Mühlbauer Holding AG & Co. KGaA. The personally liable shareholder is not subject to the personnel competence of the Supervisory Board and can therefore not be dismissed. According to the Articles of Association of the company, the right of approval that shareholders of a limited partnership are entitled to in respect of extraordinary transactions, is excluded. However, legal transactions and activities of the company or its subsidiaries that exceed ordinary business operations of the company require the approval of the Supervisory Board. In this context, the Supervisory Board can define the legal transactions and activities that require approval in more detail. Numerous resolutions of the Annual General Meeting require the approval of the personally liable shareholder; these include amendments to the Articles of Association and the approval of the annual financial statements.

#### Consultation and monitoring by the Supervisory Board

The key function of the Supervisory Board is the regular provision of consultation to and monitoring of management. It is also involved in decisions that are of fundamental importance to the company. In contrast to the Supervisory Board of a joint stock corporation, the Supervisory Board of Mühlbauer is not qualified to appoint or dismiss the personally liable shareholder. With regard to the composition of the personally liable shareholder's management, the Supervisory Board holds a right of cooperation to the extent that it must be informed prior to the appointment or dismissal of members to the Management Board of the general partner and must be provided with an opportunity to comment. In its meetings, the Supervisory Board passes resolutions with a majority of votes cast. The Supervisory Board of Mühlbauer Holding AG & Co. KGaA consists of three members. In the 2008 financial year two members were appointed by the shareholder of the Annual General Meeting. One member was appointed in 2011 by the owner of share no. 1 for the Supervisory Board, by exercising its right of appointment laid down in section 11 subsection 1 of the Articles of Association. The term of the Supervisory Board members appointed by the shareholders of the Annual General Meeting is, on principle, five years. The responsibilities of the Supervisory Board are regulated by law and the Articles of Association. Supervisory Board committees are not formed in view of the total number of Supervisory Board members.



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# Management Report

## OVERVIEW OF THE 2012 FINANCIAL YEAR

**The Mühlbauer technology group can look back at an intense and demanding year marked by critical scrutiny of its own internal group processes and the systematic, future-oriented alignment of workflows and procedures. The goal of the many measures initiated is to break free from the beaten path, to embark on new pathways, and to increase efficiency – all in order to take this company, which is represented on all of the continents of the Earth with more than 30 different locations and joint ventures worldwide, which has hired employees from almost every nation on Earth, and which is the world leader in many of its numerous markets – and get it into shape for a successful future. Even though the results produced during the reporting year may not have met expectations, revenue did increase despite of the many measures initiated, and the foundation for a successful future has been laid.**

The key developments in the 2012 financial year were:

- The downturn in orders in the core business area *Cards & TECURITY®* caused by the volatility typical of the project business, as well as the decline in business in *Precision Parts & Systems* could not be fully compensated by the strong order situation in *Semiconductor Related Products*. Consequently, order income dropped from EUR 260.8 million in 2011, by EUR 14.1 million or 5.4% to EUR 246.7 million. As a result, at EUR 192.0 million, the order backlog also declined slightly and was EUR 9.4 million or 4.7% under the level of 2011 (PY: EUR 201.4 million).
- Based on the high order backlog from 2011, the solution provider once again ramped up sales in the past year and, at EUR 237.1 million, achieved a sales plus of EUR 23.9 million or 11.2% year-on-year (PY: EUR 213.2 million). This not only represents a new record high in the more than thirty-year history of the Group, it also shows that the Group managed to increase sales continually over the past four years.
- At EUR 15.6 million (PY: EUR 28.1 million), the operating income achieved by the Mühlbauer technology group within the year under review was considerably lower year-on-year. This development is also largely due to the depreciation-related rise in material costs and the higher depreciations associated with continued investment activities. As a result of these factors, gross profit, at EUR 68.9 million, also clearly undershot the previous year's result, by EUR 13.4 million.
- Despite the lower net income for the year, free cashflow rose to EUR 17.9 million, due in particular to the reduction of working capital and the slight drop in outflows for investments – after a minus of EUR 4.6 million year-on-year.

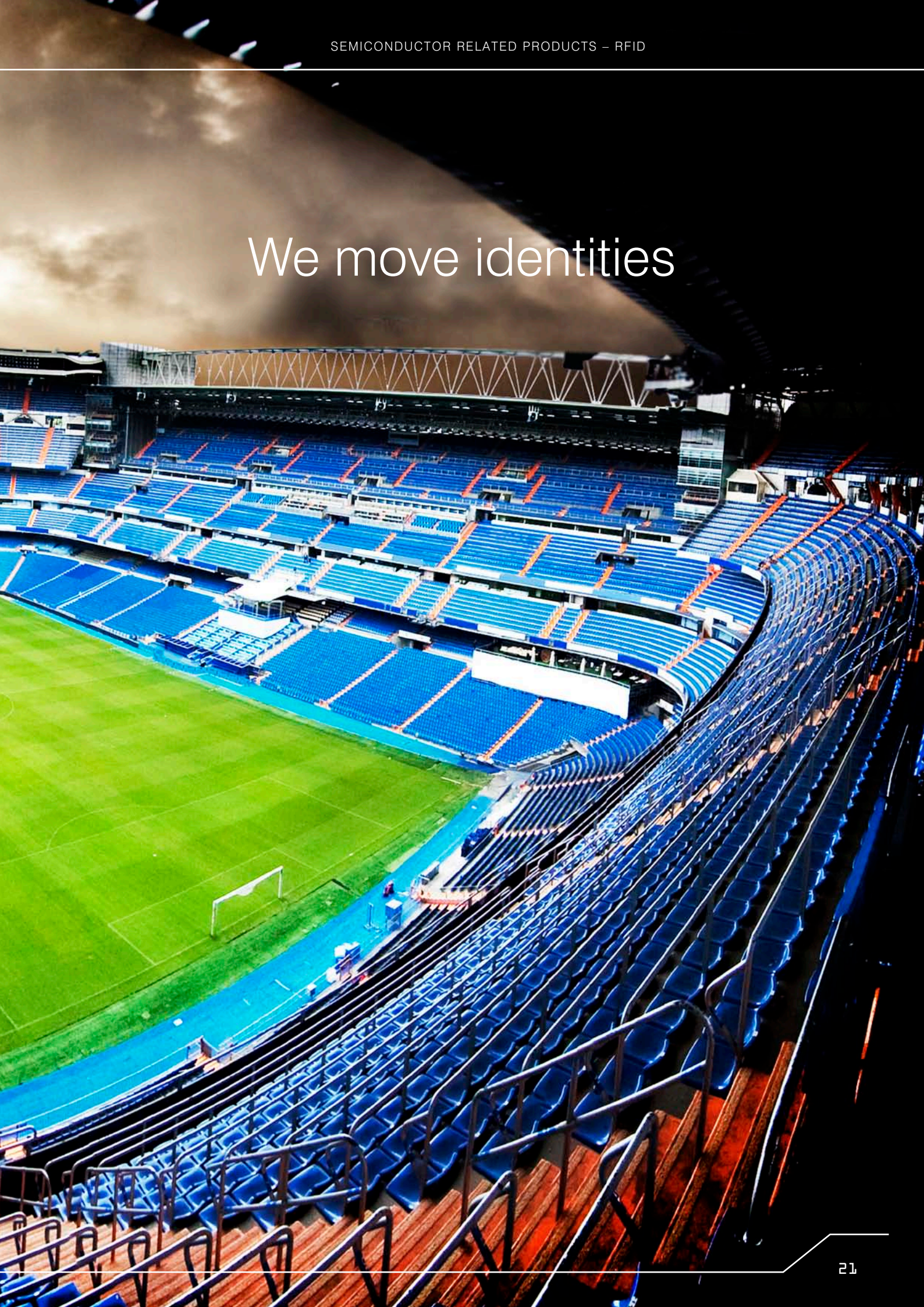
- Even though investments in the year under review were EUR 11.4 million or 34.4% lower, at EUR 21.8 million – following massive investments in modernization and enlargement in the previous year (PY: EUR 33.2 million) – the solution provider again invested heavily during the reporting period. The focus of investments in fixed assets was on the construction of production sites and technology centers at its headquarters in Roding and in Stara Pazova, Serbia, and on equipping them with machinery. Furthermore, the production site in Stollberg was modernized and extended. Investments in intangible assets related in particular to software for the production process at the El Salvador site and on the capitalization of development results achieved by the Group.
- The more than thirty years of growth of the Mühlbauer Group are based on the Group's constant drive for innovation. At EUR 26.1 million, investments in research and development were unsurprisingly EUR 3.4 million or 11.5% under the level of 2011 (PY: EUR 29.5 million), following massive spending in the previous year. Based on sales, however, this still corresponds with an impressive R&D ratio of 11.0% and underpins the significance of innovation within the Group.
- During the year under review, we focused on recruiting – in addition to the internal training that forms the foundation of the Group's personnel policy – which above all involved the search for skilled workers and managers in order to reinforce the structures of the departments and to continue to expand our already high-caliber workforce. During periods when the shortage of skilled workers intensified in Germany, the search for employees refocused on international specialists.
- Mühlbauer has conducted a reliable and sustainable dividend policy since its IPO in 1998, from which it has not deviated even in difficult times and does not intend to deviate from in future. Thus, the personally liable shareholder and the Supervisory Board wish to once again extend their gratitude to the shareholders who remained loyal to the Group despite the result achieved in the past year, which did not quite meet the Group's expectations. They will therefore propose the distribution of a dividend of EUR 1.00 (PY: EUR 1.00) per no-par value in respect of the 2012 financial year to the Annual General Meeting.
- Based on forecast market trends, the Mühlbauer technology group is anticipating revenue that will continue to increase over the next two years. The measures already taken in the previous year to break away from the beaten path, to embark on new pathways, and to increase efficiency in order to get the company into good shape for a successful future will continue to be pursued with diligence. For this year, we are anticipating better results than in the fiscal year just passed and for the following year we are expecting further growth. We believe risks capable of having a negative impact on our expectations may be present in particular in the uncertainties traditionally inherent in doing business with governments together with the heavy dependence on projects in this area, as well as in gloomy industrial and/or economic prospects outlooks. Investment spending will be somewhere between EUR 15 and 20 million in the coming year.







We move identities







## SEMICONDUCTOR RELATED PRODUCTS – RFID

Our lives are characterized by speed, flexibility and data protection. Tickets, for example, need to be personalized, goods labeled and sorting, delivery and loading processes designed with the highest possible degree of flexibility and transparency. RFID provides goods and objects with an identity, rendering them unique. Irrespective of whether it is tickets that are personalized, or textiles and components that are marked – all items that have been fitted with RFID tags can be identified and traced at any time. Although the RFID technology is already being used

in numerous areas, due to its many application and production benefits, the market for RFID is still at its very beginning and has a promising future ahead of it. On the market for RFID production solutions, we positioned ourselves optimally in the core manufacturing processes, with a market share of over 80%. We have been pushing this technology ahead as innovation leader in our business area Semiconductor Related Products for almost 20 years; in the process, thousands of our machines have produced smart cards, smart labels and smart tickets around the globe.





We move identities





## BUSINESS 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 history of meanwhile more than 30 years that are characterized by pioneering achievements in mechanical engineering and plant construction. With more than 2,800 employees, technology centers on three continents relevant to Mühlbauer and a worldwide sales and service network, the Group has since become the leading international technology provider for the production of innovative card applications, such as bank cards, credit cards or SIM cards. Furthermore, as a fully responsible system partner, the company supports the turn-key realization of innovative ID projects of government-related organizations. Over 400 employees in research and development as well as almost 400 trainees underline the potential for further innovations and the focus on the future.

### Strategy

The Mühlbauer strategy pursues the goal of sustained profitability and of increasing the value of the company long-term. In order to achieve this goal, the Group is constantly extending its globally leading market position and is further setting itself off against the worldwide competition. For this purpose, Mühlbauer is pursuing a strategy of value-oriented growth, which is based on technology and market competence and is driven by continuous innovations in the range of products. Hereby, Mühlbauer focuses on sustainable areas of its market with great potential, while opening up new promising markets. The group is extending the presence globally, in order to secure sustained access to its markets worldwide, without neglecting its traditional markets. As the leading solutions provider in the world, Mühlbauer offers a comprehensive range of different standard and customer-specific products from a single source. In so doing, intelligent software solutions support the production process and ensure the highest level of quality and manufacturing efficiency. This ensures that the Group can continuously extend its position on the globalized markets.

The confidence and the satisfaction of its customers form the basis for sustainable development. The primary focus is therefore both on the support of governments' and public authorities' efforts in providing their citizens with greater security and flexibility and on constantly increasing the competitiveness of its industrial customers with the assistance of its products and services. This business policy is based on Mühlbauer technological competence and market expertise, which are part of its most valuable assets. Innovations, resulting from its continuous research and development activities, ensure the continued existence of the company, as these open up new applications, offer customers better solutions and extend business contacts. In order to be close to its customers around the globe, Mühlbauer has a worldwide network of technology, sales and service locations – that develop and produce high-technology – as well as sales engineers and technical experts in order to provide rapid and reliable customer care around the clock. This global network is constantly being extended.

### Product portfolio and sales markets

Mühlbauer is the only company in the world that offers its customers a complete technology platform for the production of innovative card applications and security documents from a single source – starting with industry-based card applications for such sensitive areas as banking or mobile telephony through to security-oriented identification systems such as ID cards, healthcare cards, driver's licenses or electronic passports in the public sector and fully automatic and biometric access and border controls – in its core business area *Cards & SECURITY*<sup>®</sup>. Apart from hardware systems, Mühlbauer also offers comprehensive software-based solutions for the capture and verification of data and for the complete control of production. Customers from the card industry as well as government-related organizations and public authorities benefit equally from more than 30 years of technology and market expertise and from the proven project experience resulting from more than 300 ID projects worldwide.

In *Semiconductor Related Products*, Mühlbauer offers a complete Smart Label factory for the production and personalization of RFID inlays for the contactless identification of goods and flows of goods and for their subsequent conversion to Smart Labels for the security, supply and textile industries, as well as the retail industry. The basis within this proprietary technology

platform is Mühlbauer's specialization on sophisticated automation processes as well as on the processing of particularly small and extremely thin components and semiconductors. Against this background, the company develops and produces innovative systems for specific niche applications in the semiconductor backend area. The product portfolio comprises carrier tape systems for the punching, cutting and winding of carrier tapes, die sorting systems that sort semiconductors into different packaging forms and systems for flip chip bonding, which bond chips with the carrier. In order to identify electronic components and modules, Mühlbauer develops and manufactures marking systems for the traceability of components – primarily for the automotive and electronics industries. Furthermore, the product range in this area covers the corresponding reading devices, data management systems, machines for the handling of circuit boards and customer-specific automation solutions. Moreover, Mühlbauer has recently been utilizing its competence to develop modern production concepts for the flexible thin-film solar technology.

Within *Precision Parts & Systems*, Mühlbauer produces highly precise individual parts at two independent production sites in Germany and at its Slovakian technology center to meet the extremely high demands toward quality and precision. With its longstanding production competence, the company thus supports both sales of its own high-quality products and security-sensitive industries such as the aerospace industry, electronics industry and medical technology.

With its widespread range of products, the Mühlbauer Group covers sales markets and industries that are largely independent from one another. Consequently, the Group's business model is subject to a variety of different factors that affect the business development of the company. While economic developments play a major role in the industry business, political framework conditions, such as political decisions or amendments of international regulations on entry requirements or of the safety features of ID documents, for example, are some of the key factors in the government business.

### Economic framework conditions

Over the past year, uncertainty plagued the global economy and was responsible for a significant decline in growth. The European sovereign debt crisis, the banking crisis, and the macroeconomic crisis in the euro area not only affected trade channels but also business activity in the rest of the world. Over the past year, the long-impending fiscal cliff in the United States also contributed to the global economy performing significantly worse than projections. For example, economic output for the euro area declined by 0.4 percent in 2012. Numerous measures aimed at a rescue, for example a "haircut" and bond buy-ups, were made to attempt to stabilize the economic situation in Europe and subsequently throughout the world. Nevertheless, the problems have still not been truly solved to this day.

While the Western economy is only slowly getting back on its feet, the Chinese economy has already picked up its pace once again. Although the economy in the Land of the Dragon only grew by 7.8 percent over the past year, growth in the fourth quarter of 2012 increased surprisingly to 7.9 percent after months of decline. There were also slight upticks in industrial production and retail sales in December.

The U.S. economy is also looking back at a difficult year. Hurricane Sandy caused billions of dollars in damage and production disruptions along the heavily-populated East Coast. The budget dispute that smoldered for months and the subsequent, long-impending fiscal cliff that would have resulted in enormous tax increases had many companies putting their investments on hold for the time being. The European financial crisis was also a strain on the largest national economy in the world. For instance, the economy in the United States grew by only 2.2 percent last year, and in the last quarter it actually contracted by an annual rate 0.1 percent. Although experts had anticipated a slowdown in growth at the end of the year, the fact that the year ended with the first decline since the peak of the financial crisis in the spring of 2009 was nevertheless surprising.

### Key legal and economic factors

### Global economy and euro zone

Economic growth also slowed noticeably in Germany. While the economy expanded by 3.0 percent in 2011, growth over the past year was only 0.7 percent. However, considering the crisis in most of the euro area countries, this figure showed the German economy to be very robust, according to the Federal Bureau of Statistics. Support came largely from private consumption and above all from exports, and for the first time since the beginning of the crisis, the country was once again able to achieve a small budget surplus.

### Industry development

**Cards & TECURITY®.** The government-related *TECURITY®* market proved relatively stable despite global economic problems. More and more governments and public authorities around the world are showing interest in biometrically supported ID documents and fully automated border crossing systems, both for first-time implementation in countries such as newly industrialized countries and developing countries, and for the development of the next generations. The main reason for this long-lasting trend is, above all, the aspect of security, which plays an increasingly important role in times of globalization and nearly unlimited mobility. The second key factor for the implementation of modern ID documents and automated border crossing systems is raising efficiency at the borders and thus the mobility of people. You can cross a border with an e-passport and a fully automated e-gate in just a few seconds – with maximum security. This brings us to the third driver: comfort for citizens. A substantial debureaucratization and rationalization of the administrative processes of governments and public authorities is achieved with eID documents, e-gates and e-government, which in turn leads to these processes being expedited and thus ultimately also to more comfort with higher security for citizens.

A heightened interest in spreading contactless payment via NFC technology was seen in the industrial sector of the *Cards & TECURITY®* segment. When paying via NFC, all you have to do is hold the smart card or cell phone equipped with NFC technology in the vicinity of the reader and the purchase is paid for instantly. While more and more telephone companies are enabling payment via cell phone, NFC technology is also gaining ground in cards. Banks in Lower Saxony thus issued 1.2 million bank cards with radio chips last April, and Mastercard likewise introduced credit cards with which small amounts can be paid contactless and without entering a PIN code. In addition, more and more businesses are equipping their cash registers with NFC readers. Perfume chain Douglas and gas station chain Aral retrofitted their cash registers across Germany, and others may follow. The progressing transformation of conventional magnetic stripe cards into dual interface cards, with which it is possible to access both interfaces with contacts and without contacts, remains a key driver of business. In telecommunications, as in the past, the constant high demand for SIM/UMTS cards, in particular from developing countries and newly industrialized countries, set the tone for the market.

**Semiconductor Related Products.** Even though the long-impending fiscal cliff in the U.S., the ongoing debt crisis in Europe, and slower growth in the newly industrialized countries left their mark on the global semiconductor branch in 2012, according to the Semiconductor Industry Association (SIA), the industry achieved its third-highest value in the history with sales totaling USD 291.6 billion, which is thus only 2.7 percent below its record-high value from 2011 in spite of the above mentioned economic difficulties. The German semiconductor market fell by four percent to EUR ten billion according to the German Electrical and Electronic Manufacturers' Association (ZVEI). After booming in the first half of the year, the semiconductor industry cooled down significantly in the second half of the year. The high demand for smartphones and tablets remained the most important driver of the market in the past year.

The latest figures published by market research institute IDTechEx show that the RFID market, despite its already numerous advantages of use, is still a market of the future. The global market for contactless identification thus grew from USD 6.51 billion in 2011 to an estimated USD 7.67 billion in the past year. The textile industry in particular experienced rapid growth. Around one to one and a half billion RFID labels were used for labeling products alone. Between 500 million and one billion RFID tags were used last year in ticketing, and just under 300 million tags were used to mark and identify animals. In total, around three and a half to four billion RFID tags were sold around the world in 2012, approx. one billion more than in 2011.



The global solar industry has had a tough year to look back on. The crisis – in particular initiated by price dumping on the part of state-subsidized Chinese manufacturers – continued into 2012. More bankruptcies and progressing consolidation processes were the result. According to market research institute IHS iSuppli, the number of companies from the upstream value chain thus fell to below 150 companies in the past year, whereas there were still more than 750 in 2010. Revenue from the worldwide photovoltaic industry also fell – from EUR 71 billion in 2011 to around EUR 58.5 billion in 2012. On the other hand, the amount of power supplied by solar technology in Germany rose significantly in the past year. According to the German Solar Industry Association (BWS-Solar), the nearly 1.3 million residential solar system in Germany covered the statistical equivalent of the annual energy consumption of eight million households – an increase of approx. 45% year-on-year. High expectations for the market for flexible thin film solar modules continue to be voiced. Their flexible and light structure enables them to offer several advantages, not only advantages of use. Since glass is no longer used in the flexible modules, they can be produced using considerably less energy, which leads to a reduction in production costs. This type of solar energy generation could therefore become prevalent in the mid to long term.

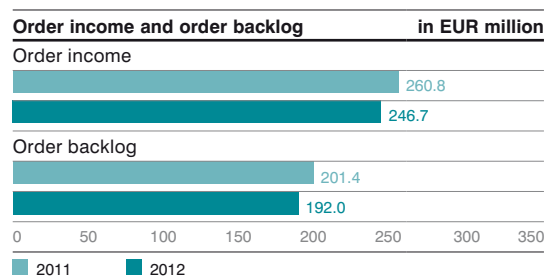
**Precision Parts & Systems.** In Germany, production in the mechanical engineering industry, which is crucial for the *Precision Parts & Systems* segment, in the past year was back at the level it was on at the beginning of the worldwide economic and financial crisis in 2008. The industry brought in sales of EUR 209 billion and is thus one billion above 2008 sales. The value of produced goods came in at EUR 196 billion in 2012 and thus exceeds the value of the past year by two percent. However, new orders fell by three percent in the year under review, which, according to the German Engineering Federation (VDMA), is a very respectable result considering the economic conditions.

**Business development**

The downturn in orders in the core business area *Cards & TECURITY®* caused by the volatility typical of the project business, as well as the decline in business in *Precision Parts & Systems* could not be fully compensated by the strong order situation in *Semiconductor Related Products*. Consequently, order income dropped from EUR 260.8 million in 2011, by EUR 14.1 million or 5.4% to EUR 246.7 million. As a result, at EUR 192.0 million, the order backlog also declined slightly and was EUR 9.4 million or 4.7% under the level of 2011 (PY: EUR 201.4 million). Against the background of the Mühlbauer Group's progressive globalization and internationalization, the international backlog rose to 93.6% year-on-year (PY: 92.1%). Correspondingly, the domestic share dropped from 7.9% in 2011 to 6.4% in 2012.

**Cards & TECURITY®.** In its core business area *Cards & TECURITY®*, the Mühlbauer Group is extremely active in the project business. This project business is characterized by natural fluctuations that are primarily reflected in order income. Against this background, the technology group recorded a decline of EUR 25.8 million or 15.1% to EUR 144.6 million (PY: EUR 170.4 million), in respect of the orders acquired during the reporting period. Irrespective of the lower order volume, in the year under review Mühlbauer was once again successful in convincing further government organizations of the benefits of cooperating with Mühlbauer as a fully responsible and reliable system partner for innovative ID applications. During the reporting period, the government business, which recorded a project-related decline, was increasingly offset by impulses from the business area's industrial sector, in particular the field of industrial card applications. Here, demand was primarily determined by the need for GSM cards and EMV-based bank cards. The order backlog, which dropped from EUR 169.9 million in 2011 by EUR 6.8 million or 4.0% to EUR 163.1 million to the end of the reporting period, developed in parallel.

**Order income and order backlog**

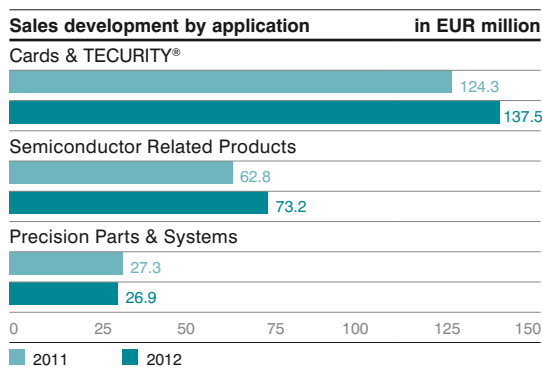


**Semiconductor Related Products.** *Semiconductor Related Products* recorded a significant increase of order income. Order income turned up by EUR 15.0 million or 24.7%, rising from EUR 60.7 million in 2011 to EUR 75.7 million in the year under review. The backend business played a major role in this upturn. Due to the continuously high demand for smartphones and tablet PCs it experienced a sheer order boom, particularly in the first half of the year, thus almost doubling its order income against the previous year. Order backlog remained constant: While an order backlog of EUR 21.3 million was recorded for 2011, the value for the reporting period was slightly lower, at EUR 21.1 million; this corresponds to a decline of EUR 0.2 million or 0.9%.

**Precision Parts & Systems.** The order backlog in respect of *Precision Parts & Systems* declined. As a result of the economic slowdown and the exacerbation of the price war in the past year, order income dropped by EUR 3.2 million or 10.8% to EUR 26.5 million (PY: EUR 29.7 million) year-on-year. The order backlog declined accordingly and, at EUR 7.8 million at the end of the year, was EUR 2.3 million or 22.8% under the record level achieved in 2011 (PY: EUR 10.1 million).

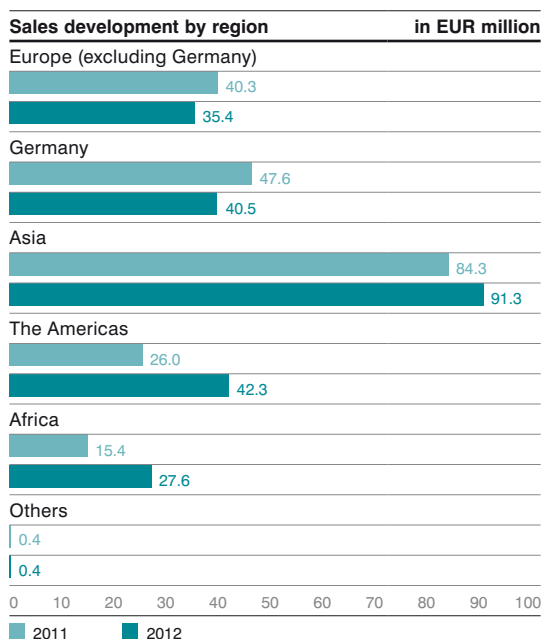
Sales

Based on the high order backlog from 2011, the solution provider once again ramped up sales in the past year, despite the primarily project-related decline of order income and, at EUR 237.1 million, achieved a sales plus of EUR 23.9 million or 11.2% year-on-year (PY: EUR 213.2 million). This not only represents a new record high in the more than thirty-year history of the Group, it also shows that the Group managed to increase sales continually over the past four years.



**Cards & TECURITY®.** In the year under review, sales in the core business area *Cards & TECURITY®* rose from EUR 124.3 million in 2011, by EUR 13.2 million or 10.6%, to EUR 137.5 million. Apart from the continual processing of incoming orders, the industry business, which was characterized by a high demand for GSM cards and EMV-based bank cards last year, also played a role in this increase.

**Semiconductor Related Products.** A sales increase was also achieved in *Semiconductor Related Products* and, at EUR 73.2 million, exceeded the 2011 (EUR 62.8 million) value by EUR 10.4 million or 16.6%. This rise in sales largely results from the semiconductor backend business, which benefited from the unbroken high demand for smartphones and tablet PCs and was primarily therefore able to almost double sales year-on-year.



**Precision Parts & Systems.** Due to the clouding of the global economy in the past year, the resultant decline in orders and the increasing price war in *Precision Parts & Systems*, the sales achieved in the year under review were EUR 0.4 million or 1.5% under the 2011 value, at EUR 26.9 million (PY: EUR 27.3 million).

With a sales increase of 8.3% to EUR 91.3 million (PY: EUR 84.3 million), Asia again remained Mühlbauer's most important market in the reporting period. The American continent recorded a massive sales increase, which, at EUR 42.3 million, was 62.7% higher than in 2011 (EUR 26.0 million). South America, where sales more than quadrupled against the previous year, is responsible for this massive upturn. Sales also rose significantly in Africa, where, at EUR 27.6 million, a sales increase of 79.2% was achieved year-on-year (PY: EUR 15.4 million). In Europe, however, sales declined: At EUR 40.5 million, sales in Germany were 14.9% under the value achieved in 2011 (EUR 47.6 million), in the rest of Europe sales were 12.2% lower year-on-year, at EUR 35.4 million (PY: EUR 40.3 million). Despite this decline, with its share of 32.0% in the consolidated sales of the Mühlbauer Group, Europe still is the solution provider's second most important market after Asia (38.5%).

## EARNINGS SITUATION

At EUR 15.6 million (PY: EUR 28.1 million), the operating income achieved by the Mühlbauer technology group within the year under review was considerably lower year-on-year. This earnings decline is primarily the result of the cost of sales, which rose significantly in relation to sales, so that gross profit, at EUR 68.9 million, also clearly undershot the previous year's result, by EUR 13.4 million. Taking into account a drop in financial result of EUR 0.5 million and a decline in income tax expenditure of EUR 3.6 million, this results in earnings after tax of EUR 12.6 million (PY: EUR 22.0 million). Correspondingly, earnings per share fell from EUR 1.51 in the previous year to EUR 0.84 in the year under review.

