Mühlbauer
High Tech International

Annual Report 2011

Key figures

		2011	2010	Change %
Sales	TEUR	213,225	207,247	2.9
Research and development expenses	TEUR	29,539	23,904	23.6
EBIT [1]	TEUR	28,065	38,191	(26.5)
Pretax profit margin	%	13.2	18.4	(28.3)
Net earnings	TEUR	21,966	30,293	(27.5)
Earnings per share	EUR	1.51	2.09	(27.8)
Free cashflow	TEUR	(4,566)	25,884	(117.6)
Working capital [2]	TEUR	51,332	38,065	34.9
Working capital-intensity [3]	%	24.1	18.4	31.0
Gross capital expenditures without capitalized development costs	TEUR	29,146	27,006	7.9
Equity ratio	%	68.1	73.5	(7.3)
Dividend per share [4]	EUR	1.00	1.30	(23.1)
Share price (Year-End-Close)	EUR	21.95	39.95	(45.1)
Market Capitalization (Year-End-Close)	TEUR	322,577	587,108	(45.1)
Employees (Average per year)	number	2,618	2,098	24.8

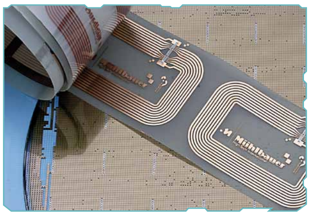
[1] Earnings before interest and tax
[2] Non interest short-term assets – non interest current liabilities
[3] Working capital/Sales
[4] Subject to the approval of the AGM

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.

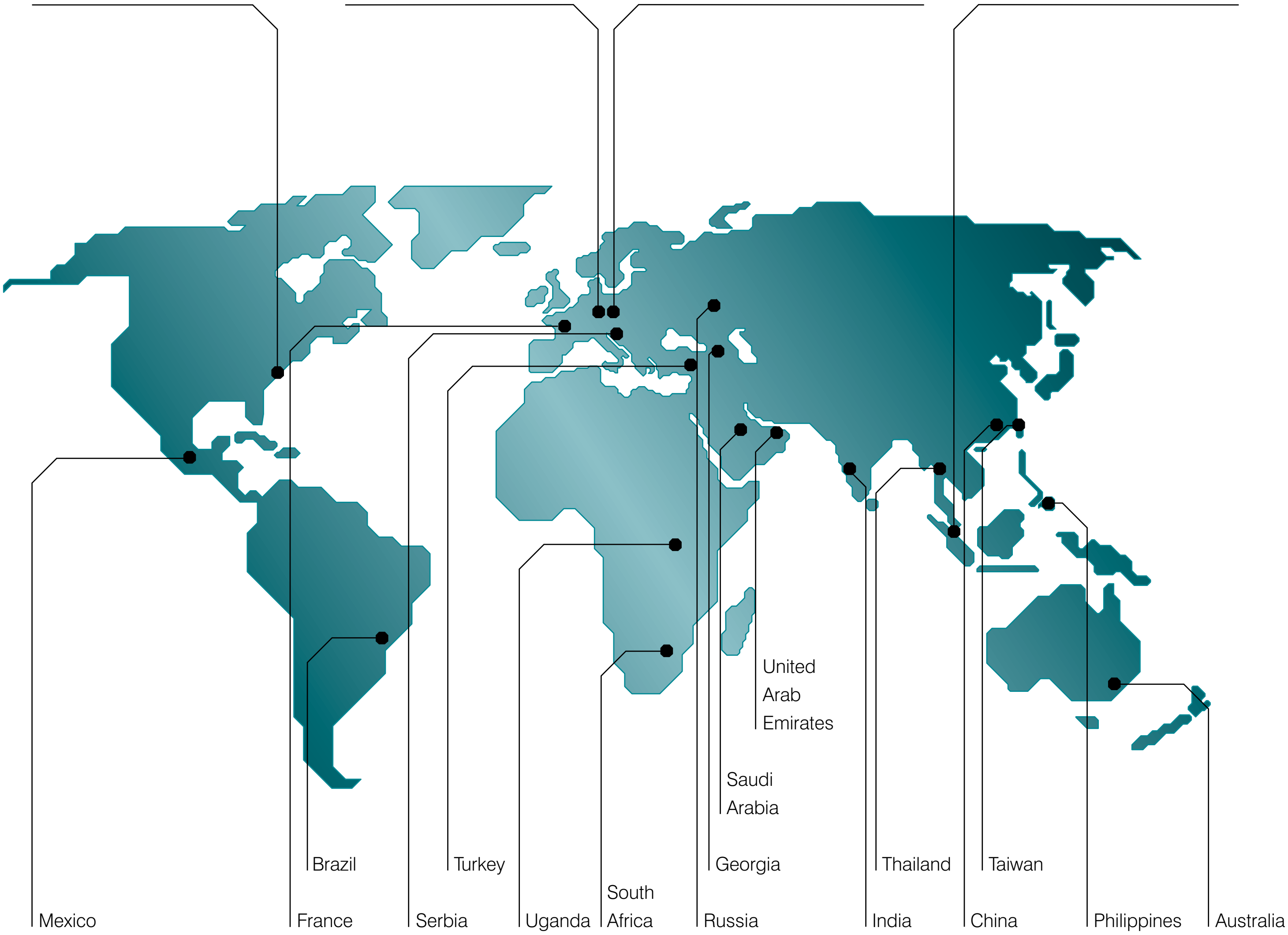
Mühlbauer –
Worldwide close to the customer


USA


Germany


Slovakia


Malaysia



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To our shareholders, business partners and employees

Ladies and Gentlemen,

In 2011, the Mühlbauer Group had particular reason to celebrate: thirty years before in 1981, the company started as a one-man operation and, thanks to the trust invested in us by customers and business partners, has grown in the years since then to become a global enterprise with great competence and a strong sense of responsibility. Then, as now, a pioneering spirit and a delight in innovation were integral parts of the Mühlbauer philosophy, with particular importance placed on sustainable corporate development built on solidity and long-term considerations.

It would have pleased us to present new records in the anniversary year of the Group as well. In fact, in the recently concluded fiscal year, we stood our ground well on the market altogether and persuaded further governments and institutions close to government of the advantage of working with us as a fully responsible, reliable system partner for innovative ID applications. Thus we were able once again to increase sales, which had risen in the previous year by nearly 30%, by another slight 3.3% to EUR 214.4 million. However, the operating result could not keep pace with this positive trend and ended up significantly lower than in the previous year due to higher costs for distribution, research and development. The EBIT declined by 26.4% from EUR 38.2 million to EUR 28.1 million. Consequently, the earnings per share decreased as well from EUR 2.09 to EUR 1.51. In accordance with the dividend policy which has been practiced reliably for more than a decade in the meanwhile, the personally liable shareholders and supervisory board will distribute an appropriate part of the company's operating profit to their limited shareholders irrespective of the result which is, for us, unsatisfactory. The Personally Liable Shareholder and the Supervisory Board therefore propose to the annual general meeting that a dividend to be paid for fiscal year 2011 of EUR 1.00 (previous year: EUR 1.30) per entitled share.

However, after capital investments in the two previous years which were already high, in the reporting year there was once again a massive investment in infrastructure of a gross EUR 33.2 million. The primary focus of this investment activity was, on one hand, the modernization and expansion of the technology base at the German manufacturing sites in Roding and Stollberg, the expansion of structural capacities for increasing solutions offered and the associated development of new market niches in the field of machining as well as the construction begun in Serbia of a technology center for developing innovative software solutions for ID applications. On the other hand, with the significantly increased expenditures for research and development in the reporting year by 23.4% to EUR 29.5 million, we have successfully positioned ourselves in new market niches and further increased the efficiency of our products. This satisfied key requirements to enable us not only to continue to stand fast against the strong growth of competition, particularly from Asia, but in fact to increase further our penetration of the market.

The Group is acting in many ways to expand our market position, ensure corporate growth and increase profits. One key measure is the optimization of the Group's organization and structure, with the objective of increasing the assumption of responsibility, achieving greater responsiveness, simplifying the management of divisions and improving process efficiency and transparency. A further example is the ongoing standardization of the product range to take advantage of synergy effects between product lines and areas of business to the advantage of customers, and to increase productivity as a whole.

The global presence of the Mühlbauer Group is an inestimable advantage in overcoming the shortage of qualified personnel, which we address actively with constant training coupled with international recruiting. Moreover, it is more important than ever that the entire team be prepared for the present and future challenges of the globalized economy with focused training and continuing education. This important step is carried out primarily by the identification and development of entrepreneurial spirits within the company based on the corporate culture which has grown over 30 years as well as the forging and direction of teams focused on the company's objectives. Mühlbauer thus promotes entrepreneurial action, the assumption of responsibility and reliability at all levels of the Group and reinforces the appreciation of our employees for comprehensive process thinking and action.

Our committed, skilled employees are the core of our success, and the management owes them the greatest debt of thanks. For it is possible only through their dedication to survive in a market environment ever increasing in difficulty, to develop new markets, increase efficiency and further position ourselves for the challenges of the future. Our thanks are due as well to you, our esteemed customers, business partners and shareholders, for the trust you have invested in Mühlbauer for all these years.

For the fiscal year 2012 we see that the company is on the right path strategically, operationally and structurally. With the three divisions *Cards & TECURITY®*, *Semiconductor Related Products* and *Precision Parts & Systems*, a large portfolio of products and a diverse customer base in private enterprise as well as governments and the public sector the Mühlbauer Group has a diversified strength which is not only suited to navigate successfully in the changing winds of the economy, but to set a course for continued sustainable growth as well.

Ladies and gentlemen, the Mühlbauer Group has been writing a unique success story for over 30 years, and I am looking forward to you staying with us also in future.

Josef Mühlbauer
Personally Liable Shareholder

Management Board of Mühlbauer (l.t.r.):
Thomas Betz
Hubert Forster
Josef Mühlbauer

Pioneering spirit. Technology. Sustainability.

The reporting year 2011 was the 30-year company anniversary of the Mühlbauer Group. Three successful decades, marked by pioneering technical achievements, not just in the engineering of machines and systems, are the basis for today as well as the inspiration for further growth. Over the past thirty years, the company has developed from a one-man firm to an international market leader in the field of intelligent identification. Sustainability is an integral part of the Mühlbauer business model in this: heavy investments in technology, training and continuing education as well as research and development and the focus on organic growth have ensured solid development of the company for all its years. Supported by the trust of our customers, we intend to define and achieve new milestones in the future as well.

1981
Foundation of the company
Production of precision parts for the aerospace industry

1986
Manufacture of production equipment for the semiconductor backend industry

1988
First turnkey production solutions for the manufacture of plastic cards and Smart Cards

1995
Start of the development of production solutions for Smart Labels (RFID)

1998
Mühlbauer goes public (IPO)

2000
First high-speed personalization system for healthcare, ID or bank cards

2003
Mühlbauer positions itself in the areas of government security and biometry

2004
Mühlbauer provides personalization solutions for electronic passports and presentation of first biometric data gathering and border crossing solutions

2010
Involved in more than 300 major ID projects all around the world

2011
Installation of first fully automatic production facilities for flexible thin film solar technology

The Mühlbauer Share

An erratic year for shareholders

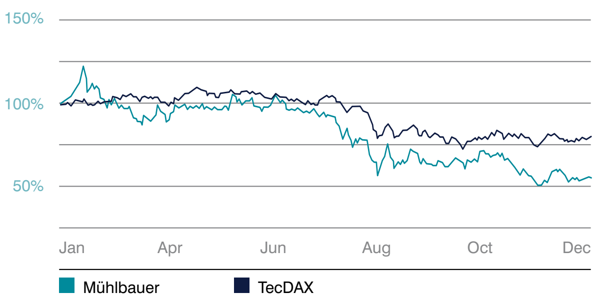
With the end of 2011, one of the capital market's most turbulent has drawn to a close. While the Dax, TecDax and DowJones posted a plus in the first half of the year, despite the Japanese earthquake and nuclear catastrophe, a longlasting bear market commenced in the middle of the year. The debt crisis in the euro zone and the United States of America as well as more unfavorable economic prospects resulted in severe price losses. The sustained bank crisis and the loss of confidence in the solutions offered by politics not only dampened economic prospects but also the demand for share titles in the euro zone. Investors preferred the gold market, DowJones titles and the dollar as investment alternatives. While the Dow Jones posted a plus on the last trading day of 2011, at 6.0%, the DAX lost 15.0% and the TecDAX 20.0%. The Indian Sensex and the Russian RTS also posted price losses of 25.0% and 26.0%, respectively. Merely the Japanese Nikkei 225 moved laterally.

In 2012 again, the national debt crisis will continue to be the factor determining capital market development. A recovery is not expected to occur unless credible solutions in respect of the European and US American national debt crisis are presented and investor confidence is regained. On the other hand, stock market analysts consider a range of shares to be severely undervalued, particularly as there is a lack of alternative investments. For this reason it is difficult to define unambiguous trends for the 2012 stock exchange year.

Development of Mühlbauer shares

In the course of the year the Mühlbauer share largely followed the major leading share indexes with a strong first and weak second half-year. In January the annual high of EUR 49.65 was achieved, while the Mühlbauer share was lower than the market in mid-February. After publishing the Annual Report and the first quarterly report the share stabilized and developed in line with the TecDax. However, the Mühlbauer share was unable to withdraw from the downwards trend in the second half of the year that was initiated by the national debt crisis. Following the publication of the Q3 report, the share came under even more pressure and reached its annual trough to the end of November. Finally, a slight recovery occurred to the end of the year; the Mühlbauer ended a volatile year on the stock market with a closing price of EUR 21.95 (PY: EUR 39.95). With an average of 10,516 shares per trading day the volume in the year under review rose by 56.2%, thus underpinning the continued interest of investors in Mühlbauer Holding AG & Co. KGaA.

Share performance



Ratios	2011	2010
Share price (Xetra)		
Annual high (in EUR)	49.65	40.84
Annual low (in EUR)	19.82	17.70
Year end (in EUR)	21.95	39.95
Market capitalization[1]		
Annual high (in EUR thousand)	729,656	600,188
Annual low (in EUR thousand)	291,274	260,121
Year end (in EUR thousand)	322,577	587,108
Share values		
Earnings (in EUR)	1.51	2.09
Dividend (in EUR)	1.00[2]	1.30
Trading volume (in share certificates)[3]		
Average per trading day	10,516	6,731
Whole year (in million share certificates)	2.7	1.9

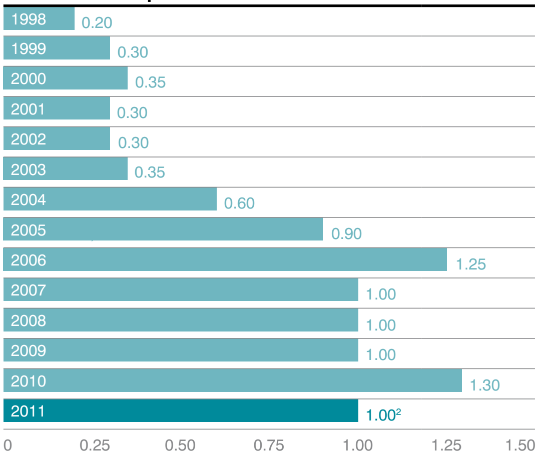
Dividend increase

Since its IPO in 1998 Mühlbauer has conducted a continual and reliable dividend policy without losing track of the sustained development of the group. Against the background of the high investments made over the past two years and the continued financing of projects, the personally liable shareholder and the Supervisory Board will propose the distribution of a dividend of EUR 1.00 – EUR 0.30 less than in previous year – to the Annual General Meeting. Based on the year-end price, the dividend yield thus amounts to 4.6%.

Active and open dialogue with the capital market

We consider a continual and open dialog with institutional and private investors, analysts and representatives of the financial and business press to be extremely important. In the 2011 financial year the technology group provided information to investors in the context of international road shows in London, Zurich and Vienna. The management provided comprehensive information to analysts on the commercial situation, the company's business model and corporate strategy in numerous one-on-ones and telephone calls. Investors were also able to gain an impression of the company on the basis of extensive tours of the plant.

Dividend development in EUR



Our homepage contains comprehensive data and information on both the company and the share – in line with our claim of providing extensive and transparent information to institutional investors, analysts and private shareholders alike. The information provided includes all annual and quarterly reports, press releases and ad hoc disclosures, as well as statements on securities transactions or information on Corporate Governance.

Contact Investor Relations

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Financial calendar

9 May 2012* . . . . . Quarterly report I/2012
14 June 2012 . . . . . Annual General Meeting, town hall Roding
9 August 2012* . . . . . Quarterly report II/2012
8 November 2012* . . . . . Quarterly report III/2012
March 2013* . . . . . Annual Report 2012

[1] In relation to total capital [2] Subject to agreement by the Annual General Meeting [3] Total of Xetra and on-floor trading
* Expected

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 2010 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 2011 the personally liable shareholder and the Supervisory Board issued a Declaration of Conformity for 2011 and made it available to the public on the company's homepage (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 26 May 2010 ("Code 2010"). 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 on a sustained basis:

Declaration of Conformity in accordance with section 161 AktG (German Stock Corporation Act) in respect of compliance with the German Corporate Governance Code

The personally liable shareholder and Supervisory Board declare that Mühlbauer Holding AG & Co. KGaA (hereinafter also referred to as the "company") in its legal form complies with and will, in future, comply with the recommendations of the German Corporate Governance Code in the version dated 26 May 2010 ("Code 2010") with the **following exceptions**:

Deductible for D&O insurance

The D&O insurance in respect of the Supervisory Board currently does not provide for a deductible, as a deductible would restrict the chances of acquiring members for the Supervisory Board with extensive experience. This is due to the fact that the members would otherwise have to take into account liability risks, even in the event of negligence, and deductibles are still uncommon in the Supervisory Board area (Code 2010, section 3.8 subsection 3).

Diversity regarding to the filling of management positions

When filling management positions, the company takes into account diversity. The focus is, however, on the professional qualification of the candidates (Code 2010, section 4.1.5).

Disclosure and explanation of the remuneration of the Management

The Chairman of the company's Supervisory Board does not provide the Annual General Meeting with information on the main features of the remuneration system and their amendment (Code 2010, section 4.2.3 subsection 6).

The total remuneration of the personally liable shareholder and the members of the company's Management Board (hereinafter also referred to as the "management") for the performance of their duties on behalf of the company and its subsidiaries is shown as a total in the notes to the consolidated financial statements. The figure shown is broken down by components that are independent from income and components that are related to income, as well as components that represent a long-term incentive, or in accordance with the rules of the relevant international financial reporting standards.

The disclosure of information other than that which is compulsory by law, the explanation of the remuneration system and the consideration of details on the type of fringe benefits provided by the company in a remuneration report is not made (Code 2010, section 4.2.4 and 4.2.5).

The remuneration system is the result of confidential discussions within the Supervisory Board as well as between the Supervisory Board and management. The publication of details in excess of the legally required ones would increase the risk of a targeted solicitation of key players, as details of the remuneration structure would then also be transparent to competitors.

Sideline activities that are not subject to a stringent legal approval by the Supervisory Board can in part also be assumed without the agreement of the Supervisory Board. The interests of the company and expectations toward management to make responsible decisions are sufficiently maintained by the stringent legal provisions and other contractual obligations of management (Code 2010, section 4.3.5).

Formation of Supervisory Board committees

As long as the Supervisory Board of Mühlbauer Holding AG & Co. KGaA consists of only three members, no committees will be formed (Code 2010, section 5.2 sentence 2, 5.3.1 sentence 1, 5.3.2 sentences 1 and 2, 5.3.3).

Composition and remuneration paid to members of the Supervisory Board

According to section 5.4.1 the Supervisory Board is to specify concrete goals in respect of its composition that take into account the international activities of the company, potential conflicts of interest, an age limit for Supervisory Board members that is yet to be defined and diversity – with due regard to the company-specific situation. Considering the fact that the Supervisory Board of the company consists of only three members, of which a mere two are elected by the Annual General Meeting, and the fact that new elections to the Supervisory Board are not due before 2013, the Supervisory Board has not yet mentioned any concrete objectives regarding its (future) composition. However, it will develop criteria that a potential new member should predominantly fulfill – in a timely manner prior to the next Supervisory Board election. In so doing, 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. A publication of the criteria in the Corporate Governance Report is currently not planned (Code 2010, section 5.4.1).

With regard to the composition of the Supervisory Board, the professional consultation and monitoring of management takes priority. Supervisory Board members may be suitable for such an appointment even if they do not satisfy the criteria of independence within the meaning of section 5.4.2 sentence 1 of the German Corporate Governance Code (Code 2010, section 5.4.2).

If the Annual General Meeting appoints company executives to the Supervisory Board of the company, a decision on their acceptance of the chairmanship shall be decided individually. A justification will not be provided to the Annual General Meeting. In the opinion of the personally liable shareholder and the Supervisory Board it may be beneficial, in specific cases, that company executives accept the chairmanship of the Supervisory Board. As the knowledge of the former executives on the internal workings of the company increases the efficiency of Supervisory Board monitoring, the personally liable shareholder and the Supervisory Board see no need to separately justify a possible acceptance of the Supervisory Board chair to the Annual General Meeting (Code 2010, section 5.4.4).

The remuneration of the Supervisory Board members is laid down in the Articles of Association of Mühlbauer Holding AG & Co. KGaA. The Articles of Association currently only provide for a fixed payment to Supervisory Board members. The introduction of a variable payment is not intended as such a payment would not represent a significant additional incentive – in the opinion of the company (Code 2010, section 5.4.6 subsection 2 sentence 1).

Financial statement

According to the respective legal provisions, the personally liable shareholder is responsible for drawing up the half-yearly and possible quarterly reports within a tight schedule. For this reason, the half-yearly and possible quarterly reports are, on principle, not discussed by the personally liable shareholder and the Supervisory Board prior to their publication (Code 2010, section 7.1.2 sentence 2).

According to Code, the Annual Report should be publicly accessible within 90 days of the end of the financial year in respect of which it is drawn up. Due to internal organizational changes, the 2011 Annual Report is not expected to be published before mid-April 2012. (Code 2010, section 7.1.2, sentence 2).

The personally liable shareholder and the Supervisory Board declare that the company in its legal form complied with the recommendations of the German Corporate Governance Code in the version dated 26 May 2010 ("Code 2010") with **the following exceptions**, since the Declaration of Conformity on 30 November 2010:

Deductible for D&O insurance

The D&O insurance did not include a deductible in respect of the Supervisory Board. In the opinion of the company, the agreement of a deductible would restrict the chances of acquiring members for the Supervisory Board with extensive experience. This is due to the fact that the members would otherwise have to take into account liability risks, even in the event of negligence, and deductibles are still uncommon in the Supervisory Board area (Code 2010 section 3.8 subsection 3).

Diversity regarding to the filling of management positions

The Supervisory Board also took into account diversity when filling executive positions in the company. The focus is, however, on the professional qualification of the candidates (Code 2010, section 4.1.5).

Disclosure and explanation of the remuneration of the Management

The Chairman of the company's Supervisory Board does not provide the Annual General Meeting with information on the main features of the remuneration system and their amendment (Code 2010, section 4.2.3 subsection 6).

The total remuneration of the personally liable shareholder and the members of Mühlbauer Aktiengesellschaft's Management Board for the performance of their duties on behalf of the company and its subsidiaries was shown as a total in the notes to the consolidated financial statements The figure shown was broken down by components that are independent from income and components that are related to income, as well as components that represented a long-term incentive, or in accordance with the rules of the relevant international financial reporting standards.

The disclosure of information other than that which is compulsory by law, the explanation of the remuneration system and the consideration of details on the type of fringe benefits provided by the company in a remuneration report was not made (Code 2010, section 4.2.4 and 4.2.5).

The remuneration system is the result of confidential discussions within the Supervisory Board as well as between the Supervisory Board and management. The publication of details in excess of the legally required ones would increase the risk of a targeted solicitation of key players, as details of the remuneration structure would then also be transparent to competitors.

Sideline activities that are not subject to a stringent legal approval by the Supervisory Board could in part also be assumed without the agreement of the Supervisory Board. The interests of the company and expectations toward management to make responsible decisions are sufficiently maintained by the stringent legal provisions and other contractual obligations of management (Code 2010, section 4.3.5).

Formation of Supervisory Board committees

No Supervisory Board committees were formed as the Supervisory Board consisted of only three members (Code 2010 section 5.2 sentence 2, 5.3.1 sentence 1, 5.3.2 sentences 1 and 2, 5.3.3).

Composition and remuneration paid to members of the Supervisory Board

According to section 5.4.1 the Supervisory Board is to specify concrete goals in respect of its composition that take into account the international activities of the company, potential conflicts of interest, an age limit for Supervisory Board members that is yet to be defined and diversity – with due regard to the company-specific situation. Considering the fact that the Supervisory Board of the company consists of only three members, of which a mere two are elected by the Annual General Meeting, and the fact that new elections to the Supervisory Board are not due before 2013, the Supervisory Board has not yet mentioned any concrete objectives regarding its (future) composition. Irrespective of the above, the focus with regard to the previous composition of Supervisory Board members was on professional aspects. There was neither 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 were criteria that allowed for the drawing of conclusions as to whether or not a Supervisory Board mandate could be perceived appropriately or successfully. The criteria were not published in the Corporate Governance Report (Code 2010, section 5.4.1).

With regard to the composition of the Supervisory Board, the professional consultation and monitoring of management takes priority. Supervisory Board members were also considered suitable for such an appointment even if they did not satisfy the criteria of independence within the meaning of section 5.4.2 sentence 1 of the German Corporate Governance Code (Code 2010, section 5.4.2).

The remuneration of the Supervisory Board members is laid down in the Articles of Association of Mühlbauer Holding AG & Co. KGaA. The Articles of Association currently only provide for a fixed payment to Supervisory Board members. The introduction of a variable payment was executed as such a payment would not represent a significant additional incentive – in the opinion of the company (Code 2010, section 5.4.6 subsection 2 sentence 1).

Financial statement

According to the respective legal provisions, the personally liable shareholder is responsible for drawing up the half-yearly and possible quarterly reports within a tight schedule. For this reason, the half-yearly and possible quarterly reports are, on principle, not discussed by the personally liable shareholder and the Supervisory Board prior to their publication (Code 2010, section 7.1.2 sentence 2).

Roding, 30 November 2011

the Personally Liable Shareholder	The Supervisory Board

Risk management

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.

Transparency

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.

Share transactions

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.

Shareholdings

As at 31 December 2011, 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 318,491 shares (which corresponds to 5,07%). Neither the Management Board nor the Supervisory Board held options or any other derivatives as at 31 December 2011.

