Mühlbauer
High Tech International

Breaking new grounds

ANNUAL REPORT 2004

CORPORATE DATA

in TEUR	2004	2003	Change in %
Order income	174,659	99,308	75.9
Sales	128,180	95,204	34.6
EBIT	25,617	8,546	199.8
Pretax profit margin in %	20.50	10.00	105.0
Net earnings	16,937	6,514	160.0
Earnings per share in EUR	1.17	0.41	185.4
Capital expenditures	11,706	6,224	88.1
Free cash flow	27,171	10,590	156.6
Dividend per share in EUR	0.60[1]	0.35	71.4
Annual average of employees	1,338	1,262	6.0

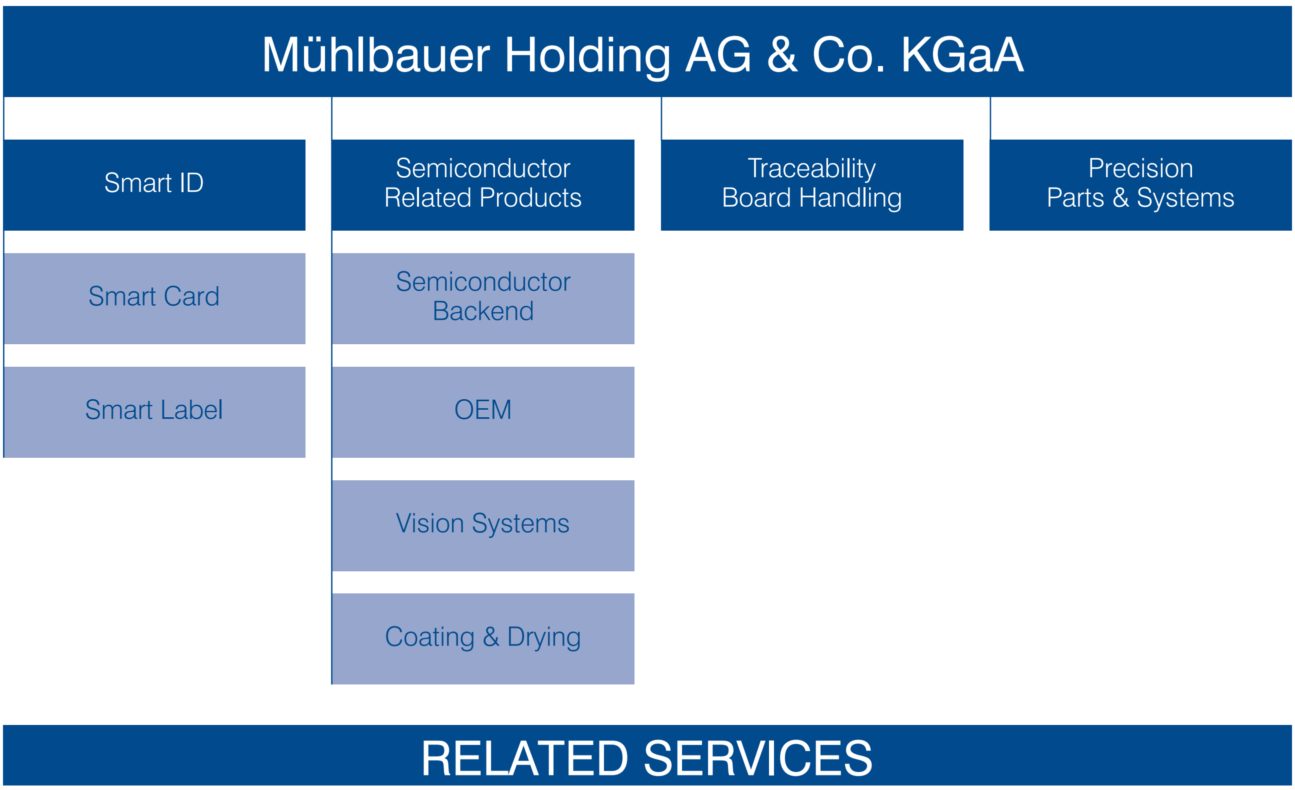
[1] subject to approval of AGM

MÜHLBAUER – RESPONSIBILITY KNOWS NO BOUNDS

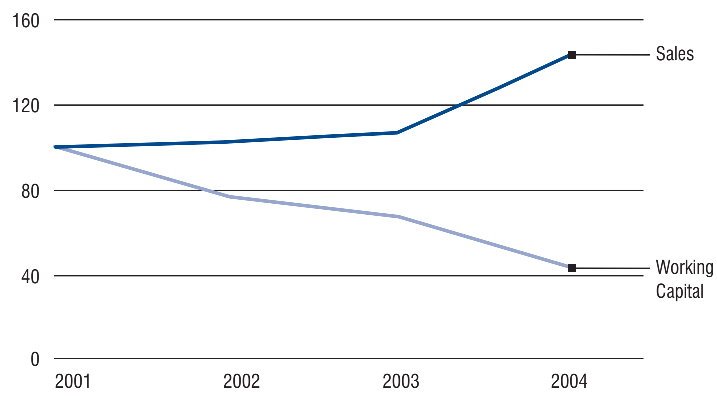
As an international technology group we are actively involved in developing technical standards. Our products for Smart Card and Smart Label applications penetrate attractive growth markets and are part of our core business of Smart Identification.

Mühlbauer is the only company in the world capable of covering all production processes of Smart Card manufacturing from IC-module production – the heart of every chip card – and card body production up to capturing and personalizing data for security-oriented applications. The company offers technologically sophisticated solutions for producing different types of Smart Labels. The Smart Identification segment stretches across the entire value chain for high-tech production centers from location advice, project management and building technology to the transfer of knowledge for producing high-security documents containing biometric features.

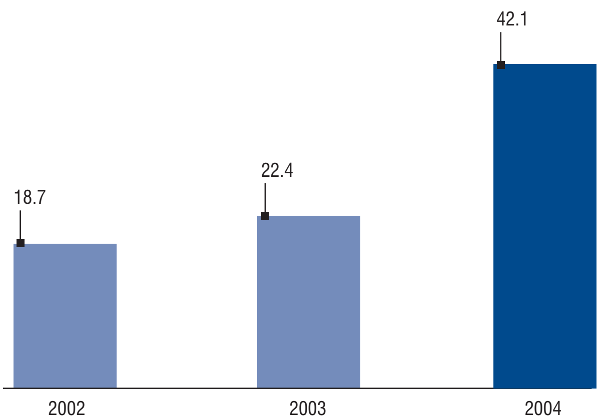
Mühlbauer customers rely on full commitment, high quality and competent technical services from a single source. More than 1,400 motivated professionals in 24 national and international locations stand for innovative potential and a global network of sales and services. We aim to further enhance our profitability and corporate value.



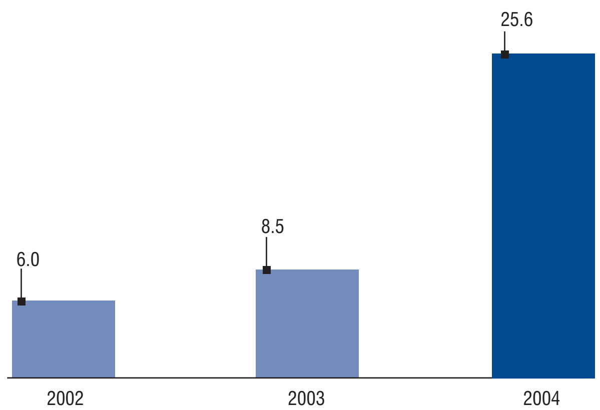
Sales development vs. working capital (indexed)



net cash position in millions of EUR



EBIT in millions of EUR



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Anticipating the future – when vision becomes reality

Ladies and Gentlemen, shareholders, colleagues, partners and friends,

2004 was a very successful year for the Mühlbauer Group. With sales of EUR 128.2 million, we achieved the best result in our company's history. Even in the face of major R&D-expenditures in our products, the company's earnings before interest and tax (EBIT) tripled from a year ago to a total of EUR 25.6 million in 2004. Capital markets responded favorably by sending the share price up 30.3%. Mühlbauer shares outperformed the stagnant TecDAX by 34.2%. Due to the excellent business development – as a result of our long-term and profit-oriented company policy – we will propose an increase in dividends to EUR 0.60 to our shareholders. Not only our financial figures have posted positive results. While other companies are downsizing, the number of employees at Mühlbauer is rising. We are a reliable employer who not only concentrates on clear strategic commitments to his products and customers but also strongly identifies with his staff rather than focusing on seasonal fluctuations.

Although we are pleased with the positive development of our business activities, we do not rest on our laurels. As a leader in the high-tech industry, we are working hard to deliver growth. Anticipation and future-oriented solutions are key principles of our corpo-

rate philosophy. In order to further consolidate our reputation for reliability, innovation and competence, key measures were taken in 2004, such as the opening of a training and qualification academy or the extension of our research facilities. Both measures will significantly increase our future potential.

We focus our efforts on the promising market for Smart Label and Smart ID technologies in order to extend our leading position and successfully turn from a pure technology provider into a system provider. The decision of numerous countries to issue passports containing biometric data has set the stage for replacing conventional documents by chip-based solutions. Mühlbauer has the right setup to face this potential technological change. We have already been involved in several projects and offer, apart from complete product solutions for ID-documents, systems for applying these solutions (e.g. for border or access controls).

In addition we are well prepared to compete on the future market for Smart Labels. From logistics systems for major retail chains to luggage labels at airports – Smart technology offers considerable advantages and therefore advances at an ever-progressive rate. Our machines cover the entire value chain for producing Smart Labels.

In order to maintain our positive momentum in 2004, we will continue to step up innovation activities and extend existing assembly techniques. It is a great pleasure and motivation for us to take on future challenges in a sportsmanlike manner – rapid and unbureaucratic decisions are an important part in our straightforward corporate culture.

Our excellent strategic position is due to first-class products, which are developed, manufactured and sold by committed and highly competent professionals. An abundance of good ideas, corporate loyalty, innovative potential and commitment are decisive factors for success in business. Our employees have clearly shown all of these virtues. The trust our shareholders and business partners have placed in us is motivation and obligation at the same time to go ahead with a value-oriented corporate management. We will remain a reliable and competent partner on your side.

It would be a great pleasure to me to have your support and I would like to thank you for the trust you have placed in us.

Roding, February 2005
Yours sincerely

Josef Mühlbauer
Chief Executive Officer (CEO)

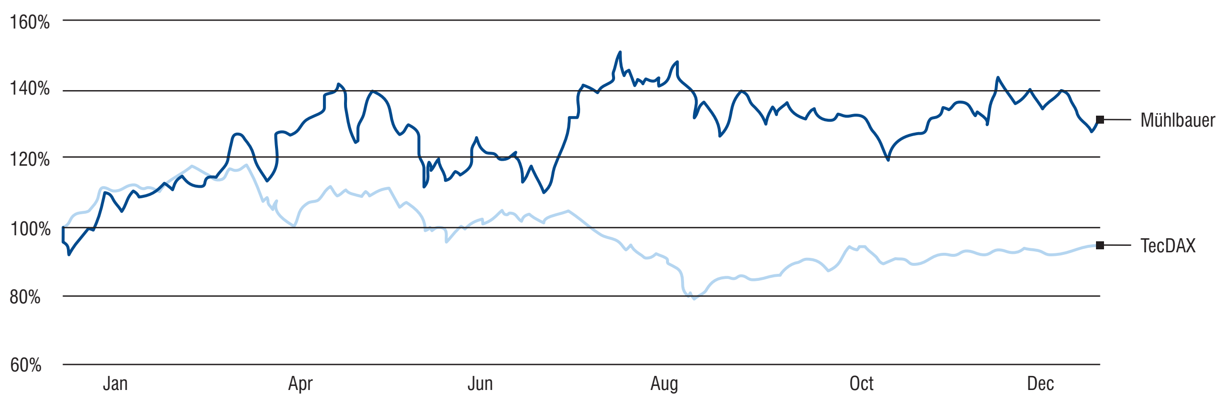
The Mühlbauer share

- **30.3% increase in reporting period**
- **TecDAX outperformance of 34.2%**
- **Dividend significantly increased[1]**
- **Capital Markets Day at Mühlbauer headquarters**

Slight improvement in global stock markets
The underlying positive trend in the capital market continued in 2004. The global economy grew by 3.9%, interest rates maintained their low level despite slight rate hikes set by central banks and global oil prices have already topped out – this trend was, however, adversely affected by the continuing weakness in the US dollar.
After last year's recovery, share prices only managed to post a slight improvement. In 2004, the increase in the Dow Jones by 3.1% year-over-year was more characterized by a sideward movement, while other important indices moved moderately upwards. The EURO STOXX 50 index was up 6.9% and the Nikkei 225 rose by 7.6%. The DAX 30 index, with an increase of 7.3%, followed a similar trend.

Significant market outperformance
Based on closing prices of EUR 20.50 in 2003, in early 2004 the Mühlbauer share reflected the trend in the TecDAX, before – backed by positive corporate news – it was finally able to leave the index behind. The share showed a sharp upturn and, after a short consolidation phase, reached an annual high of EUR 31.50. At the end of 2004, the share was quoted at EUR 26.71, which is an improvement of 30.3%. The TecDAX index showed a loss of 3.9% in the same period. As a consequence of the enormous increase in the share price, the market capitalization of Mühlbauer Holding AG & Co. KGaA rose to EUR 392.5 million at the end of the year (previous year: EUR 301.3 million).
The daily trading volume[2], shown during the reporting period, of 7478 units (previous year: 8343) continues the trend in recent years towards a stable group of shareholders. The biggest part of our employees have by now been a member of this group. While frequent changes in ownership are a burden on operations, stable shareholders are the basis for long-term and sustainable growth.
Since 2005, the Mühlbauer share has been a member of the GEX – a newly created index for medium-sized and owner-led companies.

Significant increase in dividend
In 2004, the Mühlbauer Group generated net earnings of EUR 16.9 million for its shareholders – 160.0% more than a year before. The technology group consequently almost tripled earnings per share from EUR 0.41 to EUR 1.17 year-over-year. Owing to the very positive development for the company and the policy of distributing performance-oriented dividends, the personally liable shareholder and the Supervisory Board will submit the proposal to the AGM to pay EUR 0.60 divided per share. Against the previous year's EUR 0.35, this means a

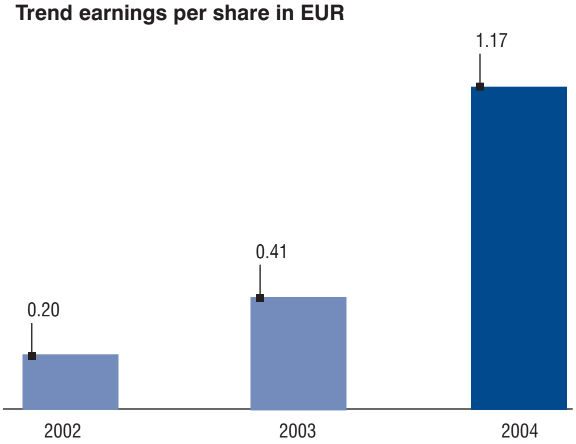


71.4% increase in dividends.