### Earnings development

Consolidated statements of income in millions	2012		2011		+/-	
	EUR	%	EUR	%	EUR	%
<b>Sales</b>	<b>237.1</b>	<b>100.0</b>	<b>213.2</b>	<b>100.0</b>	<b>23.9</b>	<b>11.2</b>
Cost of sales	(168.2)	(70.9)	(130.9)	(61.4)	(37.3)	28.5
<b>Gross profit</b>	<b>68.9</b>	<b>29.1</b>	<b>82.3</b>	<b>38.6</b>	<b>(13.4)</b>	<b>(16.3)</b>
Selling expenses	(18.9)	(8.0)	(19.4)	(9.1)	0.5	(2.6)
Administrative expenses	(9.9)	(4.2)	(9.0)	(4.2)	(0.9)	10.0
Research and development expenses	(26.1)	(11.0)	(29.5)	(13.8)	3.4	(11.5)
Other income	3.6	1.5	4.8	2.3	(1.2)	(25.0)
Other expenses	(2.0)	(0.8)	(1.1)	(0.5)	(0.9)	81.8
<b>Operating income (EBIT)</b>	<b>15.6</b>	<b>6.6</b>	<b>28.1</b>	<b>13.2</b>	<b>(12.5)</b>	<b>(44.5)</b>
Financial result	(0.2)	(0.1)	0.3	0.1	(0.5)	(166.7)
<b>Income before income taxes</b>	<b>15.4</b>	<b>6.5</b>	<b>28.4</b>	<b>13.3</b>	<b>(13.0)</b>	<b>(45.8)</b>
Income taxes	(2.8)	(1.2)	(6.4)	(3.0)	3.6	(56.3)
<b>Net earnings</b>	<b>12.6</b>	<b>5.3</b>	<b>22.0</b>	<b>10.3</b>	<b>(9.4)</b>	<b>(42.7)</b>

Compared to the previous year, the Group was again able to raise sales significantly, by EUR 23.9 million or 11.2 %. At the same time, cost of sales rose strongly, from EUR 130.9 million in the previous year, by EUR 37.3 million or 28.5%, to EUR 168.2 million in the 2012 financial year. In relation to sales, cost of sales rose to 70.9% in the 2012 financial year, compared to 61.4% in the previous year. This development is also largely due to the depreciation-related rise in material costs and the higher depreciations associated with continued investment activities.

### Analysis of earnings development

In the 2012 financial year, selling expenses were reduced by EUR 0.5 million or 2.6%, in particular as a result of lower marketing and advertising expenditure. General administrative expenses rose EUR 0.9 million or 10.0% to EUR 9.9 million. The increase is virtually exclusively due to higher personnel costs in this area. The share of selling expenses in percent of sales dropped from 9.1% to 8.0% against the previous year, while the administrative expenses of 4.2% remained at the same level. After two years of intensive research and development work, the costs relating to this work were reduced by EUR 3.4 million or 11.5% in the year under review. Despite this, capitalized own funds, which relieve the functional area, rose by EUR 0.4 million year-on-year. Based on sales, research and development expenses dropped from 13.8% in the previous year to 11.0% in the 2012 financial year.

Other operating income and expenses largely include effects outside the Group's core activities, business transactions from other accounting periods and other business transactions not directly related with the company's core business. After EUR 4.8 million in the previous year, other operating income decreased by EUR 1.2 million to EUR 3.6 million year-on-year, due in particular to lower gains on exchange (EUR 0.5 million) and lower gains from the disposal of fixed assets (EUR 0.4 million). The increase of other operating expenses from EUR 1.1 million in the previous year to EUR 2.0 million in the year under review is primarily attributable to exchange rate differences.

At minus EUR 0.2 million, combined earnings from securities and interest income, which are summarized in the financial result, are EUR 0.5 million under the positive financial result of 2011, as no short-term marketable securities were held in the year under review and consequently the corresponding earnings of EUR 0.3, achieved in the past year, failed to materialize.



In total, the company posts earnings before taxes of EUR 15.4 million, which is EUR 13.0 million under the previous year's level of EUR 28.4 million. This corresponds to a return on sales of 6.5%, after 13.3% in the previous year.

At EUR 12.6 million, the Mühlbauer technology group posts a EUR 9.4 million lower consolidated net income for the year in respect of the reporting period (PY: EUR 22.0 million). The tax rate was 4.4% points lower year-on-year, at 18.2%.

### Dividend

The company wants to continue its dividend policy of previous years and enable its shareholders to participate adequately in the company's earnings once again. The personally liable shareholder and the Supervisory Board will therefore propose the payment of a dividend of EUR 1.00 (PY: EUR 1.00) per no-par value share in respect of the 2012 financial year to the Annual General Meeting. Subject to the Annual General Meeting passing a corresponding resolution and taking into account the current number of shares entitled to dividends, the amount to be distributed to the shareholders is approximately EUR 6.1 million (PY: EUR 6.1 million). The personally liable shareholder will receive EUR 12.7 million (PY: EUR 8.5 million), in accordance with his capital share.

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

<b>Consolidated statement of cashflows in millions</b>	<b>2012 EUR</b>	<b>2011 EUR</b>	<b>+/- EUR</b>	<b>%</b>
Cashflow from operating activities	41.1	37.0	4.1	11.1
Cashflow from investing activities	(26.2)	(28.3)	2.1	7.4
Cashflow from financing activities	(14.5)	(19.1)	4.6	24.1
Free cashflow	17.9	(4.6)	22.5	489.1
Liquid funds	15.5	15.2	0.3	2.0

In the year under review, inflows from operating activities totaled EUR 41.1 million and were thus EUR 4.1 million higher year-on-year (PY: EUR 37.0 million). Apart from the EUR 9.4 million lower net earnings, the main reasons for this development were primarily the higher inflows of EUR 52.7 million against the previous year from the liquidation of inventories, which were opposed by comparatively higher outflows from the build-up of receivables of EUR 15.3 million, and a lower inflow from the build-up of liabilities of EUR 10.3 million. Furthermore, in contrast to 2012, in 2011 cashflow from operating activities still comprised inflows of EUR 13.3 million in net terms from trading in securities.

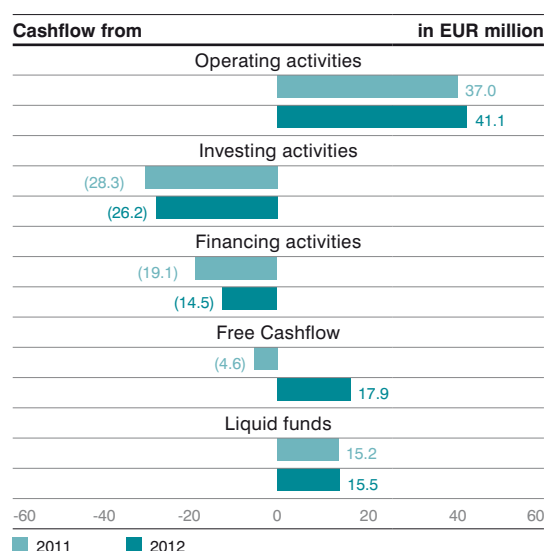
At EUR 26.2 million, outflows from investments were only slightly lower year-on-year (PY: EUR 28.3 million) and, as in the previous year, related largely to investments in fixed assets, predominantly in our production sites and technology centers in Germany; EUR 3.0 million, however, related to the financing of a new technology center abroad within the context of a joint venture.

In the 2012 financial year, outflows from financing activities totaled EUR 14.5 million (PY: EUR 19.1 million) and were associated with the distribution of profits to our shareholders and the personally liable shareholder in the course of the financial year. The dividend distribution of EUR 1.00 per dividend-entitled share, proposed by the personally liable shareholder and the Supervisory Board in respect of the 2012 financial year, is not yet included in the cashflow statement for 2012, as no resolution has been passed so far and no outflow has occurred.

Liquid funds, as the total of the individual cashflows, together with the difference from currency translation, rose by EUR 0.3 million against the previous year (EUR 15.2 million), to EUR 15.5 million.

Despite the lower net income for the year, free cashflow rose to EUR 17.9 million, due in particular to the reduction of working capital and the slight drop in outflows for investments – after a minus of EUR 4.6 million year-on-year.

In the 2013 financial year the Mühlbauer Group will require capital to finance its operating activities, for the realization of scheduled investments, for the payment of other financial obligations – insofar as such arise – and the distribution of profits. Mühlbauer expects to meet these requirements through inflows from current business, available funds and short-term credit lines of a total of EUR 35.0 million that can be disposed of to the end of 2012, of which EUR 10.8 million had been utilized by this time in the form of sureties.



Free cashflow

Capital requirements and refinancing



**Searching  
Connection**



We move communication





## Semiconductor Related Products Semiconductor Backend

Around 821 million smart phones and tablet PCs were sold worldwide in 2012. By 2013 alone, this number is set to rise by 33% and 38%. These impressive figures are the result of the rising demand for virtually unlimited communication. We provide state-of-the-art solutions for the production of semiconductor-related products, which more than

meet the demands of modern communication. As a result of our competence and experience, we are longstanding business associates of numerous producers of semiconductors who are suppliers to renowned smart phone and tablet PC manufacturers. We are therefore well prepared to meet the forecast boom on the smart phone and tablet PC market.



We move communication





## ASSET SITUATION

### Balance sheet total

As at 31 December 2012, the consolidated balance sheet total decreased by EUR 0.3 million or 0.1% to EUR 235.0 million (PY: EUR 235.3 million) year-on-year. On the one hand, this reflects strong ongoing investments in tangible fixed and financial assets, on the other hand, a marked reduction of short-term assets. Thus, long-term assets rose to EUR 14.4 million in the year under review, due largely to the net investments in fixed and tangible financial assets, while short-term assets declined by EUR 14.7 million. In relation to the balance sheet total, long-term assets rose from 40.3% in the previous year to 46.5% in the year under review, while short-term assets for the same period dropped from 59.7% to 53.5%. Total liabilities increased by EUR 1.7 million or 2.3%, as at 31 December 2012. Short-term liabilities rose by EUR 1 million or 1.4%, while long-term liabilities rose by EUR 0.7 million or 70.0%. As at 31 December 2012, shareholders' equity decreased by EUR 2.0 million or 1.2%. The equity ratio was 67.4% on 31 December 2012 (PY: 68.1%).

Balance sheet (outline) in millions	2012		2011		+/-	
	EUR	%	EUR	%	EUR	%
Short-term assets	125.8	53.5	140.5	59.7	(14.7)	(10.5)
Long-term assets	109.2	46.5	94.8	40.3	14.4	15.2
Financial assets	12.8	5.5	0.7	0.3	12.1	1728.6
Fixed assets	85.3	36.3	82.8	35.2	2.5	3.0
Intangible assets	6.1	2.6	7.0	3.0	(0.9)	(12.9)
Long-term tax receivables	1.5	0.6	1.8	0.7	(0.3)	(16.7)
Deferred tax assets	1.5	0.6	0.9	0.4	0.6	66.7
Other long-term assets	2.0	0.9	1.6	0.7	0.4	25.0
<b>Total assets</b>	<b>235.0</b>	<b>100.0</b>	<b>235.3</b>	<b>100.0</b>	<b>(0.3)</b>	<b>(0.1)</b>
Short-term liabilities	75.0	31.9	74.0	31.5	1.0	1.4
Long-term liabilities	1.7	0.7	1.0	0.4	0.7	70.0
Shareholders' equity	158.3	67.4	160.3	68.1	(2.0)	(1.2)
<b>Total liabilities</b>	<b>235.0</b>	<b>100.0</b>	<b>235.3</b>	<b>100.0</b>	<b>(0.3)</b>	<b>(0.1)</b>

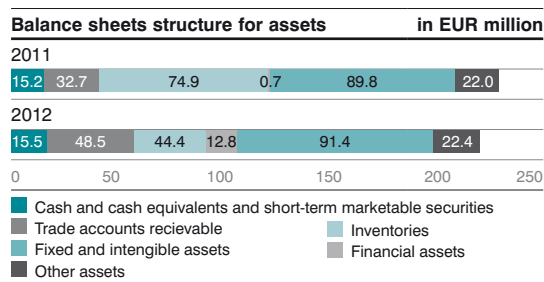
### Short-term assets

In the year under review, the continued extension of business volume was predominantly reflected in trade accounts receivable, which increased by EUR 15.7 million. Total short-term assets declined by EUR 14.7 million or 10.5%, due to the significant reduction of current assets, in particular the decrease of inventories by EUR 30.6 million resulting from current business operations and value adjustments. Cash and cash equivalents rose by EUR 0.3 million.

### Long-term assets

Within long-term assets, financial assets climbed by EUR 12.1 million, due in particular to the increase of trade accounts receivable with a maturity of more than one year and a loan of EUR 3.0 million to a company in which Mühlbauer holds a participation. As a result of the investments effected during the reporting period, fixed assets, offset against depreciations and disposals, rose by EUR 2.5 million or 3.0%. The reduction of intangible assets by EUR 0.9 million is composed of a reduction in respect of software and licenses of EUR 0.5 million and the capitalized development expenses of EUR 0.4 million, which are still declining as a result of depreciation.

The deferred taxes formed in the previous year rose by EUR 0.6 million in the year under review as a result of accumulated tax-related loss carryovers of national and international group companies.



Within short-term liabilities, the EUR 8.2 million decrease of trade accounts payable to EUR 14.2 million is offset against an EUR 8.4 million increase of downpayments received on orders to EUR 31.2 million. The rise of other accruals by EUR 0.7 million is also associated with guarantees (plus EUR 0.7 million) and performance bonuses (plus EUR 0.5 million), as well as a decline of accruals for outstanding invoices of EUR 0.5 million – which has the opposite effect. In contrast, accrued taxes underwent an earnings-related decrease of EUR 0.2 million.

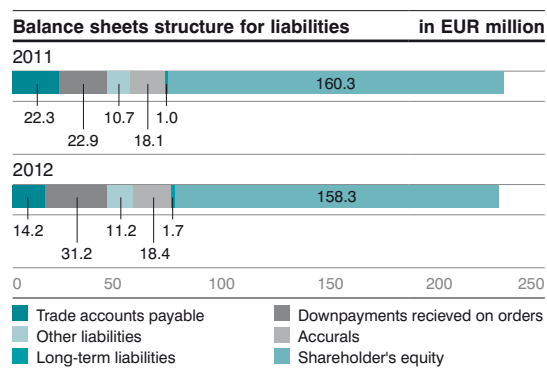
Short-term liabilities

On the reporting date, long-term liabilities amounted to EUR 1.7 million (PY: EUR 1.0 million). They include only the deferred taxes that IFRS has determined must be posted as long-term liabilities.

Long-term liabilities

Shareholders' equity dropped from EUR 160.3 million as per 31 December 2011 to EUR 158.3 million as per 31 December 2012. This decline reflects the dividend payment made to the shareholders in the second quarter of 2012 and the distribution of profits to the personally liable shareholder of EUR 14.7 million, due in parallel, as well as the expenses and income of net minus EUR 0.1 million that are recorded directly in shareholders' equity. The latter are directly connected with the devaluation of the currencies of certain group companies abroad against the group currency (euro), recorded during the period under review. The consolidated net earnings of EUR 12.6 million, achieved during the reporting period had the opposite effect.

Shareholders' equity



The long-term capital, consisting of shareholders' equity and long-term liabilities covers 146.5% of the long-term assets. The extended coverage of the long-term assets (long-term capital in relation to the total long-term assets and 50% of inventories) is still at a very solid level, at 121.8%.

Composition of the subscribed capital. The ordinary share capital of Mühlbauer Holding AG & Co. KGaA was EUR 8,037,376.00 on the reporting date (same amount as in the previous year), and is divided up into 6,279,199 no-par bearer shares and one no-par registered share. 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.

Restrictions relating to voting rights or the assignment of shares. Mühlbauer Holding AG & Co. KGaA is not entitled to any rights from its own shares. In the cases in which section 136 of the German Stock Corporation Act applies, the voting right associated with the relevant shares is excluded by law.

Participations in capital that exceed 10% of the voting rights. 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%.

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

Mode of control of voting rights if employees hold a share in the company's capital and do not exercise their right of control directly. There are no controls of voting rights in respect of employees who hold shares.

Legal provisions and regulations contained in the Articles of Association on the appointment or dismissal of the personally liable shareholder and the amendment of the Articles of Association. Mühlbauer Holding AG & Co. KGaA is, by law, represented solely by the personally liable shareholder. In accordance with the nature of a KGaA, the personally liable shareholder is not subject to the personnel competence of the Supervisory Board and can therefore not be dismissed.

Sections 179, 285 AktG (German Stock Corporation Act) in connection with sections 18, 15 and 4 subsection 5 of the Articles of Association of Mühlbauer Holding AG & Co. KGaA apply with regard to the amendment of the same. Accordingly, all amendments of the Articles of Association are, on principle, resolved by a simple majority of the Annual General Meeting and – insofar as legislation does not compulsorily require a greater majority – a simple majority of the share capital represented. In accordance with section 15 of the Articles of Association of Mühlbauer Holding AG & Co. KGaA, the Supervisory Board is entitled to resolve changes of the Articles of Association that pertain only to their wording. Numerous resolutions of the Annual General Meeting also require the approval of the personally liable shareholder; these include amendments to the Articles of Association.

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

- a) exclude fractional amounts 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.

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.

As per the resolution of the Annual General Meeting of 29 April 2010, the personally liable shareholder is authorized – until 28 April 2015 – to acquire shares of the company with a calculated 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.

Material agreements of the company that apply subject to a change of control resulting from a takeover bid. Material agreements of the company that apply subject to a change of control resulting from a takeover bid do not exist.

Compensation agreements of the company that are concluded with the personally liable shareholder or with employees in the event of a takeover bid. Compensation agreements of the company that are concluded with the personally liable shareholder or with employees in the event of a takeover bid do not exist.



## VALUE-ORIENTED CONTROL PARAMETERS

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

Ratios (Selection)	2012	2011
1 Investment rate	46.5%	40.3%
2 Rate of circulation	53.5%	59.7%
3 Inventories to total capital	18.9%	31.8%
4 Rate of inventory turnover	4.0	3.3
5 Turnover time of inventories in days	91	108
6 Days of sales outstanding	62	53
7 Equity ratio	67.4%	68.1%
8 Return on equity	7.9%	13.9%
9 Total return on capital	5.4%	9.8%
10 Equity-to-fixed assets ratio	185.6%	193.6%
11 Personnel expenses ratio	34.0%	37.1%
12 Material costs ratio	28.5%	36.5%
13 R&D ratio	11.0%	13.8%
14 EBIT ratio	6.6%	13.2%

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

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

Management controls the company through strategic and operational goals and on the basis of monetary and non-monetary parameters. Key financial control parameters of the Mühlbauer Group are earnings before interest and taxes (EBIT), the pre-tax profit margin (earnings before taxes, based on sales) and the free cashflow (balance from inflows provided by operating activities and used for investment). The free cashflow ratio is used to determine the change in the Group's cash and cash equivalents after deducting all payouts that were made for the organic preservation or expansion of the Company.

The form in which value-oriented management is practiced within the individual business processes varies. In addition to monitoring purchase volumes and delayed deliveries, focus in Procurement is also on monitoring purchase commitments and on-time notification of needs for purchased parts. In addition, the effectiveness of cost reduction programs is followed up and investment ratios are observed. By calculating the return on investment in respect of investment proposals, the anticipated return from the respective capital expenditure required is depicted. The activities in production are controlled on the basis of cost rates and expense ratios, prices, productivity ratios, as well as absolute and relative values on inventory development. In addition, an ERP-supported order information system is used as a tool for controlling production. With the help of an additional ERP-supported assessment tool, absolute and relative values are also determined periodically for the activities following actual transactions with customers in order to be able to evaluate and assess business relationships over their entire lifecycle. We use the R&D ratio (R&D investment expenditure based on sales) to depict our research and development activities. In production and R&D, in particular, headcount is periodically depicted so that existing personnel capacities can be flexibly maneuvered between the individual product areas in the event of varying employment situations. Order income, sales and reporting, which is derived from an open item system, directly to the responsible manager incl. collection periods constitute the primary control information within the sales organization. Sales utilizes an additional control parameter – customer value – for the identification of key accounts. This value is determined using quantitative and qualitative criteria.

The on-time provision of all ratios is linked to the matching of actual with target values. Due to the processing of this information by management, which is always effected promptly, it is guaranteed that escalation processes and countermeasures can be initiated immediately in the event that deviations are identified. These processes and countermeasures include measures intended to counteract unfavorable developments, decisions on investment measures, the selection and expansion of product areas with which the targeted growth is to be realized or the 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.

The corporate philosophy of the Mühlbauer Group is geared toward building a stable foundation with regard to economic, ecological and social aspects. Customers, suppliers, shareholders and employees should be equally able to rely on the company, even in tough times. This is why there is a need to create added value for all stakeholders by taking financial necessity, ecological common sense and social responsibility into account equally.

### SUSTAINABILITY REPORT

To the Mühlbauer Group, sustained corporate management means creating a stable foundation with regard to economic, ecological and social aspects, on which customers, suppliers, shareholders and employees can rely in equal measure, even in economically difficult times. For this reason, the Mühlbauer Group has always felt an obligation to implement a corporate strategy that combines economic necessity, ecological reason and social responsibility, thus providing all stakeholders with added value. Our understanding of sustainability is also reflected in our Code of Conduct, which addresses legal and ethical principles that should be taken into consideration in day-to-day operations and the adherence of which are mandatory for the entire Mühlbauer Group and all its employees.

#### Efficiency and quality

As a manufacturer of high-tech system solutions, Mühlbauer utilizes all technical and operational opportunities to ensure the maximum in working efficiency and product quality. All business and production processes are therefore subjected to continual testing and improvement in the context of quality management. Apart from the annual certification in accordance with DIN EN ISO 9001 by an independent external expert, an internal auditor also continuously monitors the management system in the context of defined audit programs. If deviations are recognized with regard to functions or processes, the company can take corresponding measures at an early stage.

#### Production and environment

More than 600 employees at the German sites Roding and Stollberg and at the company's Slovakian site Nitra manufacture high-precision parts for Mühlbauer's product portfolio. In addition, parts are also manufactured for external customers from sensitive industries, such as the aerospace and semiconductor, electrical, solar or medical technology sectors. The key manufacturing processes here include drilling, turning, milling, welding, stamping and laser-cutting. For the manufacturing process the used raw materials are aluminum, stainless steel, cast iron scrap, synthetic materials, titanium and copper. Areas of particular environmental relevance are:

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

To prevent or avert potential environmental damage at an early stage, technically trained employees pay attention to the observance of statutory environmental standards when handling hazardous materials. Furthermore, waste is consistently reduced by means of waste prevention and recycling.

## Workplace safety and health

To Mühlbauer it is a matter of course to create ideal and safe working conditions throughout the Group in order to prevent occupational accidents and diseases. Apart from the fact that Mühlbauer's utmost priority is the safety of its employees, management is of the opinion that only employees who feel comfortable and safe within the Group are able to provide an excellent performance long-term. A key focus here is on workplace health and safety measures. These include regular training measures to sensitize the employees of all departments to potential hazards and the provision of technical facilities, such as monitoring and fire alarm systems for the reporting of disruptions or emergencies. Furthermore, Mühlbauer supports general workplace safety by means of a safety and health-related improvement of workplace design and by providing protective equipment for work involving specific risks while the number of reportable accidents per 1,000 employees rose to 53 (PY: 40) – in absolute terms – during the year under review, the relationship between the average number of staff employed by the Group and number of days on sick leave dropped to 0.15% year-on-year (PY: 0.17%).

Another important contribution toward working efficiently is Mühlbauer's corporate healthcare system. It not only comprises an occupational medical service that performs the statutory occupational medical check-ups for all employees and provides help in the event of acute illnesses but also unusual healthcare services. Thus, employees have access to a modern fitness center of 1,500 m<sup>2</sup>, in which they can counter the lack of exercise in their everyday working lives with sports. Under the expert guidance of qualified fitness trainers and physiotherapists, a health-oriented training can, for example, balance or prevent damaging stresses and strains at the workplace. The healthcare measures and services offered by Mühlbauer not only enhance employee motivation but are also reflected in lower illness-related expenses in the long term. Across the Group, at 8.6 days, the average number of days of sick leave that were taken is almost at the same level of the previous year (8.3 days) and thus significantly under the average of around 13.0 days for Germany as a whole.

As an attractive and responsible employer, Mühlbauer places great value on maintaining a fair and constructive partnership with its almost 2,800 employees, from which it can draw longterm. It is therefore of particular importance to the company that it continually improves the qualification levels of its employees so that these can permanently meet the rising requirements of a globalized economy. Apart from purely technical qualification measures this includes intercultural training and language courses. Additionally, Mühlbauer provides over 400 young people with excellent training in numerous industrial and commercial professions, thus easing their way into the paid workforce. The rate of trainees and apprentices amount 14.3% to the end of the year under review and is thus significantly higher than the national average. It is also extremely gratifying that the number of trainees and apprentices includes an increasing number of young women who are completing industrial-technical training at Mühlbauer. The company welcomes this development as an expression of gender equality. At the end of the reporting year, the proportion of women in the overall company workforce was 25.7%, nearly the same figure as in the previous year (26.0%). Moreover, the Mühlbauer Group provides support to its employees with regard to the development of an additional company pension scheme, as a supplement of the existing statutory social security systems. All employees can realize an increase of their future pension payments in the course of deferred compensation.

## Personnel development

Societal and social responsibility play a very important role in the Mühlbauer Group. The company not only welcomes volunteer work on the part of its employees but also knows the importance of assuming social responsibility itself in society. Under the aegis of the Josef Mühlbauer Foundation, established by the company's founder, the company supports selected social initiatives and projects both domestically and abroad with considerable financial donations. For instance, the traditional Mühlbauer Run, which during the year under review was held for the eighth time and – with some 2,000 participants – was one of the largest charity runs in the region, is also a reflection of the company's commitment to social responsibility. Thanks to the generosity of sponsors, employees, and participants not associated with the company, EUR 75,000 in donations were collected, to which the company's founder added an additional EUR 52,000. With the donations from last year's run, the Josef Mühlbauer Foundation supported not only the Roding secondary school and the Mitterdorf elementary school, but also once again provided assistance to international projects that need help urgently. For example,

## Social responsibility





We move details







## Precision Parts & Systems

Sometimes it is minute components, mere details that decide on whether or not a system will work, an operation or a start will be successful. The demands toward precision parts are tremendous and rise continuously. Thanks to our competence and experience, more than 250 customers worldwide consider us a reliable partner. In our business area Precision Parts & Systems we produce highly

precise parts for our own needs, as well as the needs of clients from safety-sensitive industries such as the aerospace, medical technology or motor sports industries. Our 24-hour production provides us with the highest possible level of flexibility and speed to meet the discerning demands of our customers and business associates – which we have already done for more than 30 years.





We move details



EUR 80,000 was provided to Yambio Referral Hospital in South Sudan, which despite serving a population of approximately two million people lacks the most basic equipment – in particular for check-ups for pregnant women and for combating the high rate of child mortality. The Josef Mühlbauer Foundation gave another EUR 40,000 to support the Umoja Women's Village, which as the first women's village in Kenya provides a home for women and children far removed from family violence and oppression.

**FACTOR INPUT**

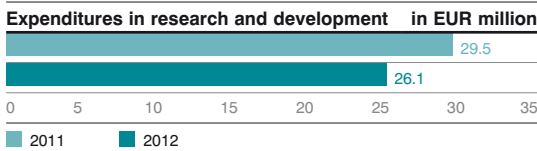
**Investments**

As a future-oriented and globally positioned group, Mühlbauer invests continually into the modernization and extension of its infrastructure in order to guarantee the sustained and stable growth of the company long-term. Even though investments in the year under review were EUR 11.4 million or 34.4% lower, at EUR 21.8 million – following massive investments in the previous year (EUR 33.2 million) – the solution provider again invested heavily during the reporting period. The focus of investments in fixed assets was on the construction of production sites and technology centers at its headquarters in Roding and in Stara Pazova, Serbia, and on equipping them with machinery. Furthermore, the production site in Stollberg was modernized and extended. Investments in intangible assets related in particular to software for the production process at the El Salvador site and on the capitalization of development results achieved by the Group.

As in the past year, the regional focus of investments was in Europe, with EUR 20.1 million or 92.2%, of which EUR 15.2 million or 75.6% related to Germany. EUR 1.3 million or 5.7% of total investments related to the American continent, which thus recorded the second-highest regional investments for the reporting period.

While sales rose and investments declined year-on-year, the investment rate dropped from 15.6% in 2011 to 9.2% in the year under review. The investments were fully financed by the operative cashflow.

**Research and development**



The more than thirty years of growth of the Mühlbauer Group are based on the Group's constant drive for innovation. The continual advancement of existing procedures and systems and the development of new innovative systems and procedures is intended to further strengthen the Group's technological base as well as secure and consolidate the strong market position the company developed over decades, as a result of its experience and competence. This tried and tested philosophy is gaining increasing importance for the Group, especially in times in which the markets of the Mühlbauer Group are becoming ever harsher due to pressure from Asian competitors. Thus, the Mühlbauer

Group employed an average of 437 employees in research and development in the year under review. At EUR 26.1 million, investments in research and development were unsurprisingly EUR 3.4 million or 11.5% under the level of 2011 (EUR 29.5 million), following massive spending in the previous year. Based on sales, however, this still corresponds with an impressive R&D ratio of 11.0% and underpins the significance of innovation within the Group. Furthermore, the Group cooperates closely with various universities, research institutes and other companies in the area of basic research and products. Mühlbauer secures its research and development lead with an internationally oriented Intellectual Property Management: In the past financial year, Mühlbauer achieved seven patentable development results (PY: 8), leading to a total of 55 patent applications worldwide (PY: 35).

**Cards & TECURITY®.** The focus of research and development activities in *Cards & TECURITY®* in the past year was largely on maintaining the boosting the company's competitiveness on the market. In card production, a new system for the production of dual interface cards was developed, which allows for a throughput of up to 2,500 cards an hour.

In the card personalization area, the personalization system was, on the one hand, complemented by further process modules and, on the other hand, a new desktop passport personalization system was developed that features a modular structure. This provides the system with greater flexibility, thus enabling the uncomplicated extension of the machine with new process modules and the customization of the system in line with client needs. Additionally, the desktop personalization system was complemented by a new software interface, as a result of which the system can be operated like a conventional printer. Overall, a new software module for all personalization systems was developed with which production statistics can be easily and comfortably evaluated. This new module provides pre-defined evaluations and a print function and allows for the creation of own filters and diagrams.

The development of a new passport booklet line, as well as the revision and extension of this line has resulted in the optimization of costs, leading to an increase of competitiveness on the market.

Not only was a cost optimization of the Mühlbauer eGate for border and access controls with multibiometry and ID documents performed in the past year – the modularity of the eGate was also raised and its design updated.

During the further development of the Mühlbauer INCAPE production planning and control software, the focus was in particular on the special requirements of smaller ID document personalization solutions. The switch to a new software technology platform now allows for the even more effective and flexible covering of the different requirements of small- to large-scale ID personalizations. The new Mühlbauer INCAPE software was already successfully deployed in Africa in mid-2012, in the context of an ID document project.