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 2011 was established by the personally liable shareholder and audited by KPMG AG Wirtschaftsprüfungsgesellschaft – the auditor appointed by the 2011 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:

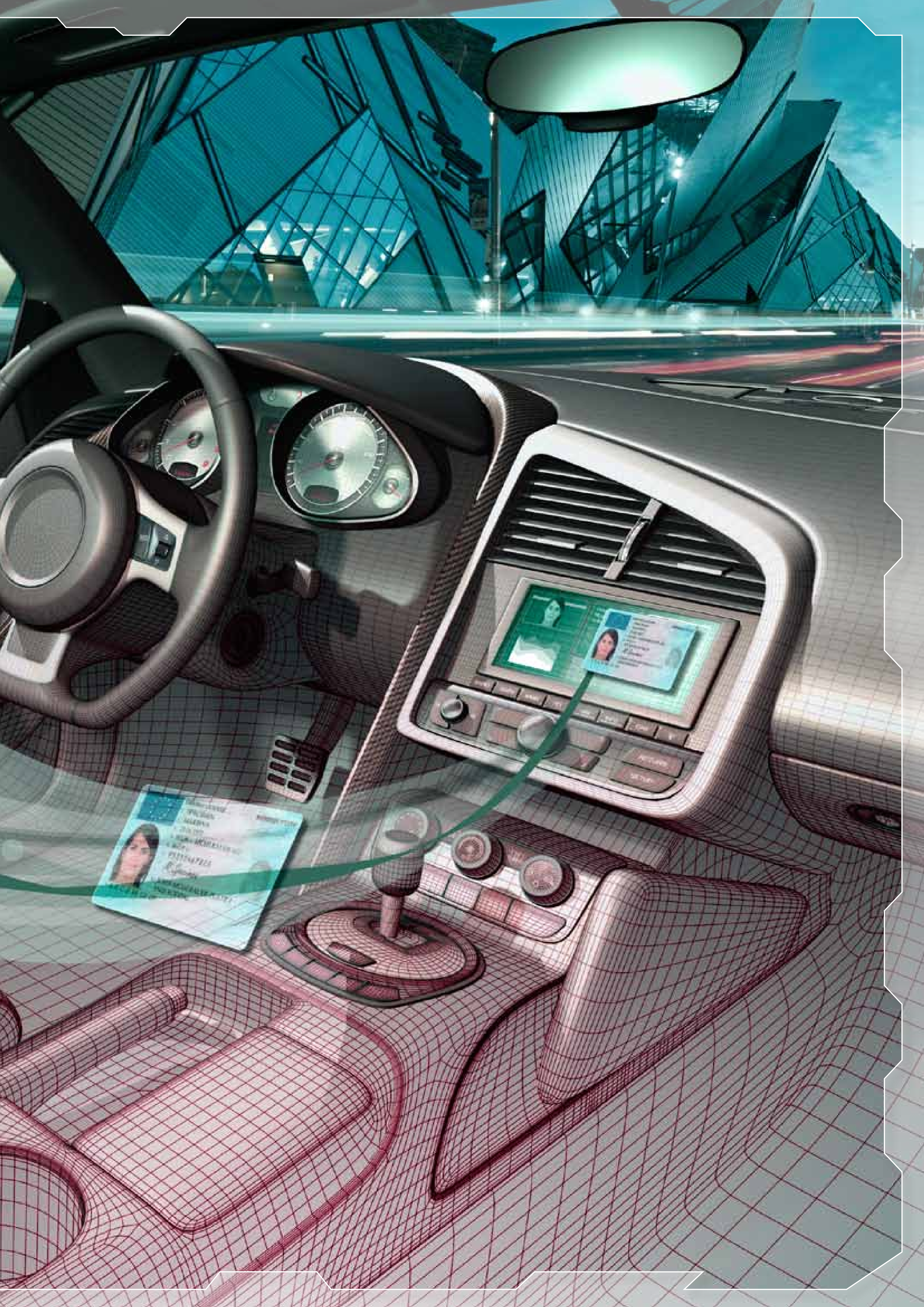
Supervisory Board members	Fixed remuneration in EUR
Dr. Thomas Zwissler (until 5 May 2011)[1)]	7,066
Dr. Jürgen Honert (as of 5 May 2011)	11,734
Prof. Dr. Kurt Faltlhauser[1)]	11,800
Steffen Harlfinger[1)]	7,400

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

Versatile. Innovative. Personal.

Mühlbauer is not only an international leader providing solutions for ID documents. The company support clients in government and private enterprise from initial conceptual planning all the way through the start of productive use on-site. The options for equipping and using smart cards are as individual as the desires and visions of the clients themselves. What man might imagine to be a dream of the future can be implemented already today.

From now, for example, theft protection for automobiles might be improved with starting possible only with the use of an ID card. Once the driver has been identified, the on-board computer might also be available to carry out bank transactions.



Dr. Thomas Zwissler is also an attorney and partner of the law firm Zirngibl Langwieser Rechtsanwälte Partnerschaft. The firm occasionally provided legal consultation to the Mühlbauer Group. The fees for these services amounted to TEUR 40 (PY: TEUR 58) in the year under review.

2. Relevant information on management practices

Company's own Code

Mühlbauer Holding AG & Co. KGaA passed its own Corporate Governance Code, above and beyond legal requirements. It underpins the importance of a value-oriented and transparent management for the Mühlbauer Group, taking into consideration the individual situation of the company as a partnership limited by shares. Both the personally liable shareholder and the Supervisory Board agreed to the company's own Corporate Governance Code, which is largely based on the version of the German Corporate Governance Code dated 26 May 2010. Moreover, all members of the Management Board of Mühlbauer Aktiengesellschaft voluntarily and individually declared their compliance with the provisions set out in the Code.

Code of conduct

Responsible action that complies with the law in terms of an ongoing corporate compliance is a material condition for successful business development. For this reason the Mühlbauer Group established a code of conduct for the entire group, based on the company's corporate culture, which has evolved over a period of decades. This code of conduct defines principles and rules that are binding for all employees of the Mühlbauer Group and is published in electronic form on the internet. This code of conduct is intended to provide assistance in managing ethical and legal challenges in day-to-day operations and provide orientation in the event of conflicts. It also contains rules on how to handle complaints or reports in respect of violations against the guidelines. In the interest of all employees and the company, violations are investigated and their causes eliminated.

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.

Financial Report

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Management Report

OVERVIEW OF THE 2011 FINANCIAL YEAR

The globally active solution provider asserted itself well within the increasingly rougher competitive environment and, in the year under review, succeeded in convincing further governments and government-related institutions of the benefits of cooperating with Mühlbauer as a reliable system partner for innovative ID applications who accepts overall responsibility. Mühlbauer was able to further boost sales, which had already risen strongly in the previous year and to further increase its market penetration – with the additional support of its market leadership and longstanding experience as technology partner for both the production of industry-based card applications and RFID-based Smart Labels for the identification of goods and flows of goods. Although the operating income was unable to keep pace with this development, the foundation was further reinforced by massive investments and the restructure of the group pushed ahead in order to increase the autonomy and independence of the business areas.

The key developments in the 2011 financial year were:

- Against the background of the natural fluctuation that occurs in the project business and the reduction in demand for semiconductor backend products in the second half of the year, the number of orders acquired in the year under review decreased by 13.5% to EUR 260.8 million (PY: EUR 301.6 million). Consolidated order backlog has, however, grown further, posting a new record high with growth of 26.0% to EUR 201.4 million (PY: EUR 159.9 million).

- Based on the high order backlog of the previous year as well as the government projects, machine orders and production components acquired in the year under review, the solution provider was able to boost sales[1], which already underwent an increase of almost 30% to EUR 207.5 million in the previous year, slightly further, by 3.3%, posting a new record high in the history of the group of EUR 214.4 million.

- Against the background of significantly higher selling as well as research and development expenses, earnings were considerably lower than in the previous year. EBIT dropped 26.4%, from EUR 38.2 million to EUR 28.1 million. Consequently, earnings per share also dropped, from EUR 2.09 to EUR 1.51.

- In view of the lower annual surplus and the strong rise of working capital, as well as the further increase in outflows for investments, which were already high in the previous year, free cashflow dropped to minus EUR 4.6 million – after a plus of EUR 25.9 million year-on-year.

[1] The sales figures are the gross values prior to any deductions in earnings of EUR 1.2 million (PY: EUR 0.3 million).

- Mühlbauer invested a total of EUR 33.2 million in fixed and intangible assets in order to keep it state-of-the-art, extend its capacities and to reinforce its leading global market position long term, thus exceeding the comparatively high level of the previous year of EUR 30.0 million by a further 10.7%. With the completion of a state-of-the-art technology and production center for the business line *Semiconductor Related Products* and the start of construction of two ultramodern production and technology centers in Roding and Serbia, Mühlbauer has created an important foundation for sustained growth.

- Being the technology and innovation-driven company it is, Mühlbauer invested EUR 29.5 million (PY: EUR 23.9 million) in research and development during the reporting period. This corresponds to an increase of EUR 5.6 million or 23.4%. The activities related primarily to the continuation of the one-stop solution concept in respect of government ID and card systems, to the increase of cost efficiency of existing types of systems, e.g. through continuous standardization processes and thus the utilization of synergy effects across business areas and products.

- The challenge Human Resource Management faced in the year under review was to find and recruit suitable employees; this is due to demographic change and the high level of demand for skilled personnel - particularly in the first half of the year. The Mühlbauer Group countered this development by extending its recruitment to the international level; in doing so, it benefited strongly from its proximity to Central and Eastern Europe. Furthermore, the global locations of the Mühlbauer Group were increasingly utilized to recruit staff for the company's Roding headquarters. In the context of the shortage of skilled personnel, the traditional, intensive trainee and apprenticeship policy of the company paid off.

- This year, again, the personally liable shareholder and the Supervisory Board want their shareholders to participate adequately in the company's earnings and will therefore propose the payment of a dividend of EUR 1.00 (PY: EUR 1.30) per no-par value share in respect of the 2011 financial year to the Annual General Meeting.

- On the global *Cards & TECURITY®* market and in the area of contactless identification by means of RFID Smart Labels, the Mühlbauer technology group is the only system partner; irrespective of the increasingly harsh markets, it considers itself well positioned to benefit strongly from the existing market potential. Against this background, Mühlbauer upholds its long-term strategy of growth and is expecting to increase sales and earnings year-on-year in 2012 and to achieve further growth in 2013. The solution provider considers the traditional imponderabilities that prevail and the project-heaviness in the government business, as well as the slowdown of industry and/or economic prospects, to be risks that could negatively impact this expectation.

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 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 500 employees in research and development as well as over 380 trainees underline the potential for further innovations and the focus on the future.

Strategy

The Muehlbauer 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 & 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.

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.

Key legal and economic factors

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

Global economy and euro zone

The strong growth momentum from 2010 continued in the year under review and an upturn at the beginning of 2011 generated hopes that the crisis had come to an end. In spring, initial economic losses occurred when Japan had to overcome the consequences of a serious earthquake and reactor catastrophe. Mid-year the focus was on the issue of national indebtedness within the euro zone and the USA, resulting in further insecurity on the financial markets. The low level of confidence in the political solutions suggested, the spread of the national debt crisis to the banking sector and the savings measures resolved increasingly put a damper on the economy. By the end of the year the euro zone finally hovered on the brink of recession. Due to the uncertainty regarding the future of the euro and the euro zone, the euro/dollar rate dropped 3.0% against the beginning of the year. The euro also lost in value against the yen, British pound and Swiss franc.

The US economy had to address a range of economic and political problems during the reporting period, diminishing growth to 1.7%. The growing national debt, a devaluation of creditworthiness, the unusually high level of unemployment and most recently the political blocks in Washington dampened domestic demand.

China, the largest national economy in Asia, lagged the high expectations despite growth of 9.3%. Analysts believe this is due to the lower demand for Chinese exports, higher interest rates and the more restrictive issue of loans. Japan's economic growth dropped 0.3% following the 2011 earthquake.

Uncomplicated.
Visionary.
Safe.

Time and again, innovations in cashless payment, intended to simplify transactions while ensuring a high standard of security, have led to the addition of functionality to bank cards. The conversion of conventional banking cards to the EMC standard or dual interface has already opened new paths toward security and flexibility. The giropay© or payWave© programs should facilitate contactless payment by means of near field communication (NFC), which will make more than just paying in a café go faster.

Mühlbauer offers its customers in industry the entire process chain for implementing card systems to develop new areas of application.


ID-Check is valid
Martina Specimen
1980/10/24
NR:00047112
IDENTIFY HERE
PAY
DebitCard
SAMPLE
MARTINA SPECIMEN

In view of this economic setting, the German national economy surprised many analysts with growth of 3.0% and a low rate of unemployment of 7.1%. The high order backlogs of German companies in the first half of the year ensured a good outlook medium-term, despite the sustained risk of recession. It was a noteworthy feature in 2011, that not only exports generated strong momentum but domestic demand as well.

The commodities market was extremely volatile in 2011. While the oil price (Brent) rose 18.2% against the beginning of the year, aluminum and steel prices (Dow Jones Steel Index) dropped approximately 20.0% or 21.3%, respectively.

Industry development

Cards& TECURITY®. The government-related TECURITY® market again proved to be extremely robust in respect of economic fluctuations in 2011. In the course of the year demand was in particular determined by the sustained need for security and the interest of governments and public authorities to offer their citizens more service and mobility. States and government-related institutions that are interested in ID solutions can largely be broken down into three categories: The first category comprises customers who want to introduce conventional ID documents or equip such ID documents with more security against forgery. The states and public authorities in the second category are considering to replace conventional ID documents with electronic ID documents. The third category includes interested parties, particularly from industrialized or emerging countries, that are investigating the introduction of a new generation of ID documents in order to implement the highest possible security standards, streamline administrations and offer their citizens a genuine added value. Dual interface cards, which represent an efficient and versatile solution due to the combination of contactless and contact-based card elements are particularly suitable for this purpose.

In the industry-related area the banking and the telecommunications sectors are of particular relevance to the Mühlbauer Group. In banking, the need for security and service predominantly determines demand. Latin America and Asia are currently investigating the introduction of chip-based EMV cards. Moreover, numerous financial institutions planned the use of dual interface cards for contactless payment transaction in the year under review. In the telecommunications sector, in particular in the GSM area, the large emergent national economies of China, India, Indonesia and Brazil ensured a high demand for SIM/UMTS cards. More than 6.0 billion cards (PY: 5.3 billion) were sold on the entire Smart Card market according to a survey conducted by Eurosmart.

Semiconductor Related Products. The semiconductor industry in which Mühlbauer specializes as a niche provider in the backend area, is particularly strongly impacted by economic fluctuations, as a supplier of different industries. While capacities and stocks were increased in the first half of the year due to the good economic situation, the semiconductor industry had to deal with losses of demand, overcapacities and high stocks in the second half of the year, following the economic slump. Despite this, the semiconductor market grew 0.9% in 2011 according to the Gartner market research institution, to a volume of USD 302.0 billion. In this context, a significant share of total demand was determined by the booming demand for Smartphones and tablet PCs.

While the conventional solar industry is under severe pressure, the niche thin-film technology market that is based on a flexible substrate, is expected to grow strongly. This future-oriented technology is not only more economical with regard to the use of resources, it also offers tremendous potential to increase the efficiency of the solar panels' production, logistics and installation processes. The active layer of these cells is applied to a thin and flexible film and undergoes further processing in the so-called roll-to-roll procedure. The flexibility of the films enables an architecturally more attractive integration of the solar cells in roofs and facades than is the case with conventional solar cells. The low weight, the high level of efficiency in diffuse light and the flexibility of the solar modules open up new areas of applications, in particular on the roofs of industrial buildings that are not designed to bear the static loads of conventional solar panels. Further areas of application can be found in mobile uses such as on clothing, cars, tents or in light aircrafts. Thus, 'flexible solar technology' can potentially become an essential element of a balanced energy mix within the renewable energies. According to Wintergreen Research, the total market volume had been estimated to amount to USD 3.0 billion as early as 2011.

The market research institute IDTechEx confirmed that the market for contactless identification through RFID Smart Labels would undergo a strong upturn in 2011. Due to the further reduction of the costs of label production, the implementation of various applications has become even more attractive. The increased dissemination of passive UHF-RFID Smart Labels in particular ensured stable growth in 2011. IDTechEx estimates the sales volume of the entire RFID industry to be approximately USD 5.8 billion for 2011 (PY: USD 5.6 billion). In so doing, the applications range from the use of the RFID technology for the optimization of logistics processes, e.g. in the shipping of goods, to contactless access control at events or in public transport, through to the improvement of goods and product security by providing protection against forgery and theft. According to its homepage, the fashion label, Gerry Weber, fitted 26 million garments nationally and internationally with RFID tags in the year under review and, furthermore, achieved record sales. According to an estimate by management, the introduction of the RFID technology pays off within a period of only two years as time savings of approx. 20.0% are already achieved with regard to the inspection of goods by staff. Apart from that, the entire logistics chain was designed more efficiently and transparently and, lastly, stock losses caused by transport and theft dropped to 1%.

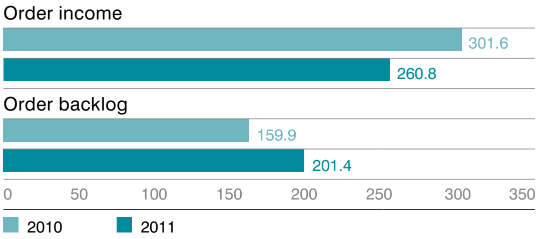
The Traceability-related industries and markets relevant to the industrial business developed positively in 2011. First and foremost, the automotive industry achieved record sales and top grades for export, production and sales. According to a study by the VDA (German Association of the Automotive Industry), sales rose 10.7% against the previous year, whereby demand was stimulated both nationally and internationally. Apart from the automobile industry, however, EMS (Electronics Manufacturing Services) and industrial electronics also benefited from this trend.

Precision Parts & Systems. The mechanical engineering industry, relevant to the *Precision Parts & Systems* segment celebrated a record year in 2011. The German mechanical engineering and plant construction market expanded inflation-adjusted by 12.0% to a volume of EUR 187.0 billion, according to VDMA (Verband Deutscher Maschinen- und Anlagebau – German Engineering Federation). Momentum was, in particular, generated by demand from China and the newly industrializing countries.

Business development

Order income and order backlog

Order income and order backlog in EUR million



Against the background of the natural fluctuation that occurs in the project business and the reduction in demand for semiconductor backend products in the second half of the year, the number of orders acquired in the year under review decreased by 13.5% to EUR 260.8 million (PY: EUR 301.6 million). Consolidated order backlog has, however, grown further, posting a new record high with growth of 26.0% to EUR 201.4 million (PY: EUR 159.9 million). On a regional breakdown, 92.1% (PY: 89.1%) of the order backlog relates to countries outside Germany, underpinning the group's international orientation. In parallel, the domestic share dropped from 10.9% to 7.9%.

Cards & TECURITY®. Due to the project-heaviness of its business, the core business area ***Cards & TECURITY®*** is regularly subject to fluctuations, which are also reflected in order income. Against this background, the order income generated during the reporting period was 14.8% lower, at EUR 170.4 million (PY: EUR 199.9 million). The orders awarded in the year under review include further government projects. Major orders were, in particular, acquired in newly industrializing countries; these orders extend from the provision of systems for the development of national databases – including data collection and personalization as well as process steps and materials relating to document production – through to the issue of the documents to citizens. On top of that, Mühlbauer acquired further orders for the supply of technology solutions for the production and personalization of industrial card applications, such as bank cards or GSM cards. Due to the fact that the terms of government projects sometimes span several years, the order backlog in the year under review rose 33.4%, to EUR 169.9 million (PY: EUR 127.4 million).

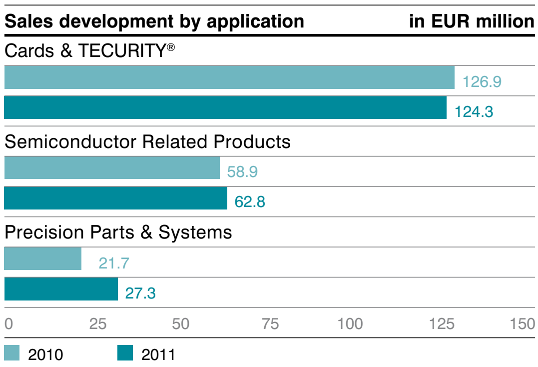
Semiconductor Related Products. Compared with the previous year, the orders generated in *Semiconductor Related Products* declined 19.5%, to EUR 60.7 million (PY: EUR 75.4 million). Following strong growth in the past year, the decisive factor for this development was the weakening of demand for semiconductor backend products, which commenced in the second half of 2011 and could not be compensated by the good business with RFID Smart Labels. Accordingly, the order backlog dropped 10.1%, to EUR 21.3 million (PY: EUR 23.7 million).

Precision Parts & Systems. *Precision Parts & Systems* benefited from the upturn in mechanical engineering sector. The order income of EUR 29.7 million not only represents a further increase of 12.9% against the already good order income of the previous year (PY: EUR 26.3 million). The total value of orders acquired in the year under review also marks a new record high in the history of the technology group. The order backlog also increased. At EUR 10.1 million, it exceeded the previous year's value (PY: EUR 8.8 million) by 14.8%.

Sales[2]

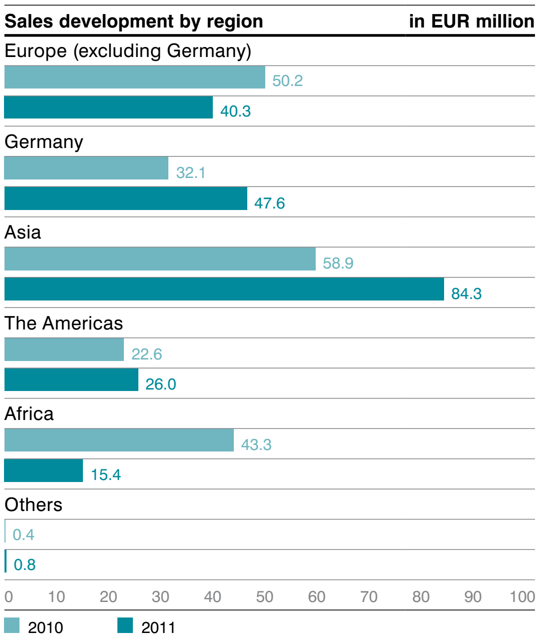
Based on the high order backlog of the previous year and the government projects, machine orders and production components acquired during the reporting period, the solution provider succeeded in further raising its earnings slightly, by 3.3%, against the previous year - in which it achieved a 30% increase to EUR 207.5 million. At EUR 214.4 million, this marks a new record high in the group's history.

Cards & TECURITY®. At EUR 124.3 million, the sales achieved in the core business area *Cards & TECURITY®* in the year under review are 2.0% down, year-on-year (PY: EUR 126.9 million). This slight decline is due to project-related differences with regard to the provision of services and booking of earnings, whereby sales in the reporting period were largely fed by the progressive implementation of government projects, which increasingly comprise the entire process chain from data collection through to the personalization of ID documents. The demand for industry-based technology solutions for the production of GSM and EMV-based cards further supported this development.



Semiconductor Related Products. At EUR 62.8 million, the sales achieved in *Semiconductor Related Products* were 6.6% higher year-on-year (PY: EUR 58.9 million). While sales in the year under review were largely driven by the high level of demand for automation solutions for the production of RFID Smart Labels and the interest for semiconductor backend solutions, which persisted until mid-year, it is also the first time that sales benefited from an order placed by the solar industry in the previous year.

Precision Parts & Systems. The record year of the German mechanical engineering sector is also reflected in *Precision Parts & Systems*. The high level of demand for highly precise parts and components of high quality from different industries led to a further sales increase of 25.8% to EUR 27.3 million, after a bold plus of 70.8% to EUR 21.7 million in the previous year.



On a regional breakdown, Asia remains the strongest-selling region with sales of EUR 84.3 million (PY: EUR 58.9 million) or growth of 43.1% in the year under review. Sales also increased markedly on the American continent. At EUR 26.0 million, the previous year's value of EUR 22.6 million was exceeded by 15.0%. While sales in Germany also underwent a significant increase of 48.3%, at EUR 47.6 million (PY: EUR 32.1 million), due to the excellent economic situation in the mechanical engineering sector, sales in Europe (excluding Germany) dropped 19.7%, to EUR 40.3 million, after EUR 50.2 million in the previous year. Sales also declined in the African region. Due to project-related reasons, sales dropped from EUR 43.3 million in the previous year by 64.4% to EUR 15.4 million in the reporting period.

[2] The sales figures are the gross values prior to any deductions in earnings of EUR 1.2 million (PY: EUR 0.3 million).

EARNINGS SITUATION

Earnings development

At EUR 28.1 million (PY: EUR 38.2 million), the operating income achieved by the Mühlbauer technology group within the year under review was considerably lower year-on-year. The reason for this decline in earnings is the distinct rise in selling expenses as well as research and development expenses while the gross profit virtually remained at the level of the previous year, at EUR 82.3 million. Taking into account a slight drop in financial result of EUR 0.1 million and a decline in income tax expenditure of EUR 1.9 million this results in earnings after tax of EUR 22.0 million (PY: EUR 30.3 million). Correspondingly, earnings per share fell from EUR 2.09 in the previous year to EUR 1.51 in the year under review.

Consolidated statements of income in millions	2011 EUR	%	2010 EUR	%	+/- EUR	%
Sales	**213.2**	**100.0**	**207.2**	**100.0**	**6.0**	**2.9**
Cost of sales	(130.9)	(61.4)	(124.8)	(60.3)	(6.1)	4.9
Gross profit	**82.3**	**38.6**	**82.4**	**39.7**	**(0.1)**	**(0.1)**
Selling expenses	(19.4)	(9.1)	(14.9)	(7.2)	(4.5)	30.2
Administrative expenses	(9.0)	(4,2)	(8.1)	(3.9)	(0.9)	11.1
Research and development expenses	(29.5)	(13.8)	(23.9)	(11.5)	(5.6)	23.4
Other income	4.8	2.3	4.6	2.2	0.2	4.3
Other expenses	(1.1)	(0.5)	(1.9)	(0.9)	0.8	(42.1)
Operating income (EBIT)	**28.1**	**13.2**	**38.2**	**18.4**	**(10.1)**	**(26.4)**
Financial result	0.3	0.1	0.4	0.2	(0.1)	(25.0)
Income before income taxes	**28.4**	**13.3**	**38.6**	**18.6**	**(10.2)**	**(26.4)**
Income taxes	(6.4)	(3.0)	(8.3)	(4.0)	1.9	(22.9)
Net earnings	**22.0**	**10.3**	**30.3**	**14.6**	**(8.3)**	**(27.4)**

Analysis of earnings development

Compared to the previous year, the group was again able to raise sales slightly, by EUR 6.0 million or 2.9%. At the same time cost of sales rose EUR 6.1 million or 4.9%, from EUR 124.8 million in the previous year to EUR 130.9 million in the 2011 financial year so that the gross profit remained virtually unchanged, at EUR 82.3 million. In relation to sales, cost of sales rose to 61.4% in the 2011 financial year, compared to 60.2% in the previous year. This development is largely due to the rise in personnel costs and the higher depreciations associated with the continued investment activities.

In the 2011 financial year, selling expenses rose by EUR 4.5 million or 30.2%. The rise is in particular due to the EUR 2.4 million higher project-based marketing and advertising expenditure and the EUR 1.8 higher personnel expenses. General administrative costs also rose EUR 0.9 million or 11.1% to EUR 9.0 million. This increase is primarily due to rises of all expenses covered by this cost item, such as liability insurance or consultancy services. The share of selling expenses in percent of sales rose from 7.2% to 9.1% against the previous year while administrative expenses climbed from 3.9% to 4.2%. In the context of the further reinforcement of research and development activities, research and development expenses increased by EUR 5.6 million or 23.4% year-on-year. This rise is associated with the recruitment of new staff and the resulting, EUR 2.9 million higher personnel costs. Capitalized own funds, which relieve the functional area, dropped by EUR 1.6 million against the previous year. Based on sales, research and development expenses climbed from 11.5% in the previous year to 13.8% in the 2011 financial year.

Other 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. At EUR 4.8 million (PY: EUR 4.6 million), other income remained relatively constant in the year under review. The development of the individual items, however, varies considerably. Thus, earnings from the reversal of accruals dropped EUR 1.5 million, while income from insurance and other compensation payments rose by EUR 1.0 million and foreign currency gains increased by EUR 0.5 million. The decline of other expenses from EUR 1.9 million in the previous year to EUR 1.1 million in the year under review largely results from the discontinuation of the losses from currency valuation of EUR 1.0 million, offset against the increase of losses from the sale of long-term assets of EUR 0.1 million.

With a positive value of EUR 0.3 million, combined earnings from securities and interest income, included in the financial result, are EUR 0.1 million under the level of the previous year. The reason for this decline is, in particular, price losses from short-term securities.

In total, the company posts earnings before taxes of EUR 24.8 million. This figure is EUR 10.2 million under the previous year's value (PY: EUR 38.6 million) and corresponds to a return on sales of 13.3%, after 18.6% in the previous year.