Communication between Mühlbauer and the capital market increased

Due to our quotation on the German Prime Standard market, Mühlbauer has made a commitment to comply with the high international standards of transparency. In 2004, the extreme positive development in our business was presented and expounded on seven road shows in Germany and abroad as well as in numerous one-to-one interviews. In the course of an active communication strategy, the company aims to further deepen the dialogue with investors for the next reporting period. In the first quarter of 2005, a 'Capital Markets Day' is scheduled to take place. The event will be held at our headquarters and aims to give a deeper insight not only into the usual facts and figures but also into the company's business model.

The Corporate Governance principles of the Mühlbauer Group – informing our shareholders and potential shareholders on all major events in a timely and comprehensive manner – also becomes evident on our homepage. Our 'Investor Relations' segment contains detailed information on quarterly-, annual- and research reports, press releases and contact data for open questions.



Financial data	2004	2003
Share price (Xetra)		
Annual high (in EUR)	31.50	24.00
Annual low (in EUR)	18.80	9.75
Year-end (in EUR)	26.71	20.50
Market capitalization[3]		
Annual high (in thousands of EUR)	462,924	352,704
Annual low (in thousands of EUR)	276,285	143,286
Year-end (in thousands of EUR)	392,532	301,268
Price per share		
Earnings (in EUR)	1.17	0.41
Dividend (in EUR)[1]	0.60	0.35
Trading volume (in number of units)[2]		
Everage per trading day (in millions of units)	7,478	8,343
Gesamtjahr (in Mio. Stück)	1.92	2.11

Financial calendar

March 15, 2005:	Capital Markets Day including balance sheet and analyst conference, Roding
April 28, 2005:	Annual General Meeting, Roding
May 12, 2005:	Q1, 2005 quarterly report
August 3, 2005:	Q2, 2005 quarterly report
November 3, 2005:	Q3, 2005 quarterly report
March, 2006	2005 Annual report

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[1] subject to approval of the AGM
[2] amount from Xetra trade and floor trade in Frankfurt a. M.
[3] in relation to total capital

Corporate Governance

Responsible corporate management for a sustainable increase in company value

'Corporate Governance' stands for a management model based on long-term sustainability through close and reliable cooperation between the Management Board and the Supervisory Board, protection of shareholders' interests and a transparent corporate communication.

In 2003, the Mühlbauer Holding AG & Co. KGaA issued an own Corporate Governance Codex in accordance with concrete corporate requirements. The Codex generally complies with the recommendation of the German Corporate Governance Codex in the version of May 21, 2003. Besides the personally liable shareholder all members of the Management Board of Mühlbauer AG declared their commitment to the principles set out in the Codex.

In December 2004, the personally liable shareholder and the Supervisory Board approved the Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG) and disclosed the Declaration for the shareholders on the website of the company (www.muehlbauer.de) permanently. Mühlbauer Holding AG & Co. KGaA, in its legal form, has thereby complied, and would do so in future, with the recommendations of the German Corporate Governance Codex in the version of May 21, 2003, since the last Declaration of Conformity of December 29, 2003, except from the following – with respect to the previous year – unchanged deviations:

Deductible of D&O insurances:

The D&O insurance does not envisage any deductible at present, since such a deductible would limit the possibility of acquiring members for the Management Board with extensive entrepreneurial experience, since those members would have to envisage liability risks also in the area of negligent behavior. Deductibles in management are, apart from that, not common practice (Figure 3.8 para. 2).

Remuneration and individualized details on Management Board remuneration:

As opposed to the German Corporate Governance Codex (Figure 4.2.3 para. 2 clause 4), the stock option plans resolved in the past by the Annual General Meetings do not include any cap for extraordinary, unforeseeable developments. However, no stock options have been granted so far to neither the personally liable shareholder nor to members of the Management Board within the Mühlbauer Group. For Mühlbauer there is no necessity for setting a cap, since stock options will continue to be distributed individually and annually in small tranches.

The basic principles of the stock option plan resolved by the Annual General Meeting on May 4, 2000, are explained in the annual report. The company does, however, not publish any further details on the Internet homepage on the basic principles of the remuneration or on the concrete organization of the stock option plan with additional details on the valuation of those stock options, nor will there be an explanation thereof in the annual report (Figure 4.2.3 para. 3). Above that, no information from the chairman of the Supervisory Board on the basic principles of the remuneration system and the amendment thereto will be given to the Annual General Meeting (Figure 4.2.3 para. 4). The contents of stock option plans and remuneration systems are the result of intense discussions with the Group. The publication of details would increase the risk of active headhunting of executives, since details on remuneration structures would be transparent for competitive purposes.

Since the Management Board in its collectivity is responsible for the corporate management, no individualized details on management remuneration will be given in the notes to the consolidated financial statements (Figure 4.2.4 clause 2).

Formation of committees in the Supervisory Board:

Due to the composition of the Supervisory Board consisting of three members, no committees will be formed (Figures 5.2. clause 2, 5.3.1 clause 1, and 5.3.2 clause 1).

Composition and remuneration of members of the Supervisory Board:

Mühlbauer does not make use of an age-limit for the members of the Supervisory Board (Figure 5.4.1 clause 2), since the company does not consider the age of members to be a factor for not being able to fulfill one's mandate adequately.

The remuneration paid to the members of the Supervisory Board is defined in the statute of the Mühlbauer Holding AG & Co. KGaA and only includes a fixed remuneration. The introduction of a variable remuneration is not planned, since such a remuneration scheme does not result in an essential improvement of incentives (Figure 5.4.5 para. 2 clause 1).

Exemplary Corporate Governance is not only obtained by following certain principles, irrespective of their importance and accuracy. Rules can only set out the framework for responsible corporate management. Responsible business conduct must be the baseline for all activities both in and outside the company.

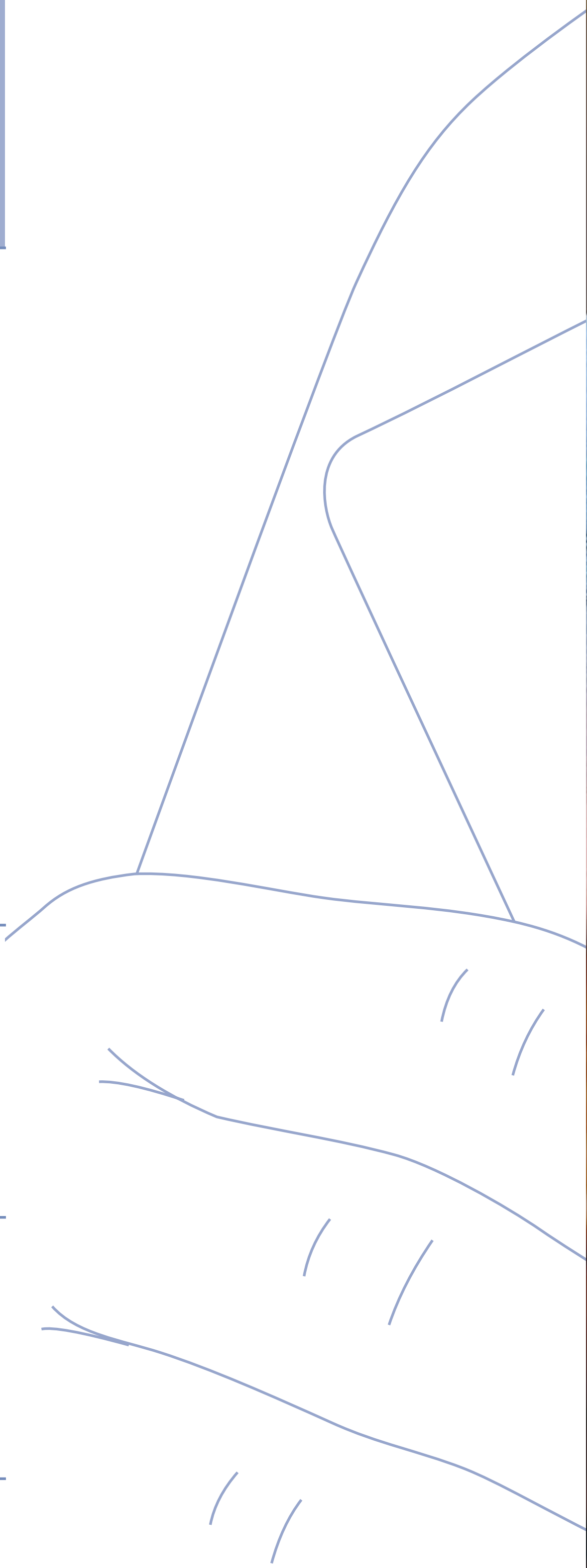
The Mühlbauer Group considers responsibility, transparency and sustainability in the company's business to be among the main pillars to further consolidate the trust our shareholders, customers and employees have placed in us. Our Corporate Governance Codex contains all of these principles, which are subject to continuous control and refinement, and explains our internal guidelines to outsiders.

For Mühlbauer, information and communication with the public and capital markets under the principles laid down in the Corporate Governance Codex is a matter of course. As an example detailed information on the company will be given on our website (www.muehlbauer.de) listed in 'Investor Relations'.

Mühlbauer Holding AG & Co. KGaA

The personally liable shareholder	The Supervisory Board

What does responsibility mean?



Smart Card

Smart Cards receive electronic data and transmit the information to authorized recipients. An integrated programmable chip turns the Smart Card into a highly encrypted base for sensitive data used in ID- or credit cards. Just their use for the indentification of people is also a question of responsible action.

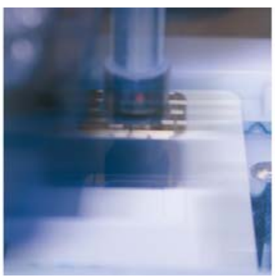
ID-cards in the form of passports, driving licenses, health-insurance cards, and soon automobile registration cards, deliver the definite proof of identity, ability, accessibility and property. Electronic ID-cards offer their owners and authorities numerous advantages over traditional ID-cards. Data is fast to read and therefore easy to authenticate with a consequent reduction of costs to authorities. Chips are an effective instrument against fake documents and protect data from unauthorized access. Due to their durability, electronic ID-cards can be used for many years.

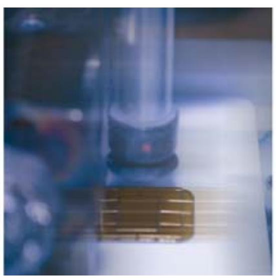
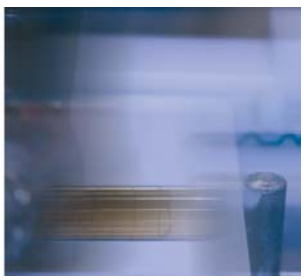
Also data stored on chips – as an example for electronic automobile registration cards – can be easily altered. For changing entries in registration documents, the car registration office only needs to change the electronic data in the chip.

An additional field of application for Smart Cards might be electronic credit cards, which will replace traditional credit cards containing magnetic strips. In 2005, the new liability rules of the consortium Europay International, Mastercard and Visa International (EMV) will come into effect. Apart from a sharp increase in card fraud using cards with a magnetic strip, another range of services such as digital signatures or wallets would make for a rapid shift from conventional payment cards to chip cards. A billionproject: Asia is for example planning to replace till 2010 190 million cards equipped with magnetic strip by Smart Cards.

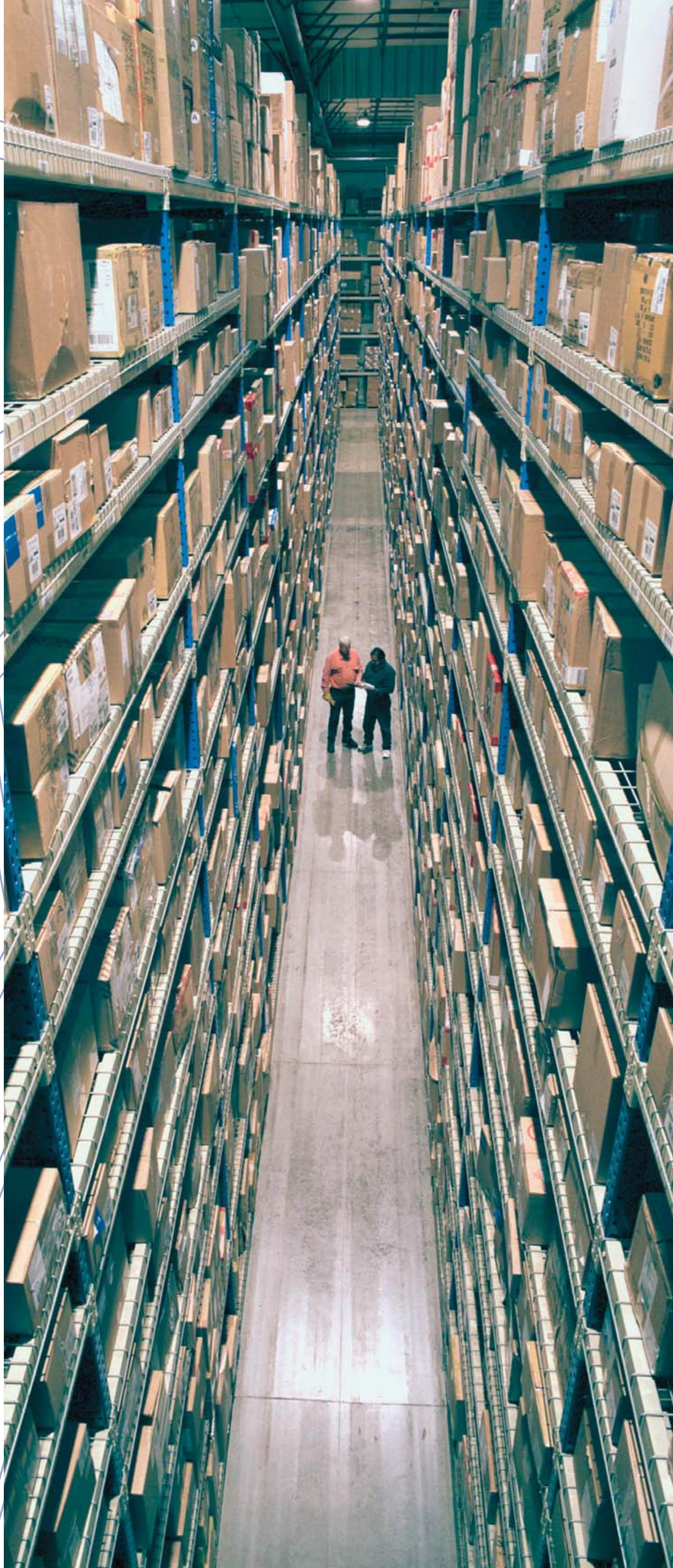
Apart from encrypting personal data for cashless transactions, a special software stored on chips offer a number of additional features such as electronic cash and debit card functions. Bonus points or electronic vouchers within customer incentive programs can be also stored on Smart Cards. A generator for personal codes in Online Banking is a comfortable and cost-efficient alternative in the area of authentication. Traditional lists containing identification codes would no longer be necessary.