Furthermore, the existing enrolment solution was redesigned and further developed with the support of new solution approaches and technologies. The new enrolment solution getID NG (next generation) comprises a range of data collection components that facilitate the development of GUI components (screen graphics) and provide all applications based on it with the same design and operability. Thanks to this ANGIE framework, which has been equipped with numerous technical innovations, it is guaranteed that getID NG can be easily extended, modified and handled – even in the future.

**Semiconductor Related Products.** In *Semiconductor Related Products* the focus of development activities in the past financial year was on extending the existing product portfolio by new machines, the further development of existing machines to achieve an ideal cost/performance ratio and basic developments aimed at opening up future markets.

Thus, the product range in the RFID area was extended by the "Personalization" sector. A large-scale, modular personalization system for RFID labels and tickets was realized. Apart from processes such as chip encoding and the printing of variable data, the system is characterized by stable data handling.



In the area of thin-film solar technology, development activities focused on the production of a roll-to-roll thin-film solar system that is in particular characterized by the fact that it does not produce individual cells but monolithic interconnected modules. Apart from "mechanical scribing", inline "laser scribing" was realized as a new process. This machine represents an important step in demonstrating that a thin-film solar system can be produced with a very high level of automation and constitutes an extremely economic alternative to the conventional photovoltaics technology.

Conceptual proof was provided in the past year that an extremely efficient LED backend production is possible on the systems developed by Mühlbauer, by combining basic developments in the process area and adaptations of flip chip systems. The realization of a line of LED prototypes is scheduled.

The development of the Variation ECO, a machine with a completely new bondhead principle commenced in the die sorting area. The goal is a significantly improved cost-of-ownership compared with its predecessor.

In the past year, an offline laser system was completed in Traceability, which sets new benchmarks with regard to full product traceability.

## Purchasing and procurement

One of the fundamental goals of procurement in the Mühlbauer Group is to establish long-term cooperative relationships with capable, reliable suppliers. Suppliers are chosen not only according to overall cost-effectiveness but also according to other important factors such as quality, the ability to innovate, and in particular, reliability. The aspect of "sustainability" is also an integral part of the Group's procurement principles and supplier management strategy. Mühlbauer expects that its suppliers will ensure compliance with environmental and social standards both within their own company as well as within their supply chain, and that they will meet the high standards of the Mühlbauer Group concerning corporate responsibility.

Over the past fiscal year, the activities of the Mühlbauer Group's Purchasing and Procurement Department were focused on scrutinizing and realigning its structural organization and legacy purchasing and procurement processes in connection with the launch of an ERP system. For example, within the Purchasing organizational structure, in addition to the purchasing teams that deal with specific materials groups, technology interfaces were also created for specific business segments, providing the Group with forward-looking management of purchasing volume and ensuring that excess inventories will not accumulate. Moreover, thanks to the enhanced cooperation between Purchasing and Development, cost drivers and dependencies in our products are continuously identified and eliminated with due consideration given to quality. The Mühlbauer Group is able to derive advantages for this process in particular from its global presence. Thanks to both regional as well as global sourcing, dependencies on individual suppliers are reduced and long delivery periods can be countered.

Supply bottlenecks at the beginning of the reporting year were counteracted by having these escalated to the persons in charge of the projects; in turn, ways to remedy the disruption as quickly as possible were sought at the management level in an atmosphere of partnership and solution-oriented cooperation.

Various measures were taken in order to reduce the number of separate orders processed and thus to improve administrative efficiency. For instance, we bundled order volumes and took advantage of synergy effects between various affiliated companies within the Mühlbauer Group. This resulted in a consolidation of the supplier base, a reduction in product complexity, and consequently in a standardization of items as well as a decrease in the number of orders placed.

Overall, the measures described above led to the Group being able to reduce order volume in the past year by EUR 12.6%, to EUR 68.1 million (previous year: EUR 77.9 million).

As a rule, the Mühlbauer Group Purchasing Department continually negotiates new, competitive contract terms that are as reasonable as possible with regard to prices while stipulating quality that will continue to meet the same high standards or even improve. Consistent, intensive cooperation and partnership with our most important suppliers will also continue to be a high priority in the company's purchasing strategy in the future.

## EMPLOYMENT

The Mühlbauer Group has been considered a reliable and responsible employer for more than 30 years. The company has intensely fostered the establishment and continuing development of its corporate culture, the foundation of which is the Mühlbauer Group Code of Conduct. All of the Group's employees worldwide have pledged to follow the code, which sets out the fundamental principles for ethical, fair, and lawful conduct. The fundamental aspects of the code create values for interpersonal relations such as openness, directness, honesty, and reliability, which simultaneously form the starting point for successful cooperation among employees but also between employees and management. Any problems and/or complaints that do arise – a situation that can hardly be avoided with nearly 2,800 employees – are handled by the company openly and honestly and, where necessary, appropriate steps are taken.

The cornerstone of the Mühlbauer Group personnel policy is in-house training. Because of the shortage of skilled workers and changing demographics, it is very important to Mühlbauer to lay the foundation for a qualified and competent workforce and to build up long-term company loyalty among the employees by providing in-house educational opportunities. Trainees with above-average skills are particularly encouraged via appropriate measures, so that their career path development may one day lead to management. Another vital element of Mühlbauer's personnel policy is the international orientation of the Group. In addition to the search for foreign specialists, the internationalization of our domestic employees is also very important to the Group because of our international business activities. As a complement to the continual exchange of employees between locations and countries, the Group would like to support and improve the international and intercultural cooperation of its employees through various measures such as providing diverse language courses, for example.

The Group's international orientation, a transparent organizational structure with clear responsibilities, and open communication structures are also part of the Group's long-term personnel policy, the primary goal of which is to obtain skilled employees who will work with the company over the long term. This is the reason why the Mühlbauer Group offers numerous benefits to its employees. These include, for example, a company gym that the employees are able to use at extremely reasonable prices. Such measures are taken by the Mühlbauer Group to provide a balance to the daily routine of work and also to boost employees' awareness of exercise and thus their health, which for the Group's management is absolutely of utmost priority. For years, the company has also been offering all of its employees flex time arrangements, which in turn provide the employees with more room to maneuver in their schedules.

During the year under review, we focused on recruiting – in addition to the above-mentioned training that forms the foundation of the Group's personnel policy – which above all involved the search for skilled workers and managers in order to reinforce the structures of the departments and to continue to expand our already high-caliber workforce. During periods when the shortage of skilled workers intensified in Germany, the search for employees refocused on international specialists. In some cases, the Group was able to gain highly qualified employees for the company thanks to escalated international recruitment. However, demographic changes and the consequently changing personnel policy require a high degree of versatility and flexibility when it comes to winning over employees. The training and encouragement of newcomers from the world of academia, for example in the form of internships or academic papers, thus continues to be part of the Mühlbauer Group's mission. The goal of this is to interest potential new talent in the company and at the same time to create ties to the company, all of which also provides added value for the region since secure, high-quality jobs are created in an area lacking in economic opportunity. It was not necessary for the company to avail itself of the services of external staffing and recruiting agencies during the reporting year.

Corporate culture

Personnel policy

Focal points

**Employee structure<sup>1</sup>**

At the end of 2012, Mühlbauer employed 2,723 staff members throughout the Group (PY: 2,835), and as in 2011, 31.2% of those were in countries other than Germany. Accompanying this very slight decrease in the average number of employees in comparison to the previous year, which was related to work on specific projects, personnel expenses rose slightly by 1.9%, from EUR 79.1 million to EUR 80.6 million. EUR 67.2 million of this was attributable to payroll (PY: 65.9 million), EUR 13.4 million (PY: 13.2 million) to social security contributions.

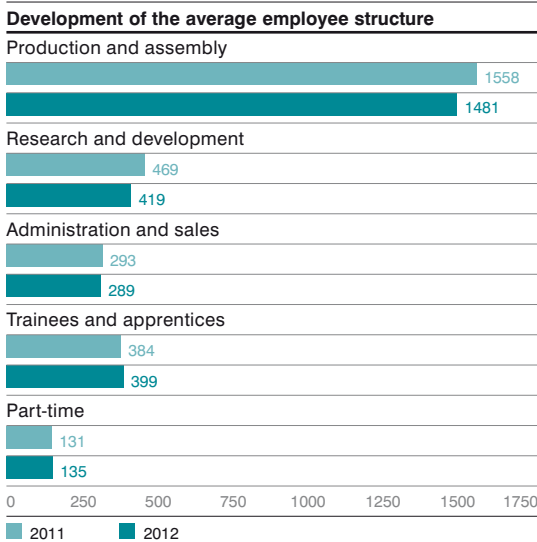
**Recruitment of trainees and apprentices.**

Finding skilled labor is an increasing challenge. Mühlbauer believes that providing professional training to qualified young people is an investment in the future. Both changing demographics as well as globalization have resulted in constant changes in the quality requirements demanded of skilled workers. Mühlbauer’s commitment to training represents a proactive response to this situation, allowing us to acquire dedicated and qualified new talent from within our own company.

In the year under review, 121 new trainees were hired (PY: 119), meaning that at the end of the reporting period, there were 399 young people (PY: 384) in 16 trade and commercial apprenticeships or internships. This means that such trainees and interns made up 14.7% of our workforce (PY: 13.5%), a figure which is considerably higher than the national average in Germany of about 6%.

In addition to general job training, the Mühlbauer Group also participates in the “DBFH model”, a system that allows trainees to simultaneously receive vocational training as well as finish their secondary education. This means trainees not only receive a certificate of proficiency for the field they train in, they also qualify to attend a technical college once they finish. This educational path through the “dual system” takes into consideration both the changing qualification requirements demanded of young skilled workers as well as industry’s demand for shorter training periods. Additionally, in cooperation with the regional technical colleges of Regensburg, Amberg-Weiden, and Deggendorf, Mühlbauer offers students who finish high school qualified to attend a technical college the possibility to participate in a dual system of studies and training in mechatronics, mechanical engineering, electrical engineering, information technology, or industrial engineering. The goal is for the student to acquire both practical training in the company and a Bachelor’s degree. In 2012, 13 young people took advantage of

this opportunity in connection with either a combination self-study/at-work training program (so-called “Verbundstudium”) or a degree program with intensive on-the-job training (so-called “Studium mit vertiefter Praxis”) in the Mühlbauer Group. With regard to gaining new talent from the world of academia, during the reporting year Mühlbauer continued to increase its contacts with technical colleges in both national and international locations and made presentations at numerous career fairs. One focal point of these efforts during the reporting year was the recruitment of potential trainees at schools and at training opportunity exhibitions at which Mühlbauer was present. In addition to exhibitions and talks, Mühlbauer intensified its efforts to tread new recruitment paths, offering those interested the opportunity to get to know the company and its technologies by way of company tours. Moreover, Mühlbauer is always eager to enable students in high school and institutions of higher learning to get a specific look early on at what really goes on at the company. In 2012, a total of 169 ambitious young people took advantage of the opportunity to get to know the company as interns, work-study participants, or in connection with their work with us for a thesis paper.



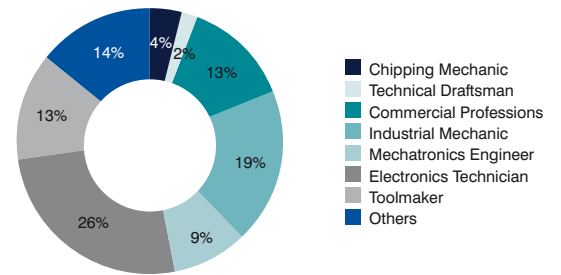
<sup>1</sup> The employment figures of the previous year were adapted to the current organizational structure to improve comparability



Employee Development

A company’s own employees are the key to its potential. This is why during the year under review, employee development efforts again continued steadily with the objective of enabling both individual employees and teams to successfully and efficiently master tasks and new challenges within the organization. In order to get an idea of the current state of skills and qualifications and an indication of development potential, structured employee development reviews were held during the reporting year from which conclusions could be drawn concerning the need for continuing education. With the assistance of the company’s own “Mühlbauer Academy”, the internal transfer of knowledge via training sessions conducted by employees for employees at all levels was structured and encouraged with specific goals in mind. Additionally, continuing education opportunities such as language courses or tailored qualification measures were offered by external partners so that our employees could strengthen their personal and professional competence. In addition to the numerous specialized continuing education programs, many junior staff members were promoted thanks to educational programs coupled with advancement opportunities (so-called “Aufstiegsfortbildung”). The Mühlbauer Group has stayed true to its established strategy of satisfying its future need for qualified new talent first and foremost from within its own ranks.

Vocational training structure to the year-end in %



EVENTS AFTER THE END OF THE 2012 FINANCIAL YEAR

There were no events of fundamental importance that occurred after the end of the 2012 financial year.





We move people





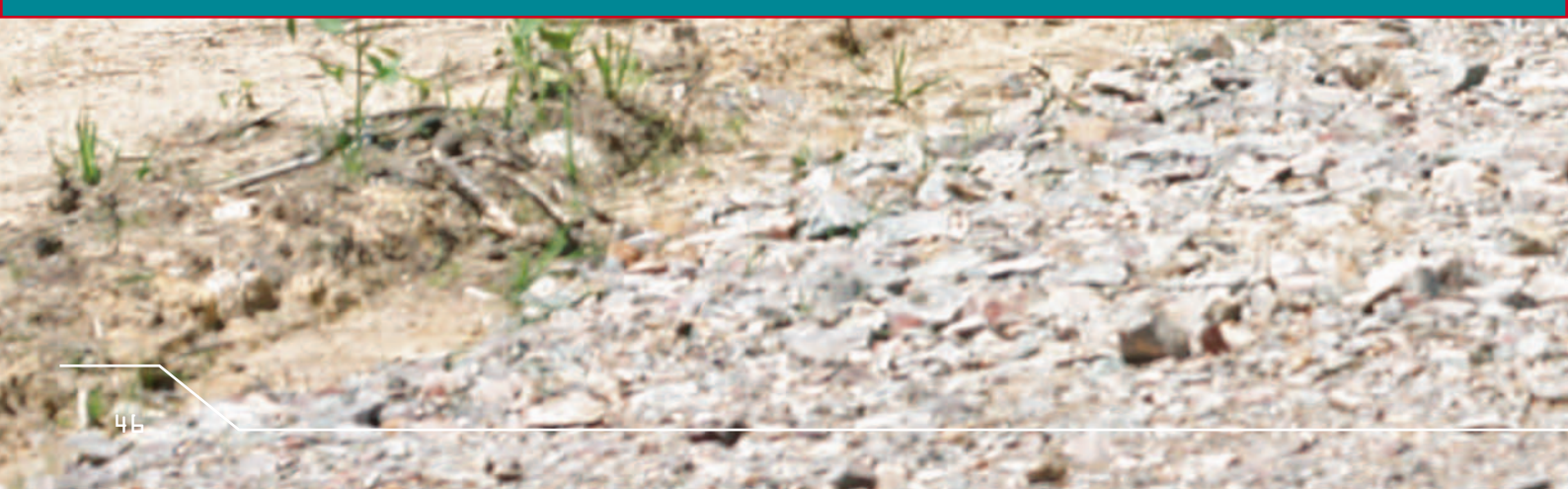




## „We help – by running!“

This is the motto under which the Mühlbauer Charity Run has supported humanitarian projects around the globe since 2005. The Charity Run was initiated by the founder of Mühlbauer and is supported both by our employees and other interested people in the region who have participated in the Run year after year after year. The Josef Mühlbauer Foundation supports

international aid projects as well as regional projects. Thanks to the willingness of our employees and all other participants to help, we have raised half a million euro in donations since the 1st Mühlbauer Charity Run in 2005, which we have made available where it is most urgently needed. After all: “Only those who move themselves can get things moving elsewhere.”









## RISK REPORT

Our endeavors to further expand the market position of the Mühlbauer technology group worldwide without losing sight of sustainable, value-oriented corporate development entail opportunities and risks. Consequently, the Mühlbauer Group risk policy involves not only taking advantage of existing opportunities but also detecting and analyzing risks as well as limiting and managing these early on by applying appropriate countermeasures.

To accomplish this, the company utilizes an opportunity and risk management system that was established several years ago and which continually undergoes enhancement and reviews for efficiency. Throughout the Group, the entire workforce has been instructed on the importance of reporting and monitoring detected risks early on, and our employees have taken this to heart. The risk management procedures required by law have been documented in detail in a risk management manual, which is available to be read by the entire workforce worldwide. Simple procedures facilitating interaction mean that newly identified risks can be quickly reported to the Risk Committee or to a member of the Board of Directors without undue bureaucratic hurdles. In addition to the standard risk reporting procedures, any employee can report sudden risks by submitting ad-hoc notifications to the Risk Committee.

The risk report, which is drawn up on the basis of risk inventories performed twice a year and supplemented with quarterly surveys by the risk owners, is prepared centrally and, in addition to other reporting elements, provides those in management with a tool for implementing value-oriented corporate management. It provides information on all of the individual risks in the Group, presents a timeline of risk development, and organizes these into portfolios according to individual business segment. The respective risk owner performs the assessment using the figures for probability of occurrence and extent of damage as a function of earnings before interest and taxes (EBIT). The risk policy mandates a plausible calculation of the potential, expected value with a detailed explanation and specification of countermeasures and their timely implementation, all of which are the subject of in-depth discussions at Risk Committee meetings.

Every manager and executive is responsible for the implementation and effectiveness of opportunity and risk management. At the same time, the efficiency of the system is examined and further optimized on the basis of internal audits conducted on a regular basis by third parties whose role is outside of the entire process. As in previous fiscal years, the auditors have assessed the early detection system utilized in the reporting year, and have determined that it fully satisfies the legal requirements.

At present, no risks that could potentially jeopardize the continued existence of the Mühlbauer Group have been detected. Nevertheless, risks can never be completely ruled out altogether. For instance, natural catastrophes, an escalation in terrorist activities, potential pandemics, or the amendment of statutes concerning taxes or customs fees in individual export markets could all have an impact on the sale of technology solutions. Such unexpected risks notwithstanding, the Mühlbauer Group is currently facing the following risks capable of significantly affecting the Group's financial position, results of operations, and cash flow.

### Business environment and industry risks

The general atmosphere of uncertainty sparked by the current debt crisis and resulting crisis of confidence as well as the euro area's structural problems result not only in volatility in the capital markets but also tend to produce a decline in demand for capital goods from decision-makers. It has also been observed that competition is tightening in the industrial business segment due to the actions of suppliers with very aggressive pricing strategies, most notably in the Asian region.

This economic environment thus continues to harbor the risk of declining demand from our customers in the industrial sector, although business with governments and institutions with close ties to governments should prove to be more stable despite the naturally occurring fluctuations associated with such projects. The Mühlbauer Group is responding to this risk situation by continuing to expand our excellent position in the public sector market through the successful implementation of significant reference projects, and by broadening the technical



solutions available in the product portfolio we offer as a provider of integrated solutions. In our industrial business, we are bolstering our market position by taking the lead with regard to value for money, by entering the market in new technologies and markets of the future (for example renewable energy), and by reinforcing our Asian locations with respect to product activities in the semiconductor segment.

In both the government and the industrial sectors, there is a risk that deficient or delayed analysis of developments in the market will result in a disconnect between the products and solutions offered on the one hand and the customers' needs on the other. The outcome is customer dissatisfaction. Prompt responses to new industry developments and requirements are made possible by entering into an active dialog with our customers and by conducting intensive, internal analyses and research concerning the market environment, customer requests, and the competition. To achieve this, we utilize a continuously updated, comprehensive information and communications tool as well as analyses of existing market information.

In order to be able to continue to expand our technology and market leadership in the relevant markets, Mühlbauer habitually positions itself in the market with its innovative equipment and solution concepts at a very early stage. This then gives rise to the potential risk that our technologies could be copied by other companies. We counter the potential drain of know-how due to industrial espionage or the poaching of expert personnel with various measures that include key elements of risk management such as observing the market continually, protecting our core technologies and processes with patents, taking targeted steps to increase our technological edge, and by continuing to expand our international structure.

Our global business activities are subject to an internally organized export oversight process concerned with the delivery of goods to other countries. Nevertheless, because of the scope, complexity, and ongoing changes to existing export provisions, there is a risk of non-compliance with the applicable regulations, potentially resulting in various sanctions. For Mühlbauer, the implementation of IT security features in our IT systems, intensive collaboration with Germany's Federal Office of Economics and Export Control, and staff training sessions on recognizing and dealing with risk are effective measures for minimizing such risk.

In particular, where Mühlbauer does business with governments or institutions with close government ties and accepts overall responsibility, such business may be associated with minimum volumes of products or services failing to be purchased or with complex contractual arrangements, often with local law stipulated as the law governing the relationship. This can result in contract risks, which Mühlbauer counters by conducting risk analyses focused on issues specific to the contract or project, and where possible and appropriate, by instituting protective measures for the specific project for purposes of minimizing the risk. Such measures are first taken as early as the initiation of business relations and extend to contract execution all the way to project implementation, even over several years.

Due to what are occasionally very ambitious delivery schedules designed for the fulfillment of customers' orders, as a provider of integrated systems, Mühlbauer is increasingly required in such cases to plan and devote resources at a point in time at which the customer has not yet been completely assured of financing for its project. Considerable liquid assets must be made available in advance particularly in the case of major projects, which in light of constantly progressing investment activity on the part of Mühlbauer is something that could restrict existing access to liquidity. Thanks to the increased integration of customers in the project financing process, the use of existing liquid reserves, and open lines of credit, the company has various options at its disposal to combat such tendencies. Additionally, Mühlbauer's involvement with these types of projects worldwide is associated with country-specific risks. In particular countries, situations can arise due to societal or political developments (social unrest, war, sovereign insolvency, default on legally binding pledges, etc.) that have a negative impact for Mühlbauer with respect to the order preparation or order fulfillment process. Such risks can be minimized by conducting an analysis of the country-specific risks, carefully considering potential impediments to contract performance by means of a customized risk/opportunity profile, and by an ongoing project oversight process that includes project managers present on site.

### Technology risks

Damage or consequential damage caused by defects can arise where our equipment has quality defects that are not detected in time via our internal product qualification process. The resulting final products produced with defects and then possibly coming to be used by customers can result in those customers experiencing production downtimes or require them to reproduce their goods, causing considerable expense for which Mühlbauer may potentially be held liable. It is also conceivable that the effects of such occurrences can tarnish the company's reputation. Preventive measures such as performing internal product qualification for product innovations, auditing preliminary process developments, providing support for customers during the installation of quality management systems for their production processes, and preparing appropriate contract language that addresses potential financial loss all help to hold the risk to a manageable level.

Inadequate or incorrect assessment of the current or future market can, in the case of development projects or equipment, result in production being erroneously triggered for orders. The consequences are high development costs and constantly increasing inventories, which due to the write-downs required in some situations may result in a charge against earnings or a negative impact on liquidity. In order to avoid such wrong-headed development, we make it a point with every research and development project to focus on the benefit to the customer. We work closely together with customers with whom we have especially strong project-based relationships ("concept customers") during all of the stages of product development. A committee of experts from the Research and Development, Production, Sales, and Service departments sets the direction for further developments and makes decisions on the basis of market analyses and profitability considerations, among other things.

In a company where a great deal of resources go to research and development and to constantly expanding the product portfolio, there is an increased risk that the intellectual property rights of third parties may be violated during the development of new technology solutions, which can result in the development, production, and market launch of new products being obstructed. Mühlbauer protects itself from potentially violating intellectual property rights by conducting systematic, computer-aided research to determine and evaluate third-party intellectual property rights.

### Expansion risks

The internationalization of the Group involves the risk that, in addition to a high need for available personnel, the launch of newly founded companies or locations requires a great deal of liquid assets that cannot be covered in their entirety by the organic income of the facility during the launch phase. We combat this risk by utilizing a transparent organizational structure combined with a clear allocation of responsibilities, by maintaining a continual dialog with the local organizational department, by holding training sessions on workflows, by instilling the corporate culture, and by imparting technological knowledge at an accelerated pace.

### IT risks

IT risks include the possibility that the company's processes may be completely or partially disrupted due to impairments to the system or data landscape, and that data will be falsified, destroyed, or copied through erroneous or unauthorized access to data. We counter these IT risks by investing regularly in hardware and software, by using state-of-the-art virus scanners and firewall systems, as well as by having penetration tests conducted by external service providers for the purposes of verifying our IT security. In addition, the Mühlbauer Group takes the requirements set out in the IEC 27001 standard for information security management as its guide in this regard. Drawing the attention of the workforce to data security and data misuse as well as maintaining a comprehensive authorization management and encryption policy also help to keep risk to a manageable level.

### Personnel risks

In the industry and the regions in which the Mühlbauer Group is involved, competition for highly skilled workers and managers remains strong and is becoming more intense in Germany in particular with the onset of the effects of demographic changes. To be able to implement our corporate strategy, we face the challenge of recruiting highly skilled employees in an intensely competitive environment and winning them over for the company for the long term. Mühlbauer responds to this risk by providing intensive continuing and advanced education programs for its own junior staff members as well as personalized and tailored trainee programs, by maintaining close contact with select institutions of higher education, by assisting with the career



development of loyal employees on the path to management, and by conducting recruitment measures internationally. The aim of instilling the company's own corporate culture is embedded within every human resources development plan. Fluctuations in demand can lead to being overstaffed in some departments. In order to counter this risk without layoffs wherever possible, we rely on uniform employee qualification standards, among other things, which in turn enable staff members to be assigned flexibly throughout the various departments. Ensuring that contracts have fixed time limits also helps to combat this risk.

The goal of the purchasing is to procure high-quality raw materials and services in time to meet deadlines at the best possible price. This procurement process can be associated with price and purchasing risks as well as with quality risks on the supplier's side. Budget stipulations for raw materials and a procurement strategy applied worldwide are used to fix prices for defined periods of time and to provide some perspective for single-source situations. Extensive procedural and verification instructions for incoming goods ensure that only goods of impeccable quality proceed through to the production and installation process. Furthermore, delays along the value chain can result in the risk of impending penalty payments due to delays in delivery. We counter this risk by applying a consistent second-source strategy, by continuously improving supplier qualification, and by optimizing production processes for the long term.

#### Procurement risks

Within the Mühlbauer Group, there are structural and procedural rules aimed at ensuring that risks in the accounting processes are avoided.

#### Accounting process

In addition to a manual on accounting practices for the Group, there are also extensive checklists for those staff members working in our Finance Department, which is organized according to region and function. The implementation and oversight of compliance with their contents both for ongoing bookkeeping as well as for the preparation of the financial statements in accordance with local GAAP and IFRS ensures that a uniform and complete procedure is followed in the Group.

Bookkeeping transactions are recorded in the individual financial statements of the subsidiaries of Mühlbauer Holding AG & Co. KGaA, mainly via a group-wide standardized bookkeeping system. In parallel with this, the bookkeeping data is transferred directly into a consolidation system. The data reported is verified by those persons in charge of the financial statements in the respective bookkeeping division. After that, all consolidation procedures used in the preparation of the consolidated financial statements for Mühlbauer Holding AG & Co. KGaA, such as the consolidation of group equity, of intragroup balances, and of intragroup income and expenses, are generated and documented in their entirety in the consolidation system. The next step entails subjecting the calculated group data to plausibility screening. The focus here is on examining the individual group positions with respect to their relative and absolute change as compared to the same periods of the preceding year.

An internal oversight system is used to ensure that the accounting is in conformity with the rules. Key components of the internal oversight system include universal application of two-person review and the segregation of functions, the latter both within the Finance Department as well as throughout the other departments. Furthermore, a uniform, unambiguous, and unequivocal chart of accounts and the regular verification of compliance with generally accepted accounting principles ensure a high degree of accounting reliability. Recognition and measurement as key accounting processes on the one hand and the determination of the contents of the Notes and provision of statements in Management's Discussion & Analysis on the other are subject to a structured review. The results from the accounting processes are reviewed at various stages of the preparation of financial statements all along the line – those in charge of the respective accounting unit, the director of finance, and even at the level of the board of directors. Internal persons outside of the process are assigned on a case-by-case basis for purposes of checking selected facts – in particular in the case of foreign subsidiaries and foreign offices/support centers – for purposes of auditing the accounting process. In parallel with this, global Finance Department meetings serve as employee training sessions on various subjects and are also used to coordinate the standardization of uniform accounting processes across the Group.

The fact that newly introduced features or changes to the relevant systems are always subjected to a systematic test phase conducted on a test "client" prior to being implemented in the live system ensures the reliability of the IT systems used in the Finance Department. The IT systems that have been implemented are centrally managed, i.e. they are supported from the Group's headquarters. The granting of IT system access rights (read/write access) is subject to an approval process. With the corresponding documentation, the access rights structure can be portrayed at any time.

Neither structural nor procedural rules can provide absolute assurance that no risks will arise in the accounting processes. In particular, decisions made at the discretion of staff members during accounting procedures can be fundamentally flawed. Furthermore, there is a risk that controls will not work in isolated cases due to simple errors or mistakes, or that changes in the environmental variables will be detected late despite appropriate monitoring. And lastly, systems can be circumvented by criminal actions, in particular when these are conducted by several people acting in concert.

#### Fiscal risks

In addition to regularly and intensely observing the markets, Mühlbauer also takes advantage of contractual agreements and derivatives to minimize foreign exchange risk and currency risks linked to interest rate fluctuations. Financial transactions in foreign currency that exceed the anticipated net cash flows in a particular unit of currency are hedged once the underlying transaction has been executed or, where deemed appropriate in light of market expectations, at a later date.

The continuing increase in the number of international, large-volume projects may lead to liquidity risks that can result from defaults or delinquencies with respect to payments. Default risks of this nature are minimized via a consistent accounts receivable management system that includes escalation processes coupled with regular reporting and comprehensive credit checks for new customers. Liquidity risk is limited by means of lines of credits with banks and by maintaining liquid reserves.

With respect to the required statements on opportunity and risk management concerning the use of financial instruments as codified in Sec. 315 (2) of the German Commercial Code (HGB), we also make reference to the corresponding statements in the Notes to the Consolidated Financial Statements under 30 "Supplemental Disclosure on Financial Instruments" and 31 "Risk Management and Financial Derivatives".

#### Other risks

The Mühlbauer Group protects itself against external influences such as storm, water damage, or fire with an extensive insurance package that is regularly reviewed and adjusted as needed. Additionally, there are legal risks that are addressed in more detail in the Notes to the Consolidated Financial Statements under "Contingent Liabilities and Other Financial Liabilities".