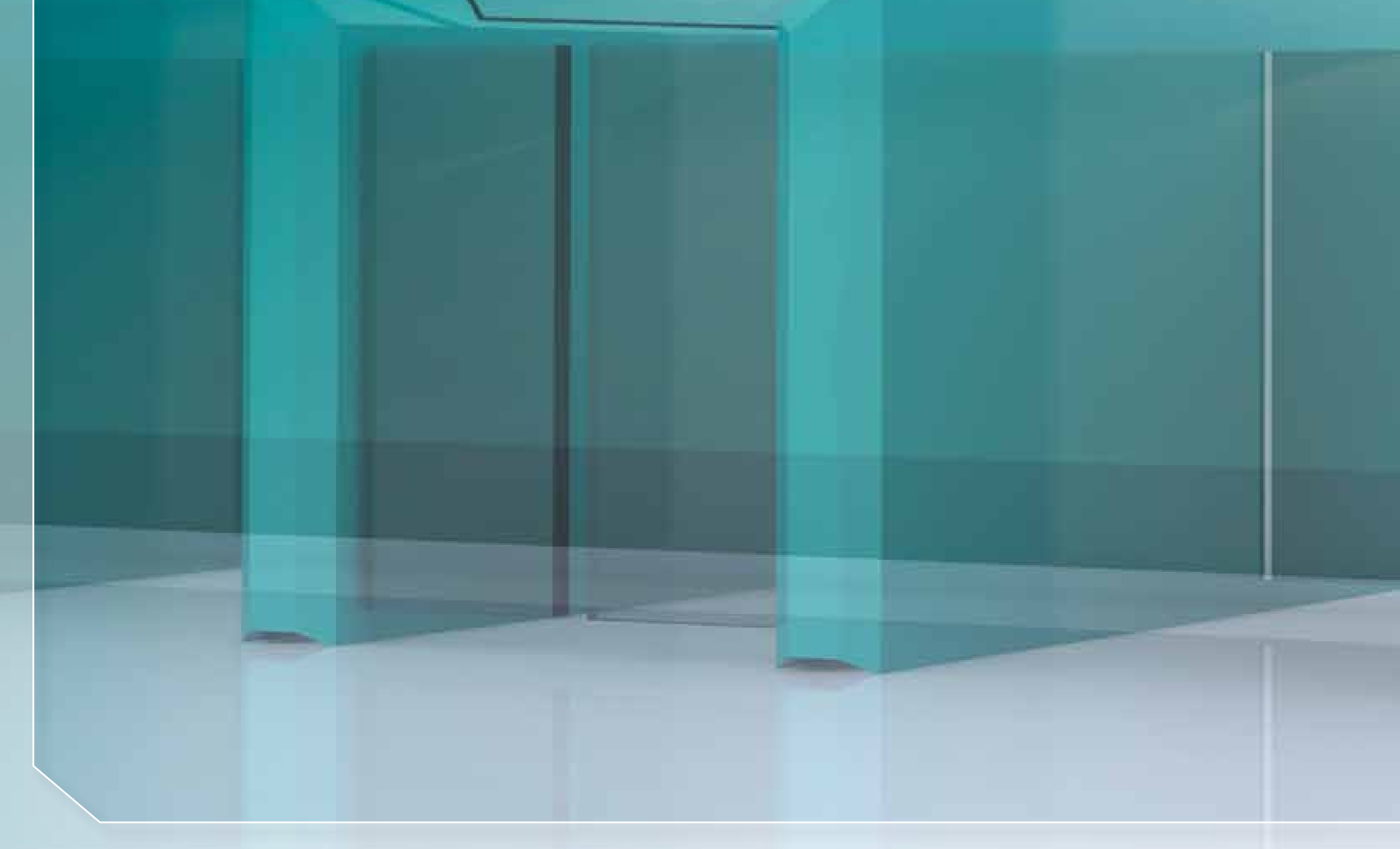
At EUR 22.0 million in the 2011 financial year, the Mühlbauer technology group posts EUR 8.3 million lower consolidated net income for the year than in the previous year (PY: EUR 30.3 million). At 22.6%, the tax rate was 1.0% points over the previous year's value of 21.6%. This is also in part due to the recording of deferred tax assets on loss carryovers in the statements of income. In relation to individual shares, earnings were EUR 1.51, after EUR 2.09 in the previous year.

Dividend

The company wants to continue its dividend policy of previous years and enable its shareholders to participate adequately in the company's earnings. The personally liable shareholder and the Supervisory Board will therefore propose the payment of a dividend of EUR 1.00 (PY: EUR 1.30) per no-par value share in respect of the 2011 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 8 million). The personally liable shareholder will receive EUR 8.5 million (PY: EUR 11.0 million), in accordance with his capital share.

Fast. Simple. Reliable.

In the Age of Globalization, the world continues to grow closer together, and the increasing numbers of those traveling in a mobile, steadily growing world population require fast, secure solutions. Ninety million passengers were processed in the Atlanta airport in the US alone – a challenge for any infrastructure. To keep pace with the growing volume of visitors and passengers in the future as well, Mühlbauer developed the Fast Gate series. These fully automated access terminals combine the latest technology with user-friendly design and unbeatable cost efficiency. The Fast Gate can be expanded with numerous modules as required, including biometric recording, video monitoring or printing boarding tickets. Our technology has already been proven at numerous airports throughout the world and is distinguished daily by its efficiency and reliability.



FINANCIAL SITUATION

Cashflow

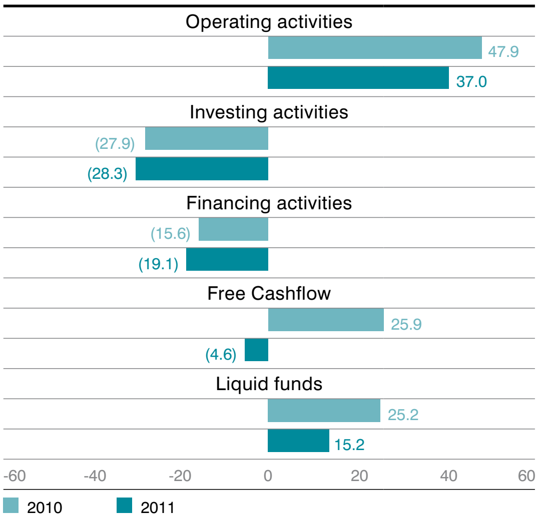
The cashflow demonstrates the origin and utilization of cashflows in the reporting periods. It thus plays a key role in evaluating the financial situation of the company. The outflows from investment and financing activities are determined in direct relation to payments. The inflows from operating activities 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.

Consolidated statement of cashflows in millions	2011 EUR	2010 EUR	+/- EUR	%
Cashflow from operating activities	37.0	47.9	(10.9)	(22.8)
Cashflow from investing activities	(28.3)	(27.9)	(0.4)	1.4
Cashflow from financing activities	(19.1)	(15.6)	(3.5)	22.4
Free cashflow	(4.6)	25.9	(30.5)	(117.8)
Liquid funds	15.2	25.2	(10.0)	(39.7)

In the year under review, inflows from operating activities totaled EUR 37.0 million and was thus EUR 10.9 million lower year-on-year (PY: EUR 47.9 million). This development is primarily attributable to the EUR 8.3 million lower net earnings and the marked increase of working capital by EUR 13.3 million. In contrast, cashflows from transactions with short-term marketable securities (Reporting period: plus EUR 13.4 million; PY: minus EUR 5.8 million) relieved the cashflow from operating activities.

At EUR 28.3 million, the outflow from investment activities was 1.4% or EUR 0.4 million higher than in the previous year (PY: EUR 27.9 million). This upturn is predominantly due to the increasing number of investments in fixed assets, primarily into our production and technology sites in Germany.

Cashflow from **in EUR million**



In the 2011 financial year, outflows from financing activities totaled EUR 19.1 million (PY: EUR 15.6 million) and were predominantly associated with the distribution of profits in the financial year of EUR 17.3 million (PY: EUR 13.9 million) to the shareholders and the personally liable shareholder. The EUR 1.9 million higher payouts against the previous year, in respect of the personally liable shareholder's personal tax payments led to a further outflow in the year under review. 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 2011 financial year, is not yet included in the cashflow statement for 2011, as no resolution has been passed so far and no outflow has occurred.

Liquid funds, as the total of the individual cashflows and the additional differences of currency conversion, decreased by EUR 10.0 million year-on-year, to EUR 15.2 million (PY: EUR 25.2 million).

Free cashflow

In view of the lower net income for the year, the strong rise of working capital, as well as the further increase in outflows for investments, which were already high in the previous year, free cashflow dropped to minus EUR 4.6 million – after a plus of EUR 25.9 million year-on-year.

Capital requirements and refinancing

In the 2012 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 that can be disposed of to the end of 2011 of a total of EUR 39.4 million, of which EUR 14.6 million had been utilized by this time in the form of sureties.

ASSET SITUATION

Consolidated balance sheet total

As at 31 December 2011, the consolidated balance sheet total rose EUR 22.0 million or 10.3% to EUR 235.3 million (PY: EUR 213.3 million) year-on-year. This reflects both continued strong investment activities and a buildup of inventory assets. Thus, long-term assets rose by EUR 12.6 million (EUR 14.7 million), due largely to the net-investments in fixed assets, while short-term assets rose EUR 9.4 million. In relation to the balance sheet total, long-term assets rose from 38.5% in the previous year to 40.3% in the year under review, while short-term assets for the same period dropped from 61.5% to 59.7%. Total liabilities increased by EUR 18.5 million or 32.7%, as at 31 December 2011. Short-term liabilities rose by EUR 19.3 million or 35.3%, while long-term liabilities decreased by EUR 0.8 million or 44.4%. As at 31 December 2011, shareholders' equity climbed by EUR 3.5 million or 2.2%. The equity ratio was 68.1% on 31 December 2011 (PY: 73.5%).

Balance sheet (outline) in millions	2011 EUR	%	2010 EUR	%	+/- EUR	%
Short-term assets	140.5	59.7	131.1	61.5	9.4	7.2
Long-term assets						
Financial assets	0.7	0.3	1.9	0.9	(1.2)	(63.2)
Fixed assets	82.8	35.2	68.1	31.9	14.7	21.6
Intangible assets	7.0	3.0	7.4	3.5	(0.4)	(5.4)
Long-term tax receivables	1.8	0.7	2.0	0.9	(0.2)	(10.0)
Deferred tax assets	0.9	0.4	1.5	0.7	(0.6)	(40.0)
Other long-term assets	1.6	0.7	1.3	0.6	0.3	23.1
Total assets	**235.3**	**100.0**	**213.3**	**100.0**	**22.0**	**10.3**
Short-term liabilities	74.0	31.5	54.7	25.6	19.3	35.3
Long-term liabilities	1.0	0.4	1.8	0.8	(0.8)	(44.4)
Shareholders' equity	160.3	68.1	156.8	73.5	3.5	2.2
Total liabilities	**235.3**	**100.0**	**213.3**	**100.0**	**22.0**	**10.3**

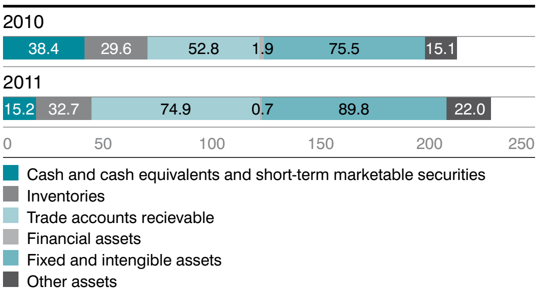
Short-term assets

In the year under review, the continued rise of business volume was predominantly reflected in the inventory assets, which increased by EUR 22.1 million, also due to the placement of orders. In addition, other accounts receivable and other assets rose by EUR 7.0 million; this is primarily attributable to investment-related higher claims for public funding of EUR 2.9 million and downpayments of EUR 2.2 million received by the company. Likewise, trade accounts receivable increased by EUR 3.1 million. In contrast, cash and cash equivalents as well as short-term marketable securities declined by EUR 23.2 million.

Long-term assets

Within long-term assets, fixed assets rose EUR 14.7 million, or 21.6%, due to the investments effected during the reporting period, offset against depreciations and disposals. The reduction of intangible assets by EUR 0.4 million includes the increase of software and licenses by EUR 0.8 million; this figure is offset against the capitalized development expenses of EUR 1.2 million, which are still declining as a result of depreciation. Long-term trade accounts receivables dropped EUR 1.2 million, to EUR 0.7 million - largely due to project-related settlements. The deferred taxes formed in the previous year were reduced by EUR 0.5 million in the year under review as a result of accumulated tax-related loss carryovers of national group companies.

Balance sheets structure for assets **in EUR million**



Short-term liabilities

The virtually consistent rise of all items within short-term liabilities reflects the further increase of business activities during the reporting period. Thus, downpayments received in respect of commissions have grown by EUR 6.0 million to EUR 22.9 million, in relation to orders, while the EUR 11.4 million climb of trade accounts payable reflects the high purchase volume. The significant increase of other accruals by EUR 3.8 million is partly attributable to guarantees and remaining services to be provided in respect of invoiced customer orders. In contrast, accrued taxes declined by EUR 1.9 million, in relation to earnings.

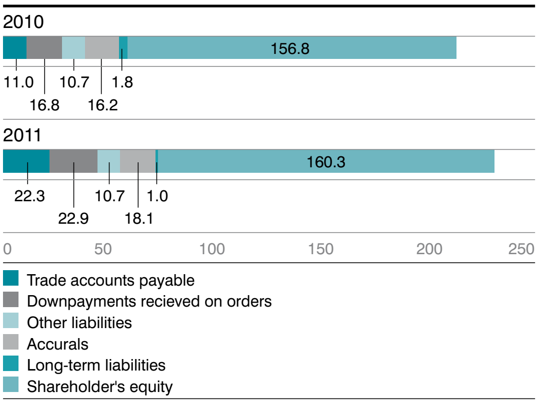
Long-term liabilities

On the reporting date long-term liabilities amounted to EUR 1.0 million (PY: EUR 1.8 million). These only include the deferred taxes that IFRS has determined must be posted as long-term liabilities.

Shareholders' equity

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.

Balance sheets structure for liabilities **in EUR million**



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.

SECURA Vermögensverwaltungs GmbH, headquartered in Metten – a company fully controlled by the personally liable shareholder – participates in the ordinary share capital of Mühlbauer Holding AG & Co. KGaA with 3,296,852 no-par bearer shares, or 52.50%. This value comprises 2,000,000 no-par bearer shares or 31.85% of the ordinary share capital in respect of which SECURA Vermögensverwaltungs GmbH has entered into a voting agreement. The personally liable shareholder made a commitment to the company, commencing 9 September 2002, for a term of ten years, not to exercise the voting right for these shares as long as he owns them.

Following the transfer of the no-par bearer shares from the personally liable shareholder to SECURA Vermögensverwaltungs GmbH, SECURA entered into this commitment.

The only exclusion from this commitment are cases in which the exercise of the voting right or the perception of the right to participate is necessary to avert serious damage from the company.

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

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)	2011	2010
1 Investment rate	40.3%	38.5%
2 Rate of circulation	59.7%	61.5%
3 Inventories to total capital	31.8%	24.8%
4 Rate of inventory turnover	3.3	4.3
5 Turnover time of inventories in days	108	84
6 Days of sales outstanding	53	59
7 Equity ratio	68.1%	73.5%
8 Return on equity	13.9%	20.6%
9 Total return on capital	9.8%	15.6%
10 Equity-to-fixed assets ratio	193.6%	230.2%
11 Personnel expenses ratio	37.1%	32.6%
12 Material costs ratio	36.5%	35.4%
13 R&D ratio	13.8%	11.5%
14 EBIT ratio	13.2%	18.4%

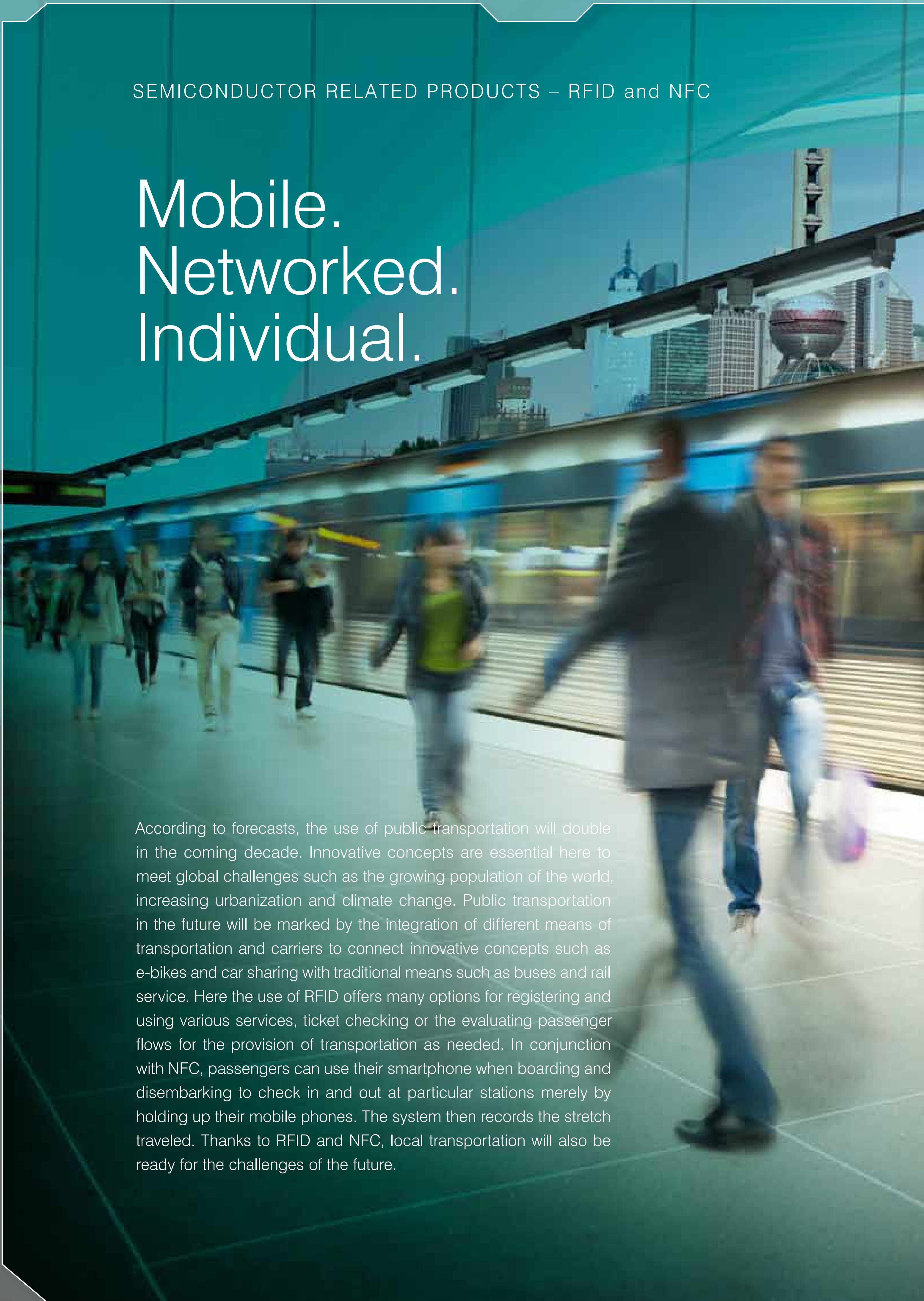
1 **Investment rate** =
Long-term assets/Total assets
2 **Rate of circulation** =
Short-term assets/Total assets
3 **Inventories to total capital** =
Inventories/Total assets
4 **Rate of inventory turnover** =
Sales/Average inventories
5 **Turnover time of inventories in days** =
Average inventories * 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). Free cashflow is used to determine the change in the company's financial resources after deducting all payments effected in respect of the organic maintenance or extension of the company. The form in which value-oriented management is practiced within the individual business processes varies. Procurement not only monitors the level of purchase volumes and delivery delays, but focuses also on the monitoring of purchase commitments as well as accurate signaling of material requirements. In addition, efficacies of cost reduction programs and investment rates are monitored. 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. Additional, an ERP- based order information system is used as a tool for manufacturing control. 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 by means of staff change values, 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 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 promptly 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.

Mobile. Networked. Individual.



According to forecasts, the use of public transportation will double in the coming decade. Innovative concepts are essential here to meet global challenges such as the growing population of the world, increasing urbanization and climate change. Public transportation in the future will be marked by the integration of different means of transportation and carriers to connect innovative concepts such as e-bikes and car sharing with traditional means such as buses and rail service. Here the use of RFID offers many options for registering and using various services, ticket checking or the evaluating passenger flows for the provision of transportation as needed. In conjunction with NFC, passengers can use their smartphone when boarding and disembarking to check in and out at particular stations merely by holding up their mobile phones. The system then records the stretch traveled. Thanks to RFID and NFC, local transportation will also be ready for the challenges of the future.

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 500 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. After all, only employees who feel well and safe within their working environment can permanently provide very good performance. 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 notification 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 particular risks. Despite of these preventive measures, the number of staff off sick due to occupational accidents and the number of accidents per 1,000 employees that needed to be reported increased only slightly overall in the reporting year at 0.15% and 40 employees compared to the previous year (0.17% and 24 employees), which is to be rated all the more positively in light of the substantially increased number of working hours year-on-year.

Another important contribution toward working in an efficient manner is Mühlbauer's corporate healthcare. This not only comprises the services of a company medical officer who performs the statutory preventive occupational medical examinations for all employees and is available in the event of acute illnesses, but also unusual preventive health services. The employees can utilize a modern fitness center, covering 1,500 m^2, enabling employees to combat a lack of exercise in everyday working life with sports activities. Under the expert guidance of qualified fitness trainers and physiotherapists, a health-oriented training can, for example, balance or prevent physical impacts caused by the workplace. The measures and services offered by Mühlbauer in connection with occupational safety not only enhance employee motivation but are also reflected in lower illness-related expenses in the long term. Across the group, the average number of staff off sick increased slightly to 8.3 days (PY: 7.0 days) but is still substantially below the average of approximately 13.0 days for Germany as a whole.

Personnel development

As an attractive and responsible employer, Mühlbauer places great value on maintaining a fair and constructive partnership with its more than 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 380 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 13.5% 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 26.0% and increased from the figure in the previous year (21.2%). 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.

Social commitment

Within the Mühlbauer Group, social commitment ranks high. The company not only appreciates the voluntary commitments of its employees but considers it important to accept social responsibility within society itself. Under the umbrella of the Josef Mühlbauer Foundation, initiated by the company's founder, the company supports selected social initiatives and projects with major monetary donations both nationally and internationally. Even the traditional Mühlbauer-Run which was hosted for the seventhtime in the year under review and which was one of the largest running events in the region with about 2,000 participants, fully reflects the company's social commitment. Through the involvement of sponsors, employees and external participants, the Mühlbauer Run generated total donations of some 100,000 USD, this amount was increased by further 100,000 EUR by Josef Mühlbauer. The donations will be used to finance a school in Mpouya, Congo, and thus give needy local children a future through professional training and is equipped with a residential school, cantina and a work shop. Furthermore, local kindergartens in Roding and Mitterdorf were supported.

FACTOR INPUT

Investments

In 2011, the Mühlbauer Group upscaled its investment activities even further, in order for the company to remain state-of-the-art and extend capacities, thus securing sustained corporate growth. Investments focused on the acquisition of ultramodern machines and plants at the two German production sites Roding and Stollberg for the modernization and extension of the machinery, as well as structural changes and extensions in *Precision Parts & Systems*. Furthermore, retrospective manufacturing costs in respect of a technology and production centre in the business area *Semiconductor Related Products* were capitalized, while office and business equipment as well as the fleet underwent further modernization. Investments in intangible assets focused on development costs as well as costs associated with the introduction of an ERP system. At a total of EUR 33.2 million, the gross investment volume of the Mühlbauer Group in fixed and intangible assets in the 2011 financial year exceeded the previous year's value of EUR 30.0 million.by 10.7%, topping the corresponding depreciation values significantly.

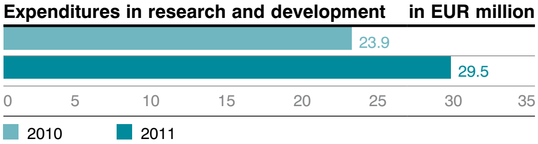
On a regional breakdown, net investments focused on Europe, with EUR 28.3 million (PY: EUR 27.0 million), concentrating on Roding and Stollberg, in particular, followed by America with EUR 2.2 million.

The investment rate, which depicts the ratio of investments to sales, rose, from 14.5% in the previous year to 15.6%. The investments were fully financed by the operative cashflow.

Research and development

The corporate philosophy of the Mühlbauer Group is based on sustained growth through innovation. The group's technological leadership and market position is to be secured and further extended by means of new procedures and products. In this context, Mühlbauer sees itself as a provider of one-stop solutions who not only provides hardware but also sophisticated software solutions. This philosophy and the company's own high claim toward innovations are reflected in the highest investments in research and development ever made in the company's history. Overall, research and development expenditure in the 2011 financial year amounted to EUR 29.5 million, thus exceeding the previous year's level of EUR 23.9 million by 23.4%. Based on sales, the R&D based ratio amounted to 13.8% (PY: 11.5%). To the end of the year, an interdisciplinary team consisting of a total of 501 highly qualified staff (PY: 421) worked towards continuous new and further developments in the group's development departments in Germany, Malaysia and Slovakia. Additionally, research and development cooperations with universities, research institutes and other companies exist 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, the group registered 35 industrial property rights (PY: 25).

Expenditures in research and development **in EUR million**



In the *Cards & TECURITY®* area, the research and development activities largely focused on the continued increase of efficiency of standard products. In the card personalization area, the ID1 and ID3 formats were complemented by further process modules and the ID6000 personalization system underwent further development. The product range was additionally extended by a new entry level card inspection machine with a throughput of 20,000 cards per hour. Research and development activities in the card production area centered on new approaches for the application of DOVIDs - so-called visual security features for ID cards and other security documents. As a result of the further extension of the so-called "Eco Line", a simple and reliable machine generation, the company further consolidated its competitive lead, particularly in respect of Asian competitors.

One of the outstanding new developments in 2011 is the SCP60, a desktop personalization solution for card and ID documents. This fully modular desktop system - the world's first - was developed for the purpose of offering even more flexible solutions on the decentralized ID and banking market. On top of that, a newly developed embosser generation commenced operation.

Another focus of development in *Cards & Tecurity®* was on the continuous standardization of the basic modules in order to simplify production processes through synergy effects and reduce costs.

The business area *Semiconductor Related Products* also conducted intensive research and development work. From May 2012 onwards, an industrial personalization system for RFID Smart Labels and RFID tickets will extend the technology group's product portfolio, as new development.

The goal in all sections of the business area was, furthermore, to improve the scope of services and functions through continuous development work, to boost quality and optimize costs. The die sorter system DS20000, which is a consistent further development of the DS15000, is an example for this. This system achieves a 25.0% higher speed of operation of 20,000 units per hour, while retaining a constant performance with regard to the depth of inspection. The inspection machines were also extended by even more comprehensive inspection options.

In the RFID area further cost optimizations were achieved in respect of the systems, while production stability was improved. Furthermore, the solution competence for personalized RFID Smart Labels underwent further extension.

The standardization of parts and components was pushed ahead, particularly in the solar and RFID areas. The intention behind this is not only to reduce costs but also to optimize production and logistics processes across different international sites.

Purchasing and procurement

The purchasing and procurement area of the Mühlbauer Group not only faced major challenges as a result of the changing economic situation in the year under review; the effects of the economic crisis could also be felt well into 2011 and were characterized by supplier default, capacity bottlenecks and partly drastic extensions of delivery period. The reduction of staff, stocks and production throughputs by suppliers posed problems, in particular when demand for parts and materials rose rapidly in connection with a project. As a result of the tense market conditions, all procurement materials underwent partly considerable price increases, impairing the ongoing cost savings endeavors of the Mühlbauer Group.

The Mühlbauer Group utilized its global presence to its benefit in order to master the challenges on the procurement market. On the basis of its regional and global sourcing, the Mühlbauer Group was able to both reduce its dependence on individual suppliers and counter long delivery periods. An additional measure in the 2011 financial year was the increase of the minimum amounts of sensitive parts held on stock in order to ensure a faster supply of materials and spare parts to our customers and our internal production. All these measures were, on principle, effected under the premise of obtaining the same or better quality at the best and most favorable price.

The project-related differences in the composition of large-scale orders resulted in higher costs for raw, auxiliary and operating materials as well as for acquired services. Consequently, in 2011 these totaled EUR 77.9 million (PY: EUR 73.3 million). The company's purchasing strategy will continue to place great value on a uniformly intensive cooperation and partnership with its most important suppliers. In this process, the principle "Centralized negotiation – decentralized purchasing" will be further consolidated through the increasing internationalization and independence of our most important sites abroad. Furthermore, as a result of the intensified cooperation between Procurement and Development, cost drivers and dependencies among our products are continuously identified and rectified, without affecting quality. Historically developed purchasing and procurement processes were and will be subjected to an intensive analysis and continuously optimized in connection with the introduction of the new ERP system (Enterprise Resource Planning) in the year under review. On top of that, supplier screening and procurement market research were further intensified and extended.

EMPLOYMENT

Corporate culture and personnel policy

For over thirty years, Mühlbauer has placed great value on the establishment and further development of its corporate culture. Identification with the company, commitment and reliability are only a few of the values that are applied and exemplified by the Mühlbauer Group. These values are also part of our code of conduct for ethical, fair and legally compliant action, which both management and employee undertake to observe. The group's intercultural orientation, a transparent organization with clear responsibilities, as well as open communication structures are part of the group's long-term personnel policy. This pays off, particularly when staff need to trust the group's management, as in the erratic economic environment of 2011. Irrespective of the economic fluctuations encountered, the group offers its staff the utmost in workplace security.

