



**Mühlbauer**  
High Tech International

Interim report

3. Quarter 2008



# Content

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Group overview		Q3/2008	Q3/2007	9m/2008	9m/2007
Order income	EUR million	40.5	46.9	142.9	122.8
Order backlog	EUR million	78.8	88.2	78.8	88.2
Sales	EUR million	43.1	41.4	130.6	106.5
EBIT	EUR million	1.5	5.8	16.1	13.6
EBT	EUR million	1.5	6.0	16.5	15.4
Net earnings	EUR million	1.3	5.0	12.7	10.9
Earnings per share	EUR	0.09	0.37	0.87	0.74
Employees	Number	1,932	1,803	1,932	1,803

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# Interim Management Report

## IMPORTANT NOTICE

The gradual realization of Mühlbauer's strategic objective from a technology supplier to a system partner for the complete transfer of technology and expertise on the production of electronic ID documents, has prompted the company to adjust its business areas SmartID and Semiconductor Related Products to this development at 1 April 2008. While the company's previous core business area *SmartID* will, from this point in time, focus exclusively on the transfer of technology and expertise for the production of all kinds of card and ePassport applications, under the name of *Cards & TECURITY®*, the product line Smart Label, which was previously managed under *SmartID*, will be allocated to *Semiconductor Related Products*. This interim report was drawn up in accordance with the new structure. Further details on the reclassification can be found in the notes at "D. Segment Reporting".

## OVERVIEW OF THE BUSINESS DEVELOPMENT IN THE GROUP

The Mühlbauer technology group fared comparably well against the background of the global economic downturn. While order income for the reporting period declined year-on-year, due to the volatile project business, which is usual for such business areas, company sales continued on seamlessly from previous quarters and even exceeded the year-on-year sales slightly. Earnings before interest and taxes (EBIT) achieved in Q3 2008, were, however, significantly lower year-on-year mainly as a result of a one-time charge for the formation of accruals in respect of the defense against action (please also consult the Notes (13)), while the EBIT achieved over the first nine months still considerably exceeded the value for the same period of the previous year.

Key events in Q3 2008 were:

- Order income totals EUR 40.5 million – after EUR 46.9 million in Q3 2007
- Order backlog still high, at EUR 78.8 million (88.2)
- Group sales<sup>1</sup> slightly higher year-on-year, at EUR 43.1 million (41.5) – Growth of 21.6% in the core business area *Cards & TECURITY®*, to EUR 23.6 million (19.4)
- EBIT drops to EUR 1.5 million due to a one-time charge and reports considerably lower year-on-year (5.8) – EBIT ratio at 3.6% (14.1%) in Q3 2008 and at 12.3% (12.8%) for the first nine months of 2008
- Earnings per share reported at EUR 0.09 (0.37)
- On a nine month comparison, free cashflow rose 48.3%, to EUR +4.3 million (+2.9), irrespective of the higher investment expenditure

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

<sup>1</sup> The sales figures are the gross value before the deduction of earnings of EUR 0.06 million (PY: EUR 0.07 million) for Q3.

## FRAMEWORK CONDITIONS

### Global economy

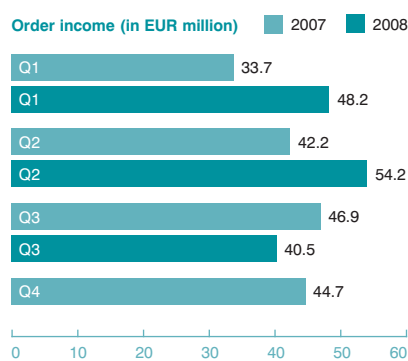
In Q3 2008, the expansion of the global economy slowed strongly down even further as a result of the burst of inflation caused by the raw materials prices, the corrections on the real estate markets and the worldwide financial market crisis. The economies in the USA and in the euro zone have turned down and many developed national economies are at the brink of recession to the end of Q3. In contrast, the up and coming emerging markets in countries such as China and India, as well as in some Latin American states, recorded high growth, while the overall speed of expansion has slowed down. In Germany, the economic boom of the past three years has come to an end.

### Industry development

The prevailing interest of numerous states and public authorities to replace existing ID documents with new ID applications such as electronic passports or ID cards or to fit these with biometric data, once again characterized the Cards & TECURITY® market in Q3. Growth in this industry also benefited from the sustained transformation from conventional magnetic stripe cards to chip cards in payment transactions and from the greater demand for SIM/GSM cards of numerous emerging countries. Demand for RFID applications also continued, while contactless identification of commodities and flows of goods for the purpose of optimizing logistics processes, and HF applications such as RFID ticketing, in particular, played a greater role. The general semiconductor market increasingly abated in Q3. The remaining growth was largely supported by demand from the Asia-Pacific region. The market for Traceability has turned down, resulting in an overall deceleration of investment momentum.

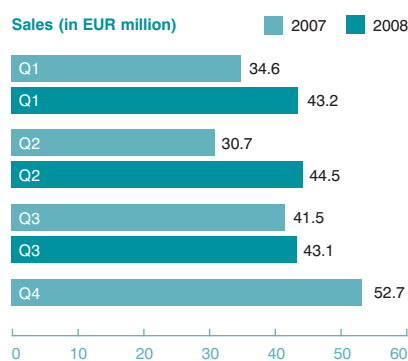
### Business development

#### Order income and order backlog



In Q3 2008, the order book of the Mühlbauer Group totaled EUR 40.5 million (46.9) thus lagging the same quarter of the previous year by 13.6% – largely due to the usual volatility of the project business, in particular in the core business area Cards & TECURITY®. While order income in the core business area itself was 11.9% lower year-on-year, at EUR 26.7 million (30.3), order income in Semiconductor Related Products dropped 28.6%, to EUR 5.5 million (7.7), due to the weak semiconductor environment and the overcapacity-related investment restraint in Smart Label systems. Even in Traceability, at EUR 3.9 million (4.4), order income lagged the same quarter of the previous year by 11.4% – after continuous and some times significant growth over the past five quarters. Precision Parts & Systems remained virtually level year-on-year. It contributed EUR 4.4 million (4.5) to the order book. On a nine month comparison, the order income of the Mühlbauer Group exceeds the year-on-year value by 16.4% at EUR 142.9 million (122.8). At the end of the reporting period, the order backlog totaled EUR 78.8 million (88.2).