### OUTLOOK

#### Global economy

Until there is an ultimate solution for the economic crisis in Europe or the budget dispute in the United States, forecasts regarding the global economy will be marred by a high degree of uncertainty and a lack of reliability. Even though the World Bank believes that the danger of a serious economic crisis has been largely averted, in its opinion, the global economy still needs to brace itself for another disappointing year. Above all, the sustained weakness in the industrial nations has dimmed the outlook for rapid improvement and a return to more stable growth, which is why the World Bank lowered its global economic forecast for this year to a gain of 2.4 percent. Things will eventually look considerably better in 2014, with projected growth of 3.1 percent.



The coming years will be difficult, above all for the countries in the euro area. In addition to solving the debt crisis, in order to be able to increase growth, the high unemployment rate, the export problems, and the competitive disadvantages must also be resolved. This is why the World Bank expects that gross domestic product (GDP) will contract in 2013 by 0.1 percent in the euro area. The organization does not believe GDP will rise in the euro area until 2014 when it expects a 0.9 percent increase as part of a clearly returning upwards trend.

Newly industrialized and developing countries such as China remain the driving force behind the global and European economies. Although its economy grew more slowly over the past year than it has in 13 years, this year the World Bank is forecasting a temporary recovery in the Chinese economy with expansion of 8.4 percent. But not all forecasts are quite so optimistic. For example, the economists at Citigroup are forecasting that GDP will only grow by 7.8 percent in 2013. For 2014, the World Bank also predicts another easing in the pace of growth in China.

Even US American growth will decelerate, according to the World Bank. As a result of the remaining burden from the sustained budget dispute, economists are expecting a slackening of the expansion of the world's largest national economy and forecast growth of only 1.9% this year.

After restrained economic growth in Germany over the past year, forecasts for 2013 are also cautious. For instance, Germany's central bank, the Bundesbank, is anticipating a gain of only 0.4 percent, as is Germany's federal government. The euro area's debt crisis – which is still very much present and in the context of which the German economy has appeared rather robust to date compared to the other countries – continues to pose the greatest risk for the Federal Republic of Germany. Researchers are then predicting a genuine upturn for 2014. For instance, Commerzbank is forecasting growth of 2.5 percent, while the federal government is predicting at least 1.6 percent. Nevertheless, economists consider such long-term forecasts to be fundamentally unreliable, a fact which is reinforced by the uncertain situation in the euro area.

### Industry development

**Cards & TECURITY®.** In the *Cards & TECURITY®* segment, high demand for smart cards is also forecast for the future. Analysts from Eurosmart thus estimate that the number of smart secure devices delivered will increase to approx. 7.7 billion units for 2013. That is approx. 0.7 billion more than in the past year. The dominant theme and thus also the biggest and most important driver of the Mühlbauer Group's core business is, as in the past, the aspect of security. In the *TECURITY®* market, which is related to the government sector, governments and public authorities are responsible for providing citizens with ID documents and travel documents that satisfy the highest security requirements. In times where the need and demand of citizens for nearly unlimited mobility is continually increasing, the demand for modern and highly complex technologies for producing innovative and forgery-proof eID documents is also increasing. At the same time, the authorities are anxious to ensure maximum comfort for citizens, which however cannot conflict with the requirement of the highest possible security. This requires the most modern of solutions that satisfy both the requirement of security, and the demand for efficiency, comfort and mobility.

Progressive implementation and continuing development of e-government is crucial in this context. While already close to 70 percent of people use e-government citizen services in countries such as Austria and Sweden, the number of users in Germany is only at 45 percent according to a government-sponsored study. The increase of five percent in the past year however makes it clear that the opportunity to more efficiently and more comfortably shaped government processes offered via e-government is gaining greater and greater acceptance among citizens and the demand for providers that are in a position to provide support for the process as a whole will increase.

The market for fully automated border and accesses controls also holds great potential. The number of passengers increased worldwide year-on-year. While 2.5 billion passengers had to be processed at airports on 2009, according to the IATA, this figure will increase by 800 million people by 2014 to 3.3 billion passengers. This places great challenges on border controls and demands systems that can process the greatest number of passengers in the shortest amount of time with the highest possible security. Mühlbauer caters to these demands with its FastGate series, which has products that combine the highest standards with regard to security with maximum comfort and efficiency, and it thus offers optimal solutions in border and access controls.

On the industrial side of this segment, the need for modern dual interface cards will increase significantly in the coming years. Market research institute IMS estimates that the number of dual interface cards on the world market for payment cards was 672 million or 19 percent in 2012. This number is set to increase to 6.1 billion or a 71 percent market share by 2017. The Near Field Communication (NFC) factor is also playing an increasingly important role. Given that some banks have already issued bank cards based on NFC technology to their customers for test purposes in the past year, the next step may see across-the-board implementation follow at some banking institutions. As in the past years, continuing potential for growth is also forecast for the demand for SIM cards from the developing countries and newly industrialized countries. According to a market study, sales with mobile communications services will increase by 2014 to USD 340 billion, of which 36 percent will be attributable to the 15 largest newly industrialized countries.

**Semiconductor Related Products.** After still being on the decline in the past year due to the economic conditions, the experts from Gartner estimate renewed growth for the semiconductor industry in 2013. The analysts at the market research institute thus estimate that the market for *semiconductor related products* will climb to USD 311 billion in 2013. The market researchers even think that growth of 9.9 percent, resulting in sales volume increasing to USD 342 billion, is possible in 2014. The specialists expect the greatest momentum for the industry to come from the market for mobile communication. The sales numbers for tablets and smartphones in 2013 are thus to increase by 38.5% and 33% respectively.

Significant growth is forecast for the market for RFID applications. The RFID industry already recorded a big increase in 2012 of close to USD 900 million in comparison to 2011, and, according to market research institute ABI Research, the market will grow annually by 20 percent until 2017. RFID technology in retail will increase in significance, which will likely result in this market segment becoming the most important driver of the industry by 2015. RFID will become more and more important in the government sector as well. The number of modern documents based on RFID technology is increasing continuously and will thus secure growth for the RFID market in this area as well. The RFID ticketing field is also on its way up. Regardless whether concerning admission tickets, ski passes, or mass transit tickets – due to the high efficiency and resulting cost advantages, the transformation of conventional tickets into RFID tickets will continue to progress in the coming years.

According to market research institute IHS iSuppli, the solar branch is currently in an extensive process of transformation, which, on the one hand, is characterized by falling prices, and, on the other, by international trade conflicts. In particular the state-subsidized Chinese manufacturers that are engaging in price dumping are putting pressure on the western market and have led to a wave of bankruptcy and consolidation. The consolidations among manufacturers of solar modules will thus continue into 2013. According to IHS, the worldwide photovoltaic market will reach double-digit installation figures this year, however, revenue will fall to around EUR 57 billion. In times like these when awareness for the environment and resources is growing and energy prices are constantly rising, energy generation from renewable resources – with solar power leading the way – will become more and more important in the long term. However, consumers are yearning for new, progressive solutions that take into account the modern world's needs for increased flexibility and mobility. Flexible thin film solar cells meet this need and, in addition to numerous advantages of use, also offer big advantages in production, such as enormous cost savings in comparison to what it costs to produce conventional solar panels. For these reasons, great potential is forecast for the market for flexible solar modules in the mid to long term.



**Precision Parts & Systems.** Despite the economic uncertainties, especially those caused by the euro crisis, the German Engineering Federation (VDMA) estimates an increase of two percent in 2013 for the mechanical engineering industry, which is crucial for the *Precision Parts & Systems* segment. A key condition for this growth is, however, that the sovereign debt crisis in Europe does not escalate further. If that condition is fulfilled, the effects of the declining demand from the euro zone that were still having a big impact in 2012 could die down noticeably.

#### Outlook for the Mühlbauer Group

**Cards & TECURITY®.** Speed, efficiency, and security – bringing these aspects into harmony with one another without neglecting any of them is one of the greatest challenges facing the business segment *Cards & TECURITY®*. There is no dispute among the experts that over the next few years, people's need for mobility will continue to increase – and with it, the amount of travel worldwide. As a result, the need for state-of-the-art ID documents as well as systems that guarantee efficient and secure border and entry checkpoints will also rise steadily.

With its FastGate series, Mühlbauer provides innovative and efficient solutions that make it possible for large numbers of passengers to be processed in a very short time – without neglecting the factor of speed while achieving this. Additionally, Mühlbauer's broad portfolio of products offers the latest technologies for the production of ID documents and guarantees the highest standards in security and protection against forgery. The extensive selection of a variety of security features makes it possible, as needed, to ensure that both international as well as a country's specific requirements are met; in other words, documents can be designed according to individual security regulations and thus tailored to meet the specific requirements. In combination with these two Mühlbauer products, it is possible above all to noticeably streamline administrative processes, rendering them significantly more efficient and consequently saving on costs and reducing bureaucracy.

These trends embracing the elimination of bureaucracy are also reflected in the ongoing adoption of so-called eGovernment, where thanks to its experience in business with governments, Mühlbauer has created an optimal starting position for itself, resulting in the ability to profit from this development as well.

Thanks to a philosophy on solutions unique in the market guaranteeing Mühlbauer Group customers state-of-the-art technology and profound know-how from a single source, and thanks as well to our knowledge and expertise gained over the years, the Mühlbauer Group is also in an outstanding position to hold its own against the competition in the future – even in a competitive environment that is becoming increasingly harsh – and to be able to continually increase our market share.

Mühlbauer is benefiting in its business with industry – analogous to the trend in industry itself – from the progressive transformation of traditional bank cards into dual interface cards as well as from the high demand for SIM/UMTS cards coming from developing and newly industrialized countries.

Our years of experience and expertise in product solutions for smart cards and the Group's market position acquired through years of hard work have also created an optimal starting point for the company on the industrial side of its business segment *Cards & TECURITY®*, which will allow us to profit outstandingly from the current market situation.

**Semiconductor Related Products.** The past year showed yet again how rapidly trends shift on the extremely volatile semiconductor market. After booming in the first half of 2012 (in particular driven by smartphone and tablet technology), which led to above average profits for Mühlbauer, the market cooled off significantly in the second half of the year. A slight upward trend was once again visible at the end of the year, which will last into 2013. Thanks to its many years of experience and the expertise it has gained from its experience, Mühlbauer considers itself as a niche back-end provider, well positioned to successfully deal with natural market fluctuations and expand its back-end market position sustainably and in the long term.

The extreme price pressure that prevails in the conventional solar industry also has consequences for the market introduction of flexible thin film solar modules. Given that the prices of conventional solar plants, in particular due to the competitive pressure from state-subsidized Chinese manufacturers, are currently at rock bottom, the introduction of innovative products with new and thus also, as things stand today, more expensive technology is being delayed, which means that the trend forecast for next year must also be conservative and cautious. The technology for flexible solar cells will however continue to have enormous potential in the long term. Mühlbauer has a leading position in automation solutions for packaging and processing such thin film solar modules, and will therefore be capable of making above average profits on the expected breakthrough of this technology in due time.

Although the past year turned out to be quite laid back in the RFID field, it became apparent already at the beginning of 2013 that substantially higher demand for RFID-based solutions can be expected for this year. As in the past, the retail sector, especially apparel, will remain the most important driver of the market. Mühlbauer will be in a position to make above average profits on the forecast growth of the RFID market due to its leading role in technology, which is expanded on an ongoing basis by constant innovations.

**Precision Parts & Systems.** The relatively solid economic situation in the mechanical engineering industry, in spite of the financial crisis and tough economic conditions, also has an effect on the business environment of MPS Roding GmbH, which at the least means that conservative investment behavior on the part of clients is not to be expected in the first half of 2013. However, a rapid increase in price pressure is currently in sight, which will persist in the long term. MPS Roding is dealing with that by increasing its efficiency and optimizing its internal processes in order to be able to stay competitive or be more competitive. The company is dealing with the varying degrees of capacity utilization in mechanical production currently prevalent on the market by deliberately generating orders that also contain continuing services, such as assembly. MPS Roding GmbH has a long-standing client base that is constantly expanding through continual customer acquisition activities and adding prestigious key accounts. These measures have been intensified, and that should soon be reflected in the number of new orders. To stay competitive or be more competitive, the company will invest in new machinery to the tune of low single-digit millions. All in all, the company estimates that it will be able to bring its sales revenue back to a solid level of growth during the next two years. The company estimates that it will have a profit margin percentage in the high single digits in 2013 and an additional increase in 2014. In the event that the economic situation, in particular in the euro zone, recovers, a more significant recovery can also be expected for the company.

## Summary of the outlook

Overall, Mühlbauer expects to see a positive trend in the market in the coming year.

Demand for technology and software solutions, prompted by strong interest in providing people with both more security as well as mobility, will continue to grow. Our business with governments also increasingly encompasses the subject of eGovernment, which will lead to the usable life of ID documents continuing to be shortened.

Expectations also continue to be positive for the business segment *Semiconductor Related Products*. After the considerable slowdown in the back-end business segment in the second half of 2012, a slight upward trend has been noted since the end of last year, which even assuming a cautious approach should extend into 2013. In connection with the increase in demand for RFID-based solutions experienced since the beginning of 2013, which was driven in particular by retail sales, as well as our excellent position in niche markets in the semiconductor industry, we are currently assuming that the *Semiconductor Related Products* business segment will continue to develop at a strong pace.

In the business segment *Precision Parts & Systems*, the company now has more than 30 years of unwavering expertise in manufacturing, which has been even more strongly reinforced thanks to the investments in modernization and new equipment made over the last few years. Based on the range of solutions we have to offer, we feel we are in an ideal position to benefit exceptionally well from the demand for precision parts.

We believe risks capable of having a negative impact on our expectations may be present in particular in the uncertainties traditionally inherent in doing business with governments together with the heavy dependence on projects in this area, as well as in gloomy industrial and/or economic prospects outlooks.

Based on forecast market trends, the Mühlbauer technology group is anticipating revenue that will continue to increase over the next two years. The measures already taken in the previous year to break away from the beaten path, to embark on new pathways, and to increase efficiency in order to get the company into good shape for a successful future will continue to be pursued with diligence. We are anticipating better results than in the fiscal year just passed and for the following we are expecting further growth. Investment spending will be somewhere between EUR 15 and 20 million in the coming year.

### **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 section "Risk report" and other parts of this report.





We move continuously





## The whole world of Mühlbauer

The economic environment, the international markets, as well as the needs of our customers and business associates change constantly. To keep up with these developments, it is imperative that we analyze ourselves and evolve – continuously. For more than 30 years now, we have been operating according to the

principle “If you don’t go forward, you go backwards.” – not only in order to keep step with developments but also in order to recognize the expectations and requirements of our customers and business associates before they actually become aware of them themselves, so that we are always a step ahead of the market.



We move continuously



**CONSOLIDATED STATEMENT OF INCOME (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2012  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Jan. 1 - Dec. 31, 2012 TEUR	Jan. 1 - Dec. 31, 2011 TEUR
<b>1. Sales</b>	(3)	<b>237,168</b>	<b>213,225</b>
2. Cost of sales	(5)	(168,235)	(130,850)
<b>3. Gross profit</b>		<b>68,933</b>	<b>82,375</b>
4. Selling expenses	(6)	(18,860)	(19,431)
5. Administrative expenses	(7)	(9,979)	(8,992)
6. Research and development	(8)	(26,134)	(29,539)
7. Other income	(9)	3,675	4,760
8. Other expenses	(9)	(2,009)	(1,108)
<b>9. Operating income</b>		<b>15,626</b>	<b>28,065</b>
10. Financial result			
a) Financial income	(10)	331	713
b) Financial expenses	(10)	(524)	(399)
<b>11. Income before income taxes</b>		<b>15,433</b>	<b>28,379</b>
12. Income taxes	(12)	(2,810)	(6,413)
<b>13. Net earnings</b>		<b>12,623</b>	<b>21,966</b>
- Non-controlling interests	(13)	161	(39)
- Shares held by the owners of the parent company		12,462	22,003
<b>Earnings per share in EURO</b>			
basic	(14)	0.84	1.51
fully diluted	(14)	0.84	1.51
<b>Weighted average of shares</b>			
basic	(14)	6,139,916	6,136,062
fully diluted	(14)	6,139,916	6,136,062

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2012  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

		Jan. 1 - Dec. 31, 2012 TEUR	Jan. 1 - Dec. 31, 2011 TEUR
<b>Net earnings</b>		<b>12,623</b>	<b>21,966</b>
Change of market value of available-for-sale securities	(27)	0	(74)
Difference due to currency translation	(27)	(59)	292
Deferred taxes	(27)	0	20
<b>Total income and expenses recognized in equity</b>		<b>(59)</b>	<b>238</b>
<b>Total income and expenses</b>		<b>12,564</b>	<b>22,204</b>
- Non-controlling interests		169	(39)
- Shares held by the owners of the parent company		12,395	22,243

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) AS AT DECEMBER 31, 2012  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Dec. 31, 2012 TEUR	Dec. 31, 2011 TEUR
<b>ASSETS</b>			
<b>Short-term assets</b>			
Cash and cash equivalents	(15)	15,482	15,183
Trade accounts receivable	(16)	48,459	32,715
Other current assets	(17)	12,963	15,305
Tax receivables	(18)	4,512	2,388
Inventories	(19)	44,381	74,946
		<b>125,797</b>	<b>140,537</b>
<b>Long-term assets</b>			
<b>Investment and long-term financial assets</b>			
Receivables due from companies using the equity method		3,010	0
Trade accounts receivable	(16)	9,768	733
		<b>12,778</b>	<b>733</b>
<b>Fixed assets</b>			
Land and buildings	(20)	53,103	47,463
Technical equipment	(20)	24,834	23,875
Furniture and office equipment	(20)	7,315	8,069
Buildings and equipment in progress	(20)	75	3,352
		<b>85,327</b>	<b>82,759</b>
<b>Intangible assets</b>			
Concession agreements, software and licences	(21)	2,467	2,914
Capitalized development costs	(21)	3,642	4,112
		<b>6,109</b>	<b>7,026</b>
<b>Other long-term assets</b>			
Long-term tax receivables	(22)	1,473	1,749
Deferred tax assets	(12)	1,526	939
Plan assets	(26)	1,958	1,624
		<b>4,957</b>	<b>4,312</b>
		<b>234,968</b>	<b>235,367</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Short-term liabilities</b>			
Trade accounts payable		14,180	22,356
Prepayments	(23)	31,228	22,877
Other current liabilities	(24)	11,150	10,720
Provision for income tax	(25)	1,961	2,261
Other provisions	(25)	16,470	15,808
		<b>74,989</b>	<b>74,022</b>
<b>Long-term liabilities</b>			
Deferred tax liabilities	(12)	1,720	1,006
		<b>1,720</b>	<b>1,006</b>
<b>Shareholders' equity</b>			
Subscribed capital	(27)	8,038	8,038
Treasury shares	(27)	(179)	(180)
Fixed capital contribution	(27)	(2,980)	(2,980)
Capital reserves	(27)	61,163	61,136
Other comprehensive income	(27)	2,753	2,820
Retained earnings	(27)	89,321	91,531
Capital attributable to equity holders of the parent company		158,116	160,365
Non-controlling interest	(27)	143	(26)
		<b>158,259</b>	<b>160,339</b>
		<b>234,968</b>	<b>235,367</b>

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



**CONSOLIDATED STATEMENT OF CASH-FLOWS (IFRS) FROM FROM JANUARY 1 TO DECEMBER 31, 2012  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Jan. 1 - Dec. 31, 2012 TEUR	Jan. 1 - Dec. 31, 2011 TEUR
<b>Cash provided by operating activities</b>		
1. Net earnings	12,623	21,966
2. + Income taxes	2,810	6,413
3. + Interest expenses	524	325
4. - Interest income	(331)	(431)
<b>Adjustments for non cash expenses and income</b>		
5. +/- Expenses/(income) from employee profit-sharing programs	0	120
6. +/- Depreciation/(appreciation) of fixed assets	15,830	10,636
7. +/- Depreciation/(appreciation) of intangible assets	2,138	2,316
8. +/- Depreciation/(appreciation) of capitalized development costs	2,222	2,818
9. +/- (Gains)/losses from the sale of fixed and intangible assets	(126)	(447)
10. +/- Foreign currency translation adjustments of long-term assets	105	0
11. +/- Realized (net gains)/losses from short- and long-term marketable securities	0	(294)
12. +/- (Gains)losses from the change in fair value of derivatives and marketable securities	(184)	27
13. +/- (Increase)/decrease of deferred tax assets	(587)	547
14. +/- Increase/(decrease) of deferred tax liabilities	714	(819)
15. +/- (Increase)/decrease of assets according to IFRIC 12	(1,190)	(1,933)
<b>Changes in long-term and short-term assets</b>		
16. +/- (Increase)/decrease in inventory	30,565	(22,121)
17. +/- (Increase)/decrease in trade accounts receivable, other receivables and other assets	(24,221)	(8,919)
18. +/- Increase/(decrease) in trade accounts payable and other liabilities	6,379	16,708
19. + Cash inflow from sale of short-term marketable securities	0	29,945
20. - Cash outflow for purchase of short-term marketable securities	0	(16,575)
21. = Cash generated from operating activities	47,271	40,282
22. - Income tax paid	(6,143)	(3,440)
23. - Interest paid	(34)	(24)
24. + Interest received	15	163
25. = Cash flows from (used in) operating activities	41,109	36,981
<b>Cashflow from investing activities</b>		
26. - Payments for loans	(3,010)	0
27. + Proceeds from sale of fixed assets	174	642
28. - Purchase of fixed assets	(21,195)	(26,095)
29. - Purchase of intangible assets	(428)	(1,204)
30. - Expenditures for capitalized development costs	(1,750)	(1,619)
31. = Cash flows from (used in) investing activities	(26,209)	(28,276)
<b>Free Cashflow</b>		
	17,862	(4,566)
<b>Cashflow from financing activities</b>		
32. + Proceeds from sale of treasury shares	28	185
33. - Dividend payments	(12,724)	(17,305)
34. +/- Payments into (out of) offset account of personally liable shareholder	(1,846)	(1,948)
35. = Cash flows from (used in) financing activities	(14,542)	(19,068)
36. +/- Increase/(decrease) in currency exchange rate changes	(59)	337
37. = Net increase/(decrease) in cash and cash equivalents (Total of lines 25, 31, 35 and 36)	299	(10,026)
38. + Cash and cash equivalents at beginning of period	15,183	25,209
39. = Cash and cash equivalents at end of period	15,482	15,183

We refer to additional informations on page 100 of the accompanying notes.  
The accompanying notes are an integral part of these Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2012  
OF MÜHLBAUER HOLDING AG & CO. KGaA**

	Notes	Total number of shares	Own shares Number	Ordinary share capital in considera- tion of own shares TEUR	Fixed capital TEUR	Additional paid-in capital TEUR	Other com- prehensive income/ (loss) TEUR	Retained earnings TEUR	Non- controlling interests TEUR	Total TEUR
<b>Balance Jan. 1, 2011</b>		<b>6,279,200</b>	<b>(148,995)</b>	<b>7,849</b>	<b>(2,980)</b>	<b>60,840</b>	<b>2,582</b>	<b>88,498</b>	<b>13</b>	<b>156,802</b>
Net earnings		-	-	-	-	-	-	22,003	(39)	21,964
Other comprehensive income/(loss)	(27)	-	-	-	-	-	238	-	-	238
Total other comprehensive income/(loss)	(27)	-	-	-	-	-	238	22,003	(39)	22,202
Share-based compensation - deferred	(27)	-	-	-	-	120	-	-	-	120
Proceeds from sale of treasury shares	(27)	-	7,316	9	-	176	-	-	-	185
Dividends	(27)	-	-	-	-	-	-	(18,970)	-	(18,970)
Cash capital increase	(27)	-	-	-	-	-	-	-	-	-
<b>Balance Dec. 31, 2011</b>		<b>6,279,200</b>	<b>(140,344)</b>	<b>7,858</b>	<b>(2,980)</b>	<b>61,136</b>	<b>2,820</b>	<b>91,531</b>	<b>(26)</b>	<b>160,339</b>
<b>Balance Jan. 1, 2012</b>		<b>6,279,200</b>	<b>(140,344)</b>	<b>7,858</b>	<b>(2,980)</b>	<b>61,136</b>	<b>2,820</b>	<b>91,531</b>	<b>(26)</b>	<b>160,339</b>
Net earnings		-	-	-	-	-	-	12,462	161	12,623
Other comprehensive income/(loss)	(27)	-	-	-	-	-	(67)	-	8	(59)
Total other comprehensive income/(loss)		-	-	-	-	-	(67)	12,462	169	12,564
Share-based compensation - deferred	(27)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	(27)	-	-	-	-	-	-	-	-	-
Proceeds from sale of treasury shares	(27)	-	1,348	1	-	27	-	-	-	28
Dividends	(27)	-	-	-	-	-	-	(14,672)	-	(14,672)
Cash capital increase		-	-	-	-	-	-	-	-	-
<b>Balance Dec. 31, 2012</b>		<b>6,279,200</b>	<b>(138,996)</b>	<b>7,859</b>	<b>(2,980)</b>	<b>61,163</b>	<b>2,753</b>	<b>89,321</b>	<b>143</b>	<b>158,259</b>

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

# Notes

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

### A. GENERAL INFORMATION

#### Description of business activities

Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien (referred to as the company) and its subsidiaries (together referred to as the Mühlbauer Group) develop, produce and distribute products and services within the chip card, passport, Smart Label, semiconductor and electronic technology. In addition, the Mühlbauer Group distributes manufactured precision parts by means of cutting and processing of metals and plastics as well as products, assembly parts and systems that are based on such precision parts. The development and production sites of the company are located in Germany, Malaysia and Slovakia. Sales are effected worldwide through a company-own distribution and service network that operates globally as well as project-dependent commercial agencies.

#### Principles of presentation

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

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

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

The consolidated financial statements are drawn up in euro. Insofar as no other representation is pointed out, all amounts shown in these consolidated financial statements relate to thousand Euro ("TEUR"). Negative values are represented in brackets.

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



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

**Trade accounts receivable:** The Mühlbauer Group makes adjustments to bad debt to account for estimated losses, resulting from customers' inability to pay. The basis used by management for the assessment of the appropriateness of the value adjustments in respect of bad debts is the maturity structure of the accounts receivable balances and the experience gained with the loss of accounts receivable in the past, the creditworthiness of customers and changes of the terms of payment. In the event that the customers' financial situation deteriorates, the scope of the actual loss may exceed the scope of the anticipated loss. If these assumptions prove false, a corresponding increase in value will be made. In addition, the company makes assumptions in connection with the balance sheet treatment of contracts for the combined sales of goods and services. The corresponding turnover proceeds are realized according to the relation between the applicable current values of the individual elements.

**Inventories:** In its valuation, Mühlbauer takes into account inventory risks resulting from higher stockholding periods and the reduced ability to realize inventory assets. The provisions for these inventory risks are in the form of value adjustments made on the basis of the evaluation of individual risk factors in regards to market potential, price deterioration and stockholding periods exceeding the anticipated length of time.

**Development expenses:** When verifying the intrinsic value of the activated development expenses, the company generally applies a method geared to the generation of a future economic benefit through utilization of the 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 accruals is based on assumptions with regard how obligations are made use of in the future. The assumptions can entail risks and insecurities that may lead to the fact that the actual obligations deviate considerably from the amounts currently estimated accruals provided for guarantees are calculated based on historical experience values; the most probably value is applied to calculate process risks. Any change of estimate is recorded for the respective period and offset against the item in respect of which it was formed.

**Interpretations and amendments of published standards which had to be applied obligatorily for the first time in 2012**

- Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets

The amendments of IFRS 7 relate to extended disclosure requirements in the case of transfer of financial assets. This is supposed to improve the comprehensibility of the relations between financial assets that are not completely deleted from the books and the corresponding financial liabilities. In addition, the aim is to improve the assessment of the type as well as in particular the risks of continuing involvement in the case of financial assets that have been deleted from the books. The amendments also require additional information if a disproportionately large number of transfers with continuing involvement occurs around the end of a reporting period, for example.

There were no facts subject to disclosure requirements.

- Amendments to IAS 12 – Recovery of underlying assets

In the case of real estate properties held as financial investments, it is often difficult to assess whether existing temporary tax-related differences will be reversed in the process of continued utilization or in the course of a sale. Now the amendment of IAS 12 clarifies that the valuation of deferred taxes must be performed on the basis of the refutable assumption that reversal will occur as a result of a sale.

The amendments do not have any impact on the consolidated financial statement of the Mühlbauer Group, as it does not hold relevant real estate properties.

- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

Through this amendment of IFRS 1, the references to the date of January 1<sup>st</sup>, 2004, as the fixed switchover time – which has been used up to now – will be replaced by “Date of switchover to IFRS”.

Furthermore, provisions for cases in which a company was unable to comply with the IFRS regulations because its functional currency was subject to hyperinflation have now been incorporated into IFRS 1. The amendments do not have any impact on the Mühlbauer Group.

**Published and modified interpretations, revisions and amendments of published standards that were not applied prematurely in 2012**

The Mühlbauer Group does not have any plans for premature application of the following new or modified standards and interpretations, which only have to be applied obligatorily in later financial years. Unless specified otherwise, the impact on the consolidated financial statement of Mühlbauer is currently being examined.

**a) EU Endorsement has already been issued**

- Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income

This amendment modifies the presentation of other comprehensive income in the overall statement of income and accumulated earnings. In future, the items of the other comprehensive income that are subsequently reclassified in the profit and loss statement (“recycling”) must be presented separately from the items of the other comprehensive income, which is never reclassified. Insofar as the items are shown as gross, i.e. without netting out the effects of deferred taxes, now the deferred taxes must not be shown in one sum, but must be allocated to the two groups of items. The amendment must be applied for the first time in financial years that start on or after July 1<sup>st</sup>, 2012.