Focal points

The challenge Human Resource Management faced in the year under review was to find and recruit suitable employees; this is due to demographic change and the high level of demand for skilled personnel – particularly in the first half of the year. The Mühlbauer Group countered this development by extending its recruitment to the international level; in doing so, it benefited strongly from its proximity to Central and Eastern Europe. Furthermore, the global locations of the Mühlbauer Group were increasingly utilized to recruit staff for the company's Roding headquarters. In the context of the shortage of skilled personnel, the traditional, intensive trainee and apprenticeship policy of the company paid off. It is the company's declared goal to offer staff trained by the company regular employment with the company directly on completion of their traineeship or apprenticeship. Young professionals benefit from a transparent career and further development opportunities with the company from the very start of their training. Internal recruitment was in particular accompanied by flexible working time models to upwardly adjust personnel capacity within the company short-term so that only very little use was made of temporary employment.

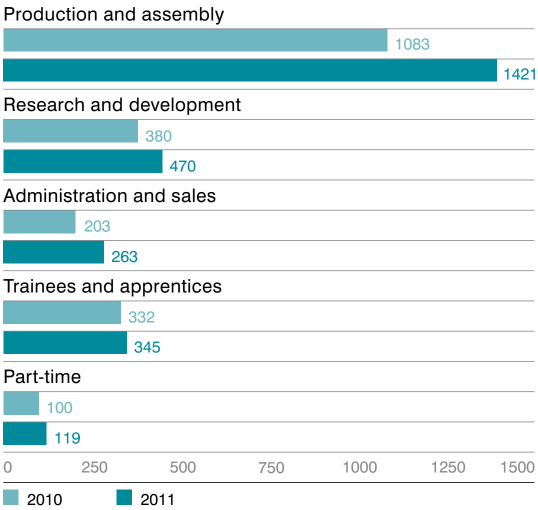
Employee structure

To the end of 2011, Mühlbauer employed 2,835 staff (PY: 2,263) throughout the Group, thereof approx. 31.2% outside Germany (PY: approx. 21%). While the average number of employees increased against the previous year, personnel expenditure rose 17.0%, to EUR 79.1 million (PY: EUR 67.6 million). Salaries and wages accounted for EUR 65.9 million (PY: EUR 56.3 million) and social security contributions amounted to EUR 13.2 million (PY: EUR 11.3 million).

Recruitment of trainees and apprentices

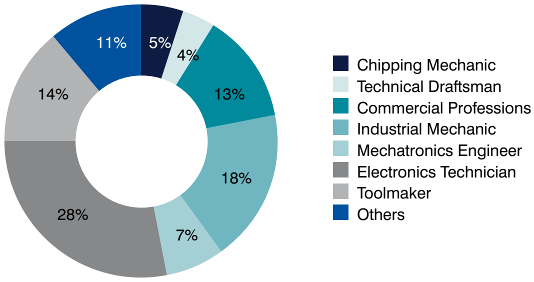
Mühlbauer considers the vocational training of young, qualified persons an investment in the future. Both demographic change and globalization result in constant changes to the qualifications required from skilled professionals. Mühlbauer's commitment to training is pro-active – in order to secure dedicated and qualified young talents from within the company.

Development of the average employee structure



In the year under review, 119 (PY: 120) new trainees and apprentices were recruited throughout the Group so that the company employed 384 (PY: 363) young people as trainees and apprentices in 14 different trades and commercial professions to the end of the reporting period. This corresponds to a training quota of 13.5% (PY: 16.0%); a value that still significantly exceeds the national average of approx. 7%. Apart from general vocational training, the Mühlbauer Group also enables dual vocational training including a university of applied sciences entrance qualification by participating in the DBFH model. Trainees and apprentices not only acquire a certificate of proficiency but also a university of applied sciences entrance qualification, which enables them to undertake a course of study. This course of education within the dual vocational training system takes into consideration both the altered specifications towards junior staff and the demands of business in respect of briefer training periods. Moreover, in cooperation with regional universities of applied sciences, Mühlbauer offers school leavers holding the university of applied sciences entrance qualification, the training model of an integrated degree program, in which in-house training is offered in parallel with a fully fledged course of study, with the goal of achieving a bachelor's degree. In 2011, nine young employees utilized the opportunity offered by the integrated degree program and studied mechatronics. With regard to the recruitment of junior staff with an academic background, Mühlbauer continued its intensification of contacts to universities at national and international locations and participated in numerous career fairs and lecture evenings. Furthermore, Mühlbauer is keen to provide interested students with practical experience at an early stage. In the year under review, 171 students (PY: 109) utilized the opportunity to familiarize themselves with the company during their period of study in the context of work experience, as student trainees and undergraduates.

Vocational training structure to the year-end **in %**



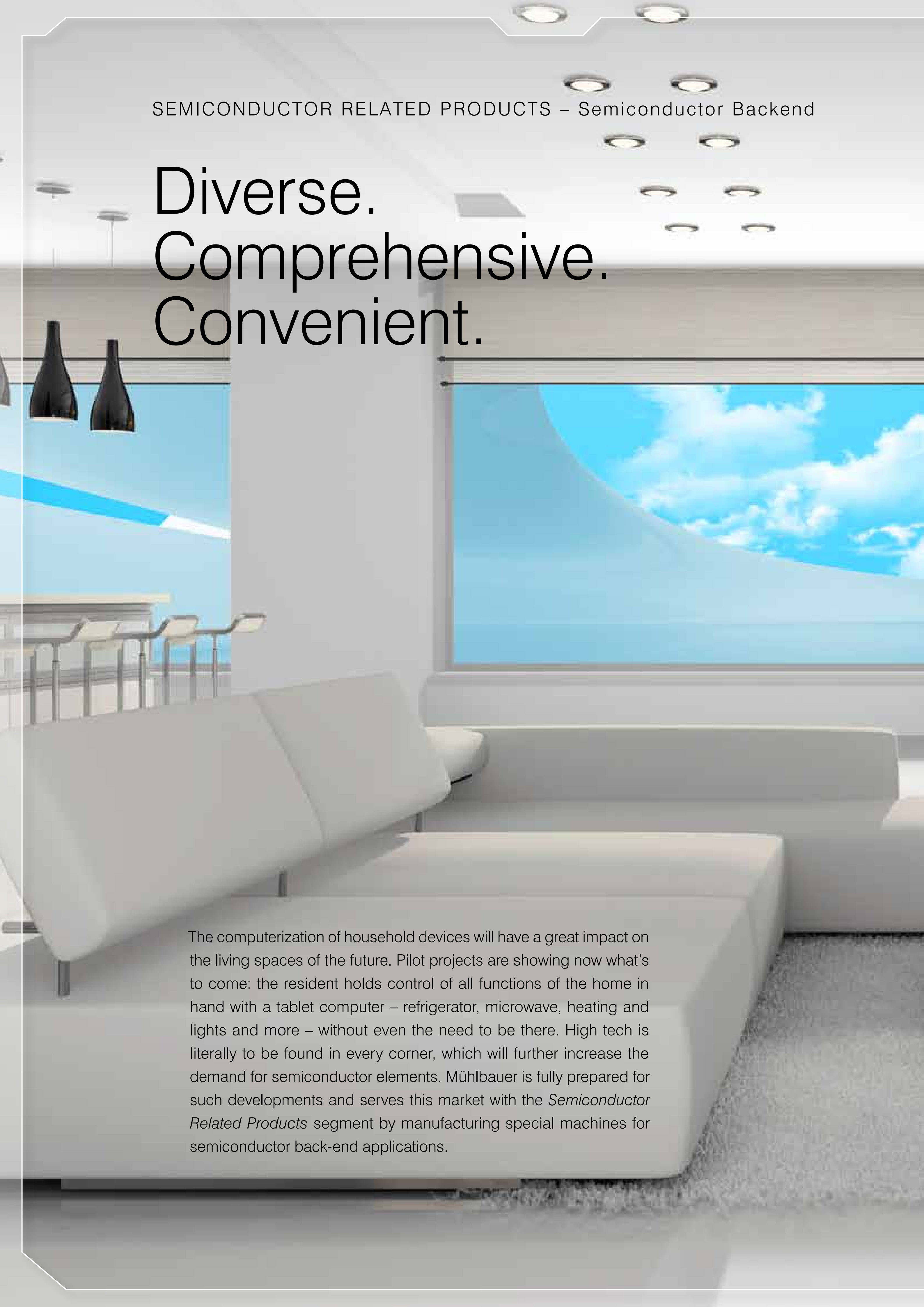
Personnel development

Mühlbauer's potential is its staff. Therefore, the company again continually pursued its efforts in personnel development in 2011, with the objective of enabling both individual employees and teams to successfully and efficiently master tasks and new challenges within the organization. With the assistance of the company's own "Mühlbauer Academy", the internal transfer of knowledge was targetedly promoted through training by company employees for employees of all levels; also, further education measures such as executive training courses, language courses and customized qualification measures that reinforce methodical and social competencies were offered by external partners. In this context, the regular staff appraisals were also organized and restructured in the period under review in order to analyze current development levels and determine possible further education or training needs.

EVENTS AFTER THE END OF THE 2011 FINANCIAL YEAR

There were no other events of fundamental importance that occurred after the end of the 2011 financial year.

Diverse. Comprehensive. Convenient.



The computerization of household devices will have a great impact on the living spaces of the future. Pilot projects are showing now what's to come: the resident holds control of all functions of the home in hand with a tablet computer – refrigerator, microwave, heating and lights and more – without even the need to be there. High tech is literally to be found in every corner, which will further increase the demand for semiconductor elements. Mühlbauer is fully prepared for such developments and serves this market with the *Semiconductor Related Products* segment by manufacturing special machines for semiconductor back-end applications.

02:46AM
10/01/21
Room automation
Lighting
Sun protection
Room climate
21 °C
Temperature
5kW
Power

RISK REPORT

Our endeavor to further extend Mühlbauer's market position globally without losing track of the sustained value-oriented development of the company entails opportunities and risks. The risk policy of the Mühlbauer Group therefore not only consists of the perception of existing opportunities but also of the early recognition and evaluation of risks, as well as their delimitation and control by means of suitable countermeasures.

For this purpose, the company utilizes an opportunity and risk management system that has been established for several years and that is constantly further developed and monitored for efficiency. The sensitization of all staff to report and monitor identified risks at an early stage is communicated and executed across the Group. The legally required risk management is comprehensively documented in a risk management manual and can be viewed by all staff worldwide. Short interaction paths result in the rapid and unbureaucratic notification of newly identified risks to the Risk Committee or a member of the Management Board.

The risk report resulting from the half-yearly risk inventory and supplemented through quarterly inquiries of the risk-owners of all group companies is drawn up centrally and, in addition to other reporting elements, is used by management to control the company in a value-oriented way. It provides information on all individual risks of the Group, presents their development in chronological order and breaks them down into individual area portfolios. Their evaluation on the basis of probability of occurrence and extent of damage in dependence on earnings before interest and taxes is effected by the respective executive responsible for the risk. The plausible calculation of the possible expectancy, the provision of a detailed reason, the listing of countermeasures and the scheduled date of their implementation are mandatory and are discussed in detail in Risk Committee meetings.

All executives are responsible for monitoring the implementation and effectiveness of the opportunity and risk management. At the same time, the efficiency of the system is monitored by an independent third party on the basis of regular internal audits and further optimized. As in previous financial years, the auditors have evaluated the early recognition system utilized in the year under review. They have ascertained that it meets statutory requirements.

Currently, no developments can be discerned within the Mühlbauer Group that pose a risk to the company as a going concern. Risks can, however, never be fully excluded. Thus, natural catastrophes, an escalation of terrorist activities, possible pandemics or amendments of taxes or customs duties on individual export markets could possibly impact the sale of technology solutions. Irrespective of this, the Mühlbauer Group is currently experiencing the following risks, which could prove a considerable negative impact on the asset, financial and earnings situation of the Group.

Business environment and industry risks

Three years after the severe economic and financial crisis in 2008 the risk of a worldwide recession still exists. This is also due to the recent debt crisis and the resulting lack of investors' confidence. Since there are no signs of recovery, the uncertainty of the further economic development leads to increased volatility at the capital markets and in addition, to lower demand for investment goods.

This economic environment thus still holds the risk of a drop in demand from our customers in the industrial sector, whereas business with governments and government-related institutions should prove more stable, irrespective of the volatilities naturally occurring in the course of such projects. The Mühlbauer Group counters this risk situation by continually extending its good market position in the government business through the successful realization of important reference projects and the enhancement of technical solutions in the range of products of the solution provider. Mühlbauersmarket position in the industry business is reinforced through its price/performance leadership, its entry into new technologies and onto emerging markets (e.g. renewable energies) as well as the enforcement of the Asian production facilities in the semiconductor business line.

Both in the government and in the industrial sector there is a risk that the faulty or delayed analysis of the market situation results in a lack of concordance between the products and solutions offered and the needs of customers. This results in dissatisfied customers. Through the active dialog with our customers and intensive internal analyses and research on the market environment, customer requirements and on our competition, we can react to new developments and requirements in the industry at an early stage. For this purpose, we utilize an information and communication tool that is comprehensive and constantly up-to-date, as well as analyses on existing market information.

To further extend its technological and market leadership on the markets relevant to the company, Mühlbauer usually positions itself and its innovative machine and solution concepts on the market at a very early stage. As a result, there is a potential risk that our technologies are copied by other companies. The possible outflow of expertise through industrial espionage or the poaching of carriers of expertise is counteracted by a variety of different measures: the continual observation of the market, the protection of key technologies and procedures by patents, the targeted further development of our technological lead and the further expansion of our international organization are a few of the key measures of control.

The processing of our global business activities is subject to an internally organized export control with regard to the supply of goods to other countries. However, as a result of the scope and the complexity of existing export regulations and constant changes to them, there is a risk that corresponding provisions are not observed, entailing a range of different sanctions. The implementation of IT security features in our IT system, the intensive cooperation with the Federal Office of Economics and Export Control, as well as staff training on the risks involved, are effective, risk-minimizing measures that Mühlbauer employs.

Business with government or government-related institutions for which Mühlbauer increasingly accepts overall responsibility can, in particular, be associated with complex contractual constructs and a lack of sufficient minimum purchases of products and services. Frequently, these refer to regional legislation. This can result in contractual risks that Mühlbauer meets with contract and project-specific risk analyses and against which Mühlbauer introduces project-related precautions for risk reduction, if necessary. These precautions range from the initiation of business to the signing of the contract and through to the implementation of a project over a period of several years.

Due to the fact that delivery times in respect of customer orders are occasionally extremely ambitious, Mühlbauer, as a provider of complete systems, must increasingly start planning and providing resources at times at which project financing has not even been fully secured by the customer. When handling large-scale projects, in particular, a considerable amount of cash and cash equivalents must therefore be financed in advance, which could in regard to the continuous investment activities of the Mühlbauer Group narrow the scope of liquidity. However, Mühlbauer is capable to use several counter measures, thanks to project financing which involves clients, the use of existing liquidity reserves as well as an available basic cash credit line. Furthermore, in such projects, Mühlbauer's global commitment is associated with country-specific risks. In some countries, social and political development processes may result in situations (social unrest, war, insolvency of a state, breach of legally valid agreements, etc.) in which the initiation or processing of orders may be negatively impacted for Mühlbauer. This risk is minimized by means of a country-specific risk evaluation, the assessment of possible deviations from contractual regulations by drawing up an individual opportunities/risk profile and an accompanying project controlling together with local project managers.

Technology risks

Damage caused by defects or consequential damage can arise if our machines have quality defects that are not recognized in a timely manner during our internal product qualification. Any end products that were defectively produced and possibly brought into circulation for the above reason can result in production downtime or new production at the customer and cause substantial costs for which Mühlbauer might be held liable. Further consequences that are conceivable are effects that could damage the company's reputation. Preventive measures, such as internal product qualifications for new developments, the auditing of preliminary process developments, support with the installation of quality management systems for the customer's production, as well as corresponding contract designs in respect of financial loss, help to keep risk at a manageable level.

The inadequate or incorrect evaluation of the current and future market can result in the wrong release of orders for development projects and/or machines. The consequences are high development costs and a continuous rise in inventories, which can also represent a negative impact on earnings and liquidity if value adjustments become necessary. To avoid such erroneous developments, the focus of all R&D projects must be on the benefit to the customer. We cooperate closely with concept customers at all stages of product development. A committee of experts from R&D, Production, Sales and Service provides the orientation for further developments and makes decisions based on market analyses and considerations of economic efficiency, amongst other factors.

In a company with a high share of research and development that continually extends its product portfolio, the risk that foreign trade mark rights are violated during the development of innovative technology solutions increases, thus disrupting the development, production and market launch of innovative products. Mühlbauer protects itself against possible infringements of trade mark rights by systematically executing IT-based research to determine and evaluate third-party trade mark rights.

Expansion risks

The internationalization of the Group bears the risk that a high level of cash and cash equivalents is required, apart from the high level of staffing, to activate newly founded companies or sites. During the initial stages, these funds cannot be fully covered by the organic earnings of the subsidiary. This risk is met by a transparent organization in connection with an unambiguous allocation of responsibilities, constant dialog with the local organization, training sessions on work procedures and the transfer of the company's corporate culture, as well as the accelerated communication of the company's technological expertise.

IT risks

IT risks consist of adverse effects or failures of operating systems and databases and the alteration, destruction or copying of data through incorrect or unauthorized access to data. We counter these risks through regular investments in the hardware and software areas, the use of state-of-the-art virus scanners, firewall systems and penetration tests by external service providers, who test the Group's IT security. In addition the Group refers on the requirements of ISO/IEC 27001 (information security management system). The sensitization of staff with regard to data security and data abuse, as well as a comprehensive authorization management and encryption concept, are all measures that help keep risk in this area at a manageable level.

Personnel risks

In the industry and the regions in which the Mühlbauer Group is active, competition for highly qualified specialists and executives is still high, this applies even more in regard to the demographic change in Germany. To be able to implement its corporate strategy, the company must recruit superbly qualified personnel within a highly competitive environment and retain their enthusiasm long-term. Mühlbauer counteracts this risk with intensive training and further education programs for its junior staff, through individual and customized trainee programs, close contacts to selected universities and the further development of loyal staff members to future executives, as well as international recruiting. In so doing, Mühlbauer's corporate culture is an integral part of all staff development concepts.

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

Procurement risks

It is Purchasing's objective to procure high quality raw materials and services in a timely manner and at the best possible cost. This procurement process can involve price and purchasing risks, as well as quality risks on the part of the supplier. As a result of budget agreements for raw materials and a global procurement strategy, prices are fixed for defined periods and single source situations relativized. Comprehensive process and test instructions for the receiving of goods ensure that only qualitatively unobjectionable goods enter the production and assembly process.

Accounting process

Structural and procedural regulations exist in the Mühlbauer Group for the prevention of risks within accounting processes.

Comprehensive checklists exist for the staff employed in the regional and functionally oriented organization of Finance, in addition to the internal corporate accounting manual. The implementation and control of observance of the contents therein guarantees a uniform and complete approach within the Group, both with regard to ongoing accounting and to the establishment of the annual financial statements in accordance with LOCAL GAAP and IFRS.

In the individual financial statements of Mühlbauer Holding AG & Co. KGaA's subsidiaries, accounting procedures are largely recorded by means of an accounting system that is uniform across the Group. In parallel, the accounting data are also transferred directly into a consolidation system. These reporting data are checked by the officer of the respective accounting area responsible for the financial statement. Subsequently, all consolidation processes for the establishment of the consolidated financial statement of Mühlbauer Holding AG & Co. KGaA, such as the capital consolidation, the asset and debt consolidation or the expense and earnings consolidation, are generated in the consolidation system and fully documented. In the next step of the procedure, the consolidated data established are passed through a plausibility grid. In so doing, the focus is on the review of individual group positions with regard to their relative and absolute change against reference periods.

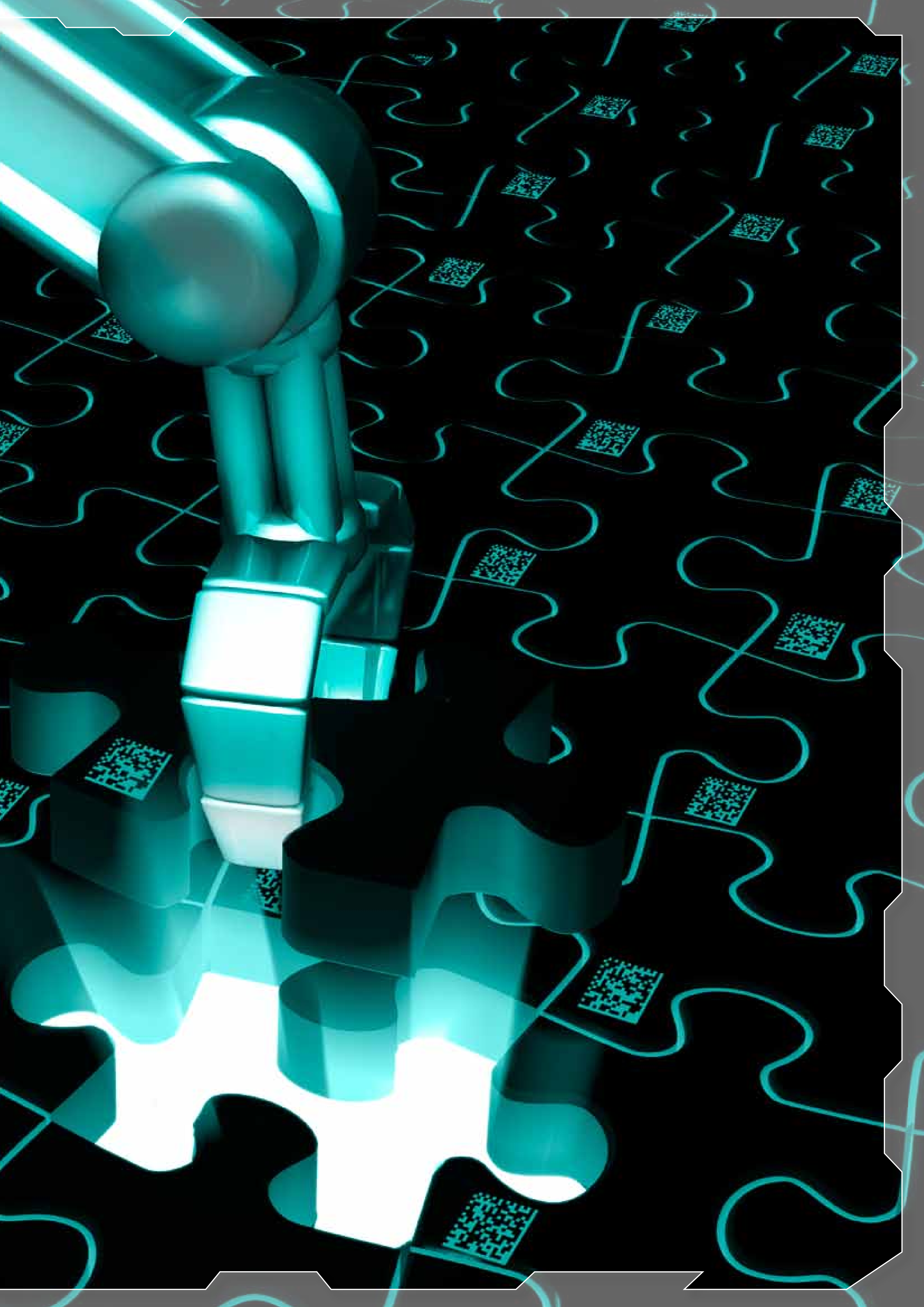
An internal control system has been put in place to ensure the conformity of accounting with regulations. Key components of the internal control system are a consistent four-eye principle and a separation of functions – both within Finance department and across departments. Furthermore, a chart of accounts that is uniform, clear and unambiguous across the Group and the regular control of adherence to the generally accepted accounting principles ensure a high level of reliability of accounting. Financial reporting and valuation as key accounting processes, on the one hand, and the establishment of notes and drawing up of statements in the management report, on the other hand, are subject to a structured control. Along the line accounting area officer, Head of Finance, management board, the results emerging from the accounting processes are checked at different stages of drawing up the financial statements. The internal audit utilizes the occasional commissioning of internal, independent persons for the checking of select facts and circumstances – in particular in respect of foreign group companies and offices/agencies – for accounting. In parallel, global meetings held by Finance are used to train staff on different subjects and to come to an agreement with regard to the standardization of accounting processes throughout the Group.

The reliability of the IT systems implemented in Finance is ensured by the fact that launches or changes to the relevant systems must always be subjected to systematic testing within the context of a test client before being implemented in the live system. The IT systems implemented are centrally oriented, i.e. they are maintained by the Group's headquarters. The granting of access rights for IT systems (write and read access) is subject to an approval procedure. As a result of the corresponding documentation, the access rights structure can be depicted whenever required.

Neither structural nor procedural regulations can provide absolute security with regard to the non-occurrence of risks in accounting processes. In particular decisions that are made within individual steps of an accounting procedure and are based on personal discretion can, on principle, be flawed. There is also a risk that checks do not work in individual cases, due to simple errors or mistakes, or that changes of environment variables are not recognized in time, despite corresponding monitoring. Ultimately, systems can also be circumvented by means of criminal activities, in particular if committed jointly by several people.

Unmistakable.
Unique.
Clear.

In the past decade, international trade has grown by about 60%, posing new challenges for logistics. Innovative ways for identifying goods are more important than ever to remain in control of the rapid growth in the flows of goods and the increasing complexity of value creation chains. The products offered by Mühlbauer's Traceability area comprise components for the tracking of parts and modules. Various coding methods give each part a unique identity, so even in a great collection of components our customers find exactly the piece of the puzzle they are looking for.



Fiscal risks

Apart from a regular, intensive observation of the market, Mühlbauer utilizes contractual agreements and derivatives to minimize currency risks from exchange rate or interest rate fluctuations. Any financial transactions in foreign currencies that exceed the anticipated net cashflows of a currency unit are rate-hedged on completion of the basic transaction or, insofar as market expectations permit, at a later point in time. Default risks are minimized by applying a consistent management of accounts receivable fitted with escalation processes and linked to regular reporting, as well as an extensive creditworthiness check of new customers. The delimitation of the liquidity risk is effected by concluding credit lines with banks and by maintaining liquidity reserves in the form of capital investments. The risk involved with capital investments, apart from the absolute development of price, is that a complete disposal of the securities whenever required may not be possible or only to a limited degree, as a result of market irregularities. The delimitation of this risk is effected by means of a targeted selection of investments and their continual monitoring. With regard to the disclosure requirements on opportunity and risk management codified in § 315 para. 2 HGB (German Commercial Code) relating to the use of financial instruments, we also refer to the corresponding statements provided in the notes at 30 "Additional information regarding financial instruments" and at 31 "Risk management and financial derivatives".

Other risks

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

OUTLOOK

Global economy

The analyses on the 2012 global economy are characterized by a high level of insecurity, thus resulting in a wide range of estimates. One of the reasons for the sustained insecurity is the debt crisis in the euro zone, the 'most acute risk' according to the UNO's estimate in its 2012 economic outlook. There was a risk that a weak economic momentum in the USA, in combination with the national debt crisis in the euro zone, would result in global recession. Additionally, the savings measures and planning security of public and private economic entities would lead to further investment restraint. Against this background, the UN estimates worldwide economic growth to be 2.6% for 2012; in the most unfavorable scenario, it is also possible that it will only be 0.5%. Growth of 0.7% is forecast for the euro zone, whereas UN economists are anticipating a recovery to 1.7%. While the industrialized countries are subject to an economic slow-down and an era of lower growth is forecast – at a rate of 1.3% – the newly industrializing countries and the developing countries remain growth drivers at 3.9% and 5.6%, respectively; the BRICS countries, in particular China and India, are expected to generate further momentum in 2012. UN experts are expecting the African continent to generate growth of 5.0% in 2012.

Analyses are showing initial signs of a relaxation on the US American financial markets. An expansive monetary policy and growing consumer confidence is expected to generate growth of 2.0% in 2012 and 2.5% in 2013 in the USA. The political situation in the year of the presidential election is, however, taut and could impact important decisions that are pending. In Japan, public and private development expenditure, following the 2012 earthquake catastrophe, will result in growth of 2.0%. This outlook also remains stable for 2013 with 1.6%. In the course of the higher national expenditure and tax breaks in China, the OECD is expecting growth of 8.5% in 2012 and 9.5% in 2013. Despite this, there are a range of downside risks such as real estate risks, low consumer confidence and the plummeting foreign trade. According to a study by Deutsche Bundesbank, the German economy is expected to grow 0.6% in 2012. If the insecurity and economic weakness are overcome, growth could in fact rise as high as 1.8% leading to even higher medium-term growth. On the other hand, further downside risks will have to be prepared for if the national debt crisis is exacerbated. Due to Germany's dependence on exports, further risks may be incurred in the event of a bad economic situation in the newly industrializing countries.