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



As a result of finalizing the orders that increased considerably in previous quarters, the globally active Mühlbauer technology group achieved higher sales in Q3 2008 than in the same period of the previous year. Mühlbauer achieved EUR 43.1 million (41.5) in Q3 – 3.9% more than in the previous year. In Cards & TECURITY®, sales rose by 21.6%, to EUR 23.6 million (19.4), while the business area Semiconductor Related Products fell 30.3% short of the value achieved in the same quarter of the previous year, which was supported by Smart Label technologies, and achieved EUR 9.9 million (14.2). Mühlbauer repeatedly boosted its sales in Traceability with an increase of 64.5%, to EUR 5.1 million (3.1). In contrast, Precision Parts & Systems recorded a slight year-on-year decline of 6.3% with sales of EUR 4.5 million (4.8). On a nine month comparison, accumulated sales rose to EUR 130.8 million (106.8). This corresponds to 22.5% growth.

As a result of the sustained regional concentration of Cards & TECURITY® solutions, Europe continued to be the largest export region for the products offered by the Mühlbauer technology group, with a share of 62.9% (52.0%) in sales, followed by Asia with 29.6% (34.3%). North and South America generated 4.8% (5.1%) of quarterly sales, while the share generated by Africa and Australia dropped to 2.7% (8.6%) year-on-year. Please refer to the Notes on page 21 for more in-depth information on regional sales development.

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

<sup>2</sup> The sales figures are the gross value before the deduction of earnings of EUR 0.06 million (PY: EUR 0.07 million) for Q3.

## EARNINGS, FINANCIAL AND ASSET SITUATION

In Q3 2008, with an EBIT of EUR 1.5 million (EUR 5.8 million), the Mühlbauer technology group lagged the value achieved in the same period of the previous year by EUR 4.3 million. The reason for the decline of the quarterly result is largely due to the consideration of legal expenses of EUR 3.0 million in the income statement, in respect of which accruals were formed in connection with a US American patent dispute (please refer to the details provided in the Notes (13)).

A further reason for the decline of result is the comparatively high ratio of cost of sales of 65.4% (58.5%), which is largely due to the higher ratio of material costs and higher value-added costs, resulting from the change in product mix against the previous year. In the quarter under review, this led to a gross profit of 34.6% (41.5%). The Q3 result was further impacted by higher selling expenses and EUR 0.4 million higher administrative expenses, due to the conclusion of a pension scheme for past service costs. In contrast, the reduction of a risk provision, formed in the previous year, by EUR 0.6 million, in connection with the use of specific development results, led to savings in other income. As a result of the global crisis on the financial markets, the group has, however, been forced to record the accumulated adjustments of the fair value of securities of the category "available for sale" – previously accumulated in shareholders' equity – totaling EUR 0.6 million, in the statement of income, as unrealized loss from financial assets, affecting net income. As a result of this, the financial result in Q3 was distinctly impacted. The complete repayment of a devalued loan (EUR 0.5 million), however, amounted to savings. In Q3, the tax rate was 12.3%, against 16.9% year-on-year. Thus, tax refunds and the compounding of long-term tax credits of domestic group companies led to this low tax rate in Q3 2008. After deducting tax expenses, net income for the period amounted to EUR 1.3 million, after EUR 5.0 million year-on-year.

At EUR 16.1 million, EBIT for the first nine months of 2008 was EUR 2.5 million higher year-on-year (EUR 13.6 million). This corresponds to an EBIT margin of 12.3% (12.8%). While the ratio of cost of sales lags the previous year's value slightly, at 59.6% (60.0%) and the extension of sales subsequently entailed a EUR 10.1 million higher gross result over the first nine months of the previous year, the EUR 3.6 million higher selling expenses and EUR 2.2 million higher research and development expenses impacted the result. Net income for the first nine months of 2008 totaled EUR 12.7 million, against EUR 10.9 million for the same period of the previous year. In the same period, earnings per share climbed 17.6%, from EUR 0.74 to EUR 0.87.

In the first nine months of the current financial year, cashflow from operating activities was slightly lower year-on-year, at EUR 16.4 million (EUR 16.9 million). The year-on-year decline in outflows for income taxes of EUR 5.7 million over the first nine months is offset by a EUR 7.4 million increase in working capital (EUR 4.2 million) and, at EUR 3.3 million, the EUR 4.7 million lower inflow from the disposal of short-term securities, balanced by outflows from the acquisition of such securities. At minus EUR 7.5 million, cashflow from investments over the first nine months of 2008 was significantly lower year-on-year (plus EUR 0.8 million). Thus, a payment surplus of EUR 7.0 million from the disposal and the acquisition of long-term securities was recorded in the previous year, while a total of EUR 1.5 million was spent on the acquisition of such securities in the current year. The increase in payments for fixed asset investments by EUR 2.3 million relates both to the extension of sites in Germany and to the scheduled development of sites abroad. In the year under review, the full repayment of a loan led to savings of EUR 2.4 million in cashflow from investments. At EUR 4.3 million, free cashflow was 48.3% higher year-on-year (EUR 2.9 million).