- IAS 19 – Employee Benefits (revised 2011)

In addition to more comprehensive disclosure requirements regarding benefits provided to employees, the revised standard has resulted in the following amendments in particular:

- o At present, there is an optional right how unexpected fluctuations in pension obligations, the so-called actuarial profits and losses, can be presented in the year-end financial statement. They can either be recorded as (a) affecting net income in the profit and loss statement, (b) in the other comprehensive income (OCI) or (c) with a time delay according to the so-called corridor method. The new version of IAS 19 has abolished this optional right in favour of a more transparent and comparable presentation, which means that in future only direct and fully comprehensive recording in the other comprehensive income will be permissible. Furthermore, past service costs must now be recorded directly in the profits or losses in the year they occur.
- o In addition, the anticipated earnings of the plan assets are currently determined at the beginning of the fiscal period on the basis of the expectations of the management regarding performance of the investment portfolio. The application of IAS 19 (revised 2011) means that only a standardized interest calculation of the plan assets in the amount of the discount interest rate of the pension obligations at the beginning of the fiscal period is permissible. In future, the net interest on the net debt (net asset value) from a defined-benefit plan will be determined through multiplication of the net debt at the beginning of the fiscal period with the interest rate that is the basis for the discounting of the defined-benefit obligation (gross debt) at the beginning of the fiscal period. The anticipated effect of the net interest in the next fiscal year as a result of the first application of IAS 19 (revised 2011) amounts to +52 TEUR.
- o Up to now, the anticipated amount of administrative expenses for the plan assets was taken into account in the net interest income/loss. According to the amendments, administrative expenses for the plan assets must be recorded in the other comprehensive income as part of the revaluation component, whereas the other administrative expenses must be allocated to the operating profit at the point in time they are incurred.

The amendments to IAS 19 will lead to the following important effects overall:

- o Since the Mühlbauer Group currently uses the corridor method, the amendment would lead to an increase in the pension reserves by TEUR 1,596 in the event it is applied to the conditions on 31<sup>st</sup> December 2012. With the change from the corridor method to the modified method, the calculation of profit and loss of Mühlbauer AG will be free of effects from actuarial gains and losses (for example, due to interest rate fluctuations) in future, because these must then be recorded under the other comprehensive income.
- o The amended definition of the benefits occasioned by termination of an employment relationship (termination benefits) will have an effect on the balance sheet treatment of the top-up contributions promised in conjunction with agreements on part-time work arrangements for employees approaching retirement age. Up to now the top-up contributions were classified as benefits occasioned by termination of the employment relationship and were consequently set aside as reserves at the point in time when a contract on part-time work arrangements for employees approaching retirement age was concluded. Because of the change in the definition of the benefits occasioned by termination of the employment relationship, the top-up contribution no longer fulfils the prerequisites for existence of benefits occasioned by termination of the employment relationship when IAS 19 (revised 2011) is applied. On the contrary, as a matter of principle they constitute other long-term benefits payable to employees that must be accumulated throughout the term of service of the employees on a pro rata basis. The amendment of the standard does not have any impact on the financial statement of the Mühlbauer Group, because no relevant agreements have been concluded.

The amendment must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2013.



- Amendments to IAS 27 – Separate Financial Statements

In conjunction with adoption of IFRS 10 Consolidated Financial Statements, the provisions for the control principle and the requirements for preparation of consolidated financial statements have been shifted from IAS 27 and conclusively treated in IFRS 10. As a result, in future IAS 27 will only contain the provisions for balance sheet treatment of subsidiary companies, joint ventures and associated companies in IFRS financial statements of individual companies.

The amendment must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014.

- Amendments to IAS 28 – Investments in Associates and Joint Ventures

In conjunction with adoption of IFRS 11 Joint Arrangements, adjustments were also made to IAS 28. Just as in the past – IAS 28 stipulates provisions for application of the equity method. However, the scope of application has been expanded substantially through adoption of IFRS 11, because in future it will be necessary to value not only shareholdings in associated companies, but also joint ventures according to the equity method (see IFRS 11). Therefore, the application of proportionate consolidation for joint ventures has been abolished.

In future, potential voting rights and other derivative financial instruments must also be taken into account in the assessment of whether a company has a decisive influence and/or when determining the investor's share in the assets of the company.

Another amendment pertains to balance sheet treatment according to IFRS 5, if only part of a share in an associated company or a joint venture has been designated for sale. IFRS 5 must then be applied partially, if only one share or a part of one share in the associated company (or a joint venture) fulfils the criterion "held for the purpose of sale".

The amendment must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014. As the Mühlbauer Group currently does not include any joint ventures proportionately in its consolidated financial statement, the application of IFRS 11 in combination with the amended IAS 28 does not result in any changes.

- Amendments to IAS 32 und IFRS 7 – Offsetting Financial Assets and Financial Liabilities

This supplement to IAS 32 clarifies what the prerequisites are for netting out financial instruments. The supplement explains the significance of the current legal claim to offsetting and clarifies what methods with gross settlement as net settlement can be regarded as being in line with the standard. Together with these clarifications, the regulations for information in the notes in IFRS 7 were expanded.

The amendment of IAS 32 must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014; the amendment of IFRS 7 must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2013.

- IFRS 10 – Consolidated Financial Statements

This standard stipulates a new and comprehensive definition of the concept of "control". If a company controls another company, the parent company must consolidate the subsidiary company. According to the new concept, a control situation exists if the potential parent company possesses the power of decision over the potential subsidiary company because of voting rights or other rights, if it participates in positive or negative variable returns from the subsidiary company and can influence those returns through its power of decision.

This new standard can lead to an impact on the scope of the consolidation group, among other things for special purpose vehicles.

The new standard must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014. If the qualification of an investment as a subsidiary company is determined in a deviating manner between IAS 27/SIC-12 and IFRS 10, IFRS 10 must be applied retroactively. Premature application is only permissible simultaneously with IFRS 11 and IFRS 12 as well as with IAS 27 and IAS 28, which were amended in 2011.

- IFRS 11 – Joint Arrangements

IFRS 11 stipulates new provisions for the balance sheet treatment of activities that are jointly conducted (Joint Arrangements). According to the new concept, it is necessary to decide whether the situation constitutes a joint activity (Joint Operation) or a joint company (Joint Venture). A joint activity is deemed to exist if the jointly controlling parties have direct rights to the assets and obligations for the liabilities. The individual rights and obligations are treated according to their proprietary rights, and jointly held assets and debts are treated proportionately in the consolidated financial statement. By contrast, the jointly controlling parties in

a joint venture have rights to the net asset surplus. That right is reflected in the consolidated balance sheet by applying the equity method; so the optional right to proportional integration into the consolidated balance sheet is eliminated.

The new standard must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014. There are specific transitional regulations for the transition phase, e.g. from proportional consolidation to the equity method. Premature application is only permissible simultaneously together with IFRS 10 and IFRS 12 as well as with IAS 27 and IAS 28, which were revised in 2011.

- IFRS 12 – Disclosure of Interests in Other Entities

This standard stipulates the disclosure requirements with reference to interests in other companies. The requisite information is substantially more extensive in comparison with the information that previously had to be disclosed according to IAS 27, IAS 28 and IAS 31.

The new standard must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014.

- IFRS 13 – Fair Value Measurement

This standard stipulates uniform provisions for valuation at fair value in IFRS balance sheets. In future, all valuations at fair value according to other standards must comply with the uniform stipulations of IFRS 13; there will only still be separate regulations for IAS 17 and IFRS 2. The fair value according to IFRS 13 is defined as the exit price, i.e. as the price that would be obtained through the sale of an asset and/or as the price that would have to be paid in order to transfer a debt. A 3-level hierarchy system that is graded with reference to observable market prices is introduced just like the known method for valuation of financial assets at fair value. The new valuation at fair value may result in deviating values in comparison with the previous regulations.

The new standard must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2013.

- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

This interpretation is aimed at standardising balance sheet treatment for the stripping costs of surface mines. IFRIC 20 must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2013, and does not have any impact on the Mühlbauer Group.

## **b) EU Endorsement is still pending**

- Improvements to IFRS 2009 - 2011

Amendments to five standards were made in conjunction with the annual improvement project. The objective is to achieve clarification of the existing provisions through adjustment of the wording in individual IFRS. In addition, there are changes with an impact on balance sheet treatment, balance sheet value, valuation as well as notes. The standards IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1 are affected.

Subject to adoption in EU law, which is still pending – the amendments must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2013.

- Amendments to IFRS 1 – Government Loans

The amendment pertains to balance sheet treatment of a loan from a public entity at an interest rate that is lower than the market interest rate by a IFRS first-time adopter. For government loans existing at the point in time of transition, valuation according to the previous rendering of accounts can be retained. Thus, the valuation rules according to IAS 20.10A in combination with IAS 39 only apply to government loans that are taken out after the point in time of transition.

Subject to adoption in EU law, which is still pending – the amendments must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2013.

- IFRS 9 – Financial Instruments

Balance sheet treatment and valuation of financial instruments according to IFRS 9 will replace IAS 39.

In future, financial assets will only be classified and valued in two groups: at amortized costs and at fair value. The group of financial assets at amortized costs consists of such financial assets that only foresee a claim to interest payments and repayments at specified times and that are additionally held in conjunction with a business model in which the objective is the holding of assets. All other financial assets form the group at fair value. Under certain conditions, a designation in the category at fair value ("Fair Value Option") can be

applied for financial assets of the first category – as in the past.

As a matter of principle, changes in the value of financial assets in the fair value category must be recorded in profit or loss. However, for certain equity instruments it is possible to take advantage of the optional right to record changes in value in the other comprehensive income; however, dividend claims from those assets must be recorded in profit or loss.

The regulations for financial liabilities from IAS 39 are adopted as a matter of principle. The most important difference pertains to recording of changes in the value of financial liabilities valued at fair value. In future, these must be apportioned: the portion falling under company-own credit risk must be recorded in the other comprehensive income; the remaining portion of the value change must be recorded in profit or loss.

Subject to adoption in EU law, which is still pending – IFRS 9 must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2015.

- Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures  
The amendments make it possible to dispense with adjusted figures for the previous year when IFRS 9 is applied for the first time. Originally, this easement was only possible in the case of premature application of IFRS 9 prior to January 1<sup>st</sup>, 2012.

The easement necessitates additional notes according to IFRS 7 at the point in time of transition.

Analogous to the provisions of IFRS 9 – subject to adoption in EU law, which is still pending – these amendments must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2015.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

The amendments contain a terminology definition for investment companies and exclude companies of that type from the application scope of IFRS 10 Consolidated Financial Statements.

According to it, investment companies do not consolidate the companies controlled by them in their IFRS consolidated financial statement; whereby this exception from the general principles must not be interpreted as an optional right. Instead of comprehensive consolidation, they value the shares held for investment purposes according to the applicable current market value and record periodic value fluctuations in profit or loss.

The amendments do not have any impact on a consolidated financial statement that encompasses investment companies unless the consolidation parent itself is an investment company.

Subject to adoption in EU law, which is still pending – the amendments must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance

The amendments contain clarification and additional easements for the transition to IFRS 10, IFRS 11 und IFRS 12. Thus, adjusted comparison information is only required for the previous comparison period. In addition, the obligation to provide comparison information for periods lying prior to the first application of IFRS 12 is eliminated in conjunction with the notes on consolidated structured entities).

Subject to adoption in EU law, which is still pending – the amendments of IFRS 10, IFRS 11 und IFRS 12 must be applied for the first time in financial years that start on or after January 1<sup>st</sup>, 2014.



### Principles of consolidation

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

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

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

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

Companies on which the company exerts a decisive influence indirectly or directly are incorporated into the consolidated financial statement according to the equity method. The proportionate annual result leads to a corresponding increase in the investment book value in the consolidated financial statement; proportionate losses are subjected to depreciation up to the amount of the book value and after that they are amortized in an auxiliary calculation off-balance sheet. The going concern value connected with the associated companies is contained in the book value of the share and is not subjected to scheduled depreciation, but instead to an annual impairment test. Intercompany profits from so-called downstream supplies to associated companies are deducted according to the proportionate share of the book value of the holding up to the amount of the book value.

On December 31<sup>st</sup>, 2012, the scope of consolidation of the company comprised not only Mühlbauer Holding AG & Co. KGaA, but also 11 additional subsidiaries in Germany and 18 subsidiaries abroad as well as 1 joint venture company.

The companies in which the Group holds directly and indirectly 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	1,077	276
MBO GmbH, Roding	100	1,088	111
Mühlbauer Aktiengesellschaft, Roding	100	62,122	1,825
Mühlbauer ID Services GmbH, Roding	100	1,154	1,028
Rommel GmbH, Ehingen	100	2,298	(213)
Mühlbauer ID Solutions GmbH, Roding	100	(52)	82
MPS Roding GmbH, Roding	100	11,443	74
MPS Stollberg GmbH, Stollberg	100	6,241	(133)
MB Shared Services GmbH, Roding	100	2,014	0
takeID GmbH, Dresden	100	2,136	968
Tema GmbH, Schwelm	100	2,027	461

**Foreign companies:**

Name and registered office	Share in equity in %	Shareholders' equity in TEUR <sup>1)</sup>	Annual result in TEUR <sup>2)</sup>
Muehlbauer, Inc., Newport News, Virginia, USA	100	2,443	(1,101)
Muehlbauer America Management Corp., Newport News, Virginia, USA	100	64	1
Muehlbauer America LP, Newport News, Virginia, USA	100	5,535	41
Muehlbauer do Brasil Consultoria e Participacoes Ltda, Valinhos, Brazil	100	0	0
Muehlbauer Technologies s.r.o., Nitra, Slovakia	100	11,679	3,255
OOO Muehlbauer, Moscow, Russia	100	124	18
Muehlbauer d.o.o. Beograd, Belgrade, Serbia	100	(695)	(816)
Muehlbauer Technologies d.o.o Stara Pazova, Serbia	100	587	(1,089)
Muehlbauer ID Solutions Gmbh Ltd., Juba, South Sudan	94	1,614	1,182
Muehlbauer (PTY) Limited, Midrand, South Africa	100	355	160
Muehlbauer Uganda Ltd., Kampala, Uganda	99.99	(129)	34
Orambamba 38 (Pty) Ltd., Midrand, South Africa <sup>3)</sup>	46	5	1
Muehlbauer Smart Identification Technology (Shanghai) Co. Ltd., Shanghai, China	100	1,011	13
Muehlbauer Technologies Sdn. Bhd., Melaka, Malaysia	100	17,434	3,577
Mühlbauer Kart Sistemleri A.S., Istanbul, Turkey	51	301	326
Muehlbauer (India) Private Limited, New Delhi, India	100	380	90
Muehlbauer Middle East FZ-LLC, Dubai, United Arab Emirates	100	(322)	28
Muehlbauer LLC, Riyadh, Saudi Arabia	100	101	0
Muehlbauer d.o.o. Banja Luka, Banja Luka, Bosnia and Herzegovina	60	93	42

<sup>1)</sup> Conversion at the period-end exchange rate on 31/12/2012

<sup>2)</sup> Conversion at the annual average exchange rate for 2012

<sup>3)</sup> The company is a shelf company that was incorporated into the consolidated financial statement at amortized costs.

Derived from the company law regulations, Orambamba 38 (Pty) Ltd. is considered to be an associated company in accordance with the control concept.

## Changes in the scope of consolidation

### Additions

Mühlbauer ID Services GmbH, domiciled in Roding, together with a joint venture partner founded "Muehlbauer d.o.o. Banja Luka", domiciled in Banja Luka, Bosnia and Herzegovina, on February 17th, 2012, and holds a corporate share in that company amounting to 60%. The company was registered in the commercial register under the number 57-01-0040-12. In exercise of the option in accordance with IAS 31 "Interests in Joint Ventures", No. 38, the company is incorporated into the consolidated financial statement according to the so-called equity method in accordance with IAS 28 "Investments in Associates", as decisions can only be made jointly because of the contractual agreements and therefore a controlling influence does not exist. The subscribed capital of the company amounts to roughly 51 TEUR and was completely paid in as of the end of the year.

### Retirements

Muehlbauer Sdn. Bhd., Melaka, Malaysia was liquidated.

The entire liquidation, the scope of which was economically insignificant, resulted in deconsolidation in the fiscal year 2012.

### Comparability with the previous year

The change in the scope of consolidation does not compromise comparability with the previous year.

## 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 within a primary economic environment, 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 while the items on the statement of income are translated using monthly average rates. Any differences in the currency translation of assets and debt over the translation of the previous year, as well as differences in translation between the statement of income and the balance sheet are listed separately within shareholders' equity at "Other comprehensive income", with no effect on the income statement.

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

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

Currency:		Period-end	Period-end	Average	Average
		exchange rate	exchange rate	exchange rate	exchange rate
		31 December	31 December		
		2012	2011	2012	2011
		EUR	EUR	EUR	EUR
China	1 CNY	0.1198	0.1213	0.1232	0.1111
India	1 INR	0.0138	0.0142	0.0145	0.0153
Malaysia	1 MYR	0.2431	0.2432	0.2519	0.2349
Russia	1 RUB	0.0248	0.0240	0.0250	0.0245
Serbia	1 RSD	0.0088	0.0094	0.0088	0.0098
South Africa	1 ZAR	0.0892	0.0949	0.0948	0.0992
South Sudan	1 SSP	0.2372	0.2116	0.2144	0.2106
Turkey	1 TRY	0.4222	0.4053	0.4319	0.4283
Uganda	1,000 UGX	0.2790	0.3066	0.3107	0.2847
USA	1 USD	0.7565	0.7722	0.7775	0.7180
United Arab Emirates	1 AED	0.2060	0.2102	0.2117	0.1955



### Realization of sales, other operating income and operating expenses

The sales proceeds encompass the equivalent value for the sale of goods and the provision of services not including turnover tax, rebates and price discounts, and after elimination of group-internal sales. 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 indicator of successful final acceptance and their share in installation is considered insignificant with regard to the overall order value of the Mühlbauer Group.
- Opportunities and risks connected with the ownership have been transferred to the customer.

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

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

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

Operating expenses are accounted for when expenses are incurred.

### Cash and cash equivalents

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

### Inventories

Inventories in the form of unfinished and finished products are valued at acquisition or production costs, whereas raw, auxiliary and operating materials are valued at the moving average price respectively at the lower market value. In accordance with IAS 2 "Inventories", cost of production not only comprises the directly attributable individual costs but also the overheads attributable to the production process including appropriate depreciation to production systems. The lower realizable net sale value is applied for all inventories, insofar as necessary.

### Financial Assets

Financial assets are divided into the categories "at fair value through profit or loss, held to maturity, available for sale and loans and receivables" and are each recorded separately and individually at their fair value at the time of their addition. Any alterations of market value are settled as income for such assets that are held for trading purposes (at fair value through profit or loss). Financial assets to be held until final maturity (held to maturity) are valued at amortized cost. Unrealized profits and losses in respect of securities that are allocated to the category "available for sale", due to their categorization as financial assets available for disposal, are

included in shareholders' equity. If securities of the category "available for sale" are disposed of or impaired, the adjustments of the fair value accumulated in shareholders' equity are recorded in the statement of income as income, as profits or losses from financial assets. The market value of each of these securities is determined on the basis of the published share price. Initial recording and the disposal of securities is effected as soon as the underlying transaction is executed.

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

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

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

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

Value adjustments are performed primarily in the event of indications of insolvency, perceptible delays in payment as well as other adverse changes in the general economic conditions of the customer. In the event of irrecoverability, the financial assets are derecognized.

### 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 and machines are depreciated over a maximum of 10 years. Depreciation for other assets and furniture and office equipment is 3 to 10 years. Assets are checked for an impairment in value if corresponding events or changes in circumstances show that the book value may no longer be achievable (so-called triggering events). A loss through impairment in value is recorded at the level of the book value exceeding the value that can be achieved. The value that can be achieved is the higher amount from the respective time value of the asset minus selling expenses and its value

in use. To execute the impairment test, assets are summarized at the lowest level at which cashflows can be separately identified (so-called cash generating units). According to this, if, after executing an impairment in value, a higher asset value could be achieved, a revaluation is effected up to a maximum of the amount achievable. The revaluation is limited to the amortized book value that would have been achieved in the past without the devaluation. The appreciation is to be performed with an effect on the income statement.

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 perpetuity of the respective units.

Development costs for technology projects and service products are capitalized at production cost minus directly attributable public grants, insofar as technical realization and ability to utilize as well as availability of necessary resources is ensured, a clear allocation of expense possible and the intended completion and marketing as well as the probable achievement of future economic benefit is proven, as demanded by IAS 38 "Intangible Assets". Production costs comprise the costs that are directly and indirectly attributable to the development stage. Capitalized development costs are depreciated linear from the termination of essential development services or delivery of the first product over the anticipated product lifecycle of generally 3 to 8 years. Research costs are recorded as expenses in the period in which they occur. Earnings allowances that are not offset by future expenses are recorded as income.

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

### **Deferred tax assets**

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



### Derivative financial instruments

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

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

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

### Pension and postretirement benefits

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

### Other accruals

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

**Financial liabilities**

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

Amounts due to banks with a term of not more than 12 months after the reporting date are considered short-term liabilities. Trade accounts payable are recorded as amortized cost.

A financial asset from concession agreements was balanced with the advance payments received.

Financial debt, trade accounts payable and other financial liabilities are classified as "Financial Liabilities Measured at Amortized Cost".

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

**Deferred tax liabilities**

Deferred taxes result from different valuations in the annual financial statements prepared according to the IFRS and tax balance sheets of the group companies as well as from consolidation measures, to the extent that those differences balance themselves out. The delimitation of deferred taxes is effected in accordance with IAS 12 "Income Taxes". The tax rates current in the individual countries on the reporting date or resolved and known future tax rates are applied in accordance with the "Liability Method". Deferred tax assets and deferred tax liabilities are only offset if the law allows for this. Deferred tax liabilities are not discounted, in accordance with the regulations of IAS 12 "Income Taxes".

**Stock option programs**

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

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

The valuation of the stock options granted is effected on the basis of the fair value method in accordance with IFRS 2 "Share-based Payment" and by applying the Black-Scholes option pricing model. IFRS 2 "Share-based Payment" was not applied to stock options assured before 8 November 2002 and stock options granted after 7 November 2002, which became nonforfeitable 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".

### Service concession agreements

IFRIC 12 stipulates provisions for the balance sheet treatment of service agreements in the case of companies that offer public services on behalf of regional authorities, e.g. construction and operation of infrastructure. Whereas the public authority retains the power of disposal for the assets, the company is contractually obligated to perform construction, operation and possibly preventive maintenance. At the end of the period of operation, ownership of the infrastructure transfers to the regional authority as a matter of principle. IFRIC 12 deals with the question of how the rights and obligations resulting from contractual obligations of this type must be treated in the balance sheet.

The balance sheet presentation depends on whether the company has an unconditional contractual right to receive a payment or whether it only acquired a right to charge the users a utilization fee. The former case results in a financial asset, so the balance sheet treatment must be executed according to the so-called "Financial Asset Model". In the latter case, the company acquires an intangible asset that permits it to operate a facility that is offered publicly. In this case, the balance sheet treatment must be executed according to the "Intangible Asset Model".

The creation or improvement of the infrastructure by the company (establishment phase) is to be balanced according to IAS 11 "Construction Contracts". The facilities are to be valued at the fair value of the consideration and, with contractually guaranteed payments during the period of operation recognized as a financial asset. If no payments are guaranteed, but merely the right to demand a fee for the use of the service during the period of operation is acquired through the concession, the infrastructure established must be declared as an intangible asset at the fair value of the consideration. The intangible asset is amortized over the agreed period of operation. If operation of the infrastructure is begun before its completion, the intangible asset or financial asset must be further increased according to the progress of construction. Insofar as the regional authority guarantees the company a certain minimum remuneration, but amounts in excess of that can only be obtained in the event of sufficient capacity utilization by the users, a financial asset in the amount of the guaranteed payment must be applied and an intangible asset must be applied for the payments in excess of that, provided that payments by the users are sufficiently ascertainable.

Revenues from the operation of the infrastructure are to be recognized in the period in which the operational service is rendered.

In 2011, the Mühlbauer Group received two document personalization projects for 5 and 3 years respectively as part of public/private partnership agreements in which a classification of the assets as an intangible or financial asset is performed according to the aforementioned rules of IFRIC 12. Here Mühlbauer has the right and at the same time the obligation to establish the infrastructure, data entry and personalization of identification documents. The infrastructure to be set up here consists essentially of personalization machines, identification document printers, databases and software licenses. Mühlbauer assumes the usual ongoing maintenance during operation.



**B. EXPLANATIONS TO THE CONSOLIDATED STATEMENTS OF INCOME**

**(3) SALES**

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

Of sales, TEUR 211,544 (PY: TEUR 186,913) are allotted to sales of goods, and TEUR 25,624 (PY: TEUR 26,312) to performance of services. Thereof, sales revenues in the amount of 4,660 million EUR (PY: TEUR 3,985) pertain to the execution of construction work arising from service concession agreements. Overall, the provision of construction services from service concession agreements resulted in losses of a total of TEUR 618 (PY: gains of TEUR 276).

Included in sales of TEUR 237,168 (PY: TEUR 213,225) are order revenues of TEUR 64,189 (PY: TEUR 15,629), which are calculated with the aid of the percentage of completion method.

**(4) COSTS OF FUNCTIONAL AREAS**

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

	<b>2012 TEUR</b>	<b>2011 TEUR</b>
Cost of materials (external suppliers)	67,530	77,875
Change in inventory of finished and unfinished products	30,676	(24,120)
Personnel expenditure	80,554	79,088
Depreciation and decreases in value	17,476	14,022
<b>Total</b>	<b>196,236</b>	<b>146,865</b>

**(5) COSTS OF SALES**

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

**(6) SELLING EXPENSES**

In addition to the costs for the sales departments and field staff, selling expenses also comprise advertising costs in the amount of TEUR 548 (PY: TEUR 900) and costs for logistics in the amount of TEUR 3,530 (PY: TEUR 3,832). The position also includes the major share of devaluations on trade accounts receivable. In the year under review, value adjustment expenses on trade account receivables, offset against the earnings from the discontinuation of such value adjustments, totaled TEUR 412 (PY: TEUR 321)

**(7) ADMINISTRATIVE EXPENSES**

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

**(8) RESEARCH AND DEVELOPMENT**

In accordance with IAS 38 “Intangible Assets”, all research costs under this position are directly recorded as expenses. The costs from the development of a product which is ready for the market are capitalized if they meet the criteria for the capitalization of development costs. The non-capitalizable development costs are listed under this position. Research and development expenses without depreciation on capitalized development costs and before capitalized own funds amounted to TEUR 25,669 (PY: TEUR 28,109) in the past financial year. Research costs include refunds for research and development in the amount of TEUR 188 (PY: TEUR 166).

	2012 TEUR	2011 TEUR
Insurance and other reparations	1,981	1,707
Earnings from the sale of scrap	578	520
Canteen earnings	366	544
Earnings from the reversal of accruals and liabilities	236	643
Profits from the sale of long-term assets	177	630
Rental income	67	74
Foreign currency gains	-	465
Other	270	177
<b>Total other operating income</b>	<b>3,675</b>	<b>4,760</b>
Losses from the sale of long-term assets	(51)	(183)
Expenses for donations	(104)	(13)
Depreciation on other assets	(569)	-
Foreign currency losses	(1,186)	-
Other	(99)	(912)
<b>Total other operating expenses</b>	<b>(2,009)</b>	<b>(1,108)</b>
<b>Total</b>	<b>1,666</b>	<b>3,652</b>

**OTHER INCOME (9)  
AND EXPENSES**

	2012 TEUR	2011 TEUR
Profits from securities and financial investments	-	307
Other interest and similar revenues	314	294
Interest and dividend income	17	112
Financial earnings	331	713
Losses from securities and financial investments	-	(60)
Interest and similar expenditures	(524)	(339)
Financial expenditures	(524)	(399)
<b>Total</b>	<b>(193)</b>	<b>314</b>

**FINANCIAL RESULT (10)**

Other interest and similar income include interest income in the amount of TEUR 273 (PY: TEUR 238) resulting from the evaluation of the plan assets. Interest and similar expenses include calculated interest expenditures to the amount of TEUR 316 (PY: TEUR 283) based on the evaluation of the defined-benefit pension plans.

A company that must be valued according to the equity method in accordance with IAS 28 "Investments in Associates" existed in the reporting year. The company is not a stock exchange listed company. Consequently, it does not have publicly listed market prices. On the basis of the year-end financial statement that was prepared for the first time as of December 31st, 2012, the following key figures can be derived in summary:

**FINANCIAL INVESTMENTS (11)  
SHOWN IN THE BALANCE  
SHEET ACCORDING TO  
THE EQUITY METHOD**

	2012 TEUR
Current assets	3,493
Non-current assets	3,532
<b>Total assets</b>	<b>7,025</b>
Current liabilities	3,932
Non-current liabilities	3,000
<b>Total liabilities</b>	<b>6,932</b>
<b>Net asset value</b>	<b>93</b>
Earnings	2,282
Expenditures	2,240
<b>Profit</b>	<b>42</b>
<b>Group share of net asset value</b>	<b>56</b>

Development of shares in associated companies

	2012 TEUR
Book value according to individual financial statement	31
Proportionate annual result	25
Elimination of intercompany profits from downstream supplies	(55)
<b>Total</b>	<b>0</b>

As the company was newly founded in 2012, no going concern value arose in conjunction with consolidation.

## (12) 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:

	2012 TEUR	2011 TEUR
<b>Actual tax expenses</b>	<b>2,699</b>	<b>6,787</b>
of which relating to other periods	(12)	30
(Income) from the release of provisions for taxation	-	(1)
(Income) from crediting of tax credits	(25)	(91)
<b>Actual taxes on income and on revenue</b>	<b>2,674</b>	<b>6,695</b>
Deferred tax expenses (income) from loss carry-overs	(253)	412
Deferred tax expenses (income) from temporary differences	389	(694)
<b>Taxes on income and revenue</b>	<b>2,810</b>	<b>6,413</b>

The German corporate tax laws that must be applied for the financial year 2012 stipulates a tax rate in the amount of 15% in addition to the solidarity surcharge of 5.5%. The commercial tax burden for German companies is between 11.20% and 16.28%.

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:

	2012 TEUR	2011 TEUR
Change in active deferred taxes according to balance sheet	587	(547)
Change in passive deferred taxes according to balance sheet	(713)	819
Change in active / passive deferred taxes not affecting net income	-	20
Foreign currency exchange rates	(10)	(10)
<b>Deferred taxes according to profit and loss statement</b>	<b>(136)</b>	<b>282</b>

In total, deferred tax assets from tax loss carryovers amount to TEUR 965 (PY: TEUR 712). All loss carryovers, for which deferred tax assets were formed, can be carried forward at least five years. No deferred tax assets were assessed in the reporting year for corporate tax and trade tax loss carry-overs in the amount of TEUR 1,607 and TEUR 2,096 respectively. Deferred tax assets were also not assessed for foreign loss carry-overs in the amount of TEUR 1,261 in the reporting year.