Industry development

Cards & TECURITY®. The Eurosmart analysts expect the Smart Card market segment to experience an upturn – demand for Smart Secure Devices and Secure Contactless Smart Cards is anticipated to continue to undergo double-digit growth. In this context, security, efficiency and mobility will remain the key market drivers in the years to come. States and governments worldwide are continuously pushing ahead the process of transformation from conventional ID documents to electronic, chip-based documents such as ID cards, healthcare cards or driver's licenses. In so doing, these ID documents must correspond with the highest security requirements of international standards and provisions defined by the ICAO, the US Visa Waiver Program or the European Union and single countries. In future, the contactless transmission of information by means of dual interface cards will take higher priority in the international government ID business. Also, protection against forgery and abuse will play an ever greater role, e.g. with regard to the support of democratic elections in developing and newly industrializing countries.

Apart from security aspects, efficiency considerations play a progressively larger role as a lean administration is increasingly perceived to be a competitive advantage. Also, administrative processes are to be streamlined and staff relieved. An initial approach is the eID. This ID document cannot only be used for secure identification but also to utilize services offered by public authorities. In industrialized countries that have already been utilizing electronic ID documents for several years, follow-up applications are to provide particular potential for growth.

Many customers prefer to handle their security issues themselves; this relates in particular to countries that are pushing ahead the concept of eGovernment. This pushes demand for providers of complete solutions who master the entire process chain, offer adequate solutions and, moreover, guarantee a transfer of expertise to the customer.

Large market potential also exists in the area of automatic border control, within which Mühlbauer offers its FastGate series. According to a study by UNWTO (World Tourism Organization) global tourism is set to increase by 3 to 4% in 2012, to more than a billion passengers a year. This is an area where administrative facilities at border controls will experience major stress and passengers will have to accept long waiting periods.

In the industry business, industry experts are expecting the banking sector and telecommunications area, in particular, to achieve stable rates of growth over the next few years. The rise in demand for mobile phone cards in developing and newly industrializing countries is set to ensure a sustained growth potential. Additionally, EMV migration (Europay, Master, Visa – program) – the replacement of magnetic stripe-based bank cards by forgery-proof dual interface cards – is to be pushed ahead in North America. Their introduction is also being investigated in Latin America and Asia, while dual interface cards in Europe are increasingly attracting attention with regard to payment transactions. The three different payment standards payWave, PayPass and girogo enable transactions by means of NFC (Near Field Communication); various banks and savings banks are already conducting widespread testing. The savings banks alone want to introduce 16 million dual interface bank cards in Germany in 2012 and 20 million new payWave cards are to be issued throughout Europe. Additionally, the healthcare and transport industries are expected to generate further momentum. Eurosmart is therefore forecasting that total demand for Smart Cards in 2012 will be approximately seven billion cards.

Semiconductor Related Products. The development of the semiconductor market remains difficult to forecast. On the one hand, the semiconductor industry will remain under pressure in 2012 due to the economic slump, high stocks and overcapacities. On the other hand, demand for semiconductor elements for classic PCs, servers or notebooks remains high, while the extraordinarily high sales of Smartphones and Tablet PCs result in a further surge in demand. According to estimates by the Gartner market research institution, the volume of the semiconductor market is to rise by 2.2%, to USD 309.0 billion, while, from 2013 onwards, prospects are to improve even more significantly.

The conventional solar market is facing an upheaval: The reasons for this are high stocks, overcapacities as well as tremendous competitive pressure, which are reflected in a number of insolvencies in the recent past. Despite this, a rise in demand for innovative solar modules is to be expected over the next few years in the course of the energy turnaround and nuclear phase-out; in so doing, the fairly young technology of flexible solar cells, in particular, is attributed major potential for growth. Apart from the previously mentioned benefits with regard to application and utilization of resources, the manufacturing process is, most notably, a decisive advantage of solar production in the industrialized countries. While a high level of manual work and high production temperatures are required for the manufacture and finishing of conventional solar cells, the active layer of flexible thin-film modules is merely applied through targeted vaporization; on top of that, further processing is highly automated and effected at lower temperatures. In combination with the roll-to-roll procedure, flexible solar technology holds a tremendous cost benefit through the highly automated production process alone. As a result, solar production can also remain competitive in high-wage countries, as the technological lead more than compensates for the benefit of low wages. As it can be assumed that the efficiency of flexible solar cells will continue to rise, grid parity with fossil fuels is achievable medium-term – in combination with a high level of production efficiency. The analysts at Wintergreen estimate that the market volume of more than approximately USD 3.0 billion in 2010 will rise to approximately USD 44.0 billion in 2017 as a result.

According to IDTechEx, the area of contactless identification via RFID Smart labels in 2012 and 2013 is to continue its positive development. There is potential for achieving a market volume of more than USD 7 billion in 2012 and a volume of demand of more than USD 8 billion is expected for 2013. The logistics industry, which expected the improved coordination and control of flows of goods to increase efficiency, was to generate momentum – above all.

Industry development, however, remains strongly dependent on application trends and ultimately on which cost benefits the progressive miniaturization offers. The possible applications and the potential for savings already demonstrate great market potential, be it in supply chain management, inventory control, ticketing or protection against forgery. RFID – specifically – is increasingly being used in the clothing industry, as shown by Marks & Spencer, Gerry Weber and other fashion labels. As a result of the enormous cost- and efficiency-related benefits, it is expected that further clothing companies will follow.

Potential demand also exists in the area of Near Field Communication (NFC); this has already been field tested in pilot projects conducted by Google, Vodafone, Deutsche Bahn and Nokia. NFC is extremely flexible but is most frequently used in Smart Phones or mobile phones, whereby mobile payments, which are effected by swiping the mobile phone past specific payment points, only represents one area of application. The NFC technology in the Smartphone allows for the linking of videos, music, internet websites or entire applications directly to the mobile phone. Thanks to this technology applications cannot only be used rapidly and comfortably, NFC also offers greater security than Bluetooth or WLAN.

In the Traceability-related industries and markets relevant to Mühlbauer, further progress will be closely associated with the economic development in the automotive sector and in the electrical industry.

Precision Parts & Systems. Despite a weak economic environment, mechanical engineering is expected to develop rather favorably by mid-2012. The VDMA (German Engineering Federation) is expecting a plus in production of 4.0%, resulting in EUR 197.0 billion. By 2013, growth is expected to slow down gradually, due to the more restrictive issue of loans in the newly industrializing countries and the continued insecurity on the financial markets. China will remain one of the most important markets; however, as the People's Republic increasingly manufactures competitive machines itself, further forecasts are restrained.

Outlook for the Mühlbauer Group

In view of the diverging economic forecasts and the existing global uncertainty, the Mühlbauer Group is pushing the diversification of its business model ahead. Geographically, the Mühlbauer Group is already widely spread over the globe with numerous service and production sites and present in both industrialized and newly industrializing countries. Apart from a widespread product portfolio, Mühlbauer also has a diverse client base from a variety of industries. In the *Cards & TECURITY®* area, in particular, these can be differentiated by industrial business and business with governments and government-related institutions. Both areas are characterized by totally different factors, thus reducing the group's dependence on economic fluctuations. With its three business areas *Cards & TECURITY®*, *Semiconductor Related Products and Precision Parts & Systems,* a large product portfolio and widespread client base including both the private and the public sector, the Mühlbauer Group features a balanced diversification that reduces risks and economic fluctuations, thus enabling sustained corporate growth.

Cards & TECURITY®. On continents with developing and newly industrializing countries Mühlbauer holds the largest market potential – the market penetration, which has already commenced and the successes that have been achieved in various countries are a reason to begin the new financial year with confidence that the excellent reputation of the company will result in additional new clients and follow-up orders. On top of that, the technology group expects that it will continue to be able to increase the share of service and consultation it provides disproportionately high.

There is widespread agreement among experts that global mobility will increase further over the years to come. This trend will, on the one hand, increase the need for ID documents and, on the other, render the implementation of an efficient access control all the more necessary. In connection with modern ID documents, the Fastgate range of the Mühlbauer Group offers an indispensable solution for the processing of large passenger numbers; supporting the entire border control process from the very start provides relief for border control staff and streamlines administrative processes.

The security standards of ID documents and the protection of ID documents against forgery are repetitive issues. The product portfolio of the Mühlbauer Group comprises the latest technology and provides customers with a choice of up to 50 different security features. As a result, country-specific and international security requirements, such as those of the ICAO, can be implemented as required and without delay. The demand for complete solutions, including consultation and the transfer of services and knowledge represents another trend; this opens up further market opportunities for Mühlbauer as a provider of complete solutions. In particular the transformation processes pertaining to bank cards for the implementation of the EMV standards and the growing interest in dual interface cards, result in a rise in demand in the industry business. SmartCards offer comprehensive possibilities through the consolidation and combination of different functions from the areas of security, healthcare, banking & payment or ticketing, and, ultimately, new market opportunities. Similar to the government business, in this area the group can also rely on its comprehensive expertise and consulting competence and offer its clients' needs-based solutions.

Semiconductor Related Products. The development of the semiconductor market is difficult to forecast as this market is particularly dependent on the economy and is subject to very dynamic fluctuations in demand. Thanks to its positioning as a niche provider in the backend area, its longstanding market expertise and constant increases of efficiency, *Semiconductor Related Products* is, however, capable of cushioning fluctuations and utilizing opportunities for growth.

Flexible.
Efficient.
Sustainable.

In these times of energy transition and the winding down of nuclear energy production, new developments are advancing the state of photovoltaics. Fierce competition and price pressure are driving a consolidation phase in the market for conventional solar modules. And yet innovation is creating attractive market niches with a high potential for growth. This includes the flexible, thin film solar technology which is a focus at Mühlbauer. This technology is distinguished not only by its low consumption of resources. The highly automated roll-to-roll production method also results in large potential savings in manufacturing, logistics and information. Because the active layer is applied to very thin films, the modules can be used on industrial roofs with little load-bearing capacity, on clothing, tents, automobiles, mobile telephones or even the sails of ships, thus giving the full advantage offered by low weight and flexibility. Moreover, the solar cells can be integrated in the best way in the architecture of roofs and facades, since they no longer need be mounted on stands. Flexible solar cells also have greater efficiency with diffuse light. Along with the possible applications in building technology, the weight and cost advantages of flexible solar cells could play a decisive role in the development of commercially viable solar cars. The market for flexible thin film solar technology is still in its early, promising stages. With further efficiency improvements and cost reductions these modules have great potential to achieve grid parity with fossil energy sources.

Regardless of where innovative solar technology finds use, Mühlbauer supports its customers with innovative automation solutions in the packaging and further processing of flexible solar modules and has already achieved comprehensive expertise from a number of projects.

The solar market is characterized by severe pricing and competitive pressure. As a result of the innovative potential within the Mühlbauer Group, attractive opportunities exist, above all on niche markets, primarily in the area of flexible thin-film solar cells. In contrast to conventional solar cells these hold major benefits due to their lower consumption of resources and higher production efficiency. A significant edge in efficiency against competitors can be achieved as a result of the high degree of automation of the production process. Mühlbauer's innovative automation solutions in respect of the finishing and further processing of flexible solar cells offer considerable competitive advantages to customers. Furthermore, Mühlbauer has already developed comprehensive expertise in the area of flexible solar technology in the context of a large project and is expecting to acquire further large projects as soon as the market enters the next stage of maturity.

Further opportunities for growth in the RFID and NFC areas are expected to result from the utilization of economies of scale and the comprehensive expertise of the technology provider. As yet, the Mühlbauer Group is, however, assuming that the first half of the year will be restrained; this market segment is to gain more momentum in the second half of the year and in 2013.

In Traceability, the Mühlbauer Group is expecting to achieve stable demand for electronic manufacturing services over the next two years.

Precision Parts & Systems. In *Precision Parts & Systems*, Mühlbauer has a longstanding customer base, including customers from such sensitive areas as the medical and aerospace industries. Due to its comprehensive and meanwhile more than 30 years of competence in the production environment and its good site-related access to the market on the one hand, and, on the other hand, the increase of innovative pressure expected to result in a host of industries owing to cost and competitive reasons, the technology group is expecting to be able to further boost sales in *Precision Parts & Systems* over the next two years. Comprehensive investments into the modernization and extension of technologies and buildings were effected both in the previous year and in the year under review, in order to support this growth.

Summary of the outlook

Summary of the outlook. The trends on the *Cards & TECURITY®* market, which are, on principle, positive, still endure: The strong interest in offering both greater security and more mobility to people will have a positive effect on the demand for state-of-the-art technology and software solutions for the production of safety-oriented ID systems in card and passport format – long term. The same applies to RFID-based applications. Driven by a wealth of application benefits that RFID tags hold against conventional barcode labels, as well as continual cost reductions related to their production, an increasing number of companies are following the example set by Walmart, which holds a lead position with regard to the use of RFID tags for the labeling of goods, and are utilizing the contactless technology, particularly in supply chain management.

The Mühlbauer technology group is the only system partner on both markets who can offer the complete technology and market competence as a one-stop provider. Despite the increasingly rougher markets, it considers itself in a good strategic position to benefit disproportionately from this market potential. Against this background, Mühlbauer upholds its long-term strategy of growth and is expecting to increase sales and earnings year-on-year in 2012 and further growth for 2013. The solution provider considers the traditional imponderabilities that prevail and the project-heaviness in the government business, as well as the slowdown of industry and/or economic prospects, to be risks that could negatively impact this expectation.

The past financial year is the second year in succession in which Mühlbauer invested heavily in order to provide the best possible support for the long-term market potential. Against this background, the company is expecting to reduce investment expenditure to a low double-digit million figure in the current financial year. Research and development expenses will, however, remain high; in this context the Mühlbauer Group is currently not expecting to spend more than it did in the previous year. Beyond that, comprehensive activities for the continual increase of efficiency in all business areas are planned.

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.

PRECISION PARTS & SYSTEMS

Precise.
Exact.
High-quality.

The passion for precision has had its place with us for 30 years, an aspiration we renew each day with highly qualified, quality-conscious employees and the latest in production technology. Our customers in the aerospace industry, motor sports and medical technology, with their demands for quality and security appreciate this. Mühlbauer produces precision parts in two independent manufacturing centers in Germany and a technology center in Slovakia – on time and reliably. For 30 years we have guaranteed the very highest precision and quality – in every detail.

CONSOLIDATED STATEMENT OF INCOME (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2011 OF MÜHLBAUER HOLDING AG & CO. KGaA

	Notes	Jan. 1 - Dec. 31, 2011 TEUR	Jan. 1 - Dec. 31, 2010 TEUR
1. Sales	(3)	**213,225**	**207,247**
2. Cost of sales	(5)	(130,850)	(124,788)
3. Gross profit		**82,375**	**82,459**
4. Selling expenses	(6)	(19,431)	(14,920)
5. Administrative expenses	(7)	(8,992)	(8,124)
6. Research and development	(8)	(29,539)	(23,904)
7. Other income	(9)	4,760	4,596
8. Other expenses	(9)	(1,108)	(1,916)
9. Operating income		**28,065**	**38,191**
10. Financial result			
a) Financial income	(10)	713	749
b) Financial expenses	(10)	(399)	(315)
11. Income before income taxes		28,379	38,625
12. Income taxes	(11)	(6,413)	(8,332)
13. Net earnings		**21,966**	**30,293**
- Non-controlling interests	(12)	*(39)*	*(23)*
- Shares held by the owners of the parent company		*22,003*	*30,316*
Earnings per share in EURO			
basic	(13)	1.51	2.09
fully diluted	(13)	1.51	2.09
Weighted average of shares			
basic	(13)	6,136,062	6,131,395
fully diluted	(13)	6,136,062	6,131,398

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2011 OF MÜHLBAUER HOLDING AG & CO. KGaA

		Jan. 1 - Dec. 31, 2011 TEUR	Jan. 1 - Dec. 31, 2010 TEUR
Net earnings		**21,966**	**30,293**
Change of market value of available-for-sale securities	(27)	(74)	74
Difference due to currency translation	(27)	292	3,192
Deferred taxes	(27)	20	(20)
Total income and expenses recognized in equity		**238**	**3,246**
Total income and expenses		**22,204**	**33,539**
- Non-controlling interests		*(39)*	*(23)*
- Shares held by the owners of the parent company		*22,243*	*33,562*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) AS AT DECEMBER 31, 2011 OF MÜHLBAUER HOLDING AG & CO. KGaA

	Notes	Dec. 31, 2011 TEUR	Dec. 31, 2010 TEUR
ASSETS			
Short-term assets			
Cash and cash equivalents	(14)	15,183	25,209
Marketable securities	(15)	0	13,190
Trade accounts receivable	(16)	32,715	29,589
Other current assets	(17)	15,305	8,345
Tax receivables	(18)	2,388	1,976
Inventories	(19)	74,946	52,825
		140,537	**131,134**
Long-term assets			
Investment and long-term financial assets			
Trade accounts receivable	(16)	733	1,904
		733	**1,904**
Fixed assets			
Land and buildings	(20)	47,463	46,125
Technical equipment	(20)	23,875	14,463
Furniture and office equipment	(20)	8,069	6,588
Buildings and equipment in progress	(20)	3,352	940
		82,759	**68,116**
Intangible assets			
Software and licenses	(21)	2,914	2,087
Capitalized development costs	(21)	4,112	5,313
		7,026	**7,400**
Other long-term assets			
Long-term tax receivables	(22)	1,749	1,952
Deferred tax assets	(11)	939	1,486
Plan assets	(26)	1,624	1,305
		4,312	**4,743**
		235,367	**213,297**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term liabilities			
Trade accounts payable		22,356	10,962
Downpayments	(23)	22,877	16,849
Other liabilities	(24)	10,720	10,690
Accrued income taxes	(25)	2,261	4,146
Other accruals	(25)	15,808	12,023
		74,022	**54,670**
Long-term liabilities			
Deferred tax liabilities	(11)	1,006	1,825
		1,006	**1,825**
Shareholders' equity			
Ordinary share capital	(27)	8,038	8,038
Own shares	(27)	(180)	(189)
Fixed capital contribution	(27)	(2,980)	(2,980)
Additional paid-in capital	(27)	61,136	60,840
Other comprehensive income	(27)	2,820	2,582
Retained earnings	(27)	91,531	88,498
Equity excluding non-controlling interests		160,365	156,789
Non-controlling interests	(27)	(26)	13
		160,339	**156,802**
		235,367	**213,297**

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, 2011 OF MÜHLBAUER HOLDING AG & CO. KGaA

			Jan. 1 - Dec. 31, 2011 TEUR	Jan. 1 - Dec. 31, 2010 TEUR
Cash provided by operating activities				
1.		Net earnings	21,966	30,293
2.	+	Income taxes	6,413	8,332
3.	+	Interest expenses	325	309
4.	-	Interest income	(431)	(386)
Adjustments for non cash expenses and income				
5.	+/-	Expenses/(income) from employee profit-sharing programs	120	25
6.	+/-	Depreciations/(appreciations) to fixed assets	10,636	7,472
7.	+/-	Depreciations/(appreciations) to intangible assets	2,316	753
8.	+/-	Depreciations/(appreciations) to capitalized development costs	2,818	3,232
9.	+/-	(Gains)/losses from the sale of fixed assets	(477)	(512)
10.	+/-	Realized net (gains)/losses from short- and long-term marketable securities	(294)	(364)
11.	+/-	(Gains)/losses from the the change in fair value of financial instruments	27	(178)
12.	+/-	(Increase)/decrease of deferred tax assets	547	(449)
13.	+/-	Increase/(decrease) of deferred tax liabilities	(819)	(396)
14.	+/-	Increase/(decrease) of asset values according to IFRIC 12	(1,933)	0
Changes in long-term and short-term assets				
15.	+/-	(Increase)/decrease of inventories	(22,121)	(8,890)
16.	+/-	(Increase)/decrease of trade accounts receivables and other short-term assets	(8,919)	4,008
17.	+/-	Increase/(decrease) of trade accounts payables and other liabilities	16,708	18,063
18.	+	Proceeds from sales of short-term marketable securities	29,945	26,832
19.	-	Cash outflows for short-term marketable securities	(16,575)	(32,607)
20.	=	Cash generated from operating activities	40,282	55,537
21.	-	Income tax paid	(3,440)	(7,734)
22.	-	Interest paid	(24)	(51)
23.	+	Interest received	163	113
24.	=	Cash provided by operating activities	36,981	47,865
Cashflow from investing activities				
25.	+	Proceeds from disposals of fixed assets	642	717
26.	-	Purchase of fixed assets	(26,095)	(23,109)
27.	-	Purchase of intangible assets	(1,204)	(2,546)
28.	-	Expenditures for capitalized development costs	(1,619)	(2,977)
29.	=	Cash used for investing activities	(28,276)	(27,915)
Free Cashflow			(4,566)	25,884
Cashflow from financing activities				
30.	+/-	Increase/(decrease) of short-term financial liabilities	0	0
31.	+	Proceeds from sales of own shares	185	0
32.	+	Capital increase at subsidiaries (of other shareholders)	0	36
33.	-	Dividends paid	(17,305)	(13,929)
34.	+/-	Tax withdrawal personally liable shareholder	(1,948)	(1,665)
35.	=	Cash used for financing activities	(19,068)	(15,558)
36.	+/-	Increase/(decrease) of currency exchange rate changes	337	2,019
37.	=	Net increase/(decrease) in cash and cash equivalents (Total of lines 24, 29, 35 and 36)	(10,026)	6,411
38.	+	Liquid funds on January 1	25,209	18,798
39.	=	Liquid funds on December 31	15,138	25,209

We refer to additional informations on page 104 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, 2011 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
Balance Jan. 1, 2010		**6,279,200**	**(148,995)**	**7,847**	**(2,980)**	**60,817**	**(664)**	**72,112**	**-**	**137,132**
Net earnings		-	-	-	-	-	-	30,316	(23)	30,293
Other comprehensive income/(loss)	(27)	-	-	-	-	-	3,246	-	-	3,246
Total comprehensive income/(loss)	(27)	-	-	-	-	-	3,246	30,316	(23)	33,539
Deferred compensation	(27)	-	-	-	-	25	-	-	-	25
Proceeds from sales of own shares	(27)	-	1,335	2	-	(2)	-	-	-	-
Dividends	(27)	-	-	-	-	-	-	(13,930)	-	(13,930)
Cash capital increase	(27)	-	-	-	-	-	-	-	36	36
Balance Dec. 31, 2010		**6,279,200**	**(147,660)**	**7,849**	**(2,980)**	**60,840**	**2,582**	**88,498**	**13**	**156,802**
Balance Jan. 1, 2011		**6,279,200**	**(148,995)**	**7,849**	**(2,980)**	**60,840**	**2,582**	**88,498**	**13**	**156,802**
Net earnings		-	-	-	-	-	-	22,003	(39)	21,964
Other comprehensive income/(loss)	(27)	-	-	-	-	-	238	-	-	238
Total comprehensive income/(loss)	(27)	-	-	-	-	-	238	22,003	(39)	22,202
Deferred compensation	(27)	-	-	-	-	120	-	-	-	120
Proceeds from sales of own shares	(27)	-	7,316	9	-	176	-	-	-	185
Dividends	(27)	-	-	-	-	-	-	(18,970)	-	(18,970)
Cash capital increase	(27)	-	-	-	-	-	-	-	-	-
Balance Dec. 31, 2011		**6,279,200**	**(140,344)**	**7,858**	**(2,980)**	**61,136**	**2,820**	**91,531**	**(26)**	**160,339**

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

Notes

A. GENERAL INFORMATION

(1) BASIC PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS

Description of business activities

Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien (referred to as the company) and its subsidiaries (together referred to as the Mühlbauer Group) develop, produce and distribute products and services within the chip card, passport, Smart Label, 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 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 debts 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 2011 and which were already applied

- Improvements in the International Financial Reporting Standards (issued by the IASB in May 2010):
  The amendments must be applied at the latest as of the commencement of the first financial year starting after June 30th, 2010 (IFRS 3, IAS 27 in relation with IAS 21, IAS 28 and IAS 31) and/or the first financial year starting after December 31st, 2010 (IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13). Mühlbauer has applied the improvements as of January 1st, 2011. Most of the amendments consist of clarifications or corrections of already existing International Financial Reporting Standards and/or changes as a consequence of amendments to the IFRS that were implemented previously. In the case of amendments to IFRS 1 and IAS 34, existing requirements have been modified or additional guidelines have been issued for the implementation of those requirements. This does not have any impact on the financial statements and the notes of the Mühlbauer Group.

Interpretations and amendments of published standards which had to be applied obligatorily for the first time in 2011 and which were already applied prematurely

- Revision of IAS 24 "Related Party Disclosures" as well as amendment of IFRS 8 "Operating Segments":
  The revised version of IAS 24 as well as the amendments of IFRS 8 must be applied at the latest as of the commencement of the first financial year starting after December 31st, 2010. Mühlbauer started applying the amendments as of Q3 2010. The revised version of IAS 24 is intended to clarify the definition of associated companies and persons and exempt companies that are associated with public entities from certain information requirements about business occurrences with associated companies and persons. The amendments in IFRS 8 pertain to consequential amendments resulting from the adoption of IAS 24 with reference to the disclosure requirement in the case of important government-owned clients. This does not have any impact on the financial statement and the notes of the Mühlbauer Group.
- Amendment of IAS 32 "Classification of Rights Issues":
  The amendment of IAS 32 must be applied at the latest as of the commencement of the first financial year starting after January 31st, 2010. Premature application is permissible. Mühlbauer started applying the amendment as of January 1st, 2010. The amendment of IAS 32 serves to clarify how certain subscription rights must be treated in the balance sheet if the issued instruments are not expressed in the functional currency of the issuer. If such instruments are offered to the present owners for a fixed amount proportionately, they should also be categorized as an equity instrument when their subscription right price is expressed in a different currency other than the functional currency of the issuer. Up to now, such cases were treated as derivative liabilities in the balance sheet. This does not have any impact on the financial statement and the notes of the Mühlbauer Group.
- Amendments to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters":
  The amendments to IFRS 1 und IFRS 7 must be applied at the latest as of the commencement of the first financial year starting after June 30th, 2010. Mühlbauer started applying the amendments as of Q2 2010. As first-time adopters of IFRS do not enjoy the exemption from comparative disclosures of valuations for the applicable fair value and for the liquidity risk that IFRS 7 foresees for cases in which the comparison periods end prior to December 31st, 2009, this specific amendment to IFRS 1 is intended to permit an exemption for those companies as well. This does not have any impact on the financial statement and the notes of the Mühlbauer Group.

- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement":
  The amendments to IFRIC 14 must be applied at the latest as of the commencement of the first financial year starting after December 31st, 2010. Mühlbauer started applying the amendments as of Q3 2010. These amendments are aimed at eliminating an unintended consequence of IFRIC 14 in cases in which a company that is subject to a minimum funding obligation makes a contribution payment in advance and companies that make such advance payments would have to record them as an expense under certain circumstances. If there is a minimum finding obligation for a benefit-oriented plan, the advance payment must be treated as an asset just like any other advance payment after this specific amendment to IFRIC 14. This does not have any impact on the financial statement and the notes of the Mühlbauer Group.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" as well as amendment of IFRS 1 "First-time adoption of international financial reporting standards":
  IFRIC 19 as well as the amendment of IFRS 1 must be applied to at the latest to financial years that start on or after July 1st, 2010. Mühlbauer started applying the amendments as of Q3 2010. IFRIC 19 contains guidelines for balance sheet treatment of equity instruments that a debtor issues for complete or partial repayment after re-negotiation of conditions of a financial liability. This does not have any impact on the financial statement and the notes of the Mühlbauer Group.

Published and modified interpretations, revisions and amendments of published standards that were not applied prematurely in 2011

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

- Amendment of 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.
  The amendment must be applied for the first time in financial years that start on or after July 1st, 2011.

b) EU Endorsement is still pending

- Revisions of 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.
  Subject to adoption in EU law, which is still pending – the amendment must be applied for the first time in financial years that start on or after July 1st, 2012.