### Earnings

### Cashflow

**Assets** The balance sheet total of the Group rose 3.4% to EUR 180.5 million (EUR 174.6 million) against 31 December 2007. The share of short-term assets in the balance sheet total also increased slightly from 64.7% to 66.1%. The equity ratio dropped from 81.2% to 77.4%. As a result of the extension of business, working capital rose EUR 7.4 million, to EUR 53.5 million. The increase in trade accounts receivable (EUR 6.3 million), inventories (EUR 5.8 million), other receivables (EUR 2.6 million) and tax receivables (EUR 1.1 million) is largely offset by an increase in other accruals (EUR 5.3 million) and trade accounts payable (EUR 3.4 million), balanced by a decrease in downpayments (EUR 0.7 million). Long-term assets declined by EUR 0.4 million. The increase in fixed assets (EUR 3.2 million), deferred tax assets (EUR 1.2 million) and securities (EUR 1.0 million) is primarily offset by a decline in long-term loans (EUR 2.2 million), intangible assets (EUR 1.8 million) and trade accounts receivable (EUR 1.2 million). In the first nine months of 2008, shareholders' equity dropped from EUR 141.7 million to EUR 139.7 million. The decline of shareholders' equity is largely due to the dividend payment made in Q2 2008, including the distribution of profits to the personally liable shareholder of EUR 14.5 million. The net earnings of EUR 12.7 million, achieved during the first nine months of 2008, contributed greatly to the increase in shareholders' equity.

## FACTOR INPUT

**Investments** Gross investments in fixed and intangible assets totaled EUR 4.5 million in Q3 2008, EUR 3.7 million more than in the same period of the previous year (0.8). Major investments were made for the extension of construction capacities at German locations as well as for the planned construction of the Customer Relation Center in the USA. Further expenditures were made for the acquisition of machining centers. In the first nine months the accumulated investment total amounted to EUR 7.7 million (5.8).

**Research and development** In Q3 2008, research and development expenses of the Mühlbauer Group totaled EUR 5.4 million (5.7), thus amounting to a total of EUR 17.4 million (15.2) over the first nine months of the current financial year. In Cards & TECURITY® Mühlbauer focused primarily on the project- and customer-specific adjustment of existing machines and systems, in order to meet individual customer needs, after many new developments in previous quarters. In the verification area, electronic border crossing systems underwent further development with regard to the fully automatic visual monitoring and greater access protection of electronic travel documents. Furthermore, the activities of R&D resulted in an extension of the product portfolio of Semiconductor Related Products: Mühlbauer is developing a flexible system for the assembly of antennae that features a higher level of automation and is to succeed the TAL 10.000, while the new TAL 500 as a semi-automatic RFID bonder, which was specifically developed for the evaluation of materials and processes, was launched. In Traceability, a new laser marking system (WL 500 LCL) guarantees a better cost-benefit ratio, while providing excellent quality. Additionally, new processes were developed for the processing of glass panels in the solar industry.

**Employment** As at 30 September 2008 Mühlbauer employed 1,932 staff - 129 more than in the previous year (1,803). This increase is due to the additional staff required at the new sites in Malaysia and Slovakia, caused by the internationalization of the Group and the rise in the number of apprentices and trainees since 1 September. To the end of the reporting period, Mühlbauer provided training to 328 young adults (289). This corresponds to an apprenticeship quota of 17.0% (16.0%). Furthermore, the share of highly qualified specialists in the R&D area rose from 329 to 354 employees.

## POTENTIAL CHANGES TO THE TAX BASIS

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

## RISK REPORT

In the 2007 Annual Report and the 2008 half-yearly report, Mühlbauer provided extensive information on the different risks the group faces. Explanations were also given as to which measures the group takes to counter the individual risks. The statements of the risk report contained in the 2007 Annual Report and the 2008 half-yearly report still apply.

In Q3, two risks, in particular, have become more distinct. Both are linked to the global financial crisis. As the risk of banks becoming insolvent has risen dramatically in the course of the financial crisis, the default risk of bank deposits and investment portfolios has increased. Mühlbauer counters this risk by placing short-term deposits with banks that are considered particularly crisis-proof and by regrouping its securities to such with less risk.

As a result of the financial crisis, the risk of a rapid, strong and permanent slowdown of the economy has indirectly increased. It cannot be excluded that demand for technology solutions will rise less strongly or even drop. Mühlbauer counters this risk by focusing more strongly on costs.

## OUTLOOK

**Global economy** It cannot be ignored that the financial crisis will have an impact on the real economy. Therefore, the economic expectations have dampened considerably. While the economies of a number of industrialized countries are threatening to fall into a recession, the global economy will most likely be stabilized by the continued strong demand from emerging countries. Nevertheless even on the emerging markets growth is set to slacken during the current quarter. Germany will most likely be hit particularly hard by the slackening of the international economy, as demand for investment goods, in particular, will decline. These play a major role in German export.

**Industry development** It is difficult to predict whether and to which extent the markets relevant for Mühlbauer will be effected by the financial market crisis. Pressure and motivation to replace conventional ID documents by innovative identification documents and intelligent chip cards in order to achieve higher security combined with increasing flexibility and faster processes continue to remain substantial. However, more difficult project funding due to the international financial crisis cannot be excluded, which may result in delays in the implementation of such projects. The medium and long-term growth prospects for the market for security-oriented ID systems in the form of smart cards and passports, however, are undisputable. A further continually high demand is discernible with regard to EMV and GSM/SIM cards. While EMV bank cards feature a chip instead of the easily forged magnetic stripe, new GSM/SIM cards meet great demand on developing and emerging markets. In the RFID industry the use of contactless identification is set to undergo further intensification, particularly in the HF (ticketing) area, while high growth is anticipated in the UHF area long-term, as a result of applying the technology in Supply Chain Management. Due to the lower willingness to invest, the market research institute Gartner has established growth of only 4.2% for the general semiconductor industry in 2008. The US American semiconductor analyst iSuppli is anticipating growth of 3.5%. Even for the Traceability-related markets it cannot be excluded that the expected economic slowdown combined with a weaker sales outlook will reduce demand for investment goods.