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

	active TEUR	2012 passive TEUR	active TEUR	2011 passive TEUR
Trade accounts receivable	125	857	-	66
Inventories	1,080	90	1,081	313
Fixed assets	361	1,327	228	1,270
Activated development expenses	-	907	-	1,068
Company pension provisions	594	10	540	-
Long-term liabilities	-	240	-	-
Unrealized profits and losses from foreign currency conversion	108	25	69	133
Tax loss carry-overs	965	-	712	-
Provisions	158	1	154	1
Miscellaneous	-	128	-	-
Sub-total	3,391	3,585	2,784	2,851
Netted out balance of active and passive deferred taxes	(1,865)	(1,865)	(1,845)	(1,845)
<b>Total deferred taxes</b>	<b>1,526</b>	<b>1,720</b>	<b>939</b>	<b>1,006</b>

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

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

		2012	2011
Result before income taxes	TEUR	15,433	28,379
Income tax rate incl. trade tax	%	27.03	27.03
<b>Expected income tax expenses in the case of uniform tax burden</b>	<b>TEUR</b>	<b>(4,172)</b>	<b>(7,671)</b>
Reconciliation:			
Tax changes because of differences between local tax rates and the hypothetical tax rate	TEUR	1,242	894
Tax losses	TEUR	(327)	(462)
Tax proportion for:			
Tax-exempt income	TEUR	454	766
Expenses not deductible for tax purposes	TEUR	(594)	(236)
Taxes relating to other periods	TEUR	18	(6)
Income from crediting of tax credits	TEUR	25	91
Other tax deviations	TEUR	(34)	(45)
<b>Income tax expense before tax reduction from profit share of the personally liable shareholder</b>	<b>TEUR</b>	<b>(3,388)</b>	<b>(6,669)</b>
Effective tax rate	%	22.2	23.5
Tax relief on the profit share of the personally liable shareholder	TEUR	578	256
<b>Declared income tax expense</b>	<b>TEUR</b>	<b>(2,810)</b>	<b>(6,413)</b>
Tax rate according to profit and loss statement	%	18.2	22.6

The reduction of taxes on the share of profit of the personally liable shareholder occurs because the corporate tax and solidarity tax surcharge for the share of profit for the personally liable shareholder is not posted by the company. These taxes are directly attributable to the personally liable shareholder, who will be individually taxed at a rate that is irrespective of the tax rates which apply to the company. The percentage of the tax expenditure before tax reduction from the share of profit of the personally liable shareholder (22.2%; PY: 23.5%) thus corresponds with the actual tax rate that is to be applied to the earnings attributable to the shareholders of the limited partnership.

**(13) RESULT APPORTIONABLE TO OTHER SHAREHOLDERS**

The profits that must be apportioned to the other shareholders (PY: losses) amount to TEUR 161 (PY: TEUR 39).

**(14) EARNINGS PER SHARE**

The diluted earnings per share are determined by reducing the earnings before taxes (EBT) that is apportionable to the shareholders of the limited partnership in accordance with their share of 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 (12)) and by subsequently dividing the resultant share of net earnings for the year apportionable to the shareholders of the limited partnership by the weighted average of shares that were outstanding in the year under review.

		2012	2011
Result before income taxes*	TEUR	15,230	28,424
Proportion of share capital with relation to total capital	%	42.73	42.73
Result before income taxes apportionable to the limited liability shareholders	TEUR	6,508	12,145
Effective tax rate*	%	20.5	23.8
Effective tax amount*	TEUR	1,335	2,888
Annual net income apportionable to the limited liability shareholders*	TEUR	5,173	9,257
Weighted average of common shares	Number	6,279,200	6,279,200
Repurchased shares (weighted)	Number	(139,284)	(143,138)
Weighted average of outstanding shares (undiluted and diluted)	Number	6,139,916	6,136,062
Undiluted and diluted result per share*	EUR	0.84	1.51

\* Without the shares held by non- controlling shareholders

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

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

in TEUR	31 December 2012	31 December 2011
Credit balance at credit institutes	15,440	15,100
Cheques, cash balance	42	83
	<b>15,482</b>	<b>15,183</b>

**CASH AND (15)  
CASH EQUIVALENTS**

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 cash flows.

in TEUR	31 December 2012			31 December 2011		
	due within 1 year	due in over 1 year	Total	due within 1 year	due in over 1 year	Total
Trade accounts receivable	49,758	9,768	59,526	33,800	733	34,533
minus valuation adjustments	(1,299)	-	(1,299)	(1,085)	-	(1,085)
	<b>48,459</b>	<b>9,768</b>	<b>58,227</b>	<b>32,715</b>	<b>733</b>	<b>33,448</b>

**TRADE ACCOUNTS (16)  
RECEIVABLE**

The interest paid resulting from discounting of long-term receivables amounts to TEUR 171 (PY: TEUR 9).

in TEUR	Book value	Of which: neither decreased in value nor over- due as of closing key date	Of which: not decreased in value and overdue within the following time ranges A maximum of 365 days	More than 365 days
<b>As of 31/12/2012</b>				
Trade accounts receivable	58,227	30,644	27,272	311
<b>As of 31/12/2011</b>				
Trade accounts receivable	33,448	21,863	11,617	172

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

As of 31<sup>st</sup> December 2012, Mühlbauer has accepted securities for trade accounts receivable in the amount of TEUR 17,594 (PY: TEUR 6,048) in the form of bank guarantees and letters of credit. Furthermore, Mühlbauer always retains retention of title.

Value adjustments developed as follows:

in TEUR	2012	2011
<b>Valuation adjustments on January 1<sup>st</sup></b>	1,085	1,681
Transfers (expenditures for valuation adjustments)	517	155
Consumption	(19)	(41)
Releases	(284)	(710)
<b>Valuation adjustments on December 31<sup>st</sup></b>	<b>1,299</b>	<b>1,085</b>

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



in TEUR	up to 50%	over 50% and up to 99%	at 100%
31/12/2012	2	-	765
31/12/2011	15	-	866

In the 2012 financial year, receivables were subjected to individual value adjustments in the net amount of TEUR 767 (PY: TEUR 881). These value adjustments were for trade accounts receivables. The total value of the addition in the amount of TEUR 517 (PY: TEUR 155) is comprised of additions due to individual value adjustments in the amount of TEUR 150 (PY: TEUR 97) and the value adjustments made that are based on historical experience values in the amount of TEUR 367 (PY: TEUR 57). Consumption in the amount of TEUR 19 (PY: TEUR 41) during the reporting period related to specific allowances for bad debts. Dissolution in value adjustments included rescissions from individual value adjustments in the amount of TEUR 245 (PY: TEUR 565) and rescissions made that are based on historical experience values in the amount of TEUR 39 (PY: TEUR 145).

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

in TEUR	31 December 2012	31 December 2011
Incurred order costs and disclosed profits minus disclosed profits	149,086	82,505
minus progress billing	(144,951)	(80,762)
<b>Production orders with active balance vis-à-vis customers</b>	<b>4,135</b>	<b>1,743</b>

The company received advance payments of TEUR 16,005 (PY: TEUR 5,383) in respect of the customized production orders in progress on the reporting date.

#### (17) OTHER ACCOUNTS RECEIVABLE AND OTHER ASSETS

in TEUR	31 December 2012	31 December 2011
Claims on investment and technology grants	5,764	4,802
Advance payments made	2,673	2,659
Receivables from the personally liable shareholder	1,846	19,48
VAT receivables	784	2,801
Prepaid expenses	612	629
Receivables from suppliers	219	167
Claims on investment subsidies	140	853
Other	925	1,446
	<b>12,963</b>	<b>15,305</b>

Other accounts receivable and other assets are reported at 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 the information provided in note (30).

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

The tax receivables of TEUR 4,512 (PY: TEUR 2,388) comprise reclaimable trade tax, corporation tax and the solidarity surcharge of the national companies as well as comparable income taxes of the international companies.

**TAX RECEIVABLES (18)**

in TEUR	31 December 2012	31 December 2011
Raw materials, auxiliary and operating materials	9,604	9,493
Unfinished products	30,030	55,124
Finished products	4,747	10,329
	<b>44,381</b>	<b>74,946</b>

**INVENTORIES (19)**

In the year under review, the value adjustment on inventory assets was reduced by TEUR 9,802 with an effect on the income statement; in the previous year it was increased by TEUR 5,247.

in TEUR	Land, rights similar to land and buildings, including buildings on property owned by others	Technical equipment and machines	Other assets, furniture and office equipment	Asset values in progress	Total
<b>Accumulated acquisition values</b>					
1 January 2011	68,028	43,865	23,179	940	136,012
Currency adjustments	97	(5)	(9)	-	83
Additions	3,660	12,821	4,031	3,334	23,846
Retirements	-	(2,678)	(1,008)	(19)	(3,705)
Transfers	(147)	890	84	(903)	(76)
<b>31 December 2011</b>	<b>71,638</b>	<b>54,893</b>	<b>26,277</b>	<b>3,352</b>	<b>156,160</b>
Currency adjustments	(121)	(2)	(26)	-	(149)
Additions	5,919	8,135	1,918	50	16,022
Retirements	-	(459)	(906)	-	(1,365)
Transfers	2,278	1,018	4	(3,327)	(27)
<b>31 December 2012</b>	<b>79,714</b>	<b>63,585</b>	<b>27,267</b>	<b>75</b>	<b>170,641</b>
<b>Accumulated depreciation</b>					
1 January 2011	(21,903)	(29,402)	(16,591)	-	(67,896)
Currency adjustments	(22)	(3)	(67)	-	(92)
Additions	(2,250)	(4,275)	(2,492)	-	(9,017)
Retirements	-	2,662	942	-	3,604
Transfers	-	-	-	-	-
<b>31 December 2011</b>	<b>(24,175)</b>	<b>(31,018)</b>	<b>(18,208)</b>	<b>-</b>	<b>(73,401)</b>
Currency adjustments	16	2	22	-	40
Additions	(2,452)	(8,168)	(2,650)	-	(13,270)
Retirements	-	433	884	-	1,317
Transfers	-	-	-	-	-
<b>31 December 2012</b>	<b>(26,611)</b>	<b>(38,751)</b>	<b>(19,952)</b>	<b>-</b>	<b>(85,314)</b>
<b>Residual book values</b>					
31 December 2011	47,463	23,875	8,069	3,352	82,759
<b>31 December 2012</b>	<b>53,103</b>	<b>24,834</b>	<b>7,315</b>	<b>75</b>	<b>85,327</b>

**FIXED ASSETS (20)**

The fixed assets acquired or produced in the financial year have been reduced by grants and allowances totaling TEUR 2,455 (PY: TEUR 4,653).

Depreciation expenses have been taken into account as follows: TEUR 10,202 (PY: TEUR 6,121) in cost of sales, TEUR 824 (PY: TEUR 781) in selling expenses, TEUR 561 (PY: TEUR 579) in general administrative expenses and TEUR 1,683 (PY: TEUR 1,536) in research and development expenses.

## (21) INTANGIBLE ASSETS

in TEUR	Licenses, trademarks and patents, etc. as well as licenses to such rights and assets	Capitalized development costs	Goodwill	Total
<b>Accumulated acquisition values</b>				
1 January 2011	8,317	12,085	785	21,187
Currency adjustments	(1)	(1)	-	(2)
Additions from intra-company developments	-	1,619	-	1,619
Other additions	2,944	-	-	2,944
Retirements	(31)	-	-	(31)
Transfers	76	-	-	76
<b>31 December 2011</b>	<b>11,305</b>	<b>13,703</b>	<b>785</b>	<b>25,793</b>
Currency adjustments	-	-	-	-
Additions from intra-company developments	-	1,750	-	1,750
Other additions	1,518	-	-	1,518
Retirements	(5)	-	-	(5)
Transfers	27	-	-	27
<b>31 December 2012</b>	<b>12,845</b>	<b>15,453</b>	<b>785</b>	<b>29,083</b>
<b>Accumulated depreciation</b>				
1 January 2011	(6,230)	(6,772)	(785)	(13,787)
Currency adjustments	(1)	-	-	(1)
Additions	(2,189)	(2,819)	-	(5,008)
Retirements	29	-	-	29
Transfers	-	-	-	-
<b>31 December 2011</b>	<b>(8,391)</b>	<b>(9,591)</b>	<b>(785)</b>	<b>(18,767)</b>
Currency adjustments	2	2	-	4
Additions	(1,994)	(2,222)	-	(4,216)
Retirements	5	-	-	5
Transfers	-	-	-	-
<b>31 December 2012</b>	<b>(10,378)</b>	<b>(11,811)</b>	<b>(785)</b>	<b>(22,974)</b>
<b>Residual book values</b>				
31 December 2011	2,914	4,112	-	7,026
<b>31 December 2012</b>	<b>2,467</b>	<b>3,642</b>	<b>-</b>	<b>6,109</b>

Impairment losses resulting from the impairment tests performed for capitalized development costs are based on the cumulative values determined according to a discounted cash flow valuation. The assumption is made that the development result is not marketed by the company but instead licensed to third parties. Here the expected revenues are not used but rather the usual unit license for high technology of 6% (PY: 6%) of the sale price. These are discounted with a discount rate which increases from year to year. The discount rates applied are based on the returns on time deposits currently offered by financial institutions with a good creditworthiness rating (0.19% to 0.62%; PY: 0.1% to 1.03%) with comparable terms of one to six years.

The intangible assets acquired or produced in the financial year have been reduced by grants amounting to TEUR 39 (PY: TEUR 134). Due to a change in assessment regarding future usability, individual development projects have been fully value adjusted. Impairment expenses determined on the basis of impairment tests total TEUR 775 (PY: TEUR 1,426) and were recorded in research and development expenses with an effect on the income statement.

Depreciation on intangible assets of TEUR 1,427 (PY: TEUR 1,635) was recognized as income in the statement of income via cost of sales, TEUR 89 (PY: TEUR 86) in selling expenses, TEUR 225 (PY: TEUR 202) in general administrative expenses and TEUR 2,475 (PY: TEUR 3,085) in research and development expenses. The depreciation of intangible assets comprises an impairment loss of TEUR 392 (PY: TEUR 1,252) from a burdensome service concession agreement.



The long-term tax receivables include the corporate tax disbursement claim that was applied for the first time in the year 2006 and was treated at cash value in the balance sheet (interest rate 0.52%) in the reporting year. This claim is being disbursed in 10 equal annual amounts – on September 30th of the disbursement period from 2008 until 2017 respectively.

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

By the end of the reporting period, TEUR 16,005 (PY: TEUR 5,383) of the downpayments received related to payments from customized production orders.

**DOWNPAYMENTS (23)**

in TEUR	31 December 2012	31 December 2011
Salaries and wages	7,188	7,510
Commissions	1,111	788
Income tax	1,047	1,033
Liabilities to customers	609	556
Social security contributions	375	326
Other liabilities – personnel	238	150
VAT burden	161	71
Tax liabilities	92	34
Capital formation	63	74
Other	266	178
	<b>11,150</b>	<b>10,720</b>

**OTHER SHORT-TERM  
LIABILITIES (24)**

For details regarding the liquidity risk from other financial liabilities, please refer to Note (31).

in TEUR	As per 1 January 2012	Difference due to currency translation	Consumption	Addition	Dissolution	As per 31 December 2012
Accrued income taxes	2,261	12	(1,842)	1,750	(220)	1,961
Personnel and social security obligations	1,395	(12)	(930)	1,853	(443)	1,863
Guarantee obligations	7,955	(10)	(6,837)	8,248	(709)	8,647
Service in progress	2,876	195	(3,540)	4,248	(682)	3,097
Litigation risks	302	(1)	(230)	403	(136)	338
Other	3,280	100	(1,551)	1,249	(553)	2,525
Other accruals	15,808	272	(13,088)	16,001	(2,523)	16,470
	<b>18,069</b>	<b>284</b>	<b>(14,930)</b>	<b>17,751</b>	<b>(2,743)</b>	<b>18,431</b>

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

Accrued income taxes include current income taxes formed for the past financial years and for the 2012 financial year. The personnel-related accruals comprise obligations from variable payments as well as contributions and fees. The guarantee obligations comprise accruals that are formed on the basis of experience and are at the level of guarantee and goodwill claims expected on the account of sales concluded. The litigation risks take into consideration obligations from legal disputes. The remaining 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 2,743 (PY: TEUR 2,661) were dissolved. With the exception of the guarantee accruals, the company basically expects all accruals to become due or to be utilized within 12 months.

The Mühlbauer Group provides its employees with different retirement and pension schemes that are primarily based on the length of employment and salary of the employee. Pension obligations exclusively comprise performance-based pension schemes and only include entitlements for future pensions payable to active and previous Management Board members of Mühlbauer Aktiengesellschaft und Mühlbauer Beteiligungs Aktiengesellschaft. The pension obligations are secured by assigned reinsurance policies.

**PENSION AND (26)  
POSTRETIREMENT BENEFITS**

The following actuarial parameters have been taken into consideration:

in TEUR	31 December 2012	31 December 2011
Discounting rate	4.10%	4.50%
Future pay increase	3.50%	3.50%
Future pension increase	2.00%	2.00%
Fluctuation	0.00%	0.00%
Expected rate of interest on plan assets for 2012/2011	3.50%	3.50%

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

in TEUR	31 December 2012	31 December 2011
Cash value of the backed pension obligations	7,983	7,016
Fair value of the plan assets	(8,345)	(7,546)
<b>Financial status</b>	<b>(362)</b>	<b>(530)</b>
Unrealized actuarial profits/(losses)	(1,596)	(1,094)
<b>Other long-term assets</b>	<b>(1,958)</b>	<b>(1,624)</b>

The development of the cash value of the backed pension obligations at TEUR 7,983 (PY: TEUR 7,016), the fair value of the plan assets at TEUR 8,345 (PY: TEUR 7,546) and the actuarial profits/(losses) from experience-based adjustments is represented as follows:

in TEUR	2012	2011
Cash value of the backed pension obligations at the beginning of the year	7,016	5,968
Current service cost	122	179
Interest expenses on obligations	316	283
Actuarial losses	528	586
<b>Cash value of the backed pension obligations at the end of the year</b>	<b>7,983</b>	<b>7,016</b>

in TEUR	2012	2011
Fair value of the plan assets at the beginning of the year	7,546	6,766
Expected earnings on plan assets	273	239
Actual profits/(losses)	(1)	(1)
Payments made by the company	527	542
<b>Fair value of the plan assets at the end of the year</b>	<b>8,345</b>	<b>7,546</b>

in TEUR	2012	2011
Experience-based profits/(losses) from the plan assets		
(a) Value	2	1
(b) In % of the plan assets	0.0%	0.0%
Experience-based profits/(losses) from the scope of obligations		
(a) Value	115	(217)
(b) In % of the backed pension commitments	1.0%	3.0%

The valuation of pension obligations is based on a discount interest rate that was determined in accordance with the Mercer Pension Discount Yield Curve Approach (MPDYC), which was updated in 2012 based on the current market development. As the actuarial interest rate could no longer be established on the basis of the method used so far, the impact of this change of method cannot be quantified by the end of the financial year. However, as per 31<sup>st</sup> December 2011, the difference in interest rate of the two methods was 0.3 percentage points. Had an actuarial interest rate been utilized that was also 0.3 percentage point lower as per 31<sup>st</sup> December 2012, the pension and postretirement benefits would have been EUR 0.5 million higher.

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

The actual income from plan assets amounted to TEUR 271 (PY: TEUR 238) in the year under review.

The company is expected to make a payment of TEUR 527 towards plan assets in the following year.

During the reporting period, the value of the balance sheet item "Plan assets" recorded in the balance sheet developed as follows. The composition of the amounts recorded in the statement of income with an effect on income can also be found in the following table:

in TEUR	2012	2011
<b>Plan assets as per 1 January</b>	<b>(1,624)</b>	<b>(1,305)</b>
Amounts recorded as income		
Current service cost	122	179
Interest expenses on obligations	316	283
Expected earnings on plan assets	(273)	(239)
Adjustment of actuarial losses not recognized	28	
	193	223
Contributions to plan assets	(527)	(542)
<b>Plan assets as per 31 December</b>	<b>(1,958)</b>	<b>(1,624)</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 403 (PY: TEUR 386) in the reporting period. Furthermore, the company paid employer contributions to the statutory pension insurance fund of TEUR 6,122 (PY: TEUR 5,891).

The above expenses in respect of performance and contribution-based pension schemes are included in the operating income (with the exception of interest expenses and income from plan assets). In accordance with the corridor method, TEUR 28 of the actuarial losses previously not recognized were recorded as expense in the year under review.

Historical information:

in TEUR	2012	2011	2010	2009	2008
Cash value of the backed pension obligations at the end of the year	7,983	7,016	5,968	5,447	4,685
Fair value of the plan assets at the end of the year	(8,345)	(7,546)	(6,766)	(6,306)	(5,793)
Surplus cover of assets from the plan	(362)	(530)	(798)	(859)	(1,108)
Experience-based adjustments of plan assets	2	1	(16)	(21)	(14)
Experience-based adjustments of the scope of obligations	115	(217)	172	169	257



**(27) SHAREHOLDERS' EQUITY**

The development of the individual components of group equity during the 2012 financial year is represented in the consolidated statements of changes in shareholders' equity.

**Subscribed capital**

The equity capital of Mühlbauer Holding AG & Co. KGaA on the balance sheet date was EUR 8,037,376 (unchanged from the previous year) and is divided in 6,279,199 individual shares and an arithmetical nominal value for each registered no-par value share of EUR 1.28. The shares owned by the company were deducted from the equity capital at their accounting par value. The complementary capital share of the personally liable shareholder, Mühlbauer Holding AG & Co. Verwaltungs KG, which is not allocated to the share capital, amounts to EUR 10,773,600.00.

Mühlbauer Holding AG & Co. KGaA is not entitled to any rights from its own shares. In cases falling under Art. 136 German Stock Corporation Act [Aktiengesetz (AktG)], the voting right arising from the shares in question is excluded by law.

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

The registered no-par value share held by Ms. Anna Antonie Mühlbauer, Metten, grants her the right to appoint one third of all Supervisory Board members to the Supervisory Board. The right to appoint shall not apply insofar as and to the extent that the holder 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 registered no-par value share holds it neither as a trustee nor as a recipient of orders issued by the personally liable shareholder or another closely related 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 due discretion, in accordance with the Articles of Association

There are no controls of voting rights in respect of employees who hold shares.

According to law, Mühlbauer Holding AG & Co. KGaA is represented solely by the personally liable shareholder. Due to the nature of a KGaA (Kommanditgesellschaft auf Aktien = partnership limited by shares), the personally liable shareholder is not subject to the personnel competence of the Supervisory Board and can therefore not be dismissed.

Sections 179 and 285 of the German Stock Corporation Act (AktG = Aktiengesetz) in combination with sections 18, 15 and 4 subsection 5 of the Articles of Association of Mühlbauer Holding AG & Co. KGaA apply with regard to amendments of the Articles of Association. According to them, amendments of the Articles of Association are on principle resolved by a simple majority of the Annual General Meeting unless the law stipulates a larger majority, or the share capital represented if the law stipulates a majority of the ordinary share capital represented. According to section 15 of the Articles of Association of Mühlbauer Holding AG & Co. KGaA, the Supervisory Board has the authority to adopt amendments of the Articles of Association that pertain only to the wording. Numerous resolutions of the Annual General Meeting additionally require the approval of the personally liable shareholder, these include amendments to the Articles of Association.

The personally liable shareholder is authorized – with the consent of the Supervisory Board – to increase the share capital until 13<sup>th</sup> June 2017, by issuing new no-par bearer shares against cash and/or non-cash contributions once or several times, but in total by a maximum of EUR 4,018,688.00 (authorized capital 2012/I). The shareholders must be granted a subscription right as a matter of principle. However, with the consent of the supervisory board, the personally liable shareholder can

- a) exclude fractions from the subscription right;
- b) preclude the subscription rights of shareholders to issue 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 right of shareholders to issue the shares against non-cash contributions for the acquisition of companies or company participations.

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 implemented insofar as the Annual General Meeting resolves the conversion of the capital share to share capital with the approval of the personally liable shareholder.

### Own shares

As per the resolution of the Annual General Meeting of 29<sup>th</sup> April 2010, the personally liable shareholder is authorized – until 28<sup>th</sup> April 2015 – 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 its stock of 140,344 own shares (accounting par value EUR 179,640.32), the company issued 1,348 shares (PY: 1,042 shares) free of charge as so-called anniversary shares. The expenditure of TEUR 29 (PY: TEUR 41) was recorded as personnel expenditure.

As per 31<sup>st</sup> December 2012, the company held 138,996 own shares with an accounting par value of EUR 177,914.88. The percentage of own shares in the ordinary share capital was 2.21% (PY: 2.24%) as per 31<sup>st</sup> December 2012. 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<sup>th</sup> May 1998, at their fair value. The contribution of the shares represents a so-called "Common Control Transaction" (transaction between businesses under uniform management) and was recorded under the book value of the shares. This amounted to TEUR 51 at the time of the contribution.

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

### Additional paid-in capital

in TEUR	31 December 2012	31 December 2011
Premium from capital increases	59,557	59,557
Withdrawal from paid-in capital		
Balance from the premium applicable to the purchase/disposal of own shares (pro rata)	(436)	(463)
Share-based adjustment item (reserve in respect of expenditure resulting from conversion schemes or stock option programs)	2,049	2,049
Withdrawal from additional paid-in capital to adjust the ordinary share capital to the euro	(7)	(7)
	<b>61,163</b>	<b>61,136</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	Fair value of securities	Difference due to currency translation	Total
<b>Status as per 1 January 2011</b>	<b>54</b>	<b>2,528</b>	<b>2,582</b>
Unrealized gains/(losses)	13	-	13
Reclassification with an effect on the income statement	(67)	-	(67)
Currency adjustments	-	292	292
<b>Deferred taxes</b>			
Tax effect from unrealized gains/(losses)	(3)	-	(3)
Reclassification with an effect on the income statement	3	-	3
<b>Status as per 31 December 2011</b>	<b>-</b>	<b>2,820</b>	<b>2,820</b>
<b>Status as per 1 January 2012</b>	<b>-</b>	<b>2,820</b>	<b>2,820</b>
Currency adjustments	-	(67)	(67)
<b>Status as per 31 December 2012</b>	<b>-</b>	<b>2,753</b>	<b>2,753</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 1.00 per no-par value share with dividend entitlement executed in the year under review to the shareholders of Mühlbauer Holding AG & Co. KGaA, amounting to a total of TEUR 6,140, the appropriation of earnings also includes the earnings transfer from Mühlbauer Holding AG & Co. KGaA to Mühlbauer Holding AG & Co. Verwaltungs KG due in parallel as a result of the statutes. In correspondence with the capital situation, Mühlbauer Holding AG & Co. Verwaltungs KG participated in the earnings of Mühlbauer Holding AG & Co. KGaA to an amount of TEUR 8,532 (57.27%). Taxes of TEUR 1,948, paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG are deducted from this amount. The earnings from ordinary business activities on which the statutory earnings transfer is based, minus trade income tax of Mühlbauer Holding AG & Co. KGaA amounted to TEUR 14,896 in the previous year.



### Shares of non-controlling shareholders

The following table shows the development of the share in shareholders' equity held by other shareholders in the year under review:

in TEUR	2012	2011
<b>Status as per 1 January</b>	<b>(26)</b>	<b>13</b>
Changes in shareholders' equity with no effect on the income statement (currency translation)	8	0
Changes in shareholders' equity with an effect on the income statement	161	(39)
<b>Status as per 31 December</b>	<b>143</b>	<b>(26)</b>

### Capital management

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

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

	31 December 2012 TEUR	31 December 2011 TEUR	Change
Short-term liabilities	74,989	74,022	
Long-term liabilities	1,720	1,006	
<b>Liabilities</b>	<b>76,709</b>	<b>75,028</b>	<b>1.9%</b>
in % of total capital	32.6%	31.9%	
<b>Shareholder's equity*</b>	<b>158,259</b>	<b>160,339</b>	<b>(1.2%)</b>
in % of total capital	67.4%	68.1%	
<b>Total capital</b>	<b>234,968</b>	<b>235,367</b>	<b>(0.2%)</b>

\* including the shares held by other shareholders

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

	31 December 2012 TEUR	31 December 2011 TEUR
<b>Contractual obligations:</b>		
Obligations from other purchase and service agreements	12,902	10,951
Obligations from tenancy and insurance agreements	1,537	1,010
Obligations from the purchase of fixed assets	52	5,454
Obligations from the purchase of intangible assets	4	28
<b>Total contractual obligations</b>	<b>14,495</b>	<b>17,443</b>

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

	2012 TEUR	2011 TEUR
2012	-	17,396
2013	14,012	33
2014	401	6
2015	48	4
2016	24	1
2017	8	1
Thereafter	2	2
<b>Total</b>	<b>14,495</b>	<b>17,443</b>

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

	31 December 2012 TEUR	31 December 2011 TEUR
<b>Contingent liabilities:</b>		
Contingent liabilities from legal disputes	77,428	14,581
Conditional benefits from public authorities	7,220	5,736
Contracts	5,256	3,378
Conditional liabilities toward public authorities	369	-
<b>Total contingent liabilities</b>	<b>90,273</b>	<b>23,695</b>

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

	2012 TEUR	2011 TEUR
2012	-	17,828
2013	81,456	1,665
2014	2,171	79
2015	1,893	1,895
2016	1,861	1,511
2017	237	209
Thereafter	2,655	508
<b>Total</b>	<b>90,273</b>	<b>23,695</b>

In May 2010, legal proceedings were instituted before the High Court of Uganda in Kampala, against a non-existent Muehlbauer High Tech International (hereinafter referred to as "MHTI") and against Muehlbauer Uganda Limited, which had been founded by Muehlbauer Holding AG & Co. KGaA on 1<sup>st</sup> April 2010. The action is to assert the payment of a commission of 10% in respect of the order placed with Muehlbauer ID Services GmbH by the government of the Republic of Uganda for the delivery of a National Security Information System (NSIS) worth EUR 64.2 million, as well as damages for breach of contract, interest and legal fees. Furthermore, the plaintiff alleges that it provided services to MHTI and demands remuneration for those services in the amount of roughly EUR 6.4 million. Muehlbauer has moved to have the law suit dismissed. In the meantime, the defendant MHTI has been replaced by Muehlbauer AG. In the two oral hearings that have taken place to date, the court ordered the plaintiff to produce solid evidence for its demand. However, up to now the plaintiff has not done that and applied to the court for the NSIS contract to be disclosed by the defendants; the latter lodged an objection to that. The law suit is still pending. Muehlbauer still believes that the plaintiff cannot produce solid evidence and that the lawsuit is unfounded.