Mühlbauer is the only technology company capable of offering a full range of system solutions for IC-module production, card production, data capture, personalization and packaging. Mühlbauer also produces machines for passports containing biometric data – plus all necessary systems for reading and analyzing relevant information. Owing to years of experience in the Smart Card segment, Mühlbauer accompanies his customers with full responsibility from the first idea to the final product – with business solutions from a single source.

How important is flexibility?



Smart Label

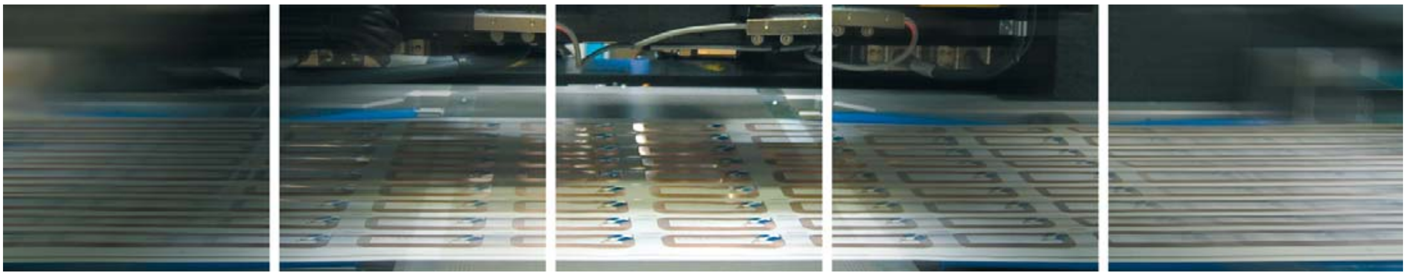
Smart Labels make objects clearly identifiable and assure their recognition from a distance. Apart from other features, the greatest advantage is – flexibility.

In fabrication, logistics and warehouses, revising and optimizing existing processes is of particular importance. Smart Labels offer significant advantages here. One example for possible applications is cost-intensive reusable packaging such as special pallets and transport boxes. Smart Labels make these items identifiable. Their exact position can be easily located and traced back. If, for example, a car manufacturer plans a system revision, transport boxes equipped with Smart Labels can be redirected within seconds. Automated transport systems recognize the new specification and send the consignment to the desired destination in time.

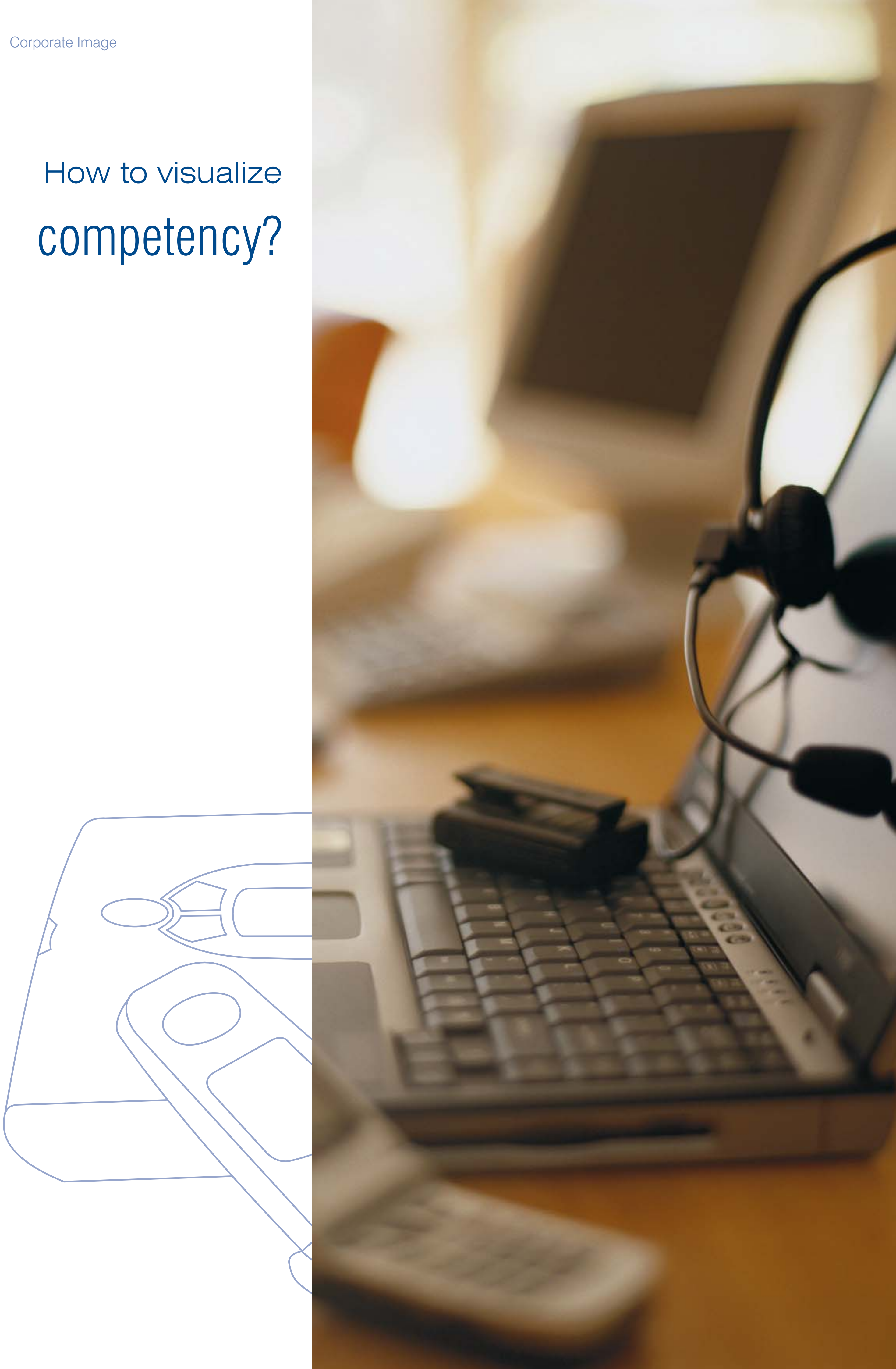
One positive side effect of encrypted data, stored in the silicon chips of Smart Labels, is authenticity. It can be essential to life to know if a medicine really delivers what it promises on the packaging. Does the medication come from the original manufacturer and does it contain all relevant substances? Can the medicine still be used? The correct answer can save lives. The World Health Organization estimates that some 5 to 8 percent of all medicines are counterfeit. Smart Labels in the packaging tell the truth – within a fraction of a second.

The only similarity between RFID-systems – such as Smart Labels – and traditional labels and barcodes is that they are both firmly attached to the product. For reading Smart Labels, no physical or optical contact has to be established. A small radio antenna and special reading devices visualize data stored in chips. This happens with absolute precision and speed – without any contact between antenna and reader.

Smart Labels are a technology of the future – already put into series production by Mühlbauer in 1996. Smart Labels find application in ID documents, access controls, inventory aids, sorting machines, manufacturing inspections, monitoring systems or in tracing back production processes. Even today, Smart Labels have already proven their efficiency in a number of pilot projects throughout the world. RFID-identification stands for innovative technologies with future potential. Our company is the global leader for machinery used in producing Smart Labels. Since there is no comprehensive standard for RFID-systems, Mühlbauer possesses a wide range of solutions for producing Smart Labels and thus shows an extremely flexible approach to customer requirements.



How to visualize competency?



Semiconductor Related Products

Sometimes competencies become apparent in places where one would not have expected to find them. One such example is the precise manufacturing of small and sensitive components in a very short time - the core competency of our segment Semiconductor Related Products.

The business segment Semiconductor Related Products describes our spectrum of Semiconductor Related systems. They are all servicing the industries along Silicon Valley whose final products contain Semiconductors – for instance a chip. The number of units worldwide runs into the billions. Semiconductors are integrated in safety products such as safety systems in cars, PC-systems, PDAs, mobile phones, Smart Cards, Smart Labels, consumer electronics, cameras, watches and a number of other applications. The market for these applications is highly competitive.

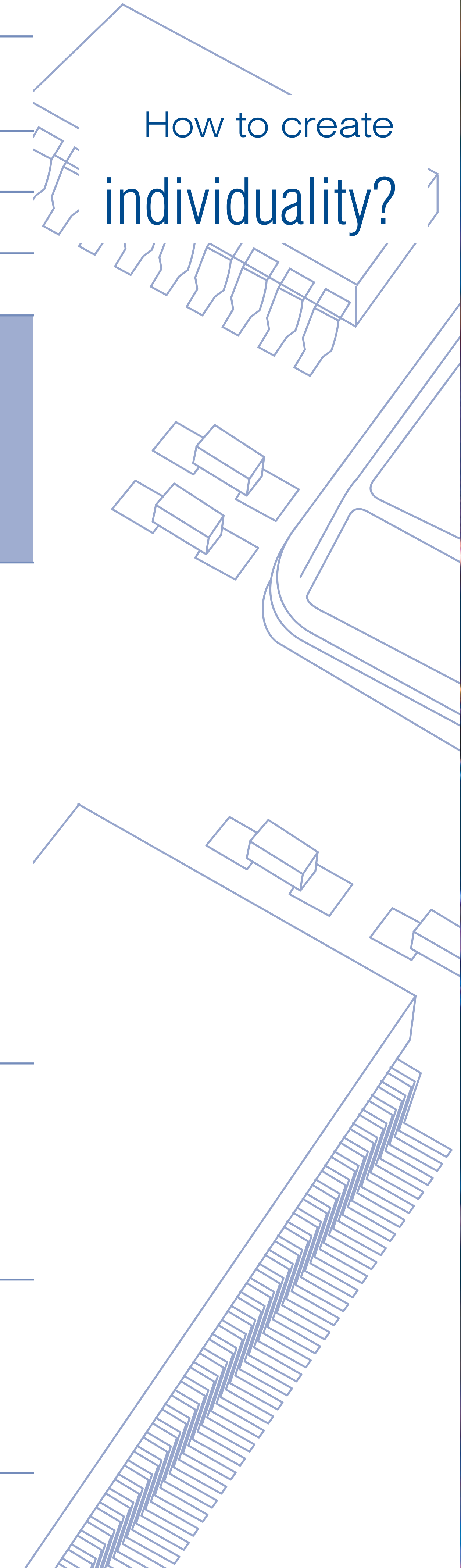
The secret lies in manufacturing such products while keeping costs down and quality standards high. Even for high throughputs in a limited amount of space and cost-intensive clean rooms, a high degree of precision and reliability has to be assured. Semiconductors find application in sensitive industrial plants such as power stations, control and measuring systems as well as medical equipment. Especially in the industries ultra small and sensitive dice are of particular importance. This niche is Mühlbauers core competence . Apart from high throughputs, our emphasis is on quality and security. High Semiconductor standards are guaranteed through comprehensive optical, mechanical and electronic test systems.

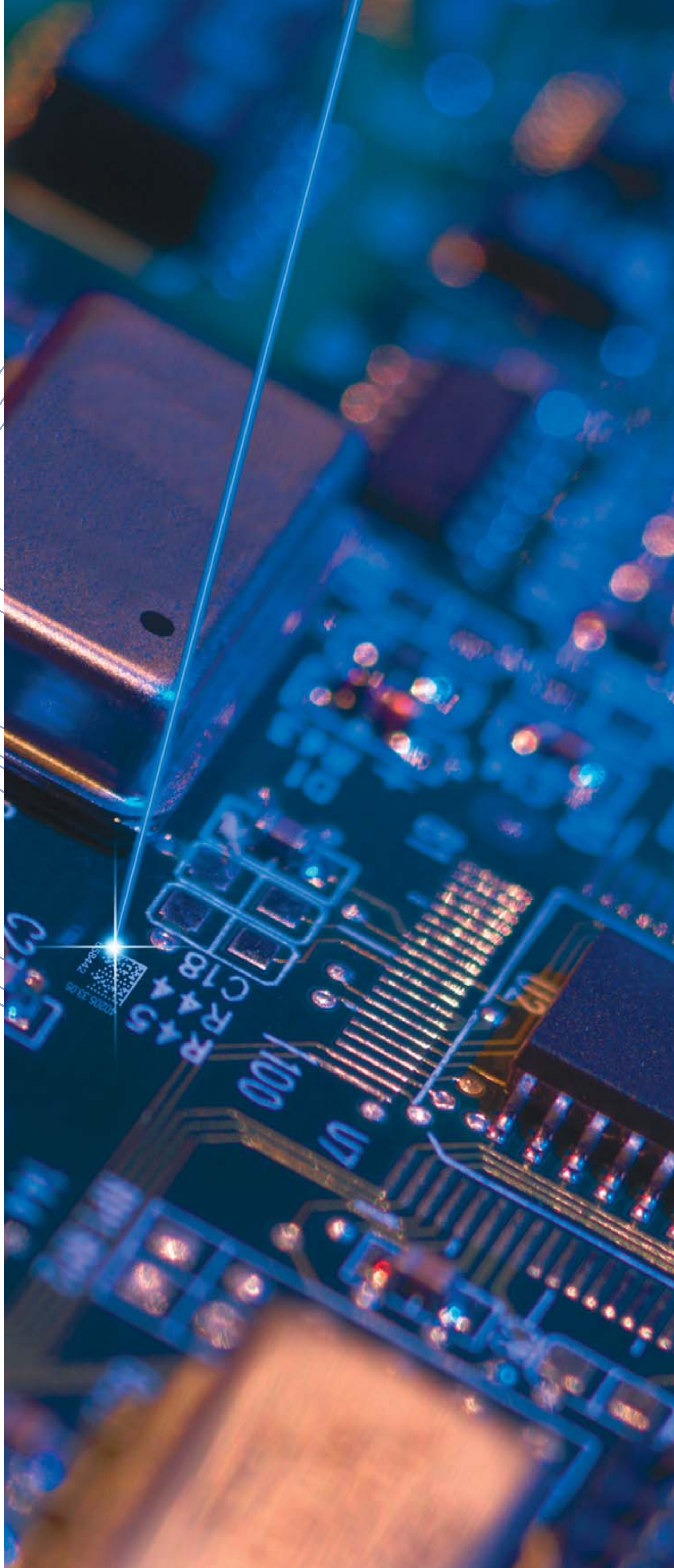
The Semiconductor industry depends on innovations. Owing to their continuously updated quality features, Mühlbauer machines deliver innovation. In 2004, the Mühlbauer business segment of Semiconductor Related products has further fuelled the development of flip-chip-assembly-techniques. The handling of grain-sized silicon dice can be accelerated with the help of flip-chip-processes. A new Die-Sorter supports the ever-increasing speed of flip-chip-handling.