**Business development** The technology group Mühlbauer as a international unique system partner for complete technology and know how transfer for the manufacturing of electronic ID documents has positioned itself excellently to benefit steadily from the sustainable growth prospect worldwide. However, due to currently massive financial market turmoil, it is hard to predict to which extent the business trend will be negatively effected by the subsequent economic downturn. As a result of the unbroken interest in technology solutions from the core business area Cards & TECURITY®, we are currently at most assuming a temporary delay in demand. After all, the introduction of new innovative electronic passports and ID documents is being pushed ahead by numerous states and public authorities, while new solutions, such as verification and border crossing systems that speed up the border crossing procedure, generate additional demand. In the business area Semiconductor Related Products, it is Mühlbauer's goal to further extend its technological lead and market position in industries that are not as severely affected by the cyclicity of the general semiconductor market. With its product line Smart Label – the concentrated competence for the production of complete RFID labels – Mühlbauer is well prepared to benefit from the growth forecast for the RFID market, resulting from the increasing use of the technology. Whereas demand for systems in the business area Traceability has decreased slightly, we expect that Precision Parts & Systems will at least retain its current level of business development in Q4.

For the total financial year Mühlbauer expects an increase in sales and a positive trend in earnings.



## IMPORTANT NOTICE

This Interim Management Report contains future-oriented statements; statements that are not based on historical facts but on current plans, assumptions and estimates. Forward-looking statements are only applicable to the period in which they are made. Mühlbauer accepts no liability to revise these once new information becomes available. Future-oriented statements are always subject to risk and uncertainty. We therefore wish to point out that a range of factors can impact the actual results to the extent that these deviate considerably from those forecast. Some of these factors are described in the "Risk Report" and in other sections of the Annual Report 2007 and other parts of this interim report.

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

	Notes	July 1 - September 30, 2008 TEUR	July 1 - September 30, 2007 TEUR	January 1 - September 30, 2008 TEUR	January 1 - September 30, 2007 TEUR
<b>1. Sales</b>		<b>43,070</b>	<b>41,399</b>	<b>130,625</b>	<b>106,525</b>
2. Cost of sales	(3)	(28,162)	(24,219)	(77,875)	(63,877)
<b>3. Gross profit</b>		<b>14,908</b>	<b>17,180</b>	<b>52,750</b>	<b>42,648</b>
4. Selling expenses		(3,667)	(3,004)	(11,153)	(7,522)
5. Administrative expenses	(4)	(2,462)	(1,921)	(6,276)	(5,834)
6. Research and development		(5,352)	(5,654)	(17,429)	(15,183)
7. Other income	(5)	1,060	300	1,700	612
8. Other expenses	(5)	(2,953)	(1,057)	(3,473)	(1,113)
<b>9. Operating income</b>		<b>1,534</b>	<b>5,844</b>	<b>16,119</b>	<b>13,608</b>
10. Financial result					
a) Financial income	(6)	1,708	401	3,278	2,401
b) Financial expenses	(6)	(1,784)	(223)	(2,915)	(645)
<b>11. Income before income taxes</b>		<b>1,458</b>	<b>6,022</b>	<b>16,482</b>	<b>15,364</b>
12. Income taxes		(180)	(1,019)	(3,811)	(4,481)
<b>13. Net earnings</b>		<b>1,278</b>	<b>5,003</b>	<b>12,671</b>	<b>10,883</b>
<b>Earnings per share in EURO</b>					
basic	(7)	0.09	0.37	0.87	0.74
fully diluted	(7)	0.09	0.37	0.87	0.74
<b>Weighted average of shares</b>					
basic	(7)	6,116,022	6,100,145	6,116,022	6,100,145
fully diluted	(7)	6,116,024	6,100,186	6,116,024	6,100,186

<sup>1)</sup> uncertified

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

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

	Notes	September 30, 2008 <sup>1)</sup> TEUR	December 31, 2007 <sup>2)</sup> TEUR
<b>ASSETS</b>			
<b>Short-term assets</b>			
Cash and cash equivalents		10,764	16,425
Marketable securities	(8)	17,203	21,062
Trade accounts receivable	(9)	35,839	29,536
Other current assets	(10)	7,406	4,770
Tax receivables		2,306	1,233
Inventories	(11)	45,720	39,913
		<b>119,238</b>	<b>112,939</b>
<b>Long-term assets</b>			
<b>Investment and long-term financial assets</b>			
Marketable securities		5,544	4,562
Trade accounts receivable	(9)	335	1,536
Other loans	(12)	0	2,150
		<b>5,879</b>	<b>8,248</b>
<b>Fixed assets</b>			
Land and buildings		26,469	26,276
Technical equipment		8,138	8,217
Furniture and office equipment		5,472	5,315
Buildings and equipment in progress		3,099	179
		<b>43,178</b>	<b>39,987</b>
<b>Intangible assets</b>			
Software and licenses		639	1,001
Capitalized development costs		7,133	8,603
		<b>7,772</b>	<b>9,604</b>
<b>Other long-term assets</b>			
Long-term tax receivables		2,204	2,389
Deferred tax assets		1,335	162
Plan assets	(14)	916	1,302
		<b>4,455</b>	<b>3,853</b>
		<b>180,522</b>	<b>174,631</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Short-term liabilities</b>			
Financial liabilities			
Trade accounts payable		9,420	6,068
Downpayments		6,038	6,769
Other liabilities		4,833	5,226
Accrued income taxes	(13)	2,896	1,962
Other accruals	(13)	14,617	9,350
		<b>37,806</b>	<b>29,396</b>
<b>Long-term liabilities</b>			
Deferred tax liabilities		2,988	3,492
		<b>2,988</b>	<b>3,492</b>
<b>Shareholders' equity</b>			
Ordinary share capital		8,038	8,038
Own shares	(15)	(202)	(214)
Fixed capital contribution		(2,980)	(2,980)
Additional paid-in capital	(15)	60,677	60,483
Other comprehensive income	(15)	(88)	326
Retained earnings	(15)	74,283	76,090
		<b>139,728</b>	<b>141,743</b>
		<b>180,522</b>	<b>174,631</b>