- Amendment to IAS 12 “Deferred Tax on Investment Property”:
  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.
  Subject to adoption in EU law, which is still pending – the amendment must be applied for the first time in financial years that start on or after January 1st, 2012.
- Revised 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 changes in particular:
  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 the future only direct recording will be permissible in the other comprehensive income.
  Furthermore, at present the anticipated earnings of the plan assets are determined on the basis of the subjective expectations of the management regarding performance of the investment portfolio. The application of IAS 19 (revised 2011) means that standardized interest calculation of the plan assets in the amount of the current discount interest rate of the pension obligations is only permissible.
  Subject to adoption in EU law, which is still pending – the amendment must be applied for the first time in financial years that start on or after January 1st, 2013.
  Since the Mühlbauer Group currently uses the corridor method, the change would lead to an increase of the pension reserves by TEUR 1.094 with application to the conditions on 31 December 2011. With the change from the corridor method to the modified method, in the future the calculation of profit and loss will be free of effects from actuarial gains and losses (for example, due to interest rate fluctuations), because these are then to be recognized under other income.
- Revisions of 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 (see remarks on 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. Subject to adoption in EU law, which is still pending – the amendment must be applied for the first time in financial years that start on or after January 1st, 2013.
- Amendment 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 not only be necessary to valuate shareholdings in associated companies according to the equity method, but also joint ventures (see IFRS 11). Therefore, the application of proportionate consolidation for joint ventures has been abolished.
  Subject to adoption in EU law, which is still pending – the amendment must be applied for the first time in financial years that start on or after January 1st, 2013. This does not have any impact on the financial statement and the notes of the Mühlbauer Group.

- Revised IAS 32 and 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.
  Subject to adoption in EU law, which is still pending – the amendment of IAS 32 must be applied for the first time in financial years that start on or after January 1st, 2014.
  Subject to adoption in EU law, which is still pending – the amendment of IFRS 7 must be applied for the first time in financial years that start on or after January 1st, 2013.
- Amendment 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 1st, 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.
  Subject to adoption in EU law, which is still pending – the amendment must be applied for the first time in financial years that start on or after July 1st, 2011.
- 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 valuated 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 valuated 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 the financial results.
  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 1st, 2015.
- 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.
  Subject to adoption in EU law, which is still pending – the new standard must be applied for the first time in financial years that start on or after January 1st, 2013. 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 retrospectively. 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 proportionately in the consolidated balance sheet. 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.
  Subject to adoption in EU law, which is still pending – the new standard must be applied for the first time in financial years that start on or after January 1st, 2013. 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. This does not have any impact on the financial statement and the notes of the Mühlbauer Group.
- 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 in IAS 27, IAS 28 and IAS 31.
  Subject to adoption in EU law, which is still pending – the new standard must be applied for the first time in financial years that start on or after January 1st, 2013.
- 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.
  Subject to adoption in EU law, which is still pending – the new standard must be applied for the first time in financial years that start on or after January 1st, 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. If earnings are realized from further utilization of stripping waste, the apportionable costs of stripping must be treated as inventory stock in the balance sheet according to IAS 2. In addition, if access to further mineral resources is improved and the prerequisites defined in the interpretation are fulfilled, an intangible asset that must be activated together with the open-pit mine asset is created. That asset must be written off over the anticipated useful life.
  Subject to adoption in EU law, which is still pending – IFRIC 20 must be applied for the first time in financial years that start on or after January 1st, 2013.

SUMMARY OF KEY ACCOUNTING PRINCIPLES (2)

Principles of consolidation

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

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

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

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

On 31 December 2011, the scope of consolidation of the company not only comprised Mühlbauer Holding AG & Co. KGaA but also 11 additional subsidiaries in Germany and 18 subsidiaries abroad.

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	801	447
MBO GmbH, Roding	100	978	595
Mühlbauer Aktiengesellschaft, Roding	100	72,517	17,212
Mühlbauer ID Services GmbH, Roding	100	127	49
Rommel GmbH, Ehingen	100	2,511	(998)
Mühlbauer ID Solutions GmbH, Roding	100	(134)	(174)
MPS Roding GmbH, Roding	100	11,369	2,048
MPS Stollberg GmbH. Stollberg	100	6,374	501
MB Shared Services GmbH, Roding	100	2,014	103
takeID GmbH, Dresden	100	1,168	751
Tema GmbH, Schwelm	100	1,566	900

Foreign companies:

Name and registered office	Share in equity in %	Shareholders' equity in TEUR [1]	Annual result in TEUR [2]
Muehlbauer, Inc., Newport News, Virginia, USA	100	3.530	512
Muehlbauer America Management Corp., Newport News, Virginia, USA	100	64	1
Muehlbauer America LP, Newport News, Virginia, USA	100	5.710	29
Muehlbauer do Brasil Limitada, Valinhos, Brasil	100	0	0
Muehlbauer Technologies s.r.o., Nitra, Slowakei	100	16.950	4.794
OOO Muehlbauer, Moscow, Russia	100	70	85
Muehlbauer d.o.o. Beograd, Belgrad, Serbia	100	81	(206)
Muehlbauer Technologies d.o.o Stara Pazova, Serbia[3]	100	388	(211)
Muehlbauer ID Solutions Gmbh Ltd., Juba, South Sudan[4]	94	211	130
Muehlbauer (PTY) Limited, Midrand, South Africa	100	196	(93)
Muehlbauer Uganda Ltd., Kampala, Uganda	99,99	(164)	(188)
Orambamba 38 (Pty) Ltd., Midrand, South Africa[5]	46	(4)	(4)
Muehlbauer Smart Identification Technology (Shanghai) Co. Ltd., Shanghai, China	100	1.011	123
Muehlbauer Technologies Sdn. Bhd., Melaka, Malaysia	100	17.256	4.777
Muelbauer Sdn. Bhd., Melaka, Malaysia	100	131	(8)
Mühlbauer Kart Sistemleri A.S., Istanbul, Turkey	51	61	(46)
Muehlbauer (India) Private Limited, New Delhi, India	100	274	23
Muehlbauer Middle East FZ-LLC, Dubai, United Arab Emirates	100	(356)	(162)
Muehlbauer LLC, Riad, Saudi Arabia[6]	100	103	0

[1] Conversion at the period-end exchange rate on 31/12/2011
[2] Conversion at the annual average exchange rate
[3] First consolidation on July 4th, 2011
[4] First consolidation on June 7th, 2011
[5] 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.
[6] First consolidation as of December 27th, 2011

Changes in the scope of consolidation

Additions

"Muehlbauer ID Solutions GmbH" holds a corporate share in the amount of 94.0% in "Muehlbauer ID Solutions Gmbh Ltd.", which was founded on May 27th, 2011, with a registered office in Juba, South Sudan. The company was registered in the national commercial register of the Republic of South Sudan under the number 10195. The registered capital of the company amounts to TUSD 500, of which Muehlbauer ID Solutions GmbH paid in a total of TUSD 104 at the end of 2011. In connection with a public private partnership, Muehlbauer ID Solutions Gmbh Ltd. serves as a company for the building up, operation and service of an infrastructure project.

On July 4th, 2011, the company founded "Muehlbauer Technologies d.o.o Stara Pazova" with a registered office in Stara Pazova, Serbia. The entry in the commercial register of the Republic of Serbia, Belgrade, was registered under the number 20764422. Muehlbauer Technologies d.o.o. Stara Pazova serves as a development, sales, production and service company. The equity capital of the company was increased from the original EURO 500 at the time of foundation to TEUR 2,000. As of December 31st, 2011, TEUR 632 had been paid in.

On December 27th, 2011, the company founded "Muehlbauer LLC" with a registered office in Ryadh, Saudi Arabia, and holds 475 of the total 500 company shares. The remaining 25 shares are held by Mühlbauer Aktiengesellschaft, a subsidiary of the company. The entry in the commercial register of Saudi Arabia was registered on December 27th, 2011 under the number 1010323640. The subscribed capital of the company amounts to TSAR 500 and was completely paid in as of the end of the 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 – with the exception of shareholders' equity, which is translated at historic
exchange rates – 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:		Rate on reporting date 31 December 2011 EUR	Rate on reporting date 31 December 2010 EUR	Average rate 2011 EUR	Average rate 2010 EUR
China	1 CNY	0.1213	0.1141	0.1111	0.1111
India	1 INR	0.0142	0.0166	0.0153	0.0164
Malaysia	1 MYR	0.2432	0.2451	0.2349	0.2330
Russia	1 RUB	0.0240	0.0247	0.0245	0.0248
Serbia	1 RSD	0.0094	0.0094	0.0098	0.0097
South Africa	1 ZAR	0.0949	0.1135	0.0992	0.1026
South Sudan*	1 SSP	0.2116	-	0.2106	-
Turkey	1 TRY	0.4053	0.4852	0.4283	0.4997
Uganda	1,000 UGX	0.3066	0.3210	0.2847	0.3430
USA	1 USD	0.7722	0.7545	0.7180	0.7530
United Arab Emirates	1 AED	0.2102	0.2054	0.1955	0.2050

* South Sudan is a country in Africa that was newly founded on July 9th, 2011. Therefore, in 2011 the annual average exchange rate of its currency "South Sudanese Pound" is the result of the average exchange rate in five months (from August 2011 until December 2011).

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. They 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.
- 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 "downpayments".

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

Fixed Assets

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

In the event of public grants or allowances for the acquisition or production of assets, the acquisition and production costs are reduced by the amount granted or allowed, in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".
The assets included in fixed assets – with the exception of real estate – are depreciated on a straight-line basis, in correspondence with their utilization. The depreciation of buildings is based on a period of utilization of up to 33 years. Technical equipment is depreciated over a maximum of 10 years. Depreciation for other assets and furniture and office equipment is 3 to 10 years. Assets are checked for an impairment in value if corresponding events or changes in circumstances show that the book value may no longer be achievable (so-called triggering events). A loss through impairment in value is recorded at the level of the book value exceeding the value that can be achieved. The value that can be achieved is the higher amount from the respective time value of the asset minus selling expenses and its value in use. To execute the impairment test, assets are summarized at the lowest level at which cashflows can be separately identified (so-called cash generating units). 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 no yet been recognized on the balance sheet. If the hedged item designated as a fair value hedge proves ineffective, it is categorized as held-for-trading. Each change in the fair value of the derivative used as hedging instrument shall be recorded as a gain or loss in the profit and loss statement.

Pension and postretirement benefits

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

Other accruals

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

Financial liabilities

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

Amounts due to banks with a term of 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 valuated 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 acquired through the concession to demand a fee for the use of the service during the period of operation, 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 is begun with the infrastructure before its completion, in future the intangible asset or financial asset is to be further increased according to the progress of construction. If the regional authority guarantees the company a particular minimum payment, but amounts beyond that can only be attained through sufficient utilization by users, a financial asset in the amount of the guaranteed payment is to be declared, and for those user payments beyond that which are sufficiently determinable from the beginning an intangible asset is to be declared.

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

SALES (3)

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 186,913 (PY: TEUR 187,548) are allotted to sales of goods and TEUR 26,312 (PY: TEUR 19,699) to performance of services. Thereof, gains for the supply of construction works out of service concession agreements reach TEUR 3,985.

Included in sales of TEUR 213,225 (PY: TEUR 207,247) are order revenues of TEUR 15,629 (PY: TEUR 56.169), which are calculated using the percentage of completion method.

COSTS OF FUNCTIONAL AREAS (4)

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:

	2011 TEUR	2010 TEUR
Cost of materials (external suppliers)	77,875	73,283
Personnel expenditure	79,088	67,645
Depreciation and decreases in value	14,022	10,388
Total	**170,985**	**151,316**

COST OF SALES (5)

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.

SELLING EXPENSES (6)

In addition to the costs for the sales departments and the field staff, selling expenses also comprise advertising costs TEUR 900 (PY: TEUR 816) and costs for logistics TEUR 3,832 (PY: TEUR 3,505). 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 321 (PY: TEUR 677 expenses in previous year).

ADMINISTRATIVE EXPENSES (7)

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.

RESEARCH AND DEVELOPMENT (8)

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 28,109 (PY: TEUR 23,650) in the past financial year. Research costs include refunds for research and development of TEUR 166 (PY: TEUR 359).

(9) OTHER INCOME AND EXPENSES

	2011 TEUR	2010 TEUR
Insurance and other reparations	1,707	704
Earnings from the reversal of accruals and liabilities	643	2,115
Gains from the sale of long-term assets	630	575
Canteen earnings	544	494
Earnings from the sale of scrap	520	389
Foreign currency gains	465	-
Rental income	74	44
Other	177	275
Total other operating income	4,760	4,596
Expenses for donations	(13)	(84)
Losses from the sale of long-term assets	(183)	(50)
Foreign currency losses	-	(963)
Other	(912)	(819)
Total other operating expenses	(1,108)	(1,916)
Total	**3,652**	**2,680**

(10) FINANCIAL RESULT

	2011 TEUR	2010 TEUR
Profits from securities and financial investments	307	311
Other interest and similar revenues	294	327
Interest and dividend income	112	111
Financial earnings	713	749
Losses from securities and financial investments	(60)	-
Interest and similar expenditures	(339)	(315)
Financial expenses	(399)	(315)
Total	**314**	**434**

Other interest and similar income include interest income to the amount of TEUR 239 (PY: TEUR 226) resulting from the evaluation of the plan assets. Interest and similar expenses include calculated interest expenditures to the amount of TEUR 283 (PY: TEUR 277) based on the evaluation of the performance-orientated pension plan.

(11) INCOME TAXES

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

	2011 TEUR	2010 TEUR
Actual tax expenses	**6,787**	**9,284**
of which relating to other periods	30	(2)
(Income) from the release of provisions for taxation	(1)	(9)
(Income) from crediting of tax credits	(91)	(99)
Actual taxes on income and on revenue	**6,695**	**9,176**
Deferred tax expenses (income) from loss carry-overs	412	(241)
Deferred tax expenses (income) from temporary differences	(694)	(603)
Taxes on income and revenue	**6,413**	**8,332**

The German corporate tax laws applied for the financial year 2011 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 11.2% and 15.8%.

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:

	2011 TEUR	2010 TEUR
Change in active deferred taxes according to balance sheet	(547)	449
Change in passive deferred taxes according to balance sheet	819	396
Change in active / passive deferred taxes not affecting net income	20	(20)
Exchange rate fluctuation	(10)	19
Deferred taxes according to profit and loss statement	**282**	**844**

Overall, deferred tax assets from tax loss carryovers amount to TEUR 712 (PY: TEUR 1,124). 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 1,479 respectively TEUR 1,961. Deferred tax assets were also not assessed for foreign loss carry-overs in the amount of TEUR 245 in the reporting year.

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

	2011		2010	
	Assets TEUR	Liabilities TEUR	Assets TEUR	Liabilities TEUR
Trade accounts receivable	-	66	50	105
Inventories	1,081	313	397	38
Securities	-	-	-	34
Fixed assets	228	1,270	236	1,354
Activated development expenses	-	1,068	-	1,415
Company pension provisions	540	-	615	-
Unrealized profits and losses from foreign currency conversion	69	133	71	55
Tax loss carry-overs	712	-	1,124	-
Provisions	154	1	170	1
Miscellaneous	-	-	9	9
Subtotal	2,784	2,851	2,672	3,011
Netted out balance of active and passive deferred taxes	(1,845)	(1,845)	(1,186)	(1,186)
Total deferred taxes	**939**	**1,006**	**1,486**	**1,825**

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:

		2011	2010
Result before income taxes	TEUR	28,379	38,625
Income tax rate incl. trade tax	%	27.03	27.03
Expected income tax expenses in the case of uniform tax burden	**TEUR**	**(7,671)**	**(10,441)**
Reconciliation:			
Tax changes because of differences between local tax rates and the hypothetical tax rate	TEUR	894	589
Tax losses	TEUR	(462)	1,277
Tax proportion for:			
Tax-exempt income	TEUR	766	77
Expenses not deductible for tax purposes	TEUR	(236)	(229)
Taxes relating to other periods	TEUR	(6)	(31)
Income from crediting of tax credits	TEUR	91	99
Other tax deviations	TEUR	(45)	(11)
Income tax expense before tax reduction from profit share of the personally liable shareholder	**TEUR**	**(6,669)**	**(8,670)**
Effective tax rate	%	23.5	22.4
Tax relief on the profit share of the personally liable shareholderr	TEUR	256	338
Declared income tax expense	**TEUR**	**(6,413)**	**(8,332)**
Tax rate according to profit and loss statement	%	22.6	21.6

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 (23.5%; PY: 22.4%) thus corresponds with the actual tax rate that is to be applied to the earnings attributable to the shareholders of the limited partnership.

(12) RESULT APPORTIONABLE TO OTHER SHAREHOLDERS

The losses that must be apportioned to the other shareholders amount to TEUR 39 (PY: TEUR 23).

EARNINGS PER SHARE (13)

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

		2011	2010
Result before income taxes*	TEUR	28,424	38,654
Proportion of share capital with relation to total capital	%	42.73	42.73
Result before income taxes apportionable to the limited liability shareholders	TEUR	12,145	16,517
Effective tax rate*	%	23,8	22.4
Effective tax amount*	TEUR	2,888	3,695
Annual net income apportionable to the limited liability shareholders*	TEUR	9,257	12,822
Weighted average of common shares	No.	6,279,200	6,279,200
Repurchased shares (weighted)	No.	(143,138)	(147,805)
Weighted average of outstanding shares	No.	6,136,062	6,131,395
Dilution effects from subscription rights of employees and senior managers	No.	0	3
Weighted average of outstanding shares (diluted)	No.	6,136,062	6,131,398
Undiluted result per share*	EUR	1.51	2.09
Diluted result per share*	EUR	1.51	2.09

* 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

(14) CASH AND CASH EQUIVALENTS

in TEUR	31 December 2011	31 December 2010
Credit balance at credit institutes	15,100	25,165
Cheques, cash balance	83	44
	15,183	**25,209**

The development of cash and cash equivalents that form the liquid funds in accordance with IAS 7 “Cash Flow Statements” is represented in the statements of cashflows.

(15) MARKETABLE SECURITIES

in TEUR	31 December 2011	31 December 2010
Securities of the category “available for sale”	-	2,408
Securities of the category “trading”	-	10,782
	-	**13,190**

(16) TRADE ACCOUNTS RECEIVABLE

	31 December 2011			31 December 2010		
in TEUR	With a residual term of up to 1 year	With a residual term of more than 1 year	Total	With a residual term of up to 1 year	With a residual term of more than 1 year	Total
Trade accounts receivable	33,800	733	34,533	31,270	1,904	33,174
minus valuation adjustments	(1,085)	-	(1,085)	(1,681)	-	(1,681)
	32,715	**733**	**33,448**	**29,589**	**1,904**	**31,493**

The interest paid resulting from discounting of long-term receivables amounts to TEUR 9 (interest earned in PY: TEUR 13).

in TEUR	Book value	Of which: No impairment of value nor overdue at reporting date	Of which: No impairment of value but overdue in following timeframe Maximum of 365 days	More than 365 days
31 December 2011 Trade accounts receivable	33,448	21,863	11,617	172
31 December 2010 Trade accounts receivable	31,493	16,742	13,328	1,553

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 December 2011, Mühlbauer has accepted securities of trade accounts receivable in the amount of TEUR 6,048 (PY: TEUR 3,383) in the form of bank guarantees and letter of credits. Furthermore, Mühlbauer always retains retention of title.

Value adjustments developed as follows:

in TEUR	2011	2010
Valuation adjustments on January 1st	1,681	2,354
Transfers (expenditures for valuation adjustments)	155	385
Consumption	(41)	(385)
Releases	(710)	(673)
Valuation adjustments on December 31st	**1,085**	**1,681**

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

in TEUR	up to 50%	over 50% until 99%	zu 100%
31/12/2011	15	-	866
31/12/2010	281	-	1,270

In the 2011 financial year, receivables were individual adjusted in value in the net amount of TEUR 881 (PY: TEUR 1,551). These value adjustments were for trade accounts receivables. The total value of the addition in the amount of TEUR 155 (PY: TEUR 385) comprises additions due to individual value adjustments in the amount of TEUR 97 (PY: TEUR 368) and the value adjustments made that are based on historical experience values in the amount of TEUR 57 (PY: TEUR 17). The consumption of TEUR 41 (PY: TEUR 385) 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 565 (PY: TEUR 486) and rescissions made that are based on historical experience values in the amount of TEUR 145 (PY: TEUR 187).

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

in TEUR	31 December 2011	31 December 2010
Incurred order costs and stated earnings less stated losses	82,505	123,213
Less partial accounts	(80,762)	(121,927)
Production orders with amount due from customers	**1,743**	**1,286**

The company received advance payments of TEUR 5,383 (PY: TEUR 6,425) in respect of the customized production orders in progress on the reporting date.

OTHER CURRENT ASSETS (17)

in TEUR	31 December 2011	31 December 2010
Claims on investment and technology grants	4,802	2,644
VAT receivables	2,801	1,669
Advance payments made	2,659	458
Receivables from the personally liable shareholder	1,948	1,665
Claims on investment subsidies	853	134
Deferred expenses	629	869
Receivables from suppliers	167	149
Other	1,446	752
	15,305	**8,345**

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

The item “Other” contains a sum in the amount of TEUR 255 from insurance compensation awards and depositing of a sum in the amount of TEUR 214 for start-up financing of a potential project.

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.

TAX RECEIVABLES (18)

The tax receivables of TEUR 2,388 (PY: TEUR 1,976) comprise reclaimable trade tax, corporation tax and the solidarity surcharge of the national companies as well as comparable income taxes of the international companies.

(19) INVENTORIES

in TEUR	31 December 2011	31 December 2010
Raw materials, auxiliary and operating materials	9,493	11,492
Unfinished products	55,124	36,194
Finished products	10,329	5,139
	74,946	**52,825**

In the year under review, expensed value adjustment on inventory assets was increased by TEUR 5,247 (PY: TEUR 11,939).

(20) FIXED ASSETS

in TEUR	Land, rights similar to land and buildings, including buildings on property owned by others	Technical equipment and machines	Other assts, furniture and office equipment	Asset values in progress	Total
Accumulated acquisition values					
1 January 2010	56,376	39,646	20,742	1,136	117,900
Currency adjustments	915	136	235	71	1,357
Additions	10,109	7,099	3,931	940	22,079
Retirements	(18)	(3,574)	(1,732)	-	(5,324)
Transfers	646	558	3	(1,207)	-
31 December 2010	**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	0	(2,678)	(1,008)	(19)	(3,705)
Transfers	(147)	890	84	(903)	(76)
31 December 2011	**71,638**	**54,893**	**26,277**	**3,352**	**156,160**
Accumulated depreciation					
1 January 2010	(19,920)	(30,421)	(15,991)	-	(66,332)
Currency adjustments	(28)	(45)	(135)	-	(208)
Additions	(1,956)	(2,484)	(2,039)	-	(6,479)
Retirements	1	3,548	1,574	-	5,123
Transfers	-	-	-	-	-
31 December 2010	**(21,903)**	**(29,402)**	**(16,591)**	**-**	**(67,896)**
Currency adjustments	(22)	(3)	(67)	-	(92)
Additions	(2,250)	(4,275)	(2,492)	-	(9,017)
Retirements	0	2,662	942	-	3,604
Transfers	-	-	-	-	-
31 December 2011	**(24,175)**	**(31,018)**	**(18,208)**	**-**	**(73,401)**
Residual book values					
31 December 2010	46,125	14,463	6,588	940	68,116
31 December 2011	**47,463**	**23,875**	**8,069**	**3,352**	**82,759**

The fixed assets acquired or produced in the financial year have been reduced by grants and allowances totalling TEUR 4,653 (PY: TEUR 2,864).

Depreciation expenses have been taken into account as follows: TEUR 6,121 (PY: TEUR 4,355) in cost of sales, TEUR 781 (PY: TEUR 628) in selling expenses, TEUR 579 (PY: TEUR 605) in administrative expenses and TEUR 1,536 (PY: TEUR 891) in research and development expenses.

INTANGIBLE ASSETS (21)

in TEUR	Licenses, trademarks and patents, etc. as well as licenses to such rights and assets	Capitalized development costs	Goodwill	Total
Accumulated acquisition values				
1 January 2010	6,746	11,701	785	19,232
Currency adjustments	19	20	-	39
Additions from intra-company developments	-	2,977	-	2,977
Other additions	1,562	-	-	1,562
Retirements	(10)	(2,613)	-	(2,623)
Transfers	-	-	-	-
31 December 2010	**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
31 December 2011	**11,305**	**13,703**	**785**	**25,793**
Accumulated depreciation				
1 January 2010	(5,543)	(6,151)	(785)	(12,479)
Currency adjustments	(15)	(2)	-	(17)
Additions	(677)	(3,232)	-	(3,909)
Retirements	5	2,613	-	2,618
Transfers	-	-	-	-
31 December 2010	**(6,230)**	**(6,772)**	**(785)**	**(13,787)**
Currency adjustments	(1)	-	-	(1)
Additions	(2,189)	(2,819)	-	(5,008)
Retirements	29	-	-	29
Transfers	-	-	-	0
31 December 2011	**(8,391)**	**(9,591)**	**(785)**	**(18,767)**
Residual book values				
31 December 2010	2,087	5,313	-	7,400
31 December 2011	**2,914**	**4,112**	**-**	**7,026**

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% (previous year: 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 of currently offered German federal securities (0.1 to 1.03%; 0.5 to 2.08% in the previous year) 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 134 (PY: TEUR 234). Due to a change in assessment regarding the future usability of individual development projects these have been fully value adjusted. Impairment expenses determined from impairment tests were recognized in the amount of TEUR 1.426 (PY: TEUR 1,734) and were recorded income statement-related in the function area research and development expenses.

Depreciation on intangible assets of TEUR 1,635 (PY: TEUR 324) was recognized as income in the statement of income via cost of sales, TEUR 86 (PY: TEUR 35) in selling expenses, TEUR 202 (PY: TEUR 148) in administrative expenses and TEUR 3,085 (PY: TEUR 3,402) in research and development expenses. There is an impairment loss in the amount of TEUR 1,252 from a burdensome service concession agreement recognized in the depreciation of intangible assets.

(22) LONG-TERM TAX RECEIVABLES

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.

(23) DOWNPAYMENTS

Of down payments received to the end of the reporting period TEUR 5,383 (PY: TEUR 6,425) was received as payments for customized orders.

(24) OTHER SHORT-TERM LIABILITIES

in TEUR	31 December 2011	31 December 2010
Salaries and wages	7,510	7,273
Income tax	1,033	1,049
Commissions	788	517
Customer liabilities	556	972
Social security contributions	326	282
Other liabilities - personnel	150	100
Capital formation	74	68
VAT burden	71	57
Other	212	372
	10,720	**10,690**

For details regarding liquidity risk from other financial liabilities, we refer to the notes (31) of the financial statement.

(25) ACCRUED INCOME TAXES AND OTHER ACCRUALS

in TEUR	As per 1 January 2011	Difference due to currency translation	Consumption	Addition	Dissolution	As per 31 December 2011
Accrued income taxes	4,146	(45)	(3,171)	1,525	(194)	2,261
Personnel and social security obligations	1,389	2	(1,319)	1,526	(203)	1,395
Guarantee obligations	5,010	3	(5,722)	8,937	(273)	7,955
Service in progress	2,887	(5)	(1,225)	1,770	(551)	2,876
Litigation risks	323	-	(66)	238	(193)	302
Other	2,414	-	(524)	2,637	(1,247)	3,280
Other accruals	12,023	-	(8,856)	15,108	(2,467)	15,808
	16,169	**(45)**	**(12,027)**	**16,633**	**(2,661)**	**18,069**

Accrued income taxes include current income taxes formed for the past financial years and for the 2011 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 2,661 (PY: TEUR 1,572) 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.

(26) PENSION AND POSTRETIREMENT BENEFITS

The Mühlbauer Group provides its employees with different retirement and pension schemes that are primarily based on the length of employment and salary of the employee. Pension obligations exclusively comprise performance-based pension schemes and only include entitlements for pensions to be paid in the future. The pension obligations are secured by assigned reinsurance policies.