At Mühlbauer, new competencies are sometimes created by bundling existing skills. An example for using synergies is the combination of carrier-tape-expertise with the knowledge in producing tapes for precise and fast flip-chip-Die-Sorters. Another new feature is the spray coating technology for photo-sensitive solder-stop-lacquers. We conducted a field test, in the course of which our new development was successfully tested. Since flexible spray coating is highly suitable for high-tech applications, a milestone in product development in this area has been reached.

Competency also becomes evident in a company's range of services. Mühlbauer offers complete key-solutions for chip- and carrier-type-production, OEM-production and Die-Sorting. Even today Mühlbauer provides his partners with the necessary equipment for operating in the Semiconductor market of tomorrow.

How to create individuality?





Traceability

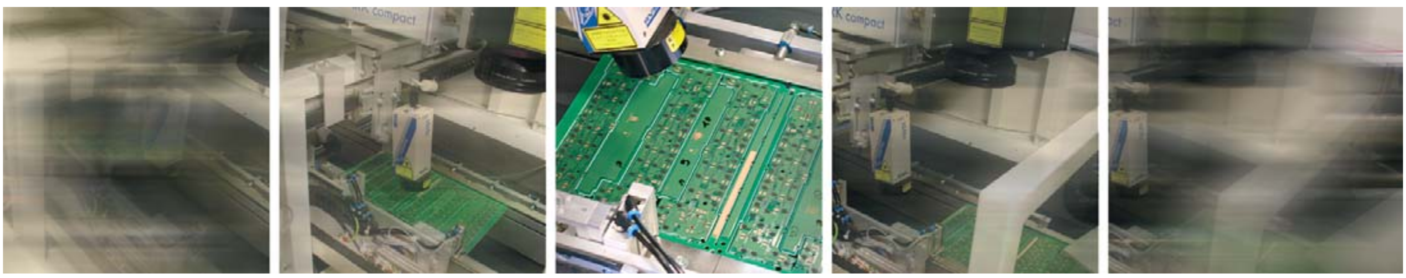
Being unique is sometimes not only a desirable trait in human beings. Individuality may also be of great practical value to products. The source and course of unique goods can be traced back. If production errors occur, the cause will be easy to find. Labels give individuality to replaceable goods – for quality and security.

Traceability encompasses a complex system for visualizing production processes. For individualizing components, they are equipped with two-dimensional codes suitable for all possible kinds of assemblies. Printed circuit boards used for controlling sensitive electronic processes in vehicles, airplanes, ships or medical equipment are particularly good carriers of information. In vehicles, plans, crafts for example medical devices. Whenever it is important to obtain information on the origin, manufacturer or material of products, as well as how and on which routes these products were transported and stored – or which spare parts they consists of – Traceability is required. As an example later on the serial number on the product informs on the entire production process including information on manufacturers and individual components.

An exemplary high growth market for Traceability is the car industry. Leading car manufacturers have for some time now initiated a program under which every supplier is supposed to give full Traceablity for all electronic components. During the entire production – from input to output and repair loops – every component must be identifiable. The technical documentation must always reflect the most recent level of production. Traceability facilitates process control, trouble-shooting and error correction. Traceability implements a central 'alarm system' in the production process and, thus, prevents errors from occurring at an early stage. Due to numerous safety features in modern vehicles, Traceability significantly increases production reliability.

Traceability consists of three essential parts: labeling (production date, batch number, order number, etc.), scanning and archiving. The product is labeled with extreme precision and speed using high quality inkjet-printing, labeling or laser technology. The marking – despite a minimum of space on printed circuit boards – must be clearly discernible.

The Ehingen based Rommel GmbH is a subsidiary company of Mühlbauer AG and manufactures products for ensuring the highest degree of Traceability beginning with labeling systems for printed circuit boards and reading devices up to software solutions for documentation and filing purposes. Rommel is also a machine manufacturer for board-handling equipment such as loading- and unloading-stations, magazine-buffer-systems, flip- and turn-stations and transport-tapes. An automated system for verifying and repairing printed circuit boards complements the wide range of products for the PCB-industry. Rommel individualizes mass products using Traceability techniques. All solutions are tailored to customer requirements. This strategy reserves Mühlbauer an excellent position for global markets of the future.



How to create quality?

Precision Parts

'Quality is more than just an incidental result. It takes intelligence and courage to make things better.' That is how the British writer and philosopher John Ruskin defines quality. Smaller, lighter and more stable. Bigger, heavier and more flexible. No superlative for Precision Parts & Systems is unknown to Mühlbauer. And neither is the aim – the highest standards of quality.

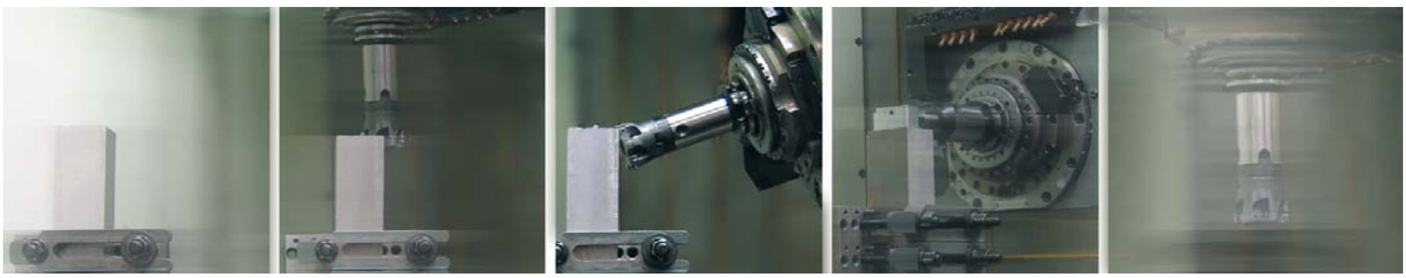
There have always been bold visions. Man seeks maximum speed, farthest distances and greatest heights. The question of technological, mechanical and material boundaries is raised. Are these products efficient, stable and reliable enough to cope with all possible kinds of operating conditions? In short: does the quality come up to expectations?

Satisfying ever-increasing quality standards is our business. Almost every day, Mühlbauer explores new boundaries for the lowest fault tolerance, highest precision and durability combined with high production effectiveness, diversity and short cycles of innovation. Our 500 highly qualified professionals in the Roding and Stollberg based business area Precision Parts & Systems are dedicated to this corporate principle.

They operate by order of customers in demanding markets such as the aerospace- and automobile-industry as well as medical and optical engineering, automatic assembly, metrology and the semiconductor industry. Precision Parts & Systems also provides all Mühlbauer segments with the necessary component and is thus the backbone of the company.

In two production centers, precision parts are manufactured and tailored to our international customers' requirements over night with a utilization of 60,000 machine hours per month. In order to continuously improve the quality of products, Mühlbauer machines always reflect the highest level of production standards. The company is already in its 10th year of complying with relevant quality requirements. Employee training and continuing education is of particular importance to Mühlbauer. For our training initiatives we are regularly awarded prizes for high training standards.

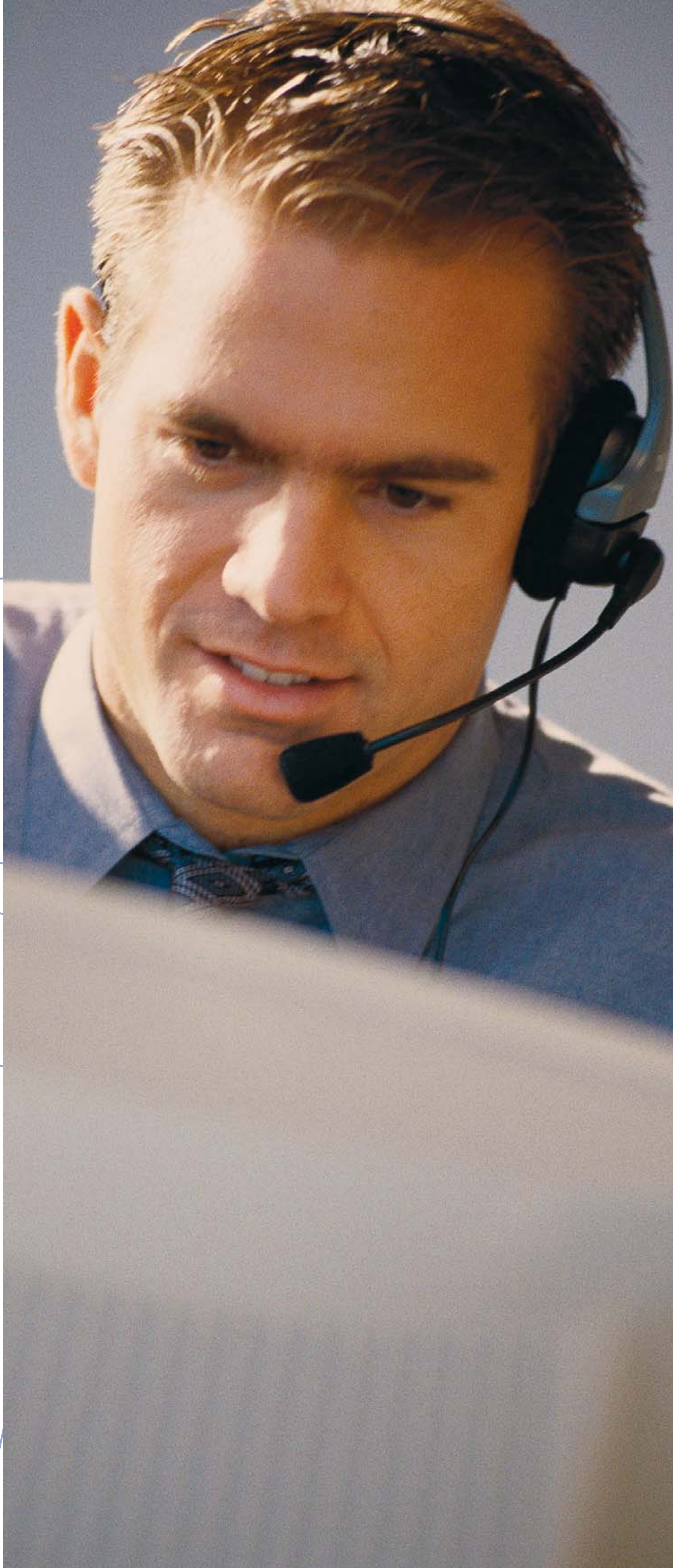
Mühlbauer is a professional and reliable partner for meeting the highest standards of quality in mechanical engineering. Throughout the entire production chain, our customers can rely on seamless production solutions from a single source. Our employees stand for perfect quality with their own signature. No part leaves our production center without close examination. We aim for precision and perfection in order to consolidate our reputation for quality and make our customers' visions come true.



What does

reliability

mean?



Service & Support

The use of technologically sophisticated systems also raises questions about the best-possible performance of high-tech machines. How to obtain qualified operating personnel? What additional services are available? All of these questions can be summarized in one main point: What does reliability mean to Mühlbauer?

Several thousand Mühlbauer machines and systems are in operation throughout the world. No matter what country the machine is located in, our technicians always provide extensive technical support. Our customer service offers competent real-time diagnosis over the phone or the Internet. If the devices installed in the USA, in Australia, China, France, São Paulo, Johannesburg, or Kuala Lumpur. Once errors or incorrect configurations have been detected, our technicians will find the right solution by remote access or software updates on the machine. From our 24 branches all over the world, Mühlbauer offers assistance at the customer's site within 24 hours.

Support to us means thorough and individual machine maintenance combined with extensive on-site information and assistance as well as providing the customer with accurate spare and wearing parts in time. Our call center is continuously optimized and forwards all incoming calls to the department best able to find the right solutions for our customer's request.

Our customer service does not only consist of pure technical support but covers all areas of customer care. Technical departments based in Roding and Stollberg coordinate the distribution of spare parts. Extensive training courses for company members and customers assure qualified operator training for complex technical systems. We offer courses for different qualification levels (operator level, service level, etc.) at the customer's site or in our own training facilities. Regular machine maintenance is laid down in maintenance contracts. Mühlbauer disposes of modern service tools such as remote diagnosis, software maintenance and inspection or on-site maintenance and repair.

For us reliability means service, customer orientation and quality assurance from the very beginning. We help our customers find the right process for their applications. In order to familiarize potential customers with our machinery, Mühlbauer conducts in-house example productions. Quality is one of our core competencies. The service department ensures the full functionality of all machines before delivery. After setting up the plant at the customer's site, Mühlbauer offers production assistance and optimization. The customer's personnel are given detailed knowledge for safe machine operation and trouble-shooting. If customers want to supplement their existing operating personnel, Mühlbauer sends technicians to optimize capacity utilization.

All of these services are an integral part of our corporate philosophy. 'Customer Relation'. The customer is always in the center of attention. We have committed ourselves to be a reliable and competent partner to our customers from product development to after-sales support. A partner, they can count on.





In 2004, the Mühlbauer Group remained true to the company's strategy and further fuelled product and market initiatives. An unprecedented amount of new machine technologies and systems were introduced in 2004 while developing new markets and target groups at the same time.

MAJOR DEVELOPMENTS DURING FISCAL YEAR 2004

In 2004, the Mühlbauer Group managed to continue last year's upward trend very successfully and posted record sales figures for technology solutions in all major business areas. Owing to a good utilization of its flexible production capacities and a consequent increase in productivity, the company delivered substantially higher profits. The essential developments in fiscal 2004 are set forth below:

- Sales of EUR 128. 2 million hit all time high – America business more than doubled
- Earnings before interest and tax (EBIT) tripled from EUR 8.5 million year-over-year to EUR 25.6 million in reporting period
- Earnings per share of EUR 1.17 EUR year-over-year (EUR 0.41) increased by 185.4%
- Successful implementation of measures for reducing working capital – substantial rise in free cash flow despite high capital expenditures year-over-year (EUR 10.6 million) by 156.6% to EUR 27.2 million
- Net cash position rose 88.0% to EUR 42.1 million due to improved sales of EUR 22.4 million
- First major order worth EUR 25 million for turnkey delivery of complete solution for manufacturing high-security documents containing electronic Smart Cards
- Expansion of our range of products by planning, developing and integrating hard- and software for security systems and projects within an asset deal
- Considerable R&D expenditures for refining existing products and expanding our spectrum of products – expenditures of EUR 14.0 million (year earlier EUR 11.4 million)
- Job creation against general trend, number of employees increased – in particular through intensifying training measures – from 1,283 to 1,413

ECONOMIC ENVIRONMENT[1]

Growth in the global economy

The recovery in the **global economy**, already foreshadowed in 2003, manifested itself in 2004 with a worldwide 3.9% jump in real GDP (year earlier: 2.5%). Apart from the weak dollar, higher interest rates and the rise in commodity prices – in particular for oil – are unpredictable factors affecting the world economy. However, leading economic research institutes predict a moderate growth of some 3.2% for the coming year.