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

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

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

	January 1 - September 30, 2008 TEUR	January 1 - September 30, 2007 TEUR
<b>Cash provided by operating activities</b>		
1. Net earnings	12,671	10,883
2. + Income taxes	3,811	4,481
3. + Interest expenses	110	222
4. - Interest incomes	(403)	(183)
<b>Adjustments for non cash expenses and income</b>		
5. +/- Expenses/(income) from employee profit-sharing programs	75	155
6. +/- Depreciations/(appreciations) to fixed assets	4,711	4,820
7. +/- Depreciations/(appreciations) to intangible assets	478	536
8. +/- Depreciations/(appreciations) to capitalized development costs	2,467	1,806
9. +/- (Gains)/losses from the sale of fixed assets	(92)	(57)
10. +/- Currency differences from the transition of long-term assets	0	(3)
11. +/- Realized net (gains)/losses from short- and long-term marketable securities	264	(1,045)
12. +/- (Gains)/losses from the the change in fair value of financial instruments	(13)	127
13. +/- (Increase)/decrease of deferred tax assets	(1,183)	(501)
14. +/- Increase/(decrease) of deferred tax liabilities	(514)	(1,084)
<b>Changes in long-term assets and working capital</b>		
15. +/- (Increase)/decrease of inventories	(5,807)	(5,626)
16. +/- (Increase)/decrease of trade accounts receivables and other short-term assets	(8,422)	(760)
17. +/- Increase/(decrease) of trade accounts payables and other liabilities	9,826	5,979
18. + Proceeds from sales of short-term marketable securities (available-for sale papers)	38,622	24,608
19. - Acquisitions of short-term marketable securities (available-for-sale papers)	(35,322)	(16,594)
20. = Cash generated from operating activities	21,279	27,764
21. - Income tax paid	(5,249)	(10,947)
22. - Interest paid	(5)	(109)
23. + Interest received	367	172
24. = Cash provided by operating activities	16,392	16,880
<b>Cashflow from investing activities</b>		
25. + Proceeds from disposals of fixed assets	144	895
26. +/- (Increase)/decrease of other loans	2,395	0
27. - Purchase of fixed assets	(7,340)	(5,060)
28. - Purchase of intangible assets	(271)	(423)
29. - Expenditures for capitalized development costs	(997)	(1,581)
30. + Proceeds from sales of long-term marketable securities (available-for sale-papers)	0	8,652
31. - Acquisitions of long-term marketable securities (available-for-sale papers)	(1,476)	(1,672)
32. = Cash used for investing activities	(7,545)	811
<b>Cashflow from financing activities</b>		
33. +/- Increase/(decrease) of short-term financial liabilities	(19)	59
34. + Proceeds from sales of own shares	131	475
35. - Dividends paid	(13,364)	(15,718)
36. +/- Tax withdrawal personally liable shareholder	(1,114)	(1,658)
37. = Cash used for financing activities	(14,366)	(16,842)
38. +/- Increase/(decrease) of currency exchange rate changes	(142)	(265)
39. = Net increase/(decrease) in cash and cash equivalents (Total of lines 24, 32, 37 and 38)	(5,661)	584
40. + Liquid funds on January 1	16,425	11,311
41. = Liquid funds on September 30	10,764	11,895

<sup>1)</sup> uncertified

We refer to additional informations on page 22 of the accompanying notes.  
The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Notes	Total number of shares	Own shares Number	Ordinary share capital TEUR	Fixed capital TEUR	Additional paid-in capital TEUR	Other comprehensive income/(loss)			Total TEUR
							Cumulative transaction adjustments TEUR	Available for-sale- securities TEUR	Retained earnings TEUR	
<b>Balance January 1, 2007 <sup>1)</sup></b>		<b>6,279,200</b>	<b>(187,502)</b>	<b>7,798</b>	<b>(2,980)</b>	<b>59,872</b>	<b>101</b>	<b>1,158</b>	<b>74,350</b>	<b>140,299</b>
Net earnings		-	-	-	-	-	-	-	10,883	10,883
Other comprehensive income/(loss)	(15)	-	-	-	-	-	(265)	(374)	-	(639)
Total comprehensive income/(loss)	(15)	-	-	-	-	-	(265)	(374)	10,883	10,244
Deferred compensation	(15)	-	-	-	-	155	-	-	-	155
Proceeds from sales of own shares	(15)	-	20,262	26	-	449	-	-	-	475
Dividends	(15)	-	-	-	-	-	-	-	(17,375)	(17,375)
<b>Balance September 30, 2007 <sup>2)</sup></b>		<b>6,279,200</b>	<b>(167,240)</b>	<b>7,824</b>	<b>(2,980)</b>	<b>60,476</b>	<b>(164)</b>	<b>784</b>	<b>67,858</b>	<b>133,798</b>
<b>Balance January 1, 2008 <sup>1)</sup></b>		<b>6,279,200</b>	<b>(167,240)</b>	<b>7,824</b>	<b>(2,980)</b>	<b>60,483</b>	<b>(88)</b>	<b>414</b>	<b>76,090</b>	<b>141,743</b>
Net earnings		-	-	-	-	-	-	-	12,671	12,671
Other comprehensive income/(loss)	(15)	-	-	-	-	-	(69)	(345)	-	(414)
Total comprehensive income/(loss)	(15)	-	-	-	-	-	(69)	(345)	12,671	12,257
Deferred compensation	(15)	-	-	-	-	75	-	-	-	75
Proceeds from sales of own shares	(15)	-	9,245	12	-	119	-	-	-	131
Dividends	(15)	-	-	-	-	-	-	-	(14,478)	(14,478)
<b>Balance September 30, 2008 <sup>2)</sup></b>		<b>6,279,200</b>	<b>(157,995)</b>	<b>7,836</b>	<b>(2,980)</b>	<b>60,677</b>	<b>(157)</b>	<b>69</b>	<b>74,283</b>	<b>139,728</b>

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

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

# Notes

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## A. GENERAL INFORMATION

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

#### Description of business activities

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

#### Principles of presentation

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

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

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

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### Principles of consolidation

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

### Changes in the scope of consolidation

On 14 July 2008, the Group founded "OOO Muehlbauer", headquartered in Moscow, Russia. Its entry into the Commercial Register of Moscow, Russia, was effected under the number 1087746780439. OOO Muehlbauer is a marketing, trading and service company. The subscribed capital of the company totals RUB 10,000 and is fully paid up.