The following actuarial parameters have been taken into consideration:

in TEUR	31 December 2011	31 December 2010
Discounting rate	4.50%	4.75%
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	3.50%	3.50%

The value recorded on the balance sheet in respect of “Plan assets” is derived as follows:

in TEUR	31 December 2011	31 December 2010
Cash value of the backed pension commitments	7,016	5,968
Fair value of the plan assets	(7,546)	(6,766)
Financial status	**(530)**	**(798)**
Unrealized actuarial profits / (losses)	(1,094)	(507)
Other long-term assets	**(1,624)**	**(1,305)**

The development of the cash value of the backed pension commitments at TEUR 7,016 (PY: TEUR 5,968), the fair value of the plan assets at TEUR 7,546 (PY: TEUR 6,766) and the actuarial profits/(losses) from experience-based adjustments is represented as follows:

in TEUR	2011	2010
Cash value of the backed pension commitments at the beginning of the year	5,968	5,447
Current service cost	179	176
Interest expenses on obligations	283	277
Actuarial losses	586	422
Amortization of past service costs	-	(354)
Cash value of the backed pension commitments at the end of the year	**7,016**	**5,968**

in TEUR	2011	2010
Fair value of the plan assets at the beginning of the year	6,766	6,306
Expected earnings on plan assets	239	226
Actuarial profits/(losses)	(1)	16
Payments made by the company	542	218
Fair value of the plan assets at the end of the year	**7,546**	**6,766**

in TEUR	2011	2010
Experience-based profits/(losses) from the plan assets		
(a) Value	1	(16)
(b) in % of the plan assets	0.0%	(0.2%)
Experience-based profits/(losses) from the scope of obligations		
(a) Value	(217)	172
(b) in % of the backed pension commitments	3.0%	3.0%

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

The actual income from plan assets amounted to TEUR 238 (PY: expenses TEUR 241) 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		2011		2010
Plan assets as per 1 January		**(1,305)**		**(966)**
Amounts recorded as income				
Current service cost	179		176	
Interest expenses on obligations	283		277	
Expected earnings on plan assets	(239)		(226)	
Reduction by profits		223	(348)	(121)
Contributions to plan assets		(542)		(218)
Plan assets as per 31 December		**(1,624)**		**(1,305)**

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 386 (PY: TEUR 350) in the reporting period. Furthermore, the company paid employer contributions to the statutory pension insurance fund of TEUR 5,891 (PY: TEUR 4,921).

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

Since the Mühlbauer Group currently uses the corridor method, the change would lead to an increase of the pension reserves by TEUR 1,094 with application to the conditions on 31 December 2011. With the change from the corridor method to the modified method, in the future the calculation of profit and loss will be free of effects from actuarial gains and losses (for example, due to interest rate fluctuations), because these are then to be recognized under other income.

(27) SHAREHOLDERS’ EQUITY

The development of the individual components of group equity during the 2011 financial year is represented in the consolidated statements of changes in shareholders’ equity

Subscribed capital

The share capital is shown as 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 equity capital is fully paid up. Each of the no-par limited partners’ shares entitled to vote has one vote.

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 10,773,600,00 EUR.

Mühlbauer Holding AG & Co. KGaA is not entitled to any rights from its own shares. In cases falling under § 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 100% controlled by the personally liable shareholder – has a participation of 3,296,852 non-par bearer shares and/or 52.50% of the share capital of Mühlbauer Holding AG & Co. The above-mentioned number of shares include 2,000,000 non-par bearer shares and/or 31.85% of the share capital for which SECURA Vermögensverwaltungs GmbH has entered into an agreement binding it to exercise its voting right in a prescribed manner. The personally liable shareholder has undertaken vis-à-vis the company to refrain from exercising the voting right for those 2,000,000 non-par bearer shares – starting as of September 9th, 2002, for the duration of ten years - as long as the shares are in its possession. When the non-par bearer shares were transferred from the personally liable shareholder to SECURA Vermögensverwaltungs GmbH, SECURA assumed that obligation.

The only exception is cases in which the exercise of the right to vote or of the right of participation is necessary to avert serious harm to the company or the annual shareholders' meeting decides matters which require a majority of at least 75% of the entire equity capital of the company present according to the company's articles of association.

The registered non-par share held by Ms. Anna Antonie Mühlbauer, Metten, grants her the right to depute one third of all supervisory board members to the supervisory board. The deputation right is not effective insofar as and as long as the holder of the share granting the deputation right is the personally liable shareholder, its liable shareholder or one of its executive board members. The holder of the registered non-par share holds it neither as a trustee nor as a recipient of orders of the personally liable shareholder and/or or closely related person. The transfer of the registered non-par share is only permissible with the consent of the company, about which the supervisory board decides according to its best judgement and at its discretion in compliance with the articles of association.

Mühlbauer Holding AG & Co. KGaA is represented solely by the personally liable shareholder according to law. In accordance with the essence of the KgaA entity, the personally liable shareholder is not subject to the personnel competence of the supervisory board and can therefore not be removed from office.

Articles 179, 285 German Stock Corporation Act [Aktiengesetz (AktG)] in combination with Articles 18, 15, and 4 Section 5 of the articles of association of Mühlbauer Holding AG & Co. KgaA are applicable for amendments of the articles of association. According to them, as a matter of principle the annual meeting of shareholders decides on amendments of the articles of association with a simple majority and – insofar as the law does not prescribe a larger majority as mandatory – a simple majority of the share capital represented. According to the company's articles of association, the right of approval held by the limited shareholders for extraordinary business is excluded. However, the conduct of legal business and activities by the company or its subsidiaries which goes beyond ordinary business operation requires the approval of the supervisory board. The supervisory board has the right to determine the range of legal business requiring approval in more detail. According to Art. 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 only pertain to the version. Numerous resolutions of the annual meeting of shareholders additionally require the consent of the personally liable shareholder, namely also amendments of the articles of association.

The personally liable shareholder is authorized – with the consent of the supervisory board – to increase the share capital until April 15th, 2013, by issuing new non-par bearer shares in exchange for a cash deposit and/or non-cash capital contribution once or several times, but in total by a maximum of 4,018,688.00 EUR (approved capital 2008/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 peak amounts from the subscription right;
b) exclude the subscription right of the shareholders in order to issue new shares in exchange for cash deposits for an issue amount that does not substantially fall short of the stock exchange price;
c) exclude the subscription right of the shareholders in order to make the shares available for conversion of complementary capital;
d) exclude the subscription right of the shareholders in order to issue the shares in exchange for non-cash capital contributions for the purchase of companies or shareholdings in companies.

The share capital is increased conditionally (conditional capital III) by up to 1,996,800.00 EUR, divided among 1,560,000 non-par bearer shares. The conditional capital increase is only implemented insofar as the annual meeting of shareholders adopts the conversion of the capital interest into share capital with the consent of the personally liable shareholder. In each case the new shares receive a share of the gains as of the beginning of the fiscal year in which they were issued after exercise of the right of conversion.

Own shares

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 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 147,660 own shares (accounting par value EUR 189,004.80), the company issued 1,042 shares (PY: 1,335 shares) free of charge as so-called anniversary shares. Also, in the reporting year a further 6.274 shares with an accounting par value of EUR 8,030.72 were disposed of at a subscription price of EUR 29.50 per share in the course of the asset formation campaign executed by the company in respect of the employees of the Mühlbauer Group. The earnings were utilized to reinforce the operating capital.

As per 31 December 2011, the company held 140,344 own shares with a computed par value of EUR 179,640.32. The percentage of own shares in the ordinary share capital was 2.24 (PY: 2.35%) as per 31 December 2011. Own shares are reported using the par value method.

Fixed capital contribution

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

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

Additional paid-in capital

in TEUR	31 December 2011	31 December 2010
Premium from capital increases	59,557	59,557
Balance from the premium applicable to the purchase/disposal of own shares (pro rata)	(463)	(639)
Share-based adjustment item (reserve in respect of expenditure resulting from conversion schemes or stock option programs)	2.049	1,929
Withdrawal from additional paid-in capital to adjust the ordinary share capital to the euro	(7)	(7)
	61,136	**60,840**

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
Status as per 1 January 2010	**-**	**(664)**	**(664)**
Unrealized gains/(losses)	83	-	83
Reclassification with an effect on the income statement	(9)	-	(9)
Currency adjustments	-	3,192	3,192
Deferred taxes			
Tax effect from unrealized gains/(losses)	(20)	-	(20)
Reclassification with an effect on the income statement	-	-	-
Status as per 31 December 2010	**54**	**2,528**	**2,582**
Status as per 1 January 2011	**54**	**2,528**	**2,582**
Unrealized gains/(losses)	13	-	13
Reclassification with an effect on the income statement	(67)	-	(67)
Currency adjustments	-	292	292
Deferred taxes			
Tax effect from unrealized gains/(losses)	(3)	-	(3)
Reclassification with an effect on the income statement	3	-	3
Status as per 31 December 2011	**-**	**2,820**	**2,820**

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 1.30 per no-par value share with dividend entitlement executed in the year under review to the shareholders of Mühlbauer Holding AG & Co. KGaA, amounting to a total of TEUR 7,981, the appropriation of earnings also includes the earnings transfer of Mühlbauer Holding AG & Co. KGaA to Mühlbauer Holding AG & Co. Verwaltungs KG due in parallel as a result of the statutes. In correspondence with the capital situation, Mühlbauer Holding AG & Co. Verwaltungs KG participated in the earnings of Mühlbauer Holding AG & Co. KGaA to an amount of TEUR 10,990 (57.27). Taxes of TEUR 1,665, 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 19,188 in the previous year.

Stock purchase programs

The personally liable shareholder is authorized, by resolution of the Annual General Meeting, to offer employees own shares of the company for purchase. In the third quarter of 2011, 26 options of Tranche 1 expired. No subscription rights were held as of the end of the reporting period.

Stock ownership plan to employees

The company offers employees and trainees as of the 2nd apprenticeship year (referred to in the following as "employees") shares subject to special conditions within a specified time limit. In order to qualify for shares, employees must, on principle, have been in a continuous and unterminated employment relationship or apprenticeship/traineeship in the six month period prior to the share offer as well as at the time the shares are allocated; in addition, the purchase is subject to restrictions regarding the number of shares that can be subscribed by the employees. If the shares are subject to a uniform blocking period applicable to all participating domestic group companies, they are only freely available on expiry of the blocking period. The number of own shares issued at a price of EUR 29.50 on the basis of this offer totaled 6,274.

The market value of the stock ownership plans to employees is specified on the respective reporting date, on the basis of the Black-Scholes model. In so doing, the following parameters were applied on 31 December 2011:

	2011
Expected dividend yield	0.0%
Expected volatility	87.9%
Risk free rate of interest	0.8%
Expected maturity (in years)	0.4
Market value of the option in EUR	38.23

The difference between the purchase and market price of TEUR 79 was posted as personnel expenditure. The expected volatility was determined based on the relation of the daily yield to the expected yield using the daily closing price as the underlying value.

In the year under review, employees with a specified seniority received 1 share per 2 years of staff membership at the company free-of-charge. The number of own shares issued on the basis of this offer totalled TEUR 1,042 (PY: TEUR 1,335) in the financial year. The cost of TEUR 41 (PY: TEUR 25) was recorded as personnel expenditure.

Shares of non-controlling shareholders

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

	2011	2010
Balance on 1 January 2011	**13**	**0**
Cash capital increase	0	36
Changes in shareholders' equity with an effect on the income statement	(39)	(23)
Balance on 31 December 2011	**(26)**	**13**

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 2011 TEUR	31 December 2010 TEUR	Change
Short-term liabilities	74,022	54,670	
Long-term liabilities	1,006	1,825	
Liabilities*	**75,028**	**56,495**	**32.8%**
in % of total capital	31,9%	26.5%	
Shareholder's equity	**160,339**	**156,802**	**2.3%**
in % of total capital	68,1%	73.5%	
Total capital	**235,367**	**213,297**	**10.3%**

* including the shares held by other shareholders

(28) LIABILITY AND OTHER FINANCIAL OBLIGATIONS

	31 December 2011 TEUR	31 December 2010 TEUR
Contractual obligations:		
Obligations from other purchase and service agreements	10,951	10,223
Obligations from the purchase of fixed assets	5,454	7,575
Obligations from the purchase of intangible assets	28	380
Obligations from tenancy and insurance agreements	1,010	740
Total contractual obligations	**17,443**	**18,918**

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

	2011 TEUR	2010 TEUR
2011	-	18,831
2012	17,396	67
2013	33	9
2014	6	6
2015	4	5
2016	1	-
thereafter	3	-
Total	**17,443**	**18,918**

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

	31 December 2011 TEUR	31 December 2010 TEUR
Contingencies:		
Contingencies from legal disputes	14,581	6,473
Conditional benefits from public authorities	5,736	13,162
Contracts	3,378	2,747
Licence payments	-	379
Total contingencies	**23,695**	**22,761**

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

	2011 TEUR	2010 TEUR
2011	-	15,180
2012	17,828	1,289
2013	1,665	1,070
2014	79	124
2015	1,895	2,069
2016	1,511	3,029
thereafter	717	-
Total	**23,695**	**22,761**

In May 2010, legal proceedings were instituted before the High Court of Uganda in Kampala, against a non-existent Muhlbauer High Tech International (hereinafter referred to as “MHTI”) and against Muehlbauer Uganda Limited, which had been founded by Mühlbauer Holding AG & Co. KGaA on 1 April 2010. The action is to assert the payment of a commission of 10% in respect of the order placed with Mühlbauer 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. Mühlbauer 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. Mühlbauer still believes that the plaintiff cannot produce solid evidence and that the lawsuit is unfounded.

Legal action was instituted against Mühlbauer 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.

In November 2011 a law suit was filed against Mühlbauer Aktiengesellschaft, Mühlbauer ID Services GmbH and Muehlbauer Inc. before the United States District Court for the Southern District of Florida in Miami. Up to now the plaintiffs have only served Muehlbauer Inc. in the USA with the law suit. The law suit is based on an alleged breach of contract, unjustified enrichment, payment of an adequate remuneration ("quantum meruit") and on fraud in connection with a failed business relationship with regard to a government contract. In their law suit, the plaintiffs demand the payment of damage compensation in an unspecified amount; however, they have mentioned a range of up to 10.5 million USD. The defendant companies are defending themselves in the proceedings and, in addition to dismissal of the action, they contest the jurisdiction of the court and formally proper service of the law suit. In the meantime, the court has granted the motion of Mühlbauer that service was not executed properly in compliance with the Hague Convention and instructed the plaintiffs to execute service after the fact in accordance with the Hague Convention. Mühlbauer is proceeding on the assumption that the plaintiffs will attempt to execute proper service in the year 2012. The companies sued believe that the claim for compensation of damages is without foundation.

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 2,058 (PY: TEUR 4,424) of the benefits can be demanded to be returned by the reporting date of 31 December 2011. Furthermore, as parent company of its consolidated subsidiaries, the company has accepted co-liability for specific projects in the event that the subsidiaries do not meet obligations associated with benefits and take responsibility for the repayment due. The maximum amount repayable by the consolidated subsidiaries on the reporting date of 31 December 2011, amounts to TEUR 3,678 (PY: TEUR 8,738).

D. SEGMENT REPORTING

The Mühlbauer Group is structured into four business areas (*Cards & TECURITY®, Semiconductor Related Products, Precision Parts & Systems* and *Traceability*), 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:

Business area	**Products and services**
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 December 2010 and 31 December 2009:

Sales by application area	**2011 TEUR**	**2010 TEUR**
Cards & TECURITY®	124,265	126,902
Semiconductor Related Products	62,811	58,953
Precision Parts & Systems	27,330	21,734
	214,406	**207,589**
Deductions in earnings	(1,181)	(342)
	213,225	**207,247**

Sales by region	**2011 TEUR**	**2010 TEUR**
Asia	85,199	59,370
Germany	47,540	32,121
Europe (excluding Germany)	40,271	50,200
The Americas	25,981	22,592
Africa	15,415	43,306
	214,406	**207,589**
Deductions in earnings	(1,181)	(342)
	213,225	**207,247**

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

Additional information about geographical areas	**Germany 2010 TEUR**	**Europe (excl. Germany) 2010 TEUR**	**Asia 2010 TEUR**	**The Americas 2010 TEUR**	**Africa 2010 TEUR**	**Con-solidated 2010 TEUR**
Long-term assets (excl. financial instruments)	54,454	10,857	6,280	5,807	70	**77,468**
Investments in fixed assets	15,990	3,630	2,777	(77)*	26	**22,346**
Investments in intangible assets	4,308	57	158	16	-	**4,539**
Deferred tax assets	1,065	-	71	141	197	**1,474**
Pension obligations	(1,305)	-	-	-	-	**(1,305)**

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

In the reporting year there was no sales turnover with one single customer that was subject to the reporting obligation according to IFRS 8.23 (PY: 36,076 TEUR)

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 cash flows are differentiated according to operational business activity as well as according to investment and financing activity.

The liquid fund in the cashflow statement comprises all cash and cash equivalents listed in the balance sheet as well as short-term marketable securities, insofar as these have a residual term of no more than three months, on acquisition.

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:

	2011 TEUR	2010 TEUR
Cash provided by (used for) operating activities	36,981	47,865
Cash provided by (used for) investment activities	(28,276)	(27,915)
Subtotal	8,705	19,950
Transition to free cashflow		
Gains/(losses) from the sale of fixed assets and intangible assets	447	512
Realized net gains/(losses) from short and long-term marketable securities	294	364
Proceeds from disposals of long-term assets	(642)	(717)
Proceeds from sale of short-term assets (marketable securities)	(29,945)	(26,832)
Investments in short-term assets (marketable securities)	16,575	32,607
Free cashflow	**(4,566)**	**25,884**

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

	2011 TEUR
Dividends paid to shareholders of the limited partnership	7,981
Statutory earnings transfer by the company to Mühlbauer Holding AG & Co. Verwaltungs KG in respect of the 2008 financial year	9,324
Total dividend payments and earnings transfers	**17,305**

F. OTHER NOTES

EVENTS AFTER THE REPORTING DATE (29)

Other events of major significance did not occur after the 2011 reporting date.

ADDITIONAL INFORMATION REGARDING FINANCIAL INSTRUMENTS (30)

Valuation of financial instruments by classes

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

in TEUR	Valuation category according to IAS 39	Book value 31 Dec. 2011	Valuation balance sheet in accordance with IAS 39 Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect on income	Fair Value 31 Dec. 2011
Assets							
Cash and cash equivalents	-	15,183	15,183	-	-	-	15,183
Trade accounts receivable*	LaR	33,448	33,448	-	-	-	33,448
Other financial receivables	LaR	-	-	-	-	-	-
Other primary financial assets							
Available-for-sale financial assets	AfS	-	-	-	-	-	-
Financial assets held for trading	FAHfT	-	-	-	-	-	-
Derivative financial assets							
Without effective hedge relationship	FAHfT	-	-	-	-	-	-
With hedge relationship	-	-	-	-	-	-	-
Liabilities							
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 Statements

in TEUR	Valuation category according to IAS 39	Book value 31 Dec. 2010	Valuation balance sheet in accordance with IAS 39				Fair Value 31 Dec. 2010
			Amortized cost	Historic cost	Fair value no effect on income	Fair value with effect on income	
Assets							
Cash and cash equivalents	-	25,209	25,209	-	-	-	25,209
Trade accounts receivable*	LaR	31,493	31,493	-	-	-	31,493
Other financial receivables	LaR	2,409	2,409	-	-	-	2,409
Other primary financial assets							
Available-for-sale financial assets	AfS	2,408	-	2,333	75	-	2,408
Financial assets held for trading	FAHfT	10,782	-	10,735	-	47	10,782
Derivative financial assets							
Without effective hedge relationship	FAHfT	-	-	-	-	-	-
With hedge relationship	-	-	-	-	-	-	-
Liabilities							
Trade accounts payable	FLAC	10,962	10,962	-	-	-	10,962
Derivative financial liabilities	-	187	-	-	-	187	187
Other financial liabilities	FLAC	10,570	10,570	-	-	-	10,570
Aggregated according to valuation classes							
Loans and receivables (LaR)		33,902	33,902	-	-	-	33,902
Available-for-sale financial assets (AfS)		2,408	-	2,333	75	-	2,408
Financial assets held for trading (FAHfT)		10,782	-	10,735		47	10,782
Financial liabilities measured at amortized cost (FLAC)		21,532	21,532	-	-	-	21,532

* Including receivables accounted according to the percentage of completion method

The securities documented in the previous year in the valuation category for financial assets held for trading are discount certificates which were classified as structured products. Listing on an organized market resulted in the determination of the fair value of these securities in the fair value hierarchy of IFRS 7.27A according to Level 1 (listed market prices for identical assets or liabilities on active markets).

Use was made of the option for measurement at fair value recognized in income.

The book value of cash and cash equivalents, short-term trade accounts receivable, other financial receivables, financial debts, trade accounts payable and other short-term liabilities of the company correspond closely to the fair value on 31 December 2011, due to their short maturity. Long-term accounts receivable were valued at amortized cost using the effective interest rate method.

Net result by valuation categories

in TEUR – 2011	From interest	From subsequent valuation: At fair value	Foreign currency translation	Value adjustment	From disposal	Net result 2011
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
Total	**(133)**	**-**	**(12)**	**(321)**	**(233)**	**(699)**

in TEUR – 2010	From interest	From revaluation: At fair value	Foreign currency translation	Value adjustment	From disposal	Net result 2010
Loans and receivables (LaR)	138	-	(997)	667	-	(192)
Available-for-sale financial assets (AfS)	-	-	(84)	-	14	(70)
Financial assets/liabilities held for trading (FAHfT/FLHfT)	-	47	-	-	297	344
Financial liabilities measured at amortised cost (FLAC)	(1)	-	(245)	-	-	(246)
Total	**137**	**47**	**(1,326)**	**667**	**311**	**(164)**

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 in the amount of TEUR 3,059 (PY: TEUR 1,071).

RISK MANAGEMENT AND FINANCIAL DERIVATIVES (31)

Principles of risk management

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

The main objective of financial risk management is to limit these market risks, which are encountered in the course of normal, ongoing operating and financially oriented activities. Based on the risk assessment selected derivatives or non-derivative financial instruments will be implemented. Derivative financial instruments are used as hedging instruments and are, as a matter of principle, not used for trading or speculative purposes.

The guidelines for financial policies are determined on an annual basis by management and are monitored by the Supervisory Board. The implementation of financial policies as well as the ongoing risk management is incumbent upon management. Certain transactions require the explicit authorization from management, which is also continually informed by the risk committee regarding the extent and amount of current risk exposure (measurement of risk).

Foreign currency risks

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

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

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

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

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

The underlying assumptions regarding currency sensitivities are as follows:

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

If the Euro had been 10% stronger in comparison with the US dollar as of December 31st, 2011, the profit from the corporate group perspective and thus the equity capital would have been 540 TEUR lower (31 December 2010: TEUR 83 lower). If the Euro had been 10% stronger in comparison with all other currencies as of December 31st 2011, the profit would have been TEUR 127 lower (31 December 2010: TEUR 21 lower). Converse 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 ensues, which leads to a change in the fair value of the financial instrument. Currency derivatives are not subject to future changes in interest rates and therefore have no effect on interest sensitivity. Significant external interest bearing financial obligations do not currently exist. Based on the current market evaluation, the risk of a change in interest rates is considered minimal.

If the market interest level as of December 31st, 2011, had been base points higher, the result for the year and the equity capital would have been TEUR 14 lower (31 December 2010: TEUR 34). If the market interest level as of December 31st, 2011, had been base points lower, the result for the year and the equity capital would have been TEUR 5 higher (31 December 2010: TEUR 31).

Default risks

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

The maximum default risk is expressed by the book value of the financial assets carried on the balance sheet (incl. derivative financial instruments with a positive market value), minus the securities received (notes (15)). No significant agreements such as settlement agreements that diminished the maximum default risk existed at the financial reporting date.

Liquidity risks

31 December 2011 in TEUR	due within 1 month	due after 1 month
Trade accounts payable	22.086	270
Other financial liabilities	9.946	774
Total	**32.032**	**1,044**

31 December 2010 in TEUR	due within 1 month	due after 1 month
Trade accounts payable	10,952	10
Other financial liabilities	10,690	-
Total	**21,642**	**10**

In order to ensure solvency at all times as well as the financial flexibility of Mühlbauer, a liquidity reserve in the form of credit lines and bill guarantees as well as – if necessary – liquid funds is maintained. As of December 31st, 2011, the company agreed on several, short-term and unsecured credit lines and bill guarantees independent of one another in the amount of a total of EUR 39.4 million with several financial institutes; EUR 24.8 million of which was still available as of the balance sheet key date. As of December 31st, 2010, the short-term and unsecured credit lines and bill guarantees independent of one another that had been agreed upon by the company with various financial institutes amounted to EUR 35.2 million, EUR 17.5 million of which were still available. The payment of interest is based on a variable basic interest rate with a fixed margin.

Hedging measures

Hedges in accordance with IAS 39 are used in the form of fair value hedges. On the reporting date, the company held forward exchange deals with a book value of TEUR -175 (PY: TEUR -187) 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	2011	2010	2011	2010
Fair value hedges	Trade accounts receivable	(75)	(301)	99	311

(32) CORPORATE GOVERNANCE

The Declaration of Conformity in accordance with § 161 AktG (German Stock Corporation Act) was issued in November 2011 and can be permanently accessed by shareholders on the internet.

(33) INFORMATION ON THE REMUNERATION OF THE AUDITOR

The remuneration for the audits executed in the financial year amounts to TEUR 124. TEUR 2 of the other services provided by the auditor in the previous year has been recorded as expense.

(34) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS

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

Moreover, the disclosure requirement in accordance with IAS 24 also extends to persons who can exercise a significant influence over the company, i.e. 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 respect to the part of the supervisory board, in the financial year 2011 this pertains to its members in the company itself as well as those of Mühlbauer Aktiengesellschaft. At the executive management board level, that includes the members of the executive management board of Mühlbauer Aktiengesellschaft as well as Mühlbauer Beteiligungs Aktiengesellschaft.

As per 31 December 2011, receivables existed of TEUR 1,948 (PY: TEUR 1,665), resulting from taxes paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG. In addition, as per 31 December 2011, liabilities of TEUR 238 (PY: TEUR 7) existed toward Mühlbauer Beteiligungs Aktiengesellschaft. This balance is the result of the compensation of expenditures in accordance with the articles of association which are incurred by the personally liable shareholder in connection with the executive management.

In the financial year 2011 and 2010, the supervisory board of the company and Mühlbauer Aktiengesellschaft was remunerated as follows:

Aufsichtsratsvergütung in TEUR	2011 Mühlbauer Holding AG & Co. KGaA[1]	2011 Mühlbauer Aktiengesellschaft[2]	2011 Gesamt	2010 Mühlbauer Holding AG & Co. KGaA[1]	2010 Mühlbauer Aktiengesellschaft[2]	2010 Gesamt
Dr. Thomas Zwissler (Chairman)[3]	4	3	7	3	9	12
Dr. Jürgen Honert (Chairman)[4]	6	-	6	-	-	-
Josef Mühlbauer (Chairman)[5]	-	6	6	-	-	-
Prof. Dr. Kurt Faltlhauser (stellvertretender Vorsitzender)	8	4	12	3	4	7
Steffen Harlfinger (Mitglied)	5	2	7	2	2	4
	23	**15**	**38**	**8**	**15**	**23**

[1] the chairman of the supervisory board gets twice and the vice chairman gets one and a half of the amount of a supervisory board member

[2] each fixed remuneration

[3] until 05 May 2011 in the Mühlbauer Aktiengesellschaft and the Holding AG & Co. KGaA

[4] since 05 May 2011 in the Mühlbauer Holding AG & Co. KGaA

[5] since 05 May 2011 in the Mühlbauer Aktiengesellschaft

Dr. Thomas Zwissler, partner of the international law firm Zirngibl Langwieser. The company occasionally provides legal consultation to the Mühlbauer Group. The fees for such services amounted to TEUR 40 (PY: TEUR 58) in the year under review.

In the financial year 2011, the executive management board of Mühlbauer Aktiengesellschaft and Mühlbauer Beteiligungs Aktiengesellschaft received fixed remuneration payments in the amount of 720 TEUR (PY 707 TEUR) and variable remuneration payments in the amount of 130 TEUR (PY 195 TEUR). Pension and postretirement benefits increased by TEUR 223 net in the 2011 financial year. In so doing, the gross allocation of TEUR 463 was reduced by the expected earnings from plan assets of TEUR 240. In the same period of the previous year, TEUR 121 net were allocated to pension and postretirement benefits; this net allocation results from a gross allocation of TEUR 453, offset against the expected earnings of TEUR 226 from plan assets and a plan cut resulting from a change in the Management Board of Mühlbauer Aktiengesellschaft.

In the reporting year, 68 TEUR were paid to close family members for services of which advantage was taken (PY 49 TEUR).

The companies 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 term 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 365 (PY: TEUR 316).