Legal action was instituted against Muehlbauer Aktiengesellschaft before the Regensburg District Court between December 2010 and January 2011. The claim asserts damages and compensation in respect of quality defects in the execution of orders pertaining to the surface treatment of certain mechanical parts, stated by the plaintiff, of a hitherto unspecified level. The law suit is still pending. The company believes that the claim for damage compensation is unfounded and has moved for the law suit to be dismissed.

With regard to the law suit filed against Muehlbauer Aktiengesellschaft, Muehlbauer ID Services GmbH and Muehlbauer Inc. before the United States District Court for the Southern District of Florida in Miami in November 2011, extrajudicial settlement negotiations were conducted, which were successfully concluded at the end of October 2012. All parties involved have since agreed to a comprehensive written settlement according to which the proceedings before the United States District Court for the Southern District of Florida and before the Nuremberg-Fürth regional court, before which the company filed a cross action in February 2012 in respect of the same issue, have been resolved.

In September 2012, the company was served a summons in respect of legal proceedings before the Jakarta Selatan regional court in Indonesia. The summons was served on the basis of the legal action instituted by a former Indonesian business associate of the company who confronted it with supposed claims for defects and the alleged breach of confidentiality obligations. The former business associate is asserting damages of EUR 21 million and IDR 575 billion (Indonesian rupiah) with the legal action and is thus claiming a total of currently EUR 66.3 million. From the viewpoint of the company, the charges are unfounded. In the legal proceedings before the Jakarta Selatan regional court the company has therefore applied for dismissal of the action.

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 1,402 (PY: TEUR 2,058) of the benefits can be demanded to be returned by the reporting date of 31<sup>st</sup> December 2012. 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<sup>st</sup> December 2012 is TEUR 5,818 (PY: TEUR 3,678).

There are no other financial obligations that are of material importance with regard to the company's financial situation.



#### D. SEGMENT REPORTING

The Mühlbauer Group is structured into three business areas (*Cards & TECURITY®*, *Semiconductor Related Products* and *Precision Parts & Systems*), identified on the basis of their products and services, their marketing methods and their production processes. Due to the high level of integration of the individual business areas, which utilizes synergy effects across all business areas, the management and reporting is extended across the entire Mühlbauer Group. The control mechanism available to the personally liable shareholder is an internal reporting system, which represents Group-external order income, sales and order backlog by business area. Sales thus represent the reportable results in accordance with IFRS 8. A breakdown by business area of the reportable net results corresponding to these sales is not effected.

The products and services of the Group's three business areas are shown in the following overview:

<b>Business area</b>	<b>Products and services</b>
Cards & TECURITY®	Supply of machines and systems for the production of industry-based card applications, such as bank, credit or SIM cards, as well as the development, implementation and turn-key realization of ID projects for the production of innovative security documents, starting with systems for the capture and verification of personal data, through to production systems for the manufacture and personalization of ID cards, healthcare cards, driver's licenses or electronic passports and fully automatic, biometric access and border crossing control systems, as well as the provision of services for such projects.
Semiconductor Related Products	Supply of automation systems for the manufacture and personalization of RFID inlays as well as their subsequent further processing (converting) into a smart label, machines for specific niche applications in the semiconductor backend area as well as die sorting systems, systems for flip chip bonding, machines for flexible thin-film solar technology, carrier tape systems and systems for the application of paper and laser based markings for the purpose of retraceability and increase in production reliability, of scanning stations, data administrative systems as well as complete board handling and automation solutions as well as provision of services relating to such machines and systems.
Precision Parts & Systems	Production of precision parts by means of machining and by processing metals and plastics; the development and manufacture of products, modules and systems that are based on such precision parts, as well as the sale of these products.

The information required in accordance with IFRS 8 was presented as follows as per 31<sup>st</sup> December 2012 and 31<sup>st</sup> December 2011:

<b>Sales by application area</b>	<b>2012 TEUR</b>	<b>2011 TEUR</b>
Cards & TECURITY®	137,488	124,265
Semiconductor Related Products	73,171	62,811
Precision Parts & Systems	26,891	27,330
	<b>237,550</b>	<b>214,406</b>
Deductions in earnings	(382)	(1,181)
	<b>237,168</b>	<b>213,225</b>

<b>Sales by region</b>	<b>2012 TEUR</b>	<b>2011 TEUR</b>
Asia	91,749	85,199
Germany	40,545	47,540
America	42,255	25,981
Europe (excluding Germany)	35,370	40,271
Africa	27,631	15,415
	<b>237,550</b>	<b>214,406</b>
Deductions in earnings	(382)	(1,181)
	<b>237,168</b>	<b>213,225</b>

<b>Additional information about geographical areas</b>	<b>Europe (excl. Germany)</b>		<b>Asia 2012 TEUR</b>	<b>The Americas 2012 TEUR</b>	<b>Africa 2012 TEUR</b>	<b>Con- solidated 2012 TEUR</b>
	<b>Germany 2012 TEUR</b>	<b>Germany 2012 TEUR</b>				
Long-term assets (excl. financial instruments)	67,476	14,154	5,843	5,363	73	<b>92,909</b>
Investments in fixed assets	13,970	5,138	73	61	30	<b>19,272</b>
Investments in intangible assets	1,742	39	324	1,190	-	<b>3,295</b>
Deferred tax assets	363	17	158	828	160	<b>1,526</b>
Pension obligations	(1,958)	-	-	-	-	<b>(1,958)</b>

<b>Additional information about geographical areas</b>	<b>Europe (excl. Germany)</b>		<b>Asia 2011 TEUR</b>	<b>The Americas 2011 TEUR</b>	<b>Africa 2011 TEUR</b>	<b>Con- solidated 2011 TEUR</b>
	<b>Germany 2011 TEUR</b>	<b>Germany 2011 TEUR</b>				
Long-term assets (excl. financial instruments)	68,442	10,341	6,039	6,624	89	<b>91,535</b>
Investments in fixed assets	20,459	324	274	226	56	<b>21,339</b>
Investments in intangible assets	2,528	7	112	1,992	-	<b>4,639</b>
Deferred tax assets	482	37	65	137	218	<b>939</b>
Pension obligations	(1,624)	-	-	-	-	<b>(1,624)</b>

\* The investments were reduced by the subsidies received for additions to assets of the previous year.

The statement of regional breakdown is determined on the basis of the country of delivery. In the reporting year there were no sales proceeds from a single customer that were subject to the reporting obligation in accordance with IFRS 8.23.

The investments in fixed assets represent additions and transfers without assets in progress.

## E. NOTES TO THE STATEMENT OF CASH-FLOWS

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 according to operational business activity as well as according to investment and financing activity.

The liquid funds in the statement of cashflows comprise all cash and cash equivalents listed in the balance sheet.

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

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

Free cashflow is thus derived as follows:

	2012 TEUR	2011 TEUR
Inflow/(Outflow) from operating activities	41,109	36,981
Inflow/(Outflow) from investment activities	(26,209)	(28,276)
Subtotal	14,900	8,705
<b>Transition to free cashflow</b>		
Gains/(Losses) from the disposal of fixed assets and intangible assets	126	447
Realized net gains/(losses) from short- and long-term marketable securities	0	294
Proceeds from disposals of long-term assets	(174)	(642)
Proceeds from the sale of short-term assets (marketable securities)	0	(29,945)
Investments in short-term assets (marketable securities)	0	16,575
Withdrawals for lendings	3,010	0
<b>Free cashflow</b>	<b>17,862</b>	<b>(4,566)</b>

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

	2012 TEUR	2011 TEUR
Dividends paid to shareholders of the limited partnership	6,140	7,981
Statutory earnings transfer by the company to Mühlbauer Holding AG & Co. Verwaltungs KG in respect of the previous financial year	6,584	9,324
<b>Total dividend payments and earnings transfers</b>	<b>12,724</b>	<b>17,305</b>



**F. OTHER NOTES**

Other events of major significance did not occur after the 2012 reporting date.

**Valuation of financial instruments by classes**

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

in TEUR	Valuation category according to IAS 39	Valuation balance sheet in accordance with IAS 39					Fair Value 31 Dec. 2012
		Book value 31 Dec. 2012	Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect on income	
<b>Assets</b>							
Cash and cash equivalents	-	15,482	15,482	-	-	-	15,482
Trade accounts receivable*	LaR	58,227	58,227	-	-	-	58,227
Other financial receivables	LaR	2,990	2,990	-	-	-	2,990
Receivables from companies reported at equity	LaR	3,010	3,010	-	-	-	3,010
<b>Liabilities</b>							
Trade accounts payable	FLAC	14,180	14,180	-	-	-	14,180
Derivative financial liabilities	-	-	-	-	-	-	-
Other financial liabilities	FLAC	10,885	10,885	-	-	-	10,885
Aggregated according to valuation classes							
Loans and receivables (LaR)		64,227	64,227	-	-	-	64,227
Available-for-sale financial assets (AfS)		-	-	-	-	-	-
Financial assets held for trading (FAHfT)		-	-	-	-	-	-
Financial liabilities measured at amortized cost (FLAC)		25,065	25,065	-	-	-	25,065
Financial liabilities held for trading (FLHfT)		-	-	-	-	-	-

in TEUR	Valuation category according to IAS 39	Valuation balance sheet in accordance with IAS 39					Fair Value 31 Dec. 2011
		Book value 31 Dec. 2011	Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect on income	
<b>Assets</b>							
Cash and cash equivalents	-	15,183	15,183	-	-	-	15,183
Trade accounts receivable*	LaR	33,448	33,448	-	-	-	33,448
Other financial receivables	LaR	-	-	-	-	-	-
Receivables from companies reported at equity	LaR	-	-	-	-	-	-
<b>Liabilities</b>							
Trade accounts payable	FLAC	22,356	22,356	-	-	-	22,356
Derivative financial liabilities	-	175	-	-	-	175	175
Other financial liabilities	FLAC	10,608	10,608	-	-	-	10,608
Aggregated according to valuation classes							
Loans and receivables (LaR)		37,008	37,008	-	-	-	37,008
Available-for-sale financial assets (AfS)		-	-	-	-	-	-
Financial assets held for trading (FAHfT)		-	-	-	-	-	-
Financial liabilities measured at amortized cost (FLAC)		34,964	34,964	-	-	-	34,964
Financial liabilities held for trading (FLHfT)		175	-	-	-	175	175

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

Due to their short maturity, the book values of cash and cash equivalents, short-term trade accounts receivable, other financial receivables, receivables from companies reported at equity, trade accounts payable and other financial liabilities of the company correspond closely with their fair value on 31<sup>st</sup> December 2012. Long-term accounts receivable were valued at amortized cost, using the effective interest method.

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

**ADDITIONAL INFORMATION (30)  
REGARDING  
FINANCIAL INSTRUMENTS**

**Net result by valuation categories**

	From interest	From subsequent valuation			From disposal	Net result 2012
		At fair value	Foreign currency translation	Value adjustment		
<b>in TEUR – 2012</b>						
Loans and receivables (LaR)	114	-	838	299	-	1,251
Available-for-sale financial assets (AFS)	-	-	-	-	-	-
Financial assets/liabilities held for trading (FAHfT/FLHfT)	-	6	-	-	127	133
Financial liabilities measured at amortised cost (FLAC)	32	-	49	-	-	81
<b>Total</b>	<b>146</b>	<b>6</b>	<b>887</b>	<b>299</b>	<b>127</b>	<b>1,465</b>

	From interest	From revaluation			From disposal	Net result 2011
		At fair value	Foreign currency translation	Value adjustment		
<b>in TEUR – 2011</b>						
Loans and receivables (LaR)	(142)	-	(350)	(321)	-	(813)
Available-for-sale financial assets (AFS)	-	-	32	-	(233)	(201)
Financial assets/liabilities held for trading (FAHfT/FLHfT)	-	-	-	-	-	-
Financial liabilities measured at amortised cost (FLAC)	9	-	306	-	-	315
<b>Total</b>	<b>(133)</b>	<b>-</b>	<b>(12)</b>	<b>(321)</b>	<b>(233)</b>	<b>(699)</b>

The difference between expenses and income from value adjustments to the category loans and receivables for the amendment of value adjustments in respect of trade accounts receivable (note (16)) results from direct value adjustments to trade accounts receivable, which were not preceded by anticipated value adjustments.

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

Also carried in the category loans and receivables are commission expenses of TEUR 2,158 (PY: TEUR 3,059).

**(31) RISK MANAGEMENT AND FINANCIAL DERIVATIVES**
**Principles of risk management**

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

The objective of financial risk management is to delimit these market risks by means of ongoing operating and finance-oriented activities. Based on the risk assessment, selected derivatives or non-derivative financial instruments will be implemented. Derivative financial instruments are used as hedging instruments and are, as a matter of principle, not used for trading or speculative purposes.

The guidelines for financial policies are determined on an annual basis by management and are monitored by the Supervisory Board. Management is responsible for the implementation of financial policies as well as the ongoing risk management. Certain transactions require prior authorization from management, which is also continually informed by the risk committee regarding the extent of the current risk situation.

**Foreign currency risks**

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

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

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

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

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

The underlying assumptions regarding currency sensitivities are as follows:

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

Had the euro been 10% stronger compared with the US dollar as per 31<sup>st</sup> December 2012, the profit and thus shareholders' equity would have been TEUR 634 lower (31<sup>st</sup> December 2011: TEUR 540 lower) from the corporate group perspective. Had the euro been 10% stronger compared with all other currencies as per 31<sup>st</sup> December 2012, the profit would have been TEUR 79 higher (31<sup>st</sup> December 2011: TEUR 127 lower). Opposite currency trends have an analogous effect.

### Interest risks

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

Due to the change in interest rate, the market values of fixed-interest securities alter. By evaluating long-term receivables using the effective interest method, a change in market interest results in a change of the fair value of the financial instruments. Currently, significant external interest bearing financial obligations do not exist. Based on the current market evaluation, the risk of a change in interest rates is considered minimal.

If the market interest level had been 100 base points higher on 31<sup>st</sup> December 2012, the result for the year and shareholders' equity would have been TEUR 170 lower (31<sup>st</sup> December 2011: TEUR 14). Had the market interest level been 100 base points lower on 31<sup>st</sup> December 2012, the result for the year and shareholders' equity would have been TEUR 22 higher (31<sup>st</sup> December 2011: TEUR 5).

### Default risks

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

The maximum default risk is expressed by the book value of the financial assets carried on the balance sheet (incl. derivative financial instruments with a positive market value), minus the securities received (notes (16)). No significant agreements such as settlement agreements that diminished the maximum default risk existed at the financial reporting date.

### Liquidity risks

31 December 2012 in TEUR	due within 1 month	due after 1 month
Trade accounts payable	13,689	491
Other financial liabilities	10,039	1,111
<b>Total</b>	<b>23,728</b>	<b>1,602</b>

31 December 2011 in TEUR	due within 1 month	due after 1 month
Trade accounts payable	22,086	270
Other financial liabilities	9,946	774
<b>Total</b>	<b>32,032</b>	<b>1,044</b>

In order to ensure solvency and the financial flexibility of Mühlbauer at all times, a liquidity reserve in the form of credit lines and, if necessary, cash and cash equivalents is maintained. As of 31<sup>st</sup> December 2012, the company agreed on several, short-term and unsecured credit lines independent of one another with several financial institutions, amounting to a total of EUR 52 million. On the reporting date, EUR 41 million were still available.

### Hedging measures

Hedges in accordance with IAS 39 are created in the context of fair value hedges. On the reporting date, the company's portfolio contained forward exchange transactions with a book value of TEUR 3 (PY: TEUR -175) in the context of fair value hedges.

Gains and losses from hedging activities are as follows:

in TEUR		Gain or (loss) from hedging instruments		Gain or (loss) from hedged position	
Hedging instrument	Hedged position	2012	2011	2012	2011
Fair value hedges	Trade accounts receivable	(127)	(75)	80	99



The Declaration of Conformity in accordance with section 161 AktG (German Stock Corporation Act) was issued in November 2012 and can be permanently accessed by shareholders on the internet.

In the year under review, the subsidiary MB Shared Services GmbH, which is included in these consolidated financial statements, made use of the disclosure exemption pursuant to section 264 subsection 3 of the German Commercial Code (HGB).

The remuneration for the audits executed in the financial year amounts to TEUR 197. TEUR 3 of the other services provided by the auditor in the previous year were recorded as expense.

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

Moreover, the disclosure requirement in accordance with IAS 24 also extends to persons who can exercise a significant influence over the company, i.e. those individuals who participate in the financial and business policies of the company without, however, being able to exert a controlling influence over these policies, including closely related family members. With regard to the Supervisory Board, in the 2012 financial year this pertains to its members in the company itself as well as those of Mühlbauer Aktiengesellschaft. At the level of the Management Board it includes the members of the Management Boards of Mühlbauer Aktiengesellschaft and Mühlbauer Beteiligungs Aktiengesellschaft.

As per 31<sup>st</sup> December 2012, receivables of TEUR 1,846 (PY: TEUR 1,948) existed in respect of Mühlbauer Holding AG & Co. Verwaltungs KG, from taxes paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG. In addition, as per 31<sup>st</sup> December 2012, liabilities of TEUR 299 (PY: TEUR 238) existed toward Mühlbauer Beteiligungs Aktiengesellschaft. This balance is the result of the compensation of expenses – in accordance with the Articles of Association – incurred by the personally liable shareholder in connection with management.

In the 2012 and 2011 financial years, the Supervisory Board received the following remuneration:

in TEUR	2012	2011
Dr. Thomas Zwissler (Chairman) <sup>1) 3)</sup>	-	7
Dr. Jürgen Honert (Chairman) <sup>2)</sup>	10	6
Prof. Dr. Kurt Faltlhauser (Vice Chairman) <sup>3)</sup>	12	12
Steffen Harlfinger (Member) <sup>3)</sup>	7	7
	<b>29</b>	<b>32</b>

<sup>1)</sup> Until 5 May 2011 in Mühlbauer Aktiengesellschaft and Holding AG & Co. KGaA

<sup>2)</sup> From 6 May 2011 in Mühlbauer Holding AG & Co. KGaA

<sup>3)</sup> The amounts are based on the position held within the respective corporate body of Mühlbauer Holding AG & Co. KGaA and Mühlbauer Aktiengesellschaft

The Supervisory Board member Dr. Jürgen Honert is also a lawyer and partner of the law firm honert + partner. The law firm occasionally provides legal consultation to the Mühlbauer Group. The fees for such services amounted to TEUR 42 in the year under review.

**CORPORATE GOVERNANCE (32)**

**EXEMPTION IN ACCORDANCE (33)  
WITH SECTION 264  
SUBSECTION 3 GERMAN  
COMMERCIAL CODE**

**INFORMATION ON THE (34)  
REMUNERATION  
OF THE AUDITOR**

**RELATIONSHIPS WITH (35)  
ASSOCIATED COMPANIES  
AND PERSONS**

The following payments were made to the Management Board of Mühlbauer Aktiengesellschaft and Mühlbauer Beteiligungs Aktiengesellschaft:

<b>in TEUR</b>	<b>2012</b>	<b>2011</b>
Continuous remuneration	930	856
Provisions for retirement benefits	402	428
<b>Total remuneration</b>	<b>1,332</b>	<b>1,284</b>

Of the total remuneration, TEUR 667 (PY: TEUR 691) relate to the Management Board of Mühlbauer Beteiligungs Aktiengesellschaft. The obligations reported in respect of the entitlements of the active and previous management board members of Mühlbauer Aktiengesellschaft and Mühlbauer Beteiligungsgesellschaft are outlined in Notes (26).

In the year under review, TEUR 80 (PY: TEUR 68) were paid to close family members in respect of services these provided.

Mühlbauer Aktiengesellschaft, ASEM Präzisions-Automaten-GmbH und takeID GmbH rent office and residential premises from Mr. Josef Mühlbauer and from a company in which Mr. Mühlbauer holds a participation. Mr. Mühlbauer 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 terms of the tenancies are indefinite and can be terminated by either party under observance of a notice period of up to six months in accordance with German legislation. In the year under review, rental costs amounted to TEUR 428 (PY: TEUR 365).

Group companies utilize certain services in respect of the transport of passengers, sales promotion, the organization of travel, accommodation and catering, offered by companies that are controlled by Mr. Josef Mühlbauer. Group companies paid TEUR 1,042 (PY: TEUR 1,319) including the current amount of VAT for such services in the year under review. During the reporting period, Mühlbauer Aktiengesellschaft generated proceeds of TEUR 47 (PY: TEUR 24), including the current amount of VAT, in respect of services provided and products sold to Mr. Josef Mühlbauer or companies controlled by him.

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

### (36) NUMBER OF EMPLOYEES

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

	<b>2012 Number</b>	<b>2011 Number</b>
Production and assembly	1,562	1,421
Research and development	437	470
Administration and sales	262	263
	<b>2,261</b>	<b>2,154</b>
Apprentices, trainees and part-time employees	501	464
	<b>2,762</b>	<b>2,618</b>

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

	<b>2012 Number</b>	<b>2011 Number</b>
Germany	1,893	1,893
Europe (excluding Germany)	305	275
Asia	284	271
The Americas	246	157
Others	34	22
<b>Total</b>	<b>2,762</b>	<b>2,618</b>

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 2012 financial year the following persons were appointed to the Supervisory Board of Mühlbauer Holding AG & Co KGaA:

**Active members**

	Age	End of period of office	Memberships on other Supervisory Boards and in other comparable supervisory bodies
<b>Dr. Jürgen Honert</b> Chairman (from 5 May 2011)	51	2016	Lawyer and partner of Honert + Partner Partnerschaft, Munich  External offices: Supervisory Board member • Mühlbauer Beteiligungs AG, Roding (Chairman from 5 May 2011)
<b>Prof. Dr. Kurt Faltlhauser</b> Vice Chairman (from 29 April 2008)	72	2013	Of Counsel of PSP Peters, Schönberger & Partner Lawyers, Auditors, Tax Consultants  External offices: Supervisory Board member • Mühlbauer Beteiligungs AG, Roding • Fürst Fugger Privatbank KG, Augsburg • Prime Office REIT AG, Munich  Offices within the Group: Supervisory Board member • Mühlbauer Aktiengesellschaft, Roding
<b>Steffen Harlfinger</b> (from 29 April 2008)	42	2013	Director Vocational Training at Mühlbauer AG  Offices within the Group: Supervisory Board member • Mühlbauer Aktiengesellschaft, Roding

In accordance with section 58 subsection 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. According to the financial statements of Mühlbauer Holding AG & Co. KGaA, which are drawn up as stipulated by commercial law, a net income for the year of TEUR 9,333 is distributable. The statutory share in profits of TEUR 12,746, attributable to the personally liable shareholder in accordance with 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 personally liable shareholder and Supervisory Board intend to propose a dividend distribution from the net income for the year of EUR 1.00 (PY: EUR 1.00) per no-par value share with dividend entitlement and to carry forward the remaining net income for the year.

These consolidated financial statements were released for publication on 14 March 2013 by the personally liable shareholder.

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

The personally liable shareholder

Josef Mühlbauer

# Assurance of the Legal Representative

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

Roding, 14 March 2013

The Personally Liable Shareholder

Josef Mühlbauer



# Auditor's Report

We have audited the consolidated financial statements prepared by the Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien, Roding, comprising the consolidated statement of income, the consolidated statement of financial position, the consolidated statement of changes in shareholder's equity, the consolidated statement of cash-flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1<sup>st</sup> 2012 to December 31<sup>st</sup> 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] (and supplementary provisions of the shareholder agreement/articles of incorporation) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, March 18, 2013

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Waubke  
Auditor

Mühlhuber  
Auditor

# Supervisory Board Report

Dear Shareholders and Friends,

The Mühlbauer Group can look back at an intense and demanding year marked by the critical scrutiny of its processes and the systematic, future-oriented alignment of workflows and procedures. In parallel with this, revenues before factors reducing total revenue (EUR 0.4 million) in conjunction with incoming order volume of EUR 246.7 million, which was also lower year on year by EUR 14.1 million due to project-related factors, increased significantly to EUR 237.6 million. At EUR 137.5 million, revenue from the *Cards & TECURITY®* business segment was EUR 13.2 million higher than in the previous year. Our *Semiconductor Related Products* segment saw revenue increase year on year by EUR 10.4 million to EUR 73.2 million, while our *Precision Parts & Systems* segment experienced a decrease of EUR 0.4 million in comparison to the previous year, to EUR 26.9 million. Despite the increase in revenue of EUR 13.5 million achieved during the fiscal year, gross profit declined to EUR 68.9 million (previous year EUR 82.4 million). The main factors behind this decline were inventory write-downs, resulting primarily from the tightening of competition taking place due to the actions of suppliers in Asia with very aggressive pricing strategies, and higher depreciation of increased investments. Against this backdrop, the results of operations of EUR 15.6 million achieved in 2012 were considerably lower than in the previous year (EUR 28.1 million). Meanwhile, free cash flow of EUR 17.9 million was higher by EUR 22.5 million than the previous year's figure of EUR -4.6 million.

## Support for the General Partner and the Company

During 2012, the Supervisory Board discharged the review and oversight duties incumbent upon it with due care and diligence. We advised the general partner with respect to the management of the company, providing support and oversight for the business development of the group of companies. The Supervisory Board was involved in key issues affecting the company. In addition to personal contact with individual members of the Supervisory Board, the general partner submitted written reports to regularly inform the entire board of developments in revenue, income, and liquidity as well as regarding the realization of the plans of the Group and of the individual companies. At Supervisory Board meetings throughout the year, we discussed the activity in the respective quarter, the short- and medium-term business outlook, and conferred regarding the long-term growth and earnings strategy.

The general partner informed the Supervisory Board regarding all of the risks relevant to the company as well as risk management. The introduction of SAP in the Group as well as the company's continuing progress with respect to compliance was also discussed and deliberated repeatedly. The Supervisory Board provided support for the general partner's work based on the reports submitted by the general partner. No committees were formed. The entire Supervisory Board and general partner attended every Supervisory Board meeting, with the exception of one board member for one meeting. The Supervisory Board member who did not attend was conferenced in to the meeting via telephone. Supervisory Board member Dr. Jürgen Honert is

also an attorney and partner at the Law Firm of honert + partner. The firm occasionally acts in an advisory capacity for the Mühlbauer Group. The services of the firm are engaged only on the basis of a resolution adopted in advance by the Supervisory Board, at which times Dr. Jürgen Honert abstains from voting.

#### **Meetings of the Supervisory Board and Membership**

During four regular meetings – April 25 (review of 2011 financial statements), July 17, September 25, and December 11, 2012 – the Supervisory Board acquainted itself thoroughly with the company's situation and development, its strategic corporate planning, and significant business events. At the meeting to review the financial statements during which the appointed auditor participated, the board discussed the Mühlbauer Holding AG & Co. KGaA separate and consolidated financial statements for FY 2011 with the general partner and auditor, and approved the appropriation of profits proposed by the general partner.

During the reporting year, the key areas encompassed by the board's oversight and advisory activities also included:

- The assumption of large-volume project contracts by Mühlbauer AG and Mühlbauer ID Services GmbH;
- The revision of the Group's compliance system;
- The introduction of SAP;
- Recruitment for managerial positions;
- Amendments to the German Corporate Governance Code and Declaration of Compliance;
- The monitoring and risk management system;
- Audit of the efficiency of the Supervisory Board's work;
- The stock market segment change from "Prime Standard" to "Entry Standard";
- The MB Shared Services merger.

There were no changes in the membership of the Supervisory Board during fiscal year 2012.

#### **Financial Accounting**

KPMG AG Wirtschaftsprüfungsgesellschaft of Munich was selected as the auditor at the Annual Shareholders' Meeting and engaged by the Supervisory Board. The auditor reviewed the Mühlbauer Holding AG & Co. KGaA annual financial statements and the consolidated financial statements as of December 31, 2012 as well as Management's Discussion & Analysis in conjunction with the company's books and issued unqualified opinions for all of these. Additionally, the auditor reviewed the company's system for the early detection of risks as per Sec. 317 (4) of the German Commercial Code (HGB), and determined in its conclusion that the obligations of management as set out by law had been complied with.

The Supervisory Board meeting to review the financial statements was held on March 18, 2013. At this meeting, the annual financial statements, the consolidated financial statements, as well as Management's Discussion & Analysis for both the company and the Group were specifically discussed. The relevant documents had been issued to the Supervisory Board members prior to the meeting. The auditor was present during the deliberation regarding the annual financial statements, the consolidated financial statements, and Management's Discussion & Analysis for both the company and the Group, gave a thorough report of the audit process and key findings, and was available to provide supplemental information.

After its own review of the annual financial statements, the consolidated financial statements, and Management's Discussion & Analysis for both the company and the Group, the Supervisory Board approved the auditor's findings. The Supervisory Board did not raise any objections, and explicitly endorsed the 2012 annual financial statements and consolidated financial statements at the meeting held on March 18, 2013 to review the financial statements. For this reason, the Supervisory Board recommends the approval of the Mühlbauer Holding AG & Co. KGaA annual financial statements as of December 31, 2012 at the Annual Shareholders' Meeting in the version submitted.

The Supervisory Board agrees with the general partner's proposal to use the net profit of EUR 9,333,197.94 for the payment of a dividend in the amount of EUR 1.00 per share, which comes to a total of EUR 6,141,449.00. The remaining net profit of EUR 3,191,748.94 is to be carried forward.

#### **General Partner's Report on Relationships with Affiliated Companies**

The auditor also reviewed the report prepared by the general partner pursuant to Sec. 312 of the German Stock Corporation Act (AktG) regarding relationships with affiliated companies in fiscal year 2012 and reported the findings of the review. The following auditor's opinion was issued in this regard:

*"Having duly conducted our audit and assessment, we hereby confirm that*

- 1. the factual statements made in the report are correct,*
- 2. the consideration rendered by the company for the legal transactions stated in the report was not unreasonably high."*

The Supervisory Board reviewed the report on relationships with affiliated companies in fiscal year 2012 and discussed this at its meeting held on March 18, 2013. The board did not raise any objections to the declaration by the general partner or to the auditor's findings.

The Supervisory Board would like to thank the general partner, members of management, and all employees of the Mühlbauer Group for their dedicated service throughout fiscal year 2012.