The Group founded "Muehlbauer d.o.o. Beograd", headquartered in Belgrade, Serbia, on 17 July 2008. Its entry into the Commercial Register of Belgrade, Serbia, was effected under the number 20436506. Muehlbauer d.o.o. Beograd is a marketing, trading and service company. The subscribed capital of the company totals EUR 500 and is fully paid up.

On 8 August 2008, the Group founded "Muehlbauer America Management Corp.", which is headquartered in Newport News, Virginia, USA. Its entry into the Commercial Register of Georgia was effected under the number 8062171. The purpose of the company is the provision of a general partner and the takeover of the management of "Muehlbauer America LP", which was also newly founded. The subscribed capital, which was not paid up by 30 September 2008, totals USD 1,000, divided up into 1,000 no-par shares.

The Group founded "Muehlbauer America LP", headquartered in Newport News, Virginia, USA, on 26 August 2008. Its entry into the Commercial Register of Georgia was effected under the number 8076484. The fundamental purpose of the company is the management of proprietary assets and the lease of real estate. The share in capital of USD 100 was not paid in by 30 September 2008.

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## (2) SUMMARY OF KEY ACCOUNTING PRINCIPLES

## B. EXPLANATIONS TO THE CONSOLIDATED STATEMENT OF INCOME

**(3) COST OF SALES** Apart from directly attributable costs such as those related to materials, personnel, power and overheads, cost of sales also comprise the balance of devaluations and revaluations on inventories. In Q3 2008 this resulted in earnings of TEUR 199 (PY: expenses TEUR 1,719) and in the first nine months 2008 in expenses of TEUR 2,012 (PY: TEUR 4,383).

**(4) ADMINISTRATIVE EXPENSES** General administrative expenses in Q3 2008 and of the first nine months of 2008 contain past pension costs of TEUR 361, resulting from the conclusion of pension scheme.

**(5) OTHER EARNINGS / OTHER EXPENSES** The change in other earnings results in the amount of 600 TEUR from the lowering of accruals in connection with the utilization of specific development results.

In Q3, other expenses largely include accruals for legal fees and other costs totaling TEUR 2,986, in respect of the defense of the legal action mentioned in the Notes (13). During the first nine months of 2008, these expenses amounted to TEUR 3,461, while accruals of TEUR 950 were formed year-on-year in connection with the utilization of specific development results.

### **(6) FINANCIAL RESULT**

	1 July - 30 Sep 2008 TEUR	1 July - 30 Sep 2007 TEUR	1 Jan - 30 Sep 2008 TEUR	1 Jan - 30 Sep 2007 TEUR
Realized income from securities and financial assets	553	229	1,123	1,616
Interest and dividend income	176	91	955	508
Other interest and similar earnings	979	81	1,200	277
<b>Financial income</b>	<b>1,708</b>	<b>401</b>	<b>3,278</b>	<b>2,401</b>
Realized losses from securities and financial assets	(1,076)	(118)	(1,387)	(423)
Unrealized losses from securities and financial assets	(626)	-	(626)	-
Interest and similar expenses	(82)	(105)	(902)	(222)
<b>Financial expenses</b>	<b>(1,784)</b>	<b>(223)</b>	<b>(2,915)</b>	<b>(645)</b>
<b>Total</b>	<b>(76)</b>	<b>178</b>	<b>363</b>	<b>1,756</b>

In Q3 2008, in accordance with IAS 39.67, accumulated adjustments of the fair value of securities from the category "available for sale" of TEUR 626, previously recorded in shareholders' equity, are recorded as income in the statement of income, as unrealized losses from financial assets.



The basic and diluted earnings per share are calculated as follows:

**(7) EARNINGS PER SHARE**

		1 July - 30 Sep 2008	1 July - 30 Sep 2007	1 Jan - 30 Sep 2008	1 Jan - 30 Sep 2007
Income before income taxes	TEUR	1,458	6,022	16,482	15,364
Portion of share capital in total capital	%	42.73	42.73	42.73	42.73
Portion of income before income taxes applicable to the shareholders of the limited partnership	TEUR	623	2,573	7,043	6,565
Effective tax rate	%	16.93	12.33	24.75	31.57
Effective tax amount	TEUR	105	317	1,743	2,073
Portion of net earnings for the year applicable to the shareholders of the limited partnership	TEUR	518	2,256	5,300	4,492
Weighted average of common shares	No.	6,279,200	6,279,200	6,279,200	6,279,200
Repurchased shares (weighted)	No.	(163,178)	(179,055)	(163,178)	(179,055)
Weighted average of shares outstanding	No.	6,116,022	6,100,145	6,116,022	6,100,145
Dilution effects from subscription rights of employees and executives	No.	2	41	2	41
Weighted average of shares outstanding (diluted)	No.	6,116,024	6,100,186	6,116,024	6,100,186
Basic earnings per share	EUR	0.09	0.37	0.87	0.74
Diluted earnings per share	EUR	0.09	0.37	0.87	0.74

### C. EXPLANATIONS ON THE CONSOLIDATED BALANCE SHEET

#### (8) MARKETABLE SECURITIES

in TEUR	30 Sep 2008	31 Dec 2007
<b>Securities of the category "available-for-sale"</b>		
Shares and comparable securities	14,725	18,424
Bonds	2,478	2,638
	<b>17,203</b>	<b>21,062</b>

In Q3 2008, earnings of TEUR 10,256 (PY: TEUR 6,826) were achieved from the sale of shares and comparable securities and TEUR 35,972 (PY: TEUR 24,608) in the first nine months 2008. The resultant losses amounted to TEUR 531 (PY: gains of TEUR 111) in Q3 2008. In the first nine months 2008, the realized losses from this amounted to TEUR 289 (PY: gains of TEUR 1,380). Payments for the purchase of shares and comparable securities amounted to TEUR 10,468 (PY: TEUR 6,441) in Q3 2008 and TEUR 33,350 (PY: TEUR 16,593) in the first nine months 2008.