The **US** was adding fresh momentum to the global economy. The American dynamic 4.4% growth was mainly buoyed by private consumption induced by tax relieves and lower interest rates. Higher budgets for defense and homeland security in the US further contributed to this favorable development. In 2005, the economic expansion is expected to slow down to 3.0%. This trend will be further fuelled by the Fed's de-

[1] Sources: DIW Berlin, 2004; IfW Kiel, 2004; ifo München, 2004; Financial Times Deutschland, 2005

cision to phase out tax incentives and to tighten the monetary reigns.

With an increase in real GDP of 3.9% in 2004, **Japan**'s real GDP growth was almost as high as that of the US. In the course of the year, the economy in Japan lost some of its initial vigor. This became particularly apparent in corporate investment and domestic demand. For 2005, a similar trend is expected to take place. With a growth rate of 1.4%, overall economic growth will be slower but not stalled. Another main contributor to global economic expansion is **China** with a rapid economic growth of 9.3% in 2004. But even in this region, there is some evidence that the boom phase will be coming to an end. After repeated efforts by the Chinese government to cool down an already overheated economy, experts expect growth to slow by 8% in 2005.

With an increase of 1.8% in 2004, the growth in the **Euro zone** amounts to less than half the global average. Nevertheless, there is some evidence for an economic stimulus, year-over-year, that is expected to continue moderately at a rate of 1.6% in 2005. This favorable development was largely based on positive impulses from growth regions. However, the dimension of economic growth, as well as its driving force, differ substantially within the Euro zone countries. Domestic demand, for example, has become a mainstay of economic growth in Spain and France but only runs at a moderate pace in Italy and the Netherlands.

In 2004, **Germany** also revealed domestic weaknesses, which were more than offset by a lively external demand. The latter managed to pick up steam with growth rates of more than 10%. Seen in this light, the German economy was dependent on global economic developments and, with growth rates of 1.6%, lagged behind the average growth speed. Perhaps it is of some comfort that there is an increased number of advance concessions from abroad for German exports. The import share of exports has steadily increased and currently amounts to about 40%. All things considered, a positive economic trend seems to be on course to continue although the majority of economists expect German real GDP to grow by just 1.2% in 2005. According to experts, the slowdown in economic growth is mainly due to the strong Euro and fewer working days in 2005.

THE MARKET FOR DIGITAL SECURITY AND CONTACTLESS IDENTIFICATION

An ever-expanding range of applications

On the market for digital security, cyclical fluctuations are expected to play a subordinate role in the coming years. A major growth engine for the market had been the increased need for security, which resulted in the introduction of chip-based ID-documents. One of the most significant applications within this area are ID-cards. A rising number of countries considers issuing documents containing biometric data. Belgium is the first European nation to equip its citizens with electronically readable ID cards. In the next three to five years, 10 million of those ID-cards are expected to be issued.[2]

At the international level, the US fostered the development of security solutions. In 2003, the US administration required all Visa Waiver countries to equip their passports with biometric data by October of the following year in order to assure a visa-free entry. Europe has also established its reputation for being a key player in the global discussion for security. European interior ministers have generally agreed to equip all new passports with a memory chip containing a digital picture as well as fingerprints within

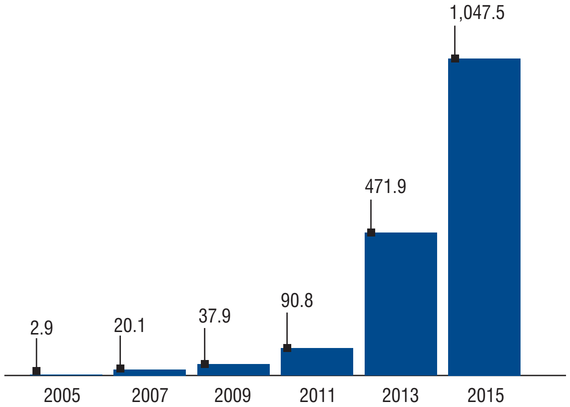
[2] Source: Financial Times Deutschland, 2004

the next three years. In Germany, the introduction of new passports is already scheduled for 2005. Efforts in the US and Europe are further fuelled by the International Civil Aviation Organization (ICAO) whose approved a standard for travel documents also contains the introduction of facial features and fingerprints in electronically readable documents. Therefore in the foreseeable future, a worldwide replacement of travel documents is expected.
Chip-based card technology also will find its way into the area of payment transactions. In 2005, the new liability rules of the consortium Europay International, MasterCard and Visa International (EMV) will come into effect. Apart from a sharp increase in card fraud using cards with a magnetic strip, another range of services such as digital signatures or wallets would make for a rapid shift from conventional payment cards to chip cards. The market potential behind the scheme becomes evident in the vast number of Visa cards circulating in Asia, which amounts to more than 190 million credit cards.[3]

A wide spectrum of applications in RFID-technologies causes the market for contacless identification to grow at a rapid rate. Falling label prices and continuous miniaturization with a simultaneous increase in efficiency of individual components extend the application possibilities. Even without cards, this technology faces a promising future. The new technology opens up huge potentials for process optimization and rationalization in many market segments and will create a plain field for generating a competitive advantage. Radio chips have gone largely unnoticed by the public but managed to find their way into warehouse logistics. For product identification using barcodes, goods must pass a scanner in the course of which a visual contact between code and scanner has to be established. Information stored on conventional labels is of a static nature and cannot be altered or supplemented. RFID, however, allow refreshing stored data any time. They also provide much more storage capacity for information and can be read from further away, even if the goods, equipped with radio labels, are in cardboard boxes or trucks. A study by Capgemini underlined the importance of RFID in logistics. Due to its numerous advantages, 61% of companies in Western Europe, who have outsourced their logistics, consider this technology to be the most important challenge for the future. 59% of Asian and 53% of North American companies were of the same opinion. Smart Labels are increasingly brought to the attention of the general public. Leading retail stores have already started to test this new technology in so-called 'future-stores'. The customer can benefit from a contactless registration of prices at retail stores with a consequent reduction of payment procedures. In the process of baggage handling at airports, travellers will also be more in touch with Smart Labels in the future. Under the resolution of the International Air Transport Association (IATA), barcodes used for baggage identification are to be replaced by Smart Labels. When delivered, baggage equipped with barcodes shows an error rate of 15% – whereas RFID offers an almost 100% security, since every piece of baggage can be traced back down to the smallest detail[4]. In the 1st quarter of 2004, the 28 members of the Association of European Airlines revealed an error rate for baggage transport of 13%. For a passenger volume of 130 million persons within this period of time, the number of delayed or even lost items amounted to 1.7 million units. This entails enormous costs for airlines, which can be as high as the liability limitation of EUR 1,200 for every piece of luggage. Resulting costs through unhappy customers could be even higher. For these reasons, some airports and airlines have already launched pilot projects for RFID tags. At Las Vegas McCarran International Airport, parts of the baggage handling system have already changed to an RFID-based system. A contract with a label manufacturer for the delivery of 100 million RFID-labels within

[3] Source: DZ Bank AG, Research Publikation, 2003
[4] Source: RFID Journal, 2004

Expected market potential of RFID-Labels (in billion pieces)



Source: IDTechEx Limited, 2005

the next 5 years was signed. With the help of this new technology, 40% of the expected passenger volume is aimed to be covered within the same period of time. After extensive testing, a precision of 99.8% is estimated. At Hong Kong International Airport, preparations have been made to handle more than 10 million Smart Labels every year[5]. Other possible applications for radio chip technology are contactless and fully automatic access controls for multi-story car parks, major events, etc.

Our position in the market

As a leading provider of innovative and sophisticated system solutions, the Mühlbauer Group covers the entire value chain for Smart Card and Smart Label manufacturing. Our portfolio comprises the full range of machinery necessary for a seamless production of cards used in modern payment transactions. Mühlbauer products include machines for producing the card body and IC-modules up to equipment for manufacturing the complete Smart Card. With our personalization system 'Identifier' for central and decentral personalization, we are able to satisfy the market's need for digital security by not only producing cards rather than passports with security features of the most varied kind such as holograms and biometry.
In the segment of Smart Label production, we offer our customers a wide array of products. Our high-speed lines TAL 5000 and TAL 10 000 allow us an extremely flexible approach to our customers' needs in the area of contactless information. Apart from a wide range of processes, these machines offer almost unlimited possibilities for producing transponder labels.

RESEARCH AND DEVELOPMENT
Catalyst for new technologies

Permanently expanding market requirements for chip-based solutions call for a consistent generation of knowledge for the future. A continuous rise in new applications for ID-solutions and Semiconductor equipment asks for intense R&D into innovative concepts. Our expertise in automation and process technologies allows us to create fast and reliable customer solutions. Mühlbauer has formed an ever-expanding pool of knowledge. In close cooperation with our customers, universities and leading research institutes, an average of more than 230 engineers and specialists – 203 in the previous year – work on generating innovative solutions. For greater flexibility, Mühlbauer has a decentralized network of R&D activities. A sophisticated project management system assures a full leverage of our synergy potentials at the various business locations, as well as an early integration of pilot customers to obtain tailor-made product solutions. A strong patent portfolio for our innovations gives us a stable legal position in emerging markets. Our increased investing activities in Research and Development caused expenditures to rise from EUR 11.4 million in 2003 to EUR 14.0 million during the last reporting period.

Smart Identification

Focussing development activities for SMART ID cards on system solutions

The Mühlbauer Group covers the entire value chain for Smart Card and Smart Label manufacturing. Expanding our range of activities in Smart-ID from a technology provider to a provider of complete system solutions for producing ID-documents is of prime importance to us. Our portfolio is optimized by applications for data capture and verification. Mühlbauer anticipates future trends and challenges for integrating biometric identification features in passports.

[5] Source: ComputerWeekly.com, 2004

Expenditures in research and development in mill. EUR

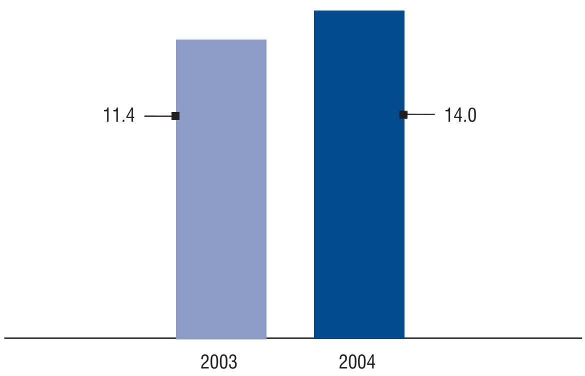


Image processing and analysis are not only an integral part of semiconductor assembly technologies but also key elements to capture, analyze and convert personal data. Semiconductor expertise has been systematically integrated into the refining of personalization systems and data capture techniques. For **capturing data**, various hard- and software solutions are available. For 'Life Capturing' – a technique for generating personalized biometric data – the customer configurable products 'ID Basic', 'ID Tower' and 'ID Cab' have been designed. In particular for large-scale data capture from forms, the 'Batch Capturing System' is an ideal solution. A highly efficient semi and fully automatic scanning system for data capture has been integrated to form a powerful unit. The obtained data is processed by the newly developed software package 'Get ID'. It offers the customer comfortable software tools for controlling and refining captured data, with which it is possible to quickly and reliably generate ID-documents using Mühlbauer personalization systems.

For **handling data** on the basis of card manufacturing and personalization system, the software package 'InCape' has been developed. The key element of 'InCape' is the 'Commissioning of Data', which makes a number of production solutions easy to configure. 'InCape' has been especially adapted to the successfully established Mühlbauer Card Encoding System MCES. It constitutes an open system also capable of integrating equipment from other manufacturers. These possibilities give Mühlbauer the ability to install complete systems, offering 'seamless solutions from a single source'.

Within the Smart ID-segment running product line Smart Label we have expanded our products for **flip-chip-assembly**. As a result apart from the two different models TAL 5000 and TAL 10 000, which have a tape width of up to 400mm, we offer the fast and precise flip-chip-lines FCM 6000 and FCM 10 000, suitable for smaller assembly tapes of up to 70mm.

The business segment Smart ID spans the entire production technology for automating Smart Cards, Smart Labels or international ID-solutions such as e-passports. Our comprehensive equipment portfolio comprises circa 50 different machines, which can be combined to form a complete production line.

Semiconductor Related Products
What matters is seamless precision and productivity

In equipment manufacturing for **flip-chip-Semiconductor-assembly**, a new trend becomes clearly evident. The speed of flip-chip-processes increases and asks for ever faster machines. We have satisfied the market's requirements by introducing the DS 10 000. This Die Sorter complements our product family DS 6000/8000 in order to achieve higher productivity. Ad-

ditionally, in 2004 the cornerstone for developing even faster machines was laid.

Productivity and precision have also improved for **carrier-tape-systems**. With an even higher performance, the multitrack machines CT 8-24-MR and CT-MR 8/24 have already gained a foothold on the market. Owing to our technical know how in carrier-tape-manufacturing and in the production of tapes for high speed and precision flip-chip-Die-Sorters, synergy potentials can be fully exploited with significant advantages to the customers.

In recent years, there has been a sharp increase in requirements for photosensitive solder-stop lacquers. For this reason, we have developed the new **spray-coating-system** SYS SY 1800. In close cooperation with customers we conducted a field test, in the course of which our new development was successfully tested. Since this flexible spray-coating-technology is highly suitable for high-tech applications, a milestone in product development in this area has been reached.

Traceability
Even more performance and flexibility

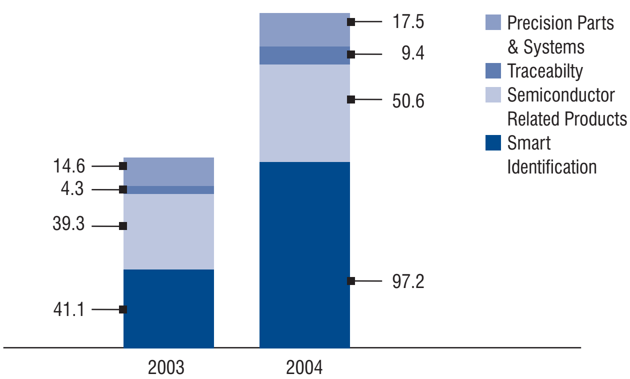
Printed circuit boards (PCBs) are becoming ever more efficient and complex. To keep abreast of new trends, our traceability initiative began to develop new systems. We introduced the WL 500 ID-X – a new generation of **automatic reading stations** – tailored to meet these specific requirements. Our traceability expertise has also found application in other fields such as machinery for in-line packaging of PCBs.