Group companies utilize certain services in respect of the conveyance 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 1,319 (PY: TEUR 740) including the current amount of VAT for such services in the year under review. In the year under review, Mühlbauer Aktiengesellschaft paid TEUR 24 (PY: TEUR 77), including the current amount of VAT, to Mr. Josef Mühlbauer or companies controlled by him in respect of services and products sold provided.

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

(35) NUMBER OF EMPLOYEES

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

	2011 Number	2010 Number
Production and assembly	1,421	1,083
Research and development	470	380
Administration and sales	263	203
	2,154	1,666
Apprentices, trainees and part-time employees	464	432
	2,618	**2,098**

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

	2011 Number	2010 Number
Germany	1,893	1,689
Europe (excluding Germany)	275	148
Asia	271	221
The Americas	157	28
Others	22	12
Total	**2,618**	**2,098**

(36) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS

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 2011 financial year the following persons were appointed to the Supervisory Board of Mühlbauer Holding AG & Co KGaA:

Active members

	Age	End of term	Membership on further Supervisory Boards and other comparable committees
Dr. Jürgen Honert Chairman (as of May 5th 2011)	50	2016	Lawyer and partner of Honert + Partner Partnergesellschaft, Munich
			External offices:
			Supervisory board member • Mühlbauer Beteiligungs AG, Roding (chairman as of May 5th, 2011)
Prof. Dr. Kurt Faltlhauser Vice Chairman (as of April 29th 2008)	71	2013	Of Counsel at PSP Peters, Schönberger & Partner Rechtsanwälte, Wirtschaftsprüfer, Steuerberater
			External offices:
			Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding • Fürst Fugger Privatbank KG, Augsburg • Prime Office AG, München
			Offices within corporate group:
			Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding
Steffen Harlfinger (as of April 29th 2008)	41	2013	Head of Vocational Training at Mühlbauer AG
			Offices within corporate group:
			Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding

Members who left during the reporting period

	Age	End of term	Membership on further Supervisory Boards and other comparable committees
Dr. Thomas Zwissler Chairman (until May 5th 2011)	43	2011	Lawyer and partner at Zirngibl Langwieser Rechtsanwälte Partnerschaft, Munchen
			External offices:
			Supervisory board member • Mühlbauer Beteiligungs AG, Roding (chairman until May 5th, 2011) • Going Public Media AG, Wolfratshausen (chairman)
			Offices within corporate group:
			Supervisory board member • Mühlbauer Aktiengesellschaft, Roding (chairman until May 5th, 2011)

PROPOSAL FOR THE APPROPRIATION OF EARNINGS (37)

In accordance with § 58 para 2 AktG (German Stock Corporation Act), the dividend distribution of Mühlbauer Holding AG & Co KGaA is based on the net income for the year shown in the annual financial statements of Mühlbauer Holding AG & Co KGaA, drawn up according to commercial law In accordance with the financial statements of Mühlbauer Holding AG & Co. KGaA, drawn up as required by commercial law, a net income for the year of TEUR 6,295 is distributable The statutory share in profits of TEUR 8,532, attributable to the personally liable shareholder according to his equity share (we refer to the comments in note (27)) was deducted from the net income for the year and entered into his retained earnings The 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 1.30) per no-par value share with dividend entitlement and to carry forward the remaining net income for the year

This consolidated financial report was released for publication on April, 20th 2012 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, 20 April 2012

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 1st 2011 to December 31st 2011. 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 conwsolidated 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, 21 April 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Waubke	Mühlhuber
Auditor	Auditor

Report of the Supervisory Board

Ladies and Gentlemen,
Dear shareholders,

2011 was a bit of a mixed year for the Mühlbauer Group. While the Group was again able to boost sales slightly, to EUR 213.2 million, against the already good development of the previous year (PY: EUR 207.2 million), the operating income for 2011 lagged that of the previous year significantly, at EUR 28.1 million (PY: EUR 38.1 million) – due primarily to the considerably higher cost of sales, selling expenses and research and development expenses. As a result, the goals in respect of the 2011 financial year, namely the further increase of sales and earnings, were not achieved. On the other hand, the restructure of the business line *Precision Parts & Systems* has almost been completed and is developing positively.

Intensive support of the personally liable shareholder and the company

In 2011, the Supervisory Board perceived the audit and control responsibilities assigned to it by law and the Articles of Association with great diligence. It regularly provided advice to the personally liable shareholder with regard to the management of the company and, in doing so, supported and monitored the business development of the Group. The Supervisory Board was directly involved in all decisions that were of fundamental importance to the company. In addition to personal contacts with individual Supervisory Board members, the personally liable shareholder regularly kept the entire Board informed of the development of sales, earnings and liquidity, as well as the fulfillment of the Group's plans and those of the individual group companies, by means of written reports. The Supervisory Board discussed the current quarterly development, the short- and medium-term business outlook and the long-term growth and earnings strategy in the meetings that were held in the course of the year.

The personally liable shareholder provided information to the Supervisory Board on all risks relevant to the company and on the company's risk management. At these meetings, the status quo of the company was also discussed with regard to its observance of compliance criteria. The Supervisory Board supported the work of the personally liable shareholder on the basis of the reports drawn up by the personally liable shareholder. No committees were formed. The entire Supervisory Board and the personally liable shareholder were present at all Supervisory Board meetings.

Meetings of the Supervisory Board

In five ordinary meetings – held on 8 March, 15 March (balance sheet meeting in respect of the 2010 annual financial statements), 13 July, 28 September and 30 November 2011 – the Supervisory Board informed itself thoroughly of the company's development and situation, its strategic corporate planning and the key business transactions. In the balance sheet meeting, which was also attended by the external auditor, the Board discussed the individual and consolidated financial statements of Mühlbauer Holding AG & Co. KgaA for the 2010 financial year with the personally liable shareholder and the auditor, and approved the proposal for the appropriation of earnings made by the personally liable shareholder.

In the year under review, further material areas of the Supervisory Board’s auditing and consulting activities were:

- Grant of a loan by Mühlbauer AG to Mühlbauer Holding AG & Co. KGaA;
- Current status of the restructure of the business line *Precision Parts & Systems*;
- Declaration of Conformity – German Corporate Governance Code;
- Structural and organizational development of the Mühlbauer Group;
- Control and risk management system;
- Control of the work of the Supervisory Board, with regard to efficiency;
- Acceptance of large-scale project contracts by Mühlbauer AG and Mühlbauer ID Services GmbH;
- Adoption of the new version of the rules of procedure for the Supervisory Board and the catalog of legal transactions an activities that require the approval of the Supervisory Board.

Composition of the Supervisory Board

In the 2011 financial year, the following changes took place on the Supervisory Board. The term of office of the previous Chairman of the Supervisory Board of Mühlbauer Holding AG & Co. KGaA, Dr. Thomas Zwissler, ended with the conclusion of the Annual General Meeting on 5 May 2011. Following the declaration by the holder of the registered share no. 1 on 5 May 2011, Dr. Jürgen Honert was appointed a member of the Supervisory Board of Mühlbauer Holding AG & Co. KGaA. The remaining members retained their appointments. In its meeting after the Annual General Meeting on 5 May 2011, the Supervisory Board appointed Dr. Jürgen Honert as its Chairman; Prof. Dr. Kurt Faltlhauser's position as Vice Chairman was confirmed.

Financial accounting

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, was appointed external auditor by the Annual General Meeting and commissioned by the Supervisory Board. The auditor audited the annual financial statements of Mühlbauer Holding AG & Co. KGaA and the consolidated financial statements as per 31 December 2011, as well as the manage-ment report and the consolidated management report including accounting. He approved them without qualification. Furthermore, the external auditor audited the company’s system for the early detection of risks pursuant to section 317 subsection 4 of the German Commercial Code (HGB) and, as a result, confirmed that the statutory management obligations are complied with.

The balance sheet meeting of the Supervisory Board was held on 25 April 2012. In this meeting, in particular, the annual financial statements, the consolidated financial statements, the management report and the consolidated management report were discussed. The Supervisory Board members were provided with the necessary documents prior to the meeting. The external auditor was present while the Supervisory Board discussed the annual financial statements, the consolidated financial statements, the management report and the consolidated management report, and gave a detailed report on the audit process and all major findings of the audit. He also provided additional information on request.

After its own audit of the annual financial statements, the consolidated financial statements, the management report and the consolidated management report, the Supervisory Board approved the audit results obtained by the external auditor. The Supervisory Board raised no objections. At the balance sheet meeting on April 25, 2012, the Supervisory Board expressly approved the annual financial statements and the Group financial statements 2011. The Supervisory Board therefore proposes that the Annual General Meeting accepts the annual financial statements of Mühlbauer Holding AG & Co. KGaA as per 31 December 2011, in the version submitted.

The Supervisory Board endorses the proposal of the personally liable shareholder to use the net income of EUR 6,294,678.03 to pay a dividend of EUR 1.00 per share – this amounts to a total dividend payment of EUR 6,140,020.00. The remaining net income of EUR 154,658.03 will be carried forward.

Report of the personally liable shareholder on relations with affiliated companies

The external auditor also audited the report on relations with affiliated companies in the 2011 financial year, drawn up by the personally liable shareholder pursuant to section 312 German Stock Corporation Act (AktG) and reported on the result. The auditor issued the following certificate:

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

1. *the actual facts stated in the report are correct,*
2. *the payment by the company for the legal services stated in the report was not inappropriately high.”*

The Supervisory Board examined the report on relations with affiliated companies in the 2011 financial year and discussed it in its meeting dated 25 April 2012. It raised no objections against the declaration of the personally liable shareholder and the audit result of the external auditor.

The members of the Supervisory Board would like to thank the personally liable shareholder, the Management Board and all employees for their commitment in the 2011 financial year.

Munich, 25 April 2012

For the Supervisory Board

Dr. Jürgen Honert
Chairman

Several years overview [1]		2011 IFRS	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 IFRS	2004 US-GAAP	2003 US-GAAP	2002 US-GAAP
Consolidated Balance Sheets												
Short-term assets	**TEUR**	**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	15,183	25,209	18,798	17,122	16,425	11,311	13,507	20,365	20,365	12,597	13,110
Marketable securities	TEUR	0	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	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	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	2,388	1,976	1,473	2,882	1,233	1,360	976	670	161	26	59
Inventories	TEUR	74,946	52,825	43,935	50,398	39,913	39,807	33,532	32,216	32,216	34,227	43,345
Long-term assets												
Financial assets	**TEUR**	**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	4,562	11,524	10,809	10,134	10,440	9,241	7,383
Trade accounts receivables, net	TEUR	733	1,904	1,534	741	1,536	1,335	279	7	0	0	0
Other financial assets	TEUR	0	0	0	0	2,150	0	0	0	0	0	0
Fixed assets	**TEUR**	**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	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	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	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	3,352	940	1,136	5,083	179	377	200	65	69	40	25
Intangible assets	**TEUR**	**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	468	468
Software and licenses	TEUR	2,914	2,087	1,203	591	1,001	1,039	638	411	482	409	557
Capitalized development costs	TEUR	4,112	5,313	5,550	6,413	8,603	8,971	7,774	6,459	0	0	0
Other long-term assets	**TEUR**	**4,312**	**4,743**	**4,147**	**4,006**	**3,853**	**3,236**	**609**	**262**	**1,308**	**1,888**	**804**
Long-term tax assets	TEUR	1,749	1,952	2,144	2,334	2,389	2,268	0	0	0	0	0
Deferred tax assets	TEUR	939	1,486	1,037	759	162	42	99	234	0	201	804
Other long-term assets	TEUR	1,624	1,305	966	913	1,302	926	510	28	1,308	1,687	0
Short-term liabilities	**TEUR**	**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	22	21	0	960	1,023	1,023	1,025	1,050
Trade accounts payable	TEUR	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	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	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	2,261	4,146	1,581	1,900	1,962	2,540	2,919	7,230	6,424	2,135	760
Other accruals	TEUR	15,808	12,023	9,243	8,789	9,350	9,847	8,256	5,699	6,989	4,525	4,490
Long-term liabilities	**TEUR**	**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	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	1,006	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	718	374
Shareholders' Equity	**TEUR**	**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
Own shares	TEUR	(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)
Additional paid-in capital	TEUR	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	2,820	2,582	(664)	(449)	326	1,259	2,219	1,429	1,403	1,032	156
Retained earnings	TEUR	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	(26)	13	0	0	0	0	0	0	0	0	0
Total assets and liabilities	**TEUR**	**235,367**	**213,297**	**176,052**	**187,045**	**174,631**	**175,229**	**164,255**	**148,480**	**148,996**	**125,556**	**129,432**
Change yoy												
Short-term assets	%	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	%	(61.5)	24.1	107.0	(91.0)	(35.9)	16.0	9.3		13.0	25.2	(4.7)
Fixed assets	%	21.5	32.1	9.6	17.7	(0.3)	2.8	(1.2)		13.1	0.3	(8.8)
Intangible assets	%	(5.1)	9.6	(3.6)	(27.1)	(4.1)	19.0	22.4		(45.0)	(14.4)	(26.7)
Other fixed assets	%	(9.1)	14.4	3.5	4.0	19.1	431.4	132.4		(30.7)	134.8	75.2
Short-term liabilities	%	35.4	49.0	(6.9)	34.1	(3.3)	(13.1)	7.6		79.6	(12.5)	(12.5)
Long-term liabilities	%	(44.9)	(17.8)	(16.4)	(23.9)	(22.7)	10.0	(19.6)		(0.1)	(9.4)	(15.8)
Shareholders' Equity	%	2.3	14.3	(5.4)	2.3	1.0	12.1	12.9		9.5	(0.3)	(3.5)
Key figures												
Gross capital expentitures without capitalized development costs	TEUR	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	12,952	8,225	7,080	6,985	7,066	6,741	6,172	6,424	6,424	6,190	6,656
Working Capital [2]	TEUR	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 [3]	%	24.1	18.4	30.9	31.1	29.0	28.3	16.8	20.4	20.0	41.6	49.6
Capital Employed [4]	TEUR	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	15,183	38,399	25,781	35,081	42,028	44,654	56,043	42,112	42,112	22,398	18,703
Equity ratio	%	68.1	73.5	77.9	77.5	81.2	80.1	76.2	74.6	72.0	78.0	75.9
Employees												
Average per year	Number	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	1,421	1,083	945	939	884	806	758	729			
Research and development	Number	470	380	334	332	318	289	265	220			
Administration and sales	Number	263	203	203	193	178	145	144	132			
Trainees and part-timers	Number	464	432	415	377	330	289	266	257	257	263	269
Skilled workers	Number									553	515	521
Salaried employees	Number									528	484	484
Mühlbauer Holding AG & Co, KGaA												
Total stock capital [5]	TEUR	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,811	18,811
Total issued and outstanding shares [6]	TPieces	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 [7]	EUR	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	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) [6]	TEUR	322,577	587,108	252,038	255,712	355,498	431,330	599,600	392,532	392,532	301,268	151,369

[1] Certain US-GAAP figures were adjusted to IFRS- statement
[2] Non interest short-term assets – non interest current liabilities
[3] Working capital/Sales
[4] Working capital + Fixed assets
[5] Common stock and fixed capital contribution of the personally liable shareholder
[6] Obtained on total stock capital
[7] 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		2011 IFRS	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 IFRS	2004 US-GAAP	2003 US-GAAP	2002 US-GAAP
Consolidated Income Statements												
Sales												
by applications	TEUR	213,225	207,247	160,488	172,575	159,134	160,676	147,932	128,939	128,180	95,204	91,317
Cards & TECURITY® [1]	TEUR	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 [1]	TEUR	62,811	49,748	29,480	34,905	36,138	39,361	35,564	49,325	48,875	35,619	22,103
Traceability	TEUR	0	9,205	5,813	17,710	13,956	13,689	10,893	7,390	7,390	5,679	6,641
Precision Parts & Systems [1]	TEUR	27,330	21,734	12,722	19,424	20,253	16,061	14,789	17,603	17,603	14,680	12,085
Other	TEUR	(1,181)	(342)	(311)	(312)	(367)	(249)	(175)	(229)	(229)	(109)	(163)
by regions	TEUR	213,225	207,247	160,488	172,575	159,134	160,676	147,932	128,939	128,180	95,204	91,317
Germany	TEUR	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	40,271	50,200	50,708	61,063	56,612	40,126	31,471	34,197	34,122	21,175	26,799
Africa	TEUR	15,415	43,306	22,159	10,474	6,819	4,604	3,560	5,428	5,278	2,380	179
North America	TEUR	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	7,734	6,147	5,652	2,651	2,661	4,679	8,420	2,136	2,136	403	852
Asia	TEUR	84,354	58,929	39,975	40,227	43,905	63,882	46,160	25,382	25,215	21,676	16,766
Australia	TEUR	845	441	824	51	822	52	73	363	363	142	123
Other	TEUR	(1,181)	(342)	(311)	(312)	(367)	(249)	(175)	(229)	(229)	(109)	(163)
Cost of sales	**TEUR**	**(130,850)**	**(124,788)**	**(106,383)**	**(101,851)**	**(94,931)**	**(91,406)**	**(83,518)**	**(75,365)**	**(76,205)**	**(63,007)**	**(61,370)**
of sales	%	(61.4)	(60.2)	(66.3)	(59.0)	(59.7)	(56.9)	(56.5)	(58.5)	(59.5)	(66.2)	(67.2)
Gross profit	**TEUR**	**82,375**	**82,459**	**54,105**	**70,724**	**64,203**	**69,270**	**64,414**	**53,574**	**51,975**	**32,197**	**29,947**
of sales	%	38.6	39.8	33.7	41.0	40.3	43.1	43.5	41.5	40.5	33.8	32.8
Operating expenses												
Selling and administrative	TEUR	(28,423)	(23,044)	(21,177)	(22,765)	(17,242)	(19,075)	(15,926)	(14,719)	(16,799)	(16,616)	(16,682)
of sales	%	(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	(29,539)	(23,904)	(21,088)	(22,731)	(20,280)	(17,081)	(15,264)	(13,048)	(14,006)	(11,392)	(10,761)
of sales	%	(13.9)	(11.5)	(13.1)	(13.2)	(12.7)	(10.6)	(10.3)	(10.1)	(10.9)	(12.0)	(11.8)
Other income [2]	**TEUR**	**4,760**	**4,596**	**1,466**	**2,335**	**1,000**	**1,409**	**653**	**1,535**	**4,447**	**4,357**	**3,475**
of sales	%	2.2	2.2	0.9	1.4	0.6	0.9	0.4	1.2	3.5	4.6	3.8
Other expenses [2]	**TEUR**	**(1,108)**	**(1,916)**	**(3,690)**	**(3,326)**	**(1,270)**	**(86)**	**(803)**	**(104)**	*	*	*
of sales	%	(0.5)	(0.9)	(2.3)	(1.9)	(0.8)	(0.1)	(0.5)	(0.1)			
EBITDA[3]	**TEUR**	**41,017**	**46,416**	**16,696**	**31,222**	**33,477**	**41,178**	**39,246**	**33,662**	**32,041**	**14,736**	**12,635**
of sales	%	19.2	22.4	10.4	18.1	21.0	25.6	26.5	26.1	25.0	15.5	13.8
EBIT[4]	**TEUR**	**28,065**	**38,191**	**9,616**	**24,237**	**26,411**	**34,437**	**33,074**	**27,238**	**25,617**	**8,546**	**5,979**
of sales	%	13.2	18.4	6.0	14.0	16.6	21.4	22.4	21.1	20.0	9.0	6.5
Financial result												
Financial income	TEUR	713	749	688	3,859	2,970	3,747	2,335	1,048	1,109	1,673	1,101
of sales	%	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	(399)	(315)	(577)	(3,697)	(937)	(171)	(741)	(409)	(415)	(728)	(2,290)
of sales	%	(0.2)	(0.2)	(0.4)	(2.1)	(0.6)	(0.1)	(0.5)	(0.3)	(0.3)	(0.8)	(2.5)
EBT [5]	**TEUR**	**28,379**	**38,625**	**9,727**	**24,399**	**28,444**	**38,013**	**34,668**	**27,877**	**26,311**	**9,491**	**4,790**
of sales	%	13.3	18.6	6.1	14.1	17.9	23.7	23.4	21.6	20.5	10.0	5.2
Income taxes	**TEUR**	**(6,413)**	**(8,332)**	**(2,380)**	**(6,125)**	**(9,330)**	**(10,285)**	**(11,648)**	**(10,054)**	**(9,374)**	**(2,977)**	**(1,871)**
of sales	%	(3.0)	(4.0)	(1.5)	(3.5)	(5.9)	(6.4)	(7.9)	(7.8)	(7.3)	(3.1)	(2.0)
Ordinary income net of tax	**TEUR**	**21,966**	**30,293**	**7,347**	**18,274**	**19,114**	**27,728**	**23,020**	**17,823**	**16,937**	**6,514**	**2,919**
of sales	%	10.3	14.6	4.6	10.6	12.0	17.3	15.6	13.8	13.2	6.8	3.2
Extraordinary gains	**TEUR**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**587**
of sales	%	0,0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Net earnings	**TEUR**	**21,966**	**30,293**	**7,347**	**18,274**	**19,114**	**27,728**	**23,020**	**17,823**	**16,937**	**6,514**	**3,506**
of sales	%	10.3	14.6	4.6	10.6	12.0	17.3	15.6	13.8	13.2	6.8	3.8
Change yoy												
Sales	%	2.9	29.1	(7.0)	8.4	(1.0)	8.6	14.7		34.6	4.3	2.1
Gross profit	%	(0.1)	52.4	(23.5)	10.2	(7.3)	7.5	20.2		61.4	7.5	4.5
EBIT	%	(26.5)	297.2	(60.3)	(8.2)	(23.3)	4.1	21.4		199.8	42.9	(29.5)
EBT	%	(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	%	(27.5)	312.3	(59.8)	(4.4)	(31.1)	20.5	29.2		160.0	123.2	(47.4)
Net earnings	%	(27.5)	312.3	(59.8)	(4.4)	(31.1)	20.5	29.2		160.0	85.8	(36.8)
Key figures												
Earnings per share												
basic	EUR	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	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	%	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	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	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	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)	%	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 [6]	%	19.7	33.2	8.8	22.3	27.2	35.7	45.4	37.5	34.6	10.2	6.8
Consolidated Statements of cashflow												
Cash provided by (used for) operating activities	TEUR	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	(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	(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	(10,363)	4,392	1,854	1,112	5,303	(18,085)	(361)	17,059	8,011	(211)	11,291
Free cashflow	TEUR	(4,566)	25,884	3,342	6,331	16,394	2,447	22,726	27,163	27,171	10,590	20,519
of sales	%	(2.1)	12.5	2.1	3.7	10.3	1.5	15.4	21.1	21.2	11.1	22.5

[1] Due to reclassifications from 2007 limited comparability with prior years
[2] No comparability due to different treatment between US-GAAP and IFRS
[3] Earnings before interest, tax depreciation and amortization
[4] Earnings before interest and tax
[5] Earnings before tax
[6] EBIT/Capital Employed
* Shown under function costs

TECHNICAL GLOSSARY

Adhesive Film Lamination	Attaching a heat-activated adhesive film to the reverse side of a module
Assembly & Encapsulation	Assembly and encapsulation of semiconductor components
Biometric Procedure	Procedure for registering individual personal features (e.g. fingerprints, iris structure, facial geometry); data obtained from biometric procedures are used for the unique identification of persons
Board Handling	Techniques and systems for transporting printed circuit boards in industrial manufacturing and shaping, (e.g. loading and unloading stations, magazine / buffer systems, flip/turn units and conveyors)
Border Crossing	Hard- and software for safe and quick border crossing as well as for a clear identification of documents and persons
Carrier Tape	Plastic straps for transporting and providing electronic components
Cavity	Milled cavity in a chip card for embedding the chip
Chip on Board	Technique for attaching and/or wiring dice onto carrier material such as printed circuit boards
Coating & Drying	Coating and drying of printed circuit boards
Contactless Card	Cards for contactless transmission of energy and data through electromagnetic fields
Converting	Here: further processing of the inlay in direction of a RFID label or a RFID ticket
Data Capturing	Capturing and storing biometric information
Data Enrollment	Data capture and processing (e.g. taking and optimizing pictures for further treatment)
Die Bonding	Placing small silicon chips onto carrier material
Die Sorter	Equipment for separating and packing good dice
Die, Dice	Silicon crystal equipped with an individual semiconductor-related micro-controller
Discrete Devices	Semiconductor products such as low-voltage transistors or diodes
Dual Interface Card	Card type combining the functions of contact and contactless card technologies
Dual SIM Card	Smart Card for telecommunication applications equipped with two SIM modules
EMV	Refers to a specification for payment cards equipped with a processor chip and for the belonging card devices (POS terminals and ATMs). The letters EMV stand for the three developers of this standard: Europay, MasterCard and VISA.
Encapsulation	Protection of the chip and its wiring by encapsulating the reverse of a chip
Flexible thin-film solar cell	Solar modul with an extremly thin layer of photovoltaic material which can be put on a flexible substrate
Flip Chip Technology	For flipping dice 180 degrees in order to attach them to carrier material
GSM Card	Standardized chip card to be used in mobile phones. The “Global System for Mobile Communications” is an international terrestrial mobile telephone system
Hologram	Security feature which results in a three-dimensional image when viewed binocularly
ICAO	International Civil Aviation Organization; sets standards regarding safety, handling and optimizing international air traffic
Implantation	Embedding a chip in a plastic card

Inlay	An inlay is part of an RFID product and consists of an antenna and an RFID microchip connected to the antenna. The inlay is further converted into the final RFID product. Such RFID products are e.g. Smart Labels, RFID tickets, contactless plastic cards, ePassports etc.
Kinegram	In contrast to the hologram, which possesses three-dimensional elements, kinegrams describe a two-dimensional course of movement which changes according to the viewing angle
Module	Carrier material for dice with arranged contact elements
Mounter	Machines for mounting, attaching and fixing parts
NFC	Near Field Communication: an international transmission standard for contactless data exchange within a short distance
Personalization	"Programming" individual data on a chip card module. Application of visible data on a card, a passport or visa is also known as optical personalization
Plug Punching	Punching out the chip from a standardized chip card for mobile phones
Plug-In	Small-sized chip card in particular for GSM applications
Power Devices	Semiconductor products such as high-voltage transistors or diodes
Pre-Personalization	Loading an operating system onto a chip
RFID Chips	Radio Frequency Identification; components used in a high frequency range
SD (Secure Digital) Card	Secure memory card similar to MMC multimedia cards; card application particularly used for digital cameras or as a storage medium for music, PDA, etc.
Smart Card	Chip card, i.e. plastic card equipped with a chip module
Smart Label	Ultra-flat transponders consisting of chip, antenna and substrate for identifying goods and persons
Smart Media and Multi Media Cards	Card application used in particular for digital cameras or as storage medium for music, etc.
Smart Ticket / RFID Ticket	Ticket which can be read contactless because of the implanted inlay
SMD (Surface Mounted Device)	Components, which are directly soldered to a board without drill holes. SMD components significantly reduce the component density of electronic circuits
Tag	RFID transponders are also termed as 'Tags'
TAL (Tag Assembly Line)	Mühlbauer production system for the manufacture of Smart Inlays (Smart Inlay = antenna and functional chip)
TECURITY®	Terms a market for technologically sophisticated and security-relevant solutions, taken from the two words Technology and Security
Testing & Packaging	Testing, labeling and packaging semiconductor components for further processing
Traceability	Pursuing and tracing back units from the raw material to the end product
Transponder	Antenna located on a Smart Label between flexible carrier layers
Turn-Key Solutions	Turn-key product and services solutions
Verification	Verification, if the user of an ID card really is the legal holder
Vision Technology	Measuring and controlling components using camera systems and software
Wafer	Ultra-thin and silicon semiconductor disk for producing many individual chips. The dice are sawn from the surface of the wafer
Wafer Level Package	Finished components on a wafer-basis, which are subject to further processing
Wire Bonding	Fully automated process for wiring dice with carrier material

FINANCIAL GLOSSARY

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

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

Gross profit on sales
Net sales less cost of sales

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

Cashflow
The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The 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)

Current assets
Assets intended for short-term business activities

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

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

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

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

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

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

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

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

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

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

Statement of income

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

Goodwill

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

Hedging activities

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

IFRS/IAS

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

Deferred taxes

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

Market capitalization

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

Net cash position

Gross cash position minus current and non-current liabilities

Pension expenses

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

Plan assets

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

Risk management

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

ROCE

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

Stock options

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

Working capital

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

Working capital intensity

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

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