Earnings from the disposal of bonds were TEUR 1,200 in Q3 2008 and TEUR 2,650 (PY: TEUR 2,801) in the first nine months 2008. The resultant gains amounted to TEUR 7 in Q3 2008 and TEUR 25 (PY: loss of TEUR 97) in the first nine months 2008. Payments for the purchase of bonds were TEUR 984 in Q3 2008 and 1,972 TEUR in the first nine months 2008.

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

#### (9) TRADE ACCOUNTS RECEIVABLE

in TEUR	30 September 2008			31 December 2007		
	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	37,472	335	37,807	30,500	1,536	32,036
Less value adjustments	(1,633)	-	(1,633)	(964)	-	(964)
	<b>35,839</b>	<b>335</b>	<b>36,174</b>	<b>29,536</b>	<b>1,536</b>	<b>31,072</b>

#### (10) OTHER CURRENT ASSETS

The other current assets comprise advance payments of TEUR 3,913 (PY: TEUR 694).

#### (11) INVENTORIES

in TEUR	30 Sep 2008	31 Dec 2007
Raw materials, auxiliary and operating materials	7,098	6,818
Unfinished products	33,277	27,962
Finished products and trade goods	5,345	5,133
	<b>45,720</b>	<b>39,913</b>

In Q3 2008, the revaluation in inventory assets amounted to TEUR 199 TEUR (PY: devaluation TEUR 1,719). In the first nine months 2008 inventory assets were devalued by TEUR 2,012 (PY: 4,383 TEUR).

The loan granted in the 2007 financial year and in 1HY 2008 was prematurely repaid in Q3 2008.

## (12) OTHER LOANS

in TEUR	As per 1 January 2008	Difference due to currency translation	Consumption	Addition	Dissolution	As per 30 September 2008
Accrued income taxes	1,962	-	(838)	1,772	-	2,896
Personnel and social security obligations	4,320	1	(1,217)	3,218	(310)	6,012
Guarantee obligations	2,622	-	(212)	181	-	2,591
Service in progress	683	-	(271)	803	(62)	1,153
Litigation risks	950	-	-	3,512	(600)	3,862
Commissions	18	-	(18)	-	-	-
Other	757	1	(561)	943	(141)	999
	<b>11,312</b>	<b>2</b>	<b>(3,117)</b>	<b>10,429</b>	<b>(1,113)</b>	<b>17,513</b>

## (13) ACCRUED INCOME TAXES AND OTHER ACCRUALS

The addition in accruals for litigation risks is largely the result of legal fees and other expenses amounting to TEUR 3,461. These costs are related to the legal action against the US subsidiary Muhlbauer, Inc. (hereafter referred to as "MB America"), in which it is claimed that MB America violated the intellectual property of third parties. MB America believes that the risk of violation is minor and will defend itself against this claim, in order to maintain its competitiveness.

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

## (14) PENSION AND POSTRETIREMENT BENEFITS

in TEUR	1 Jan - 30 Sep 2008	30 Sep 2008	1 Jan - 31 Dec 2007	31 Dec 2007
<b>Accruals for pension obligations at the beginning</b>		<b>(1,302)</b>		<b>(926)</b>
Amounts recorded as income				
Current service cost	155		446	
Interest expenses on obligations	184		199	
Expected earnings on plan assets	(144)		(173)	
Amortization of past service costs	362		-	
Amortization of actuarial losses	-	557	31	503
Contributions to plan assets		(171)		(879)
<b>Accruals for pension obligations at the end</b>		<b>(916)</b>		<b>(1,302)</b>

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

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

Of its stock of 167,240 own shares with a nominal value of EUR 214,067.20 at the beginning of the financial year, 840 shares with a nominal value of EUR 1,075.20 were ceded in the form of anniversary shares free of charge in the period of January to September. In the course of the asset formation campaign undertaken on behalf of employees of the Mühlbauer Group 8,405 own shares were disposed with a nominal value of EUR 10,758.40 for a price per share of EUR 15.51 at the same period. This corresponds to a portion of the ordinary share capital of 0.13%. The profit totalling TEUR 131 will be used to enhance the working capital. As per 30 September 2008 the company holds a stock of 157,995 own shares of a nominal value of EUR 202,233.60. At this point in time, the percentage of own shares in the ordinary share capital is 2.52%.

**Other comprehensive income**

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

in TEUR	Financial assets of the category "available-for-sale"	Difference due to currency translation	Total
Status as per 01 January 2008	414	(88)	326
Adjustments to market values	38	-	38
Currency adjustments	-	(69)	(69)
Deferred taxes in shareholders' equity	(21)	-	(21)
Reclassification in income statement	(362)	-	(362)
<b>Status as per 30 September 2008</b>	<b>69</b>	<b>(157)</b>	<b>(88)</b>

**Stock purchase programs**

On the basis of specific accomplished personal or team goals, the employees of the Mühlbauer Group held a total of 1,184 subscription rights at the end of the reporting period. Every single subscription right authorizes its holder to subscribe to one common share issued to the bearer.