ORDER INCOME AND ORDER BACKLOG
Order income at all-time high

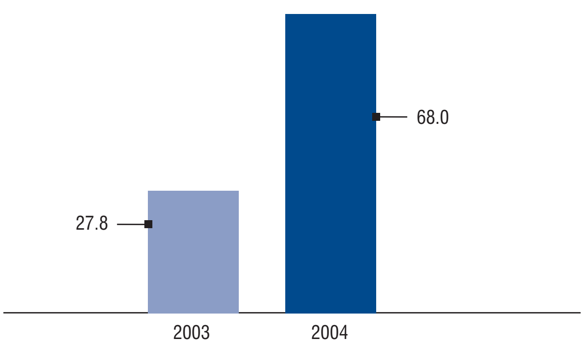
Buoyed by the global economic recovery in fiscal 2004 and a semiconductor boom up to the third quarter of the same year, new orders climbed to an all-time high of EUR 174.7 million, which is 75.9% above previous years level (EUR 99.3 million).

Although strong sales growth was recorded across all segments, the area of Smart Identification enjoyed the highest growth rate, resulting in full order books with new orders picking up 136.4% to EUR 97.2 million (EUR 41.1 million in the previous year). This trend was mainly driven by an increased demand for Smart Card and Smart Label solutions and the first major order from a ministry of interior for the gradual implementation of an ID-card-manufacturing-system. Another segment experiencing rapid growth was the area of Semiconductor Related Products. Analogous to the increasing demand starting in 2003, the positive trend in the Semiconductor

Consolidated order income in mill. EUR



Consolidated order backlog in mill. EUR



industry mainly during the first half of the year provided additional momentum. Owing to innovative machine technologies, order income in Semiconductor Related Products rose 28.7% to EUR 50.6 million (EUR 39.3 million). In the second half of the year in particular, the area of traceability was among the main beneficiaries of the positive development in the electronics business. Compared to 2003, new orders more than doubled and rose 118.0% to EUR 9.4 million during the reporting period (previous year: 4.3 EUR million). The area of 'Precision Parts & Systems' enjoyed its third year of consecutive growth. High quality standards, comprehensive and flexible manufacturing models as well as profound experience in manufacturing complex components for security sensitive branches, such as the aerospace, optical and medical industry, boosted order income by 19.9% to EUR 17.5 million – after last year's 30.8% growth in new orders to EUR 14.6 million.

As a result of the high volume of orders, order backlog were up 144.5% year-over-year and amounted to a positive EUR 68.0 million on December 31, 2004 (end of previous year: EUR 27.8 million).

SALES[6]
Strong growth in all business sectors

In fiscal 2004, Mühlbauer achieved the best sales result in the company's history. We have experienced a substantially increased demand in all businesses. In 2004, consolidated sales rose 34.7% year-over-year to EUR 128.4 million (previous year: EUR 95.3 million).

Our core business Smart Identification and its comprehensive and solution oriented machine concepts for manufacturing security Smart Cards and Smart Labels for a wide variety of applications was the driving force behind the company's performance in fiscal 2004. The 38.7% year-over-year increase to EUR 54.5 million (previous year: EUR 39.3 million) amounts to a 42.5% share of total sales. This success was mainly based on the strong demand in the area of personalization systems and Smart Label. Also first results in the solution business have been achieved.

With sales of EUR 48.9 million (EUR 35.6 million) or 38.1%, the company's Semiconductor Related Products generated the second biggest share of total sales from the sale of Semiconductor Related machine technology. Flip-chip based machine technology for mounting Semiconductor components and the business with OEM components posted a particular high level of demand.

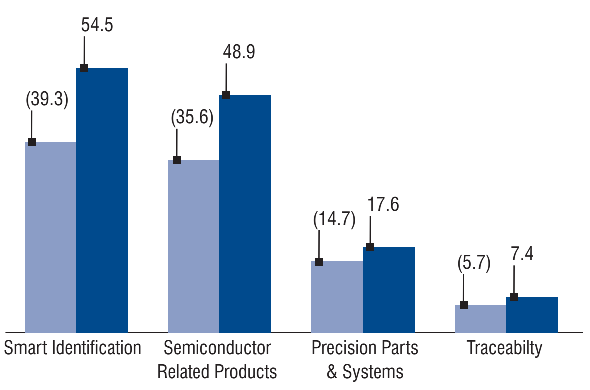
The third biggest share of total sales could be reached on the market for Precision Parts & Systems. Mühlbauer, with an increase of 19.9%, had its third consecutive year of growth and completed the reporting period with record sales of EUR 17.6 million (EUR 14.7 million).

After last year's slowdown in investment, the area of Traceability with system solutions for entire Traceability and handling processes for printed circuit boards posted an improvement of 30.2% and, with sales of EUR 7.4 million (EUR 5.7 million), climbed to 4th place in 2004. Higher investment in the electronics business significantly influenced this positive development.

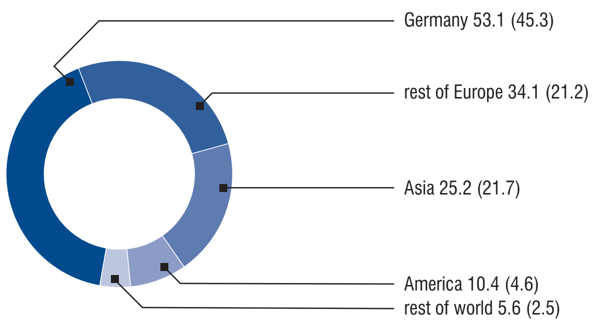
The business in Europe accounted for EUR 87.2 million in sales (previous year: EUR 66.5 million) and continues to be our strongest market. With a sales volume of EUR 53.1 million (previous year: 45.3 million), Germany delivered the best performance and remains our biggest market within Europe. In the course of the positive trend in the Semiconductor industry, Asia is our second strongest region and delivered sales of EUR

[6] the sales figures are gross values before deductions of EUR 0.2 million (EUR 0.1 million).

Sales development by applications in mill. EUR (previous year)



Regional breakdown of sales in mill. EUR (previous year)



25.2 million (previous year: EUR 21.7 million). In the past year, the North and South American markets reported an uptick in sales – mainly due to project business – to a total of EUR 4.6 million. In 2004, the America markets made EUR 10.4 million in sales and managed to extend its position but still holds the number three position in the rankings. The Americas are followed by Africa and Australia, which managed to significantly enhance their business to EUR 5.6 million (previous year EUR 2.5 million).

EARNINGS AND FINANCIAL CONDITION
Sharp increase in earnings and liquidity

Earnings development

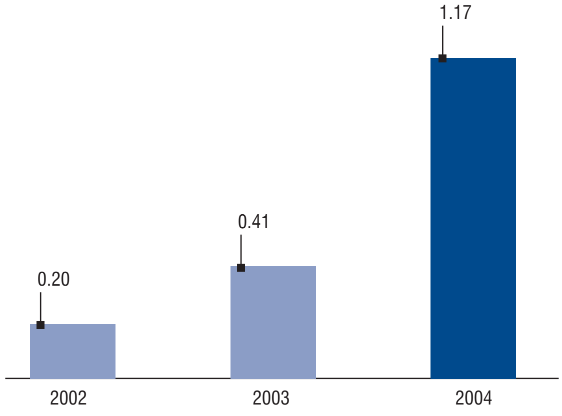
In fiscal 2004, the Mühlbauer Group posted record financial figures. Increased sales had a positive effect on the volume of business as well as on earnings and liquidity. The consolidated **profit before tax** rose 177.2% to EUR 26.3 million (previous year EUR 9.5 million), the Group's net earnings improved by 160% from EUR 6.5 million to EUR 16.9 million. **Return on sales** was up year-over-year to 20.5% (previous year 10.0%). The company's profitability is reflected also by the sharp rise in **earnings per share**. Mühlbauer almost tripled last year's EUR 0.41 to EUR 1.17. The **dividend** will also increase: a rise in dividends to EUR 0.60 per share will be proposed to the Annual General Meeting for fiscal 2004. The total dividend payment for the past fiscal year covering the ordinary share capital entitled to dividend and the fixed capital contributions of the personally liable shareholder amounts to EUR 9.9 million after last year's EUR 6.6 million – an increase of 50.5%.

Apart from a significantly higher volume in sales with a consequent improvement of productivity and consistent cost management, initial success in expanding services contributed to the company's extremely positive results. The technology group could not only boost its volume of sales but also achieved higher quality margins. Positive effects could be generated by selling value-adjusted inventories which, in turn, were largely offset by increased risk measures in inventories.

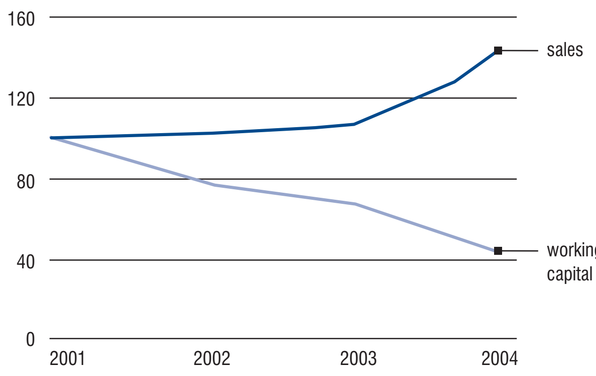
Main factors for the 34.6% increase in sales to EUR 128.2 million (previous year EUR 95.2 million) were the strong demand for personalization systems and Smart Labels and the positive sentiment in the Semiconductor industry mainly in the first half of the year. At the same time, cost of sales decreased from 66.2% to 59.5% and reflected the level of fiscal 2000. Selling general and administrative expenses rose by EUR 0.2 million year-over-year (EUR 16.6 million) to EUR 16.8 million. While, mainly due to organizational changes in sales and administration, selling and marketing expenses were reduced year-over-year (-EUR 2.3 million to EUR 8.4 million) with a simultaneous increase in general administrative costs (+EUR 2.5 million to EUR 8.4 million), selling and marketing expenses produced additional revenues due to declining sales commissions and marketing expenses as well as lower valuation allowances for accounts receivables year-over-year. Additional expenses in general administrative costs were generated by the goodwill amortization of Rommel GmbH as well as by a general rise in costs.

Shorter technology cycles, the further development of innovations and engineering and expanding technology platforms are the reasons for the high level of R&D expenditures. R&D expenditures in fiscal 2004 rose 22.9% to EUR 14.0 million (previous year EUR 11.4 million). In relation to the jump in sales, this figures corresponds to a rate of 10.9% – after 12.0 % in the previous year.

Development basic earnings per share in EUR



Development sales versus working capital (indexed)



Other income totaled EUR 4.4 million and remained almost at the same level as last year (EUR 4.4 million). It contains higher earnings compared to last year due to the disappearance of liabilities to third parties, foreign currency gains and insurance recoveries, which – through the first time proportional profit-effecting dissolutions of non taxable grants and the disappearance of one-off earnings – were almost offset.

The financial result of +EUR 0.7 million lags behind the amount of the previous year of +EUR 0,9 million. In 2004, the ordinary interest income of EUR +0.4 million completely offset declining interest rates due to good cash flows and was even +EUR 0.1 million higher than last year's +EUR 0.3 million. The marketable security portfolio declined year-over-year EUR 0.5 million. Interest expenses mainly arising from debts fell year-over-year by EUR 0.2 million.

In the course of the positive business development, the technology company posted income taxes of EUR 9.4 million, which is a significant increase over last year's EUR 3.0 million. This tax expense resulted in a tax rate of 35.6% after last year's 31.4%. Tax-free earnings from sold marketable securities affected the tax rate of the previous year, whereas Rommel GmbH goodwill amortization did not have a tax-saving effect. An additional effect in fiscal 2004 resulted from the neutral consumption of deferred tax assets based on an elimination of intermediate earnings. An exclusion of these two special items would result in a tax rate of 33.4% for fiscal 2004.

Financial situation

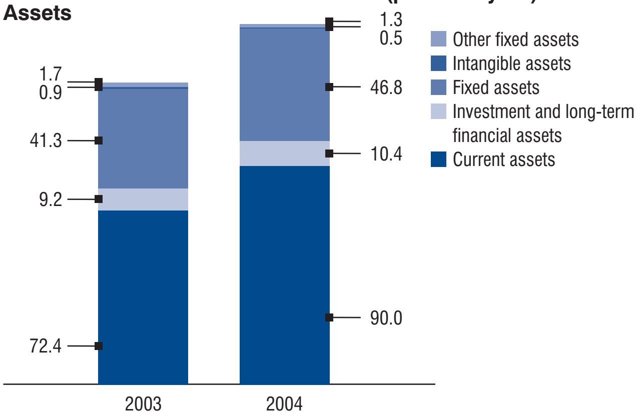
The positive business development extended the Group's **total assets** during the reporting period by EUR 23.4 million from EUR 125.6 million to EUR 149.0 million.

Current assets rose EUR 17.6 million from EUR 72.4 million to EUR 90.0 million. The biggest increase was generated by 'cash and cash equivalents' and marketable securities. During the reporting period, Mühlbauer improved its already good cash position to EUR 33.6 million (previous year EUR 16.1 million), which mainly reflects the solid earnings situation of the company as well as the success in getting higher downpayments on orders. Our working capital management also proved successful. Trade receivables amounted to EUR 1.4 million and only posted a slight increase compared to the expansion of business volume. Inventories fell EUR 2.0 million through selling inventories and increased risk measures. Other current assets posted a year-over-year growth of EUR 0.9 million. The rise was mainly due to higher government grants (+EUR 0,4 million), paid deposits (+EUR 0.1 million) and tax reimbursement claims (+EUR 0.1 million).

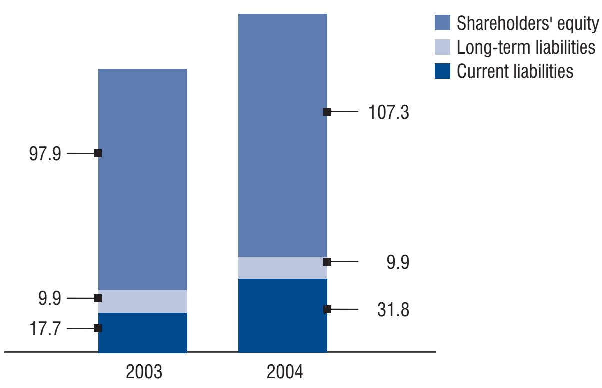
At the balance sheets date, Mühlbauer had total **fixed assets** worth EUR 59.0 million – a year-over-year increase of EUR 5.9 million. While investments and long-term financial assets rose by EUR 1.2 million to EUR 10.4 million, capital expenditures in fixed and intangible assets amounted to EUR 11.7 million (previous year EUR 6.2 million). Depreciations and amortizations rose to EUR 6.4 million (previous year EUR 6.2 million), which was mainly due to Rommel GmbH goodwill amortization. The EUR 0.4 million reduction of other fixed assets was largely based on settling accrued pension liabilities with the company's plan assets for financing pension benefits, after pledging these pension benefits to the beneficiaries in the reporting period.