Munich, March 18, 2013

On behalf of the Supervisory Board

Dr. Jürgen Honert  
Chairman



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## SEVERAL YEARS OVERVIEW

Several years overview <sup>1</sup>		2012	2011	2010	2009	2008	2007	2006	2005	2004	2004	2003	2002
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP
<b>Consolidated Balance Sheets</b>													
<b>Short-term assets</b>	TEUR	125,797	140,537	131,134	112,050	128,246	112,939	109,001	105,128	91,735	90,001	72,217	79,031
Cash and cash equivalents	TEUR	15,482	15,183	25,209	18,798	17,122	16,425	11,311	13,507	20,365	20,365	12,597	13,110
Marketable securities	TEUR	0	0	13,190	6,983	17,981	21,062	21,819	32,687	13,561	13,255	3,498	2,261
Trade accounts receivables, net	TEUR	48,459	32,715	29,589	38,051	34,033	29,536	30,106	21,985	22,462	21,703	20,348	19,161
Other short-term assets	TEUR	12,963	15,305	8,345	2,810	5,830	4,770	4,598	2,441	2,461	2,301	1,521	1,095
Tax receivables	TEUR	4,512	2,388	1,976	1,473	2,882	1,233	1,360	976	670	161	26	59
Inventories	TEUR	44,381	74,946	52,825	43,935	50,398	39,913	39,807	33,532	32,216	32,216	34,227	43,345
<b>Long-term assets</b>													
<b>Financial assets</b>	TEUR	12,778	733	1,904	1,534	741	8,248	12,859	11,088	10,141	10,440	9,241	7,383
Marketable securities	TEUR	0	0	0	0	0	4,562	11,524	10,809	10,134	10,440	9,241	7,383
Trade accounts receivables, net	TEUR	9,768	733	1,904	1,534	741	1,536	1,335	279	7	0	0	0
Receivable due from companies using the equity method	TEUR	3,010	0	0	0	0	0	0	0	0	0	0	0
Other financial assets	TEUR	0	0	0	0	0	2,150	0	0	0	0	0	0
<b>Fixed assets</b>	TEUR	85,327	82,759	68,116	51,568	47,048	39,987	40,123	39,018	39,472	46,765	41,333	41,189
Land and Buildings, net	TEUR	53,103	47,463	46,125	36,456	27,819	26,276	25,683	27,343	28,916	34,202	29,995	31,625
Technical equipment, net	TEUR	24,834	23,875	14,463	9,225	8,895	8,217	8,895	5,965	5,010	6,174	6,016	*
Furniture and office equipment, net	TEUR	7,315	8,069	6,588	4,751	5,251	5,315	5,168	5,510	5,481	6,320	5,282	9,539
Assets in progress	TEUR	75	3,352	940	1,136	5,083	179	377	200	65	69	40	25
<b>Intangible assets</b>	TEUR	6,109	7,026	7,400	6,753	7,004	9,604	10,010	8,412	6,870	482	877	1,025
Goodwill	TEUR	0	0	0	0	0	0	0	0	0	0	468	468
Software and licenses	TEUR	2,467	2,914	2,087	1,203	591	1,001	1,039	638	411	482	409	557
Capitalized development costs	TEUR	3,642	4,112	5,313	5,550	6,413	8,603	8,971	7,774	6,459	0	0	0
<b>Other long-term assets</b>	TEUR	4,957	4,312	4,743	4,147	4,006	3,853	3,236	609	262	1,308	1,888	804
Long-term tax assets	TEUR	1,473	1,749	1,952	2,144	2,334	2,389	2,268	0	0	0	0	0
Deferred tax assets	TEUR	1,526	939	1,486	1,037	759	162	42	99	234	0	201	804
Other long-term assets	TEUR	1,958	1,624	1,305	966	913	1,302	926	510	28	1,308	1,687	0
<b>Short-term liabilities</b>	TEUR	74,989	74,022	54,670	36,699	39,417	29,396	30,411	35,000	32,535	31,664	17,724	20,254
debt	TEUR	0	0	0	0	22	21	0	960	1,023	1,023	1,025	1,050
Trade accounts payable	TEUR	14,180	22,356	10,962	7,128	10,578	6,068	7,655	6,150	8,383	7,028	4,751	7,038
Advance payments	TEUR	31,228	22,877	16,849	10,881	7,439	6,769	5,646	10,330	4,704	4,704	329	1,604
Other short-term liabilities	TEUR	11,150	10,720	10,690	7,866	10,689	5,226	4,723	6,385	5,496	5,496	4,959	5,312
Accrued income taxes	TEUR	1,961	2,261	4,146	1,581	1,900	1,962	2,540	2,919	7,230	6,424	2,135	760
Other accruals	TEUR	16,470	15,808	12,023	9,243	8,789	9,350	9,847	8,256	5,699	6,989	4,525	4,490
<b>Long-term liabilities</b>	TEUR	1,720	1,006	1,825	2,221	2,658	3,492	4,519	4,109	5,112	10,052	9,898	10,925
Convertible bonds	TEUR	0	0	0	0	0	0	0	0	0	0	0	37
debt	TEUR	0	0	0	0	0	0	0	925	925	1,913	3,001	
Investment grants received	TEUR	**	**	**	**	**	**	**	**	**	7,369	5,993	5,832
Deferred tax liabilities	TEUR	1,720	1,006	1,825	2,221	2,658	3,492	4,519	4,109	4,187	1,758	1,274	1,681
Postretirement and postemployment benefit liabilities	TEUR	0	0	0	0	0	0	0	0	0	0	718	374
<b>Shareholders' Equity</b>	TEUR	158,259	160,339	156,802	137,132	144,970	141,743	140,299	125,146	110,833	107,280	97,934	98,253
Ordinary share capital	TEUR	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038
Own shares	TEUR	(179)	(180)	(189)	(191)	(202)	(214)	(240)	(259)	(285)	(285)	(261)	(219)
Fixed capital contributions	TEUR	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)
Additional paid-in capital	TEUR	61,163	61,136	60,840	60,817	60,677	60,483	59,872	59,319	58,739	57,995	57,901	58,351
Other comprehensive income	TEUR	2,753	2,820	2,582	(664)	(449)	326	1,259	2,219	1,429	1,403	1,032	156
Retained earnings	TEUR	89,321	91,531	88,498	72,112	79,886	76,090	74,350	58,809	45,892	43,109	34,204	34,907
Shares of other shareholders	TEUR	143	(26)	13	0	0	0	0	0	0	0	0	0
<b>Total assets and liabilities</b>	TEUR	234,968	235,367	213,297	176,052	187,045	174,631	175,229	164,255	148,480	148,996	125,556	129,432
<b>Change yoy</b>													
Short-term assets	%	(10.5)	7.2	17.0	(12.6)	13.6	3.6	3.7	14.6		24.3	(9.3)	(4.5)
Investment and long-term financial assets	%	1643.2	(61.5)	24.1	107.0	(91.0)	(35.9)	16.0	9.3		13.0	25.2	(4.7)
Fixed assets	%	3.1	21.5	32.1	9.6	17.7	(0.3)	2.8	(1.2)		13.1	0.3	(8.8)
Intangible assets	%	(13.1)	(5.1)	9.6	(3.6)	(27.1)	(4.1)	19.0	22.4		(45.0)	(14.4)	(26.7)
Other fixed assets	%	15.0	(9.1)	14.4	3.5	4.0	19.1	431.4	132.4		(30.7)	134.8	75.2
Short-term liabilities	%	1.3	35.4	49.0	(6.9)	34.1	(3.3)	(13.1)	7.6		79.6	(12.5)	(12.5)
Long-term liabilities	%	71.0	(44.9)	(17.8)	(16.4)	(23.9)	(22.7)	10.0	(19.6)		(0.1)	(9.4)	(15.8)
Shareholders' Equity	%	(1.3)	2.3	14.3	(5.4)	2.3	1.0	12.1	12.9		9.5	(0.3)	(3.5)
<b>Key figures</b>													
Gross capital expenditures without capitalized development costs	TEUR	23,312	29,146	27,006	16,643	8,999	6,908	9,176	6,272	11,706	11,706	6,224	2,338
Depreciation and amortization	TEUR	17,968	12,952	8,225	7,080	6,985	7,066	6,741	6,172	6,424	6,424	6,190	6,656
Working Capital <sup>2</sup>	TEUR	35,326	51,332	38,065	49,570	53,748	46,077	45,460	24,894	26,297	25,578	39,624	45,260
Working Capital-Intensity <sup>3</sup>	%	14.9	24.1	18.4	30.9	31.1	29.0	28.3	16.8	20.4	20.0	41.6	49.6
Capital Employed <sup>4</sup>	TEUR	128,720	142,741	114,886	108,857	108,713	96,970	96,519	72,834	72,667	74,133	83,521	87,474
Net cash position	TEUR	15,482	15,183	38,399	25,781	35,081	42,028	44,654	56,043	42,112	42,112	22,398	18,703
Equity ratio	%	67.4	68.1	73.5	77.9	77.5	81.2	80.1	76.2	74.6	72.0	78.0	75.9
<b>Employees</b>													
Average per year	Number	2,762	2,618	2,098	1,897	1,841	1,710	1,529	1,433	1,338	1,338	1,262	1,274
Production and assembly	Number	1,562	1,421	1,083	945	939	884	806	758	729			
Research and development	Number	437	470	380	334	332	318	289	265	220			
Administration and sales	Number	262	263	203	203	193	178	145	144	132			
Trainees and part-timers	Number	501	464	432	415	377	330	289	266	257	257	263	269
Skilled workers	Number										553	515	521
Salaried employees	Number										528	484	484
<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	18,811	18,811	18,811	18,811	18,811
Total issued and outstanding shares <sup>6</sup>	TPieces	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696	14,696
Dividend per share <sup>7</sup>	EUR	1.00	1.00	1.30	1.00	1.00	1.00	1.25	0.90	0.60	0.60	0.35	0.30
Share price (Year-End-Close)	EUR	20.10	21.95	39.95	17.15	17.40	24.19	29.35	40.80	26.71	26.71	20.50	10.30
Market Capitalization (Year-End Close) <sup>6</sup>	TEUR	295,390	322,577	587,108	252,038	255,712	355,498	431,330	599,600	392,532	392,532	301,268	151,369

<sup>1</sup> Certain US-GAAP figures were adjusted to IFRS - statement

<sup>2</sup> Non interest short-term 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 of the AGM

\* In furniture and office equipment included

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

SEVERAL YEARS OVERVIEW

Several years overview		2012	2011	2010	2009	2008	2007	2006	2005	2004	2004	2003	2002
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP
<b>Consolidated Income Statements</b>													
<b>Sales</b>													
by applications	TEUR	237,168	213,225	207,247	160,488	172,575	159,134	160,676	147,932	128,939	128,180	95,204	91,317
Cards & TECURITY <sup>1</sup>	TEUR	137,488	124,265	126,902	112,784	100,848	89,154	91,814	86,861	54,850	54,541	39,335	50,651
Semiconductor Related Products <sup>1</sup>	TEUR	73,171	62,811	49,748	29,480	34,905	36,138	39,361	35,564	49,325	48,875	35,619	22,103
Traceability	TEUR	-	-	9,205	5,813	17,710	13,956	13,689	10,893	7,390	7,390	5,679	6,641
Precision Parts & Systems <sup>1</sup>	TEUR	26,891	27,330	21,734	12,722	19,424	20,253	16,061	14,789	17,603	17,603	14,680	12,085
Other	TEUR	(0,382)	(1,181)	(342)	(311)	(312)	(367)	(249)	(175)	(229)	(229)	(109)	(163)
by regions	TEUR	237,168	213,225	207,247	160,488	172,575	159,134	160,676	147,932	128,939	128,180	95,204	91,317
Germany	TEUR	40,545	47,540	32,121	29,029	43,753	43,233	41,564	44,828	53,360	53,068	45,316	43,369
Other Europe	TEUR	35,370	40,271	50,200	50,708	61,063	56,612	40,126	31,471	34,197	34,122	21,175	26,799
Africa	TEUR	27,631	15,415	43,306	22,159	10,474	6,819	4,604	3,560	5,428	5,278	2,380	179
North America	TEUR	8,341	18,247	16,445	12,452	14,668	5,449	6,018	13,595	8,302	8,227	4,221	3,392
South America	TEUR	33,914	7,734	6,147	5,652	2,651	2,661	4,679	8,420	2,136	2,136	403	852
Asia	TEUR	91,350	84,354	58,929	39,975	40,227	43,905	63,882	46,160	25,382	25,215	21,676	16,766
Australia	TEUR	399	845	441	824	51	822	52	73	363	363	142	123
Other	TEUR	(382)	(1,181)	(342)	(311)	(312)	(367)	(249)	(175)	(229)	(229)	(109)	(163)
<b>Cost of sales</b>	<b>TEUR</b>	<b>168,235</b>	<b>(130,850)</b>	<b>(124,788)</b>	<b>(106,383)</b>	<b>(101,851)</b>	<b>(94,931)</b>	<b>(91,406)</b>	<b>(83,518)</b>	<b>(75,365)</b>	<b>(76,205)</b>	<b>(63,007)</b>	<b>(61,370)</b>
of sales	%	70.9	(61.4)	(60.2)	(66.3)	(59.0)	(59.7)	(56.9)	(56.5)	(58.5)	(59.5)	(66.2)	(67.2)
<b>Gross profit</b>	<b>TEUR</b>	<b>68,933</b>	<b>82,375</b>	<b>82,459</b>	<b>54,105</b>	<b>70,724</b>	<b>64,203</b>	<b>69,270</b>	<b>64,414</b>	<b>53,574</b>	<b>51,975</b>	<b>32,197</b>	<b>29,947</b>
of sales	%	29.1	38.6	39.8	33.7	41.0	40.3	43.1	43.5	41.5	40.5	33.8	32.8
<b>Operating expenses</b>													
Selling and administrative	TEUR	(28,839)	(28,423)	(23,044)	(21,177)	(22,765)	(17,242)	(19,075)	(15,926)	(14,719)	(16,799)	(16,616)	(16,682)
of sales	%	(12.2)	(13.3)	(11.1)	(13.2)	(13.2)	(10.8)	(11.9)	(10.8)	(11.4)	(13.1)	(17.5)	(18.3)
Research and development	TEUR	(26,134)	(29,539)	(23,904)	(21,088)	(22,731)	(20,280)	(17,081)	(15,264)	(13,048)	(14,006)	(11,392)	(10,761)
of sales	%	(11.0)	(13.9)	(11.5)	(13.1)	(13.2)	(12.7)	(10.6)	(10.3)	(10.1)	(10.9)	(12.0)	(11.8)
<b>Other income<sup>2</sup></b>	<b>TEUR</b>	<b>3,675</b>	<b>4,760</b>	<b>4,596</b>	<b>1,466</b>	<b>2,335</b>	<b>1,000</b>	<b>1,409</b>	<b>653</b>	<b>1,535</b>	<b>4,447</b>	<b>4,357</b>	<b>3,475</b>
of sales	%	1.5	2.2	2.2	0.9	1.4	0.6	0.9	0.4	1.2	3.5	4.6	3.8
<b>Other expenses<sup>2</sup></b>	<b>TEUR</b>	<b>(2,009)</b>	<b>(1,108)</b>	<b>(1,916)</b>	<b>(3,690)</b>	<b>(3,326)</b>	<b>(1,270)</b>	<b>(86)</b>	<b>(803)</b>	<b>(104)</b>	*	*	*
of sales	%	(0.8)	(0.5)	(0.9)	(2.3)	(1.9)	(0.8)	(0.1)	(0.5)	(0.1)			
<b>EBITDA<sup>3</sup></b>	<b>TEUR</b>	<b>33,594</b>	<b>41,017</b>	<b>46,416</b>	<b>16,696</b>	<b>31,222</b>	<b>33,477</b>	<b>41,178</b>	<b>39,246</b>	<b>33,662</b>	<b>32,041</b>	<b>14,736</b>	<b>12,635</b>
of sales	%	14.2	19.2	22.4	10.4	18.1	21.0	25.6	26.5	26.1	25.0	15.5	13.8
<b>EBIT<sup>4</sup></b>	<b>TEUR</b>	<b>15,626</b>	<b>28,065</b>	<b>38,191</b>	<b>9,616</b>	<b>24,237</b>	<b>26,411</b>	<b>34,437</b>	<b>33,074</b>	<b>27,238</b>	<b>25,617</b>	<b>8,546</b>	<b>5,979</b>
of sales	%	6.6	13.2	18.4	6.0	14.0	16.6	21.4	22.4	21.1	20.0	9.0	6.5
<b>Financial result</b>													
Financial income	TEUR	331	713	749	688	3,859	2,970	3,747	2,335	1,048	1,109	1,673	1,101
of sales	%	0.1	0.3	0.4	0.4	2.2	1.9	2.3	1.6	0.8	0.9	1.8	1.2
Financial expenses	TEUR	(524)	(399)	(315)	(577)	(3,697)	(937)	(171)	(741)	(409)	(415)	(728)	(2,290)
of sales	%	(0.2)	(0.2)	(0.2)	(0.4)	(2.1)	(0.6)	(0.1)	(0.5)	(0.3)	(0.3)	(0.8)	(2.5)
<b>EBT<sup>5</sup></b>	<b>TEUR</b>	<b>15,433</b>	<b>28,379</b>	<b>38,625</b>	<b>9,727</b>	<b>24,399</b>	<b>28,444</b>	<b>38,013</b>	<b>34,668</b>	<b>27,877</b>	<b>26,311</b>	<b>9,491</b>	<b>4,790</b>
of sales	%	6.5	13.3	18.6	6.1	14.1	17.9	23.7	23.4	21.6	20.5	10.0	5.2
<b>Income taxes</b>	<b>TEUR</b>	<b>(2,810)</b>	<b>(6,413)</b>	<b>(8,332)</b>	<b>(2,380)</b>	<b>(6,125)</b>	<b>(9,330)</b>	<b>(10,285)</b>	<b>(11,648)</b>	<b>(10,054)</b>	<b>(9,374)</b>	<b>(2,977)</b>	<b>(1,871)</b>
of sales	%	(1.2)	(3.0)	(4.0)	(1.5)	(3.5)	(5.9)	(6.4)	(7.9)	(7.8)	(7.3)	(3.1)	(2.0)
<b>Ordinary income net of tax</b>	<b>TEUR</b>	<b>12,623</b>	<b>21,966</b>	<b>30,293</b>	<b>7,347</b>	<b>18,274</b>	<b>19,114</b>	<b>27,728</b>	<b>23,020</b>	<b>17,823</b>	<b>16,937</b>	<b>6,514</b>	<b>2,919</b>
of sales	%	5.3	10.3	14.6	4.6	10.6	12.0	17.3	15.6	13.8	13.2	6.8	3.2
<b>Extraordinary gains</b>	<b>TEUR</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>587</b>
of sales	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
<b>Net earnings</b>	<b>TEUR</b>	<b>12,623</b>	<b>21,966</b>	<b>30,293</b>	<b>7,347</b>	<b>18,274</b>	<b>19,114</b>	<b>27,728</b>	<b>23,020</b>	<b>17,823</b>	<b>16,937</b>	<b>6,514</b>	<b>3,506</b>
of sales	%	5.3	10.3	14.6	4.6	10.6	12.0	17.3	15.6	13.8	13.2	6.8	3.8
<b>Change yoY</b>													
Sales	%	11.2	2.9	29.1	(7.0)	8.4	(1.0)	8.6	14.7		34.6	4.3	2.1
Gross profit	%	(16.3)	(0.1)	52.4	(23.5)	10.2	(7.3)	7.5	20.2		61.4	7.5	4.5
EBIT	%	(44.3)	(26.5)	297.2	(60.3)	(8.2)	(23.3)	4.1	21.4		199.8	42.9	(29.5)
EBT	%	(45.6)	(26.5)	297.1	(60.1)	(14.2)	(25.2)	9.6	24.4		177.2	98.1	(27.0)
Ordinary income net of tax	%	(42.5)	(27.5)	312.3	(59.8)	(4.4)	(31.1)	20.5	29.2		160.0	123.2	(47.4)
Net earnings	%	(42.5)	(27.5)	312.3	(59.8)	(4.4)	(31.1)	20.5	29.2		160.0	85.8	(36.8)
<b>Key figures</b>													
<b>Earnings per share</b>													
basic	EUR	0.84	1.51	2.09	0.50	1.24	1.31	1.90	1.59	1.23	1.17	0.41	0.20
fully diluted	EUR	0.84	1.51	2.09	0.50	1.24	1.31	1.90	1.59	1.23	1.17	0.41	0.20
Tax rate for EPS calculation	%	20.50	23.50	22.40	26.90	27.20	34.10	28.70	34.80	37.20	36.87	38.10	45.30
Order income	TEUR	246,692	260,847	301,550	155,768	189,169	167,451	161,508	165,001	174,659	174,659	99,308	85,884
Order backlog	TEUR	191,989	201,351	159,906	70,921	80,848	72,972	79,172	81,672	67,209	67,968	27,794	31,820
Personal costs	TEUR	80,554	79,088	67,645	57,615	61,974	57,732	54,364	49,890	45,044	45,110	39,922	38,093
Return on equity (before tax)	%	9.8	17.7	24.6	7.1	16.8	20.1	27.1	27.7	25.2	24.5	9.7	4.9
Return on Capital Employed <sup>6</sup>	%	12.7	19.7	33.2	8.8	22.3	27.2	35.7	45.4	37.5	34.6	10.2	6.8
<b>Consolidated Statements of cashflow</b>													
Cash provided by (used for) operating activities	TEUR	41,109	36,981	47,865	30,239	22,035	25,609	13,200	32,133	40,893	38,879	16,054	23,398
Cash provided by (used for) investing activities	TEUR	(26,209)	(28,276)	(27,915)	(15,651)	(6,004)	(3,427)	(17,453)	(21,888)	(14,707)	(21,737)	(7,344)	(1,864)
Cash provided by (used for) financing activities	TEUR	(14,542)	(19,068)	(15,558)	(12,734)	(14,919)	(16,879)	(13,832)	(10,606)	(9,127)	(9,131)	(8,921)	(10,243)
Net Increase/(Decrease) in Cash and Cash equivalents	TEUR	299	(10,363)	4,392	1,854	1,112	5,303	(18,085)	(361)	17,059	8,011	(211)	11,291
Free cashflow	TEUR	17,862	(4,566)	25,884	3,342	6,331	16,394	2,447	22,726	27,163	27,171	10,590	20,519
of sales	%	7.5	(2.1)	12.5	2.1	3.7	10.3	1.5	15.4	21.1	21.2	11.1	22.5

<sup>1</sup> Due to reclassifications from 2007 limited comparability with prior years  
<sup>2</sup> No comparability due to different treatment between US-GAAP and IFRS  
<sup>3</sup> Earnings before interest, tax depreciation and amortization

<sup>4</sup> Earnings before interest and tax  
<sup>5</sup> Earnings before tax

<sup>6</sup> EBIT/Capital Employed  
\* Shown under function costs

## TECHNICAL GLOSSARY

<b>Adhesive Film Lamination</b>	Attaching a heat-activated adhesive film to the reverse side of a module
<b>AFIS</b>	A system for the automatic verification of fingerprints
<b>Assembly &amp; Encapsulation</b>	Assembly and encapsulation of semiconductor components
<b>Biometric Procedure</b>	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
<b>Board Handling</b>	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)
<b>Border Crossing</b>	Hard- and software for safe and quick border crossing as well as for a clear identification of documents and persons
<b>Carrier Tape</b>	Plastic straps for transporting and providing electronic components
<b>Cavity</b>	Milled cavity in a chip card for embedding the chip
<b>Contactless Card</b>	Cards for contactless transmission of energy and data through electromagnetic fields
<b>Converting</b>	Here: further processing of the inlay in direction of a RFID label or a RFID ticket
<b>Data Capturing</b>	Capturing and storing biometric information
<b>Data Enrollment</b>	Data capture and processing (e.g. taking and optimizing pictures for further treatment)
<b>Die Bonding</b>	Placing small silicon chips onto carrier material
<b>Die Sorter</b>	Equipment for separating and packing good dice
<b>Die, Dice</b>	Silicon crystal equipped with an individual semiconductor-related micro-controller
<b>Discrete Devices</b>	Semiconductor products such as low-voltage transistors or diodes
<b>Dual Interface Card</b>	Card type combining the functions of contact and contactless card technologies
<b>Dual SIM Card</b>	Smart Card for telecommunication applications equipped with two SIM modules
<b>eGate</b>	Facility for the automatic border control by checking the electronic ID documents on the basis of biometric data such as face recognition or finger prints in travel documents
<b>EMV</b>	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.
<b>Encapsulation</b>	Protection of the chip and its wiring by encapsulating the reverse of a chip
<b>Flexible thin-film solar cell</b>	Solar modul with an extremely thin layer of photovoltaic material which can be put on a flexible substrate
<b>Flip Chip Technology</b>	For flipping dice 180 degrees in order to attach them to carrier material
<b>GSM Card</b>	Standardized chip card to be used in mobile phones. The "Global System for Mobile Communications" is an international terrestrial mobile telephone system
<b>Handheld</b>	Portable device, for example for use at border or police controls to verify people's identities and register voters at a polling station
<b>Hologram</b>	Security feature which results in a three-dimensional image when viewed binocularly
<b>ICAO</b>	International Civil Aviation Organization; sets standards regarding safety, handling and optimizing international air traffic



Embedding a chip in a plastic card	<b>Implantation</b>
production management software for the organization and control of personalization and production centers	<b>INCAPE</b>
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.	<b>Inlay</b>
In contrast to the hologram, which possesses three-dimensional elements, kinegrams describe a two-dimensional course of movement which changes according to the viewing angle	<b>Kinegram</b>
Software for the organization of personalization data on a personalization system	<b>MCES</b>
Carrier material for dice with arranged contact elements	<b>Module</b>
Machines for mounting, attaching and fixing parts	<b>Mounter</b>
Near Field Communication: an international transmission standard for contactless data exchange within a short distance	<b>NFC</b>
“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	<b>Personalization</b>
Infrastructure consisting of software and hardware for the safe management of electronic certificates	<b>PKI</b>
Punching out the chip from a standardized chip card for mobile phones	<b>Plug Punching</b>
Small-sized chip card in particular for GSM applications	<b>Plug-In</b>
Semiconductor products such as high-voltage transistors or diodes	<b>Power Devices</b>
Loading an operating system onto a chip	<b>Pre-Personalization</b>
Radio Frequency Identification; components used in a high frequency range	<b>RFID Chips</b>
Secure memory card similar to MMC multimedia cards; card application particularly used for digital cameras or as a storage medium for music, PDA, etc.	<b>SD (Secure Digital) Card</b>
Software for the safe management of application, personal and document data for security-oriented documents, such as ePassport and eID	<b>SDM</b>
Chip card, i.e. plastic card equipped with a chip module	<b>Smart Card</b>
Ultra-flat transponders consisting of chip, antenna and substrate for identifying goods and persons	<b>Smart Label</b>
Card application used in particular for digital cameras or as storage medium for music, etc.	<b>Smart Media and Multi Media Cards</b>
Ticket which can be read contactless because of the implanted inlay	<b>Smart Ticket / RFID Ticket</b>
Components, which are directly soldered to a board without drill holes. SMD components significantly reduce the component density of electronic circuits	<b>SMD (Surface Mounted Device)</b>
RFID transponders are also termed as 'Tags'	<b>Tag</b>
Mühlbauer production system for the manufacture of Smart Inlays (Smart Inlay = antenna and functional chip)	<b>TAL (Tag Assembly Line)</b>
Terms a market for technologically sophisticated and security-relevant solutions, taken from the two words Technology and Security	<b>TECURITY®</b>
Testing, labeling and packaging semiconductor components for further processing	<b>Testing &amp; Packaging</b>
Pursuing and tracing back units from the raw material to the end product	<b>Traceability</b>

<b>Transponder</b>	Antenna located on a Smart Label between flexible carrier layers
<b>Turn-Key Solutions</b>	Turn-key product and services solutions
<b>Verification</b>	Verification, if the user of an ID card really is the legal holder
<b>Vision Technology</b>	Measuring and controlling components using camera systems and software
<b>Wafer</b>	Ultra-thin and silicon semiconductor disk for producing many individual chips. The dice are sawn from the surface of the wafer
<b>Wafer Level Package</b>	Finished components on a wafer-basis, which are subject to further processing
<b>Wire Bonding</b>	Fully automated process for wiring dice with carrier material

## FINANCIAL GLOSSARY

<b>Associated company</b>	A company on which the Mühlbauer Group exerts significant influence with regard to financial and business policy-related decisions but which it cannot control . A significant influence is regularly assumed if the Mühlbauer Group holds between 20% and 50% of the voting rights.
<b>Balance sheets</b>	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
<b>Gross cash position</b>	Total of cash and cash equivalents and marketable securities
<b>Gross profit on sales</b>	Net sales less cost of sales
<b>Capital employed</b>	Capital employed within a certain period of time. Consists of working capital plus the residual value of fixed assets (without long-term financial assets)
<b>Cashflow</b>	The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The cash flow statement is part of the consolidated financial statements and shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by purchasing/selling goods and services), investing activities (cash outflows for sustaining future growth), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds)
<b>Current assets</b>	Assets intended for short-term business activities
<b>Defined Benefit Obligation (DBO)</b>	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
<b>Derivate</b>	A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond)
<b>German Corporate Governance Codex</b>	Codex of the government commission "Deutscher Corporate Governance Kodex", summarizing principles and recommendations of responsible corporate governance for publicly traded companies in Germany
<b>EBIT</b>	Earnings before interest and taxes. This is the measure that Mühlbauer uses to evaluate the operating performance
<b>EBIT margin</b>	A measure to determine the operative profits, displayed by the EBIT in relation to sales
<b>EBITDA</b>	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

Shares in the annual result or in shareholders' equity that are not allocated to the Group but to external persons or parties.

**Earnings and capital shares applicable to minority shareholdings**

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

**Earnings per share**

Valuation method for shares in associated companies, in respect of which the Group exerts a significant influence on their financial and business policies.

**Equity method**

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

**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**

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

**Free cashflow**

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

**Statement of income**

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

**Goodwill**

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

**Hedging activities**

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 requirements since 2005

**IFRS**

Contractual agreement according to which two or more partners execute a commercial activity that is subject to the partners' joint management.

**Joint venture**

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

**Deferred taxes**

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

**Market capitalization**

<b>Net cash position</b>	Gross cash position minus current and non-current liabilities
<b>Pension expenses</b>	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
<b>Plan assets</b>	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
<b>Risk management</b>	Systematic process of identifying, assessing and monitoring various financial risk factors and of selecting and implementing measures to handle them
<b>ROCE</b>	Return On Capital Employed – an indicator of operating performance, calculated as the percentage of EBIT in relation to capital employed
<b>Stock options</b>	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
<b>Working capital</b>	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
<b>Working capital intensity</b>	An indicator for determining a company's sales-related current assets, calculated as the percentage of working capital in relation to net sales



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