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

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

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

To the end of the reporting period the contractual obligations from purchase and service agreements increased by TEUR 12,530 to TEUR 25,935 over 31 December 2007 (see notes (29) of the 2007 Annual Report).

## D. SEGMENT REPORTING

The gradual realization of Mühlbauer's strategic objective from a technology supplier to a system partner for the complete transfer of technology and expertise on the production of electronic ID documents, has prompted the company to adjust its business areas SmartID and Semiconductor Related Products to this development at 1 April 2008. While its previous core business area SmartID will, from this point in time, focus exclusively on the transfer of technology and expertise for the production of all kinds of card and ePassport applications, under the name of Cards & TECURITY®, the product line Smart Label, which was previously managed under SmartID, will be allocated to Semiconductor Related Products. The subsequent segment information for the third quarter and the first nine months of 2008 are shown in accordance with the new structure. The reference periods of the previous year have been transferred correspondingly:

	Q3/2008	Q3/2007 as reported	Q3/2007 Reclassi- fications	Q3/2007
Sales by application area	TEUR	TEUR	TEUR	TEUR
Cards & TECURITY®	23,584	24,909	(5,543)	19,366
Semiconductor Related Products	9,909	9,280	4,880	14,160
Precision Parts and Systems	4,530	4,178	663	4,841
Traceability	5,110	3,104	-	3,104
	<b>43,133</b>	<b>41,471</b>	-	<b>41,471</b>
Deductions on sales	(63)	(72)	-	(72)
	<b>43,070</b>	<b>41,399</b>	-	<b>41,399</b>

	1 Jan - 30 Sep 2008	1 Jan - 30 Sep 2007 as reported	1 Jan - 30 Sep 2007 Reclassi- fications	1 Jan - 30 Sep 2007
Sales by application area	TEUR	TEUR	TEUR	TEUR
Cards & TECURITY®	71,990	60,729	(6,569)	54,160
Semiconductor Related Products	30,422	22,301	5,413	27,714
Precision Parts and Systems	14,664	14,343	1,156	15,499
Traceability	13,777	9,440	-	9,440
	<b>130,853</b>	<b>106,813</b>	-	<b>106,813</b>
Deductions on sales	(228)	(288)	-	(288)
	<b>130,625</b>	<b>106,525</b>	-	<b>106,525</b>

	Q3/2008	Q3/2007	1 Jan - 30 Sep 2008	1 Jan - 30 Sep 2007
Sales by regions	TEUR	TEUR	TEUR	TEUR
Rest of Europe	15,516	11,769	50,221	30,238
Asia	12,778	14,205	35,053	31,977
Germany	11,611	9,802	31,808	31,887
America	2,048	2,110	11,887	5,550
Other	1,180	3,585	1,884	7,161
	<b>43,133</b>	<b>41,471</b>	<b>130,853</b>	<b>106,813</b>
Deductions on sales	(63)	(72)	(228)	(288)
	<b>43,070</b>	<b>41,399</b>	<b>130,625</b>	<b>106,525</b>

## E. NOTES TO THE STATEMENTS OF CASHFLOWS

The free cashflow is derived as follows:

	1 Jan - 30 Sep 2008 TEUR	1 Jan - 30 Sep 2007 TEUR
Cash provided by operating activities	16,392	16,880
Cash used for investing activities	(7,545)	811
Subtotal	8,847	17,691
<b>Transition to free cashflow</b>		
Gains/(losses) from the sale of fixed assets and intangible assets	92	57
Currency differences from the translation of long-term assets	-	3
Realized net gains/(losses) from short and long-term marketable securities	(264)	1,045
Proceeds from disposals of long-term assets	(144)	(895)
Balance of payments-in and payouts from longterm loans	(2,395)	-
Proceeds from sale of long-term assets (marketable securities)	-	(8,652)
Investments in long-term assets (marketable securities)	1,476	1,672
Proceeds from sale of short-term assets (marketable securities)	(38,622)	(24,608)
Investments in short-term assets (marketable securities)	35,322	16,594
<b>Free cashflow</b>	<b>4,312</b>	<b>2,907</b>

## F. OTHER NOTES

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

Dr. Thomas Zwissler, Chairman of the Supervisory Board, is also an attorney and partner of the international law firm Zirngibl Langwieser. The company occasionally provides legal consultation to the Mühlbauer Group. The fees for such services amounted to TEUR 30 (PY: TEUR 24) in the first nine months 2008.

Mühlbauer Aktiengesellschaft, ASEM Präzisions-Automaten GmbH and takeID GmbH rent office space from Mr. Josef Mühlbauer. In the first nine months 2008, rental costs amounted to TEUR 235 (PY: TEUR 232).

Mühlbauer Aktiengesellschaft utilizes certain services in respect of the conveyance of passengers, sales promotion and staff development, offered by companies that are indirectly controlled by Mr. Josef Mühlbauer. For these services the company paid TEUR 206 in the first nine months 2008 (PY: TEUR 88).

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

	30 Sep 2008 Number	30 Sep 2007 Number
Production and assembly	972	903
Research and development	342	329
Administration and sales	195	182
	<b>1,509</b>	<b>1,414</b>
Apprentices and trainees as well as part-time employees	423	389
<b>Total</b>	<b>1,932</b>	<b>1,803</b>

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

	30 Sep 2008 Number	30 Sep 2007 Number
Germany	1,719	1,648
Asia	138	108
Rest of Europe	50	28
America	18	15
Others	7	4
<b>Total</b>	<b>1,932</b>	<b>1,803</b>

This consolidated interim report was authorized to be published by the personally liable shareholder on 30 October 2008.

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

The personally liable shareholder

## (17) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS

## (18) NUMBER OF EMPLOYEES

Financial calendar

12 November 2008

9 December 2008

March 2009

28 April 2009

German Equity Forum

HSBC Smart Card Conference

Annual report 2008

Annual General Meeting

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