Current liabilities rose from EUR 17.7 million in the previous year by EUR 14.1 million to EUR 31.8 million. In the course of business, trade payables grew by EUR 2.3 million and downpayments received on or-

Balance sheets structure in mill. EUR (previous year)
Assets



Balance sheets structure in mill. EUR (previous year)
Liabilities and shareholders' equity



ders rose by EUR 4.4 million. Other current liabilities increased by EUR 0.5 million, which was mainly due to higher employee and social security costs as long as at the balance sheets date accrued interest and repayments of long-term debts, customer credit balances and other earnings. Owing to the positive earnings situation, the company posted higher accruals for income taxes of EUR 4.3 million year-over-year. Once again other accruals showed a significant increase of EUR 2.5 million to EUR 7.0 million year-over-year. In addition to the indicated accruals at the balance sheets date, the extremely prudent and conservative financial policy of Mühlbauer including careful risk assessments becomes apparent.

Long-term liabilities worth EUR 9.9 million remained unchanged year-over-year. Long-term debt were reduced through the repayment of EUR 1.0 million, while investment grants – after settling with profit-effecting dissolutions – rose by EUR 1.4 million. Since all conditions for settling pension accruals with plan assets posted under other fixed assets were met during the reporting period, they were settled against plan assets.

The **shareholders' equity** rose by EUR 9.3 million to EUR 107.3 million during the reporting period. While the rate of current liabilities grow from 14.1% to 21.4% year-over-year the equity ratio fell in the face of a balance sheets expansion from 78.0% to 72.0%.

Cash flow situation

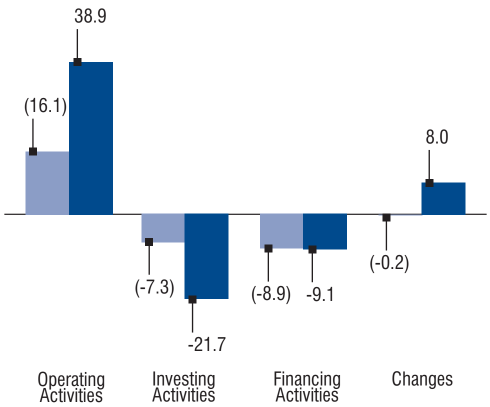
In 2004, cash flows of +EUR 38.9 million from **operating activites** proved very positive year-over-year (+EUR 16.1 million). On the basis of the excellent situation in earnings of EUR 16.9 million (previous year EUR 6.5 million), depreciations of EUR 6.4 million, received downpayments of EUR 4.4 million as well as inventory reduction of EUR 2.0 million positively influenced the development of cash flow. Another positive factor was the change in tax accruals (EUR 4.9 million), other accruals (EUR 2.5 million) and other liabilities (EUR 4.2 million). Changes in trade receivables of EUR 1.4 million, accrued pension liabilities (EUR 0.7 million) as well as other current assets (EUR 0.9 million) negatively influenced fiscal 2004.

Higher capital expenditures year-over-year caused **cash flows from investing activities** to increase by EUR 14.4 million. Net investments rose 196.0% and amounted to EUR 21.7 million (previous year 7.3 million). Capital expenditures in fixed and intangible assets stood at EUR 11.7 million, which corresponds to an increase of 88.1% year-over-year. More details are given in chapter 'Investments' on page 31.
Purchase in short- and long-term marketable securities amounted to EUR 12.1 million after last year's EUR 14.1 million.

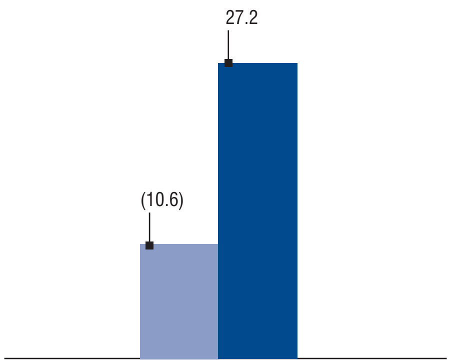
Cash flow from financing activities in 2004 were at -EUR 9.1 million after -EUR 8.9 million in the previous year. Major outflows of funds mainly resulted from planned repayment of long-term debts (-EUR 1,0 million), the balance of purchase and sale of own shares (-EUR 0.7 million), dividends (-EUR 6.6 million) and proportional allocations of tax credits to the personally liable shareholder (-EUR 0.8 million). **Cash and cash equivalents** rose by 61.7% to EUR 20.4 million (previous year EUR 12.6 million) at the balance sheets date.

With free cash flows we provide investors a key figure, which shows the change of the cash position under the consideration of investments. Free cash flows are defined as the cash inflow from operating activities and the cash outflow from investing activities – adjusted for the purchase and sale of short- and long-term

Cash flows in mill. EUR from (previous year)



Free cash flow in mill. EUR (previous year)



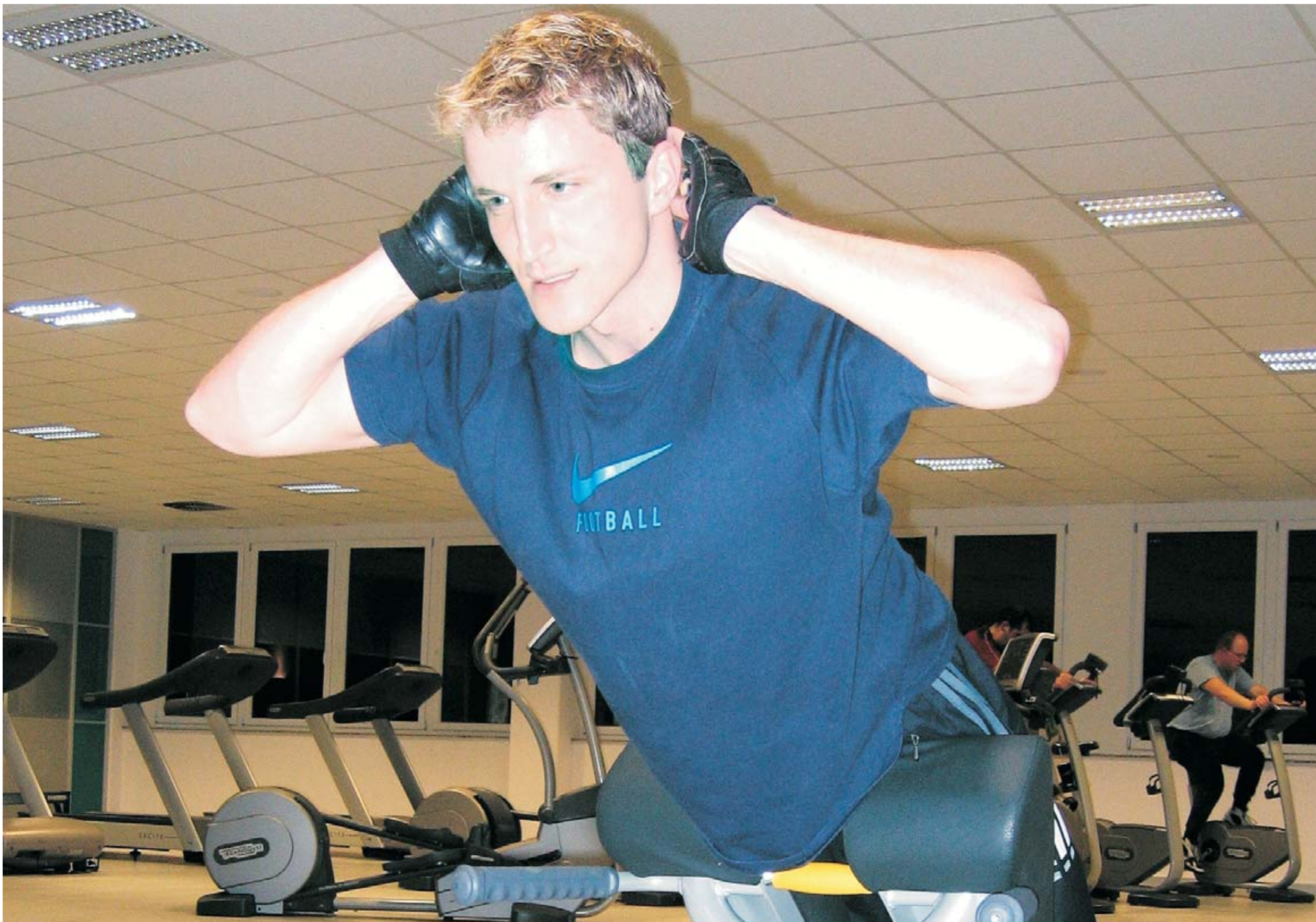
marketable securities including net gains and losses, payments from selling fixed assets including gains and losses as well as exchange gains or losses from the conversion of fixed assets.

EMPLOYEES
Developing our employees' competencies

Mühlbauer considers the relation between the company and its employees to be a partnership based on trust and challenging both the company and the employee. We take on the task of implementing this philosophy in a sporting manner. Mühlbauer turned out to be a reliable and future-oriented employer with a strong loyalty to his employees and vice versa. As a consequence, more than half of our employees have proven their strong identification with the company in recent years by participating in employee incentive programs.

Despite the general trend towards a slowdown in economic activity, the Mühlbauer Group is expanding. At years end, the number of employees amounted to 1,413 and had risen by 130 persons since December 31, 2003. The company employs 211 trainees (previous year 224), which corresponds to a proportion of 14.9%. While others discuss about the German Vocational Training Scheme (Ausbildungspakt), investing into young high potential has always been an integral part of our corporate philosophy. Despite the already high number of training jobs, 13 additional training jobs have been created within the framework of the 'Ausbildungsoffensive Bayern' (Bavarian Training Initiative). Our company takes on responsibility in this area and offers qualified training programs for skilled workers.

Highly competent employees with a marked sense of creativity and commitment are critical to the technology company for maintaining and extending its technological and market leadership. Employee continuing education is of central importance to Mühlbauer. Investments for training and continuing education programs rose by 72.9% year-over-year (TEUR 118) to TEUR 204. The newly created training academy for our middle management and employees provide an optimum environment for on-site training courses. Trainees from all relevant sectors of industry are given an ideal platform for practical and efficient on-the-job training. To complement our employees' mental and physical agility, the new academy includes a corporate gym and wellness facilities. Apart from improving our employees' well-being, we are planning for the future.



Our corporate pension fund provides pensions schemes at a reduced price to all Mühlbauer employees.

In the reporting period 2004, the personnel costs of the Mühlbauer Group amounted to EUR 45.1 million and rose year-over-year by 13.0% (previous year EUR 39.9 million). Salaries and wages rose to EUR 37.1 million (previous year: EUR 32.9 million). Statutory social security contributions were up 8.9% to EUR 7.5 million (previous year: EUR 6.9 million).

PROCUREMENT
Fostering partnerships – preserving independence

In procurement, 2004 was marked by a jump in raw material prices on the steel and aluminum market. Due to long-term delivery contracts, price setting and bulk ordering, our company did not bear the full brunt of higher purchase costs in these segments. For all other purchased components, higher prices could be avoided with just a few exceptions. Some areas even posted reductions. Our procurement policy had significant influence on the positive business development. We are willing to create a partnership with our suppliers – without losing our independence – in the form of a win-win settlement.

For major projects and substantial orders, the implementation of a project purchasing system on a strategic level has proven its efficiency. Contracted conditions are centrally agreed on. They are examined and, if necessary, revised at regular intervals. Our goal for the coming year is to strengthen the position of project purchasing within the company for ensuring low costs and technical feasibility during the R&D-process.

During the reporting period, we started to elaborate a cross Group e-Procurement system. At the beginning of 2005, Mühlbauer will set the stage for introducing an e-Business system, which will be implemented in the second half of 2005. This step will cut process costs, improve supplier communication, which in turn will result in higher procurement accuracy. We have integrated our suppliers tightly into the development of new products with a consequent increase in our innovative force.

In 2004, cost for external services and purchased raw materials and supplies totalled to EUR 39.6 million (previous year EUR 25.4 million).

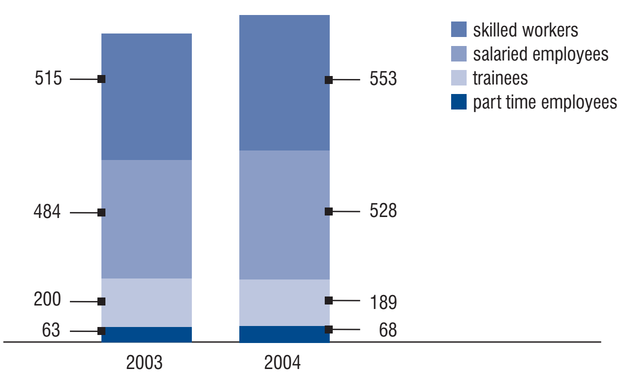
INVESTMENTS
Future-oriented actions – enhancing our technology park

For further extending its technological base as well as refining the qualification of middle management, professionals and technicans, the company invested EUR 11.7 million – 88.1% more than in 2003 (EUR 6.2 million). In the reporting period, Mühlbauer invested EUR 11.4 million in fixed and EUR 0.3 million in intangible assets – 9.1% related to sales (previous year: 6.5%).

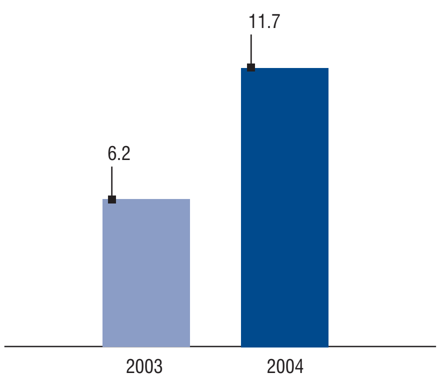
In the center of last year's investing activities was the enhancement of production facilities at our 'Competence Centers' in Roding and Stollberg by advanced manufacturing techniques such as CNC milling, machines for process-specific weldments, automatic deburring or 3D abrasive engineering. Ultrasound devices penetrate the surface of manufactured parts in order to further refine them. These techniques allow a flexible response to an increasing demand in sensitive security industries such as the aerospace, medical or the optical industry.

Another investment focus is on establishing an acade-

Development average annual staff structure



Capital expenditures in mill. EUR



my for trainees, professionals and middle management. The training rooms of our new academy are equipped with state of the art computers, measuring and control technology. The company possesses state-of-the-art training facilities for information and training sessions with theoretical and practical elements in electronics, mechatronics and metalworking. The middle management, professionals and technicians trained in the academy will significantly support the group by implementing innovation and achieving growth targets.

SUPPLEMENTARY REPORT

There have not been any developments of special significance after the end of the fiscal year.

RISK MANAGEMENT

Risk management – dealing with risks in a responsible manner

As an international technology group penetrating global and highly innovate markets, the Mühlbauer Group faces risks of the most varied kind in its daily course of business. Apart from focusing our risk managers' attention to a seamless and company-wide risk awareness, a solid information base for the decision-making process is the foundation for efficient risk management. Among other reporting systems, we dispose of a proven and well-established independent risk management system, which is subject to constant refinement. The system was successively implemented and designed to be the company-wide standard for uniform risk monitoring. Risk monitoring is compulsory for all segments within the Mühlbauer Group.

Our risk principles and organizational structure for recognizing, identifying and monitoring business-related risks are laid down in a chance and risk guide, accessible to all employees on the Intranet. An early recognition of risks and its standardized analysis, control and monitoring is guaranteed through operations from all business sectors within the company. We pursue a conservative and sensitive risk policy in which individual risks are assessed by assuming its maximum amount of damage and probability. Risks are analyzed in the form of a portfolio chart at a divisional and company level. As general assessment standard, the earnings before interest and tax (EBIT) is used. Due to standardized risk reporting principles, risk situations can be assessed in a systematic and uniform manner. The method allows us to take concrete risk control measures in every part of our business.

Regular reporting to the Management Board on current risk developments is the responsibility of the risk committee. In addition, every employee has the possibility to inform the Management Board of identified risks. This ensures rapid risk communication across all organizational levels.

The Mühlbauer Group possesses a successful system for transparent risk control. It is possible to recognize, monitor and actively control entrepreneurial risks at an early stage. The efficiency and effectiveness of our chance and risk management system is internally controlled. In addition, the chance and risk management system is part of the annual external audit.

- **Technology risks:**

The market for the Mühlbauer Group is characterized by fast-moving technologies, changing customer requirements and an inherent demand for new products with short life cycles. For new releases and defined product standards there is a risk that existing machine types become outdated and loose their market potential. The success of the Mühlbauer Group will more and more depended on the ability to position new and enhanced products in the market. This is the only way to further deepen our market penetration and thus meeting our customers' high requirements. For the development of our business in the future, great importance attaches to the right selection of base technologies. We are under an obligation to bring our products and services portfolio into line with market requirements. A number of tools to minimize risks, such as expanding strategic partnerships, constant competition and market analysis as well as internal specialist training, enable us to face future challenges. A comprehensive patent portfolio offers reliable assistance for possible patent infringements.

The inherent demand in the market for new products and solutions poses the risk of entailing high follow-up costs and rights to recourse due to insufficient experience and testing. Precautionary measures from a continuous quality management – and the subsequent certification by external authorities – to individual contracts as well as risk analyses have already been successfully implemented. As an additional measure, our company conducts extensive customer enquiries. With the help of professional consultants and experts, we can react to external developments which might harm the reputation of the Mühlbauer Group.

Mühlbauer considers the realization of major projects to be a critical success factor for the development of the Mühlbauer Group in the future. Apart from the underlying potential, we are also confronted with a series of new and complex risks. Legal issues, trends in logistics and the practical realization, sound financing strategies, commercial coordination and project management systems have to be dealt with. Experienced and competent project teams from different businesses or technology areas ensure prompt and coordinated execution of major projects. Our teams are supported by a risk-oriented and customized contract management with the project partners to successfully face and contain risks.

- **Market and economic risks:**

An increasingly dynamic market place and upward pressure on cost and competition encourage us to continue our strategy towards intense customer, competition and market research in order to anticipate possible changes in the market. A comprehensive and permanently updated data pool assures a rapid distribution of information to the relevant technical departments. Analyses for finding out the most suitable response to a changing market and competitive environ-

ment are of first priority. The main task is to bring our product and services portfolio into line with our customers' needs and to follow possible market trends at the same time. The fast succession of economic cycles and shorter periods of growth, as is the case in the Semiconductor industry, make stable market assessments more difficult. Our success in the future depends on an efficient exploitation and interpretation of all available sources of information.
On the basis of information obtained from market analyses, regional sales activities can be put on the right track. To counter the risk of being underrepresented in growth regions, our current sales network is selectively reinforced and extended according to demands. Apart from new-hires in the region, our internal support is constantly improved and trained. Experienced agents are recruited to support our sales activities. To deliver professional customer service, every sales representative has a comprehensive and permanently updated information and communication tool at his disposal.

- **IT risks:**

Increasingly shorter intervals between innovations in the IT field, interacting and combined information systems and the call for unlimited data integrity have significantly raised the needs for IT products. Unlimited data security and availability, protection against the misuse of data and unauthorized external intrusions play a key role in our risk management. With the help of the latest software solutions in the area of firewalls and virus protection, regular updating of hardware and server systems, we successfully counteract inherent damage.

- **Human resource risks:**

We consider the company-wide management of our human capital to be an exciting challenge rather than being a risk. As a stable employer, strong identification with our staff is an integral part of our corporate culture. Employee training and continuing education programs create strong ties between Mühlbauer and his highly qualified workforce. We are aiming promote our staff's sense of responsibility and to attract skilled personnel as well as motivating our existing staff by setting personal goals and performance-oriented incentives.
To offset order fluctuations and the consequent risk of overstaffing and lay-offs, we seek to engage our personnel in cross Group activities by creating uniform qualification standards. Temporary contracts are an additional tool for risk limitation.

- **Other risks:**

A comprehensive insurance package is an additional protection for our company against damage to business property by water, fire or storm. Independent and decentralized power generation plants secure our daily energy demand. Access controls and video monitoring systems protect our premises against unauthorized entries.

After the opening up of new global markets and the sharp fall in the value of the Dollar against the Euro, our customers increasingly want the option of transacting business in their own local currency. Risks, caused by currency fluctuations, are of central importance. Every order in a currency other than Euro is subject to close examination. The risk of currency fluctuations is assessed with the help of adequate offer and contract strategies such as interest rate swap contracts and foreign-currency exchange contracts.

A consistent accounts receivable management equipped with escalation processes and regular reporting as well as assessing the creditworthiness of new customers keeps credit risks down to a manageable size.

The company did not identify any substantial risk during the past fiscal year. There is no evidence of risks that might endanger the continuance of the company.

OUTLOOK

Fiscal 2004 was caracterized by the global economic recovery associated with an increase in demand in all industrial sectors and regions. Due to its innovative and technologically advanced machine solutions as well as its good position on global markets, the Group's profit was above average.

A rising demand for security and stricter entry regulations in many countries have revealed a strong interest among governments and governmental organizations for chip-based and security-oriented identification systems. For this reason the strategic position of Mühlbauer will consequently focus on establishing international relations with those target groups.

In the Smart Label business, experts predict a rising number of units – mainly due to the strong influence of RFID-technologies on logistics. Owing to the technological company's strong position, Mühlbauer expects to generate above average from the positive trend in the market.

Signs for a global economic slowdown in the Semiconductor industry and higher inventories in the market for Semiconductor Related Products have led customers to freeze capital expenditures since August 2004. Leading research institutes predict a further slowdown in the economy to single-digit growth rates for 2005. Assuming that Mühlbauer also expects a significant decline in demand at least in the first half of 2005.

The main challenge for Mühlbauers core business Smart Identification in leaving the general market behind is that ID-card projects planned worldwide will be decided and implemented in a very short period of time and the demand for Smart Label technologies is expected to grow significantly in 2005. Due to its innovative products, user-oriented technologies and customer-focused culture, the company is well prepared to deliver growth rates above average and to more than offset the drop in demand for Semiconductor Related Products.

DISCLAIMER

The management report contains forward-looking statements based on assumptions and estimates by the Management of Mühlbauer. Although we expect the statements made to be realistic, we do not guarantee their accuracy. The assumptions might contain risks and uncertainties causing the actual results to materially differ from predicted statements. Possible factors for such differences are a changing economic and business environment, project-related financing risks, exchange and interest rate fluctuations, competing products, a lack of market acceptance of new products and services as well as changing corporate strategies. Mühlbauer neither has the intention of updating forward-looking statements nor has Mühlbauer the obligation to do so.

Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (US-GAAP) FROM JANUARY 1 TO DECEMBER 31, 2004 OF MÜHLBAUER HOLDING AG & CO. KGAA

	Notes	01.01.-31.12.2004 TEUR	%	01.01.-31.12.2003 TEUR	%
1. Sales	(5), (27)	**128,180**	**100.0**	**95,204**	**100.0**
2. Cost on sales		(76,205)	(59.5)	(63,007)	(66.2)
3. Gross profit		**51,975**	**40.5**	**32,197**	**33.8**
4. Operating expenses					
a) Selling, general and administrative		(16,799)	(13.1)	(16,616)	(17.4)
b) Research and development		(14,006)	(10.9)	(11,392)	(12.0)
5. Operating income		**21,170**	**16.5**	**4,189**	**4.4**
6. Other income and expenses					
a) Interest income		1,109	0.8	1,673	1.8
b) Interest expenses		(415)	(0.3)	(728)	(0.8)
c) Other income	(7)	4,447	3.5	4,357	4.6
7. Income before income taxes		**26,311**	**20.5**	**9,491**	**10.0**
8. Income taxes	(8)	(9,374)	(7.3)	(2,977)	(3.1)
9. Net earnings		**16,937**	**13.2**	**6,514**	**6.9**
Earnings per share in EURO					
Basic		1.17		0.41	
Fully diluted		1.17		0.41	
Weighted average of shares					
Basic		6,066,989		6,099,342	
Fully diluted		6,066,989		6,099,342	

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

CONSOLIDATED BALANCE SHEETS (US-GAAP) AS AT DEC. 31, 2004 OF MÜHLBAUER HOLDING AG & CO. KGAA

	Notes	Dec. 31,2004 TEUR	Dec. 31,2003 TEUR
ASSETS			
Current assets			
Cash and cash equivalents		20,365	12,597
Marketable securities	(9)	13,255	3,498
Trade accounts receivables, net	(10)	21,703	20,348
Inventories	(11)	32,216	34,227
Deferred income taxes	(8)	0	201
Prepaid expenses		150	165
Other current assets	(12)	2,312	1,382
		90,001	**72,418**
Investment and long-term financial assets			
Marketable securities	(9)	10,440	9,241
		10,440	**9,241**
Fixed assets			
Land	(13)	1,585	1,586
Buildings, net	(13)	32,617	28,409
Technical and other equipment, net	(13)	12,494	11,298
Buildings and equipment in progress	(13)	69	40
		46,765	**41,333**
Intangible assets			
Goodwill	(14)	0	468
Software and licenses	(14)	482	409
		482	**877**
Other fixed assets	(15)	1,308	1,687
		1,308	**1,687**
		148,996	**125,556**
Liabilities and shareholders' equity			
Current liabilities			
Current portion of long-term debt	(17)	988	986
Trade accounts payable		7,028	4,751
Downpayments received on orders		4,704	329
Shareholders' loans		35	39
Other current liabilities	(18)	5,496	4,959
Accrued income taxes	(8)	6,424	2,135
Deferred income taxes	(8)	162	0
Other accruals	(19)	6,989	4,525
		31,826	**17,724**
Long-term liabilities			
Long-term debt	(20)	925	1,913
Investment grants received	(21)	7,369	5,993
Deferred income taxes	(8)	1,596	1,274
Postretirement and postemployment benefit liabilities	(22)	0	718
		9,890	**9,898**
Shareholders' equity			
Ordinary share capital (par value 1.28 EUR; 6,380,000 ordinary shares authorized; 6,279,200 ordinary shares issued; thereof 6,056,796 ordinary shares outstanding)	(23)	8,038	8,038
Own shares	(23)	(285)	(261)
Fixed capital contributions	(23)	(2,980)	(2,980)
Additional paid-in capital	(23), (25)	57,995	57,901
Retained earnings	(23)	43,109	34,204
Other comprehensive income	(24)	1,403	1,032
		107,280	**97,934**
		148,996	**125,556**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (US-GAAP) OF MÜHLBAUER HOLDING AG & CO. KGAA

			01.01. - 31.12.2004 TEUR	01.01. - 31.12.2003 TEUR
Operating activities				
1 .		Income before income taxes including profit of the personally liable shareholder	26,311	9,491
2 .		Consolidated net earnings including profit of the personally liable shareholder	16,937	6,514
Adjustments to reconcile consolidated net earnings to net cash (used in) provided by current operating activities				
3 .	+/-	Expenses/(income) from employee profit-sharing programs	179	61
4 .	+/-	Depreciations/(appreciations) to		
		- fixed assets	5,689	5,632
		- goodwill	468	0
		- software and licenses	267	558
5 .	-/+	(Gains)/losses from the sale of fixed assets	6	(174)
6 .	-/+	Currency differences from the transition of fixed assets	3	13
7 .	-/+	Realized net (gains)/losses from short- and long-term marketable securities	(6)	(599)
8 .	-/+	(Increase)/decrease of trade accounts receivables	(760)	(44)
9 .	+/-	Increase/(decrease) of value adjustments for trade accounts receivables	(595)	(1,143)
10 .	-/+	(Increase)/decrease of inventories	(3,522)	4,491
11 .	+/-	Increase/(decrease) of value adjustments for inventories	5,533	4,627
12 .	-/+	(Increase)/decrease of deferred income tax assets	201	603
13 .	-/+	(Increase)/decrease of prepaid expenses	15	11
14 .	-/+	(Increase)/decrease of other current assets	(930)	(404)
15 .	-/+	(Increase)/decrease of other fixed assets	379	(1,686)
16 .	+/-	Increase/(decrease) of trade accounts payables	2,277	(2,287)
17 .	+/-	Increase/(decrease) of downpayments received on orders	4,375	(1,275)
18 .	+/-	Increase/(decrease) of other liabilities	537	(352)
19 .	+/-	Increase/(decrease) of accrued income tax liabilities	4,289	1,375
20 .	+/-	Increase/(decrease) of deferred income tax liabilities	415	(407)
21 .	+/-	Increase/(decrease) of other accruals	2,464	35
22 .	+/-	Increase/(decrease) of investment grants received	1,376	162
23 .	+/-	Increase/(decrease) of pension liabilities	(718)	343
24 .	=	Cash provided by (used for) operating activities	38,879	16,054
Investment activities				
25 .	+	Payments received from the sale of fixed assets	236	200
26 .	-	Purchase in fixed assets	(11,366)	(5,814)
27 .	-	Purchase in software and licences	(340)	(410)
28 .	+	Payments received from the sale of long-term marketable securities (available-for-sale-papers)	1,121	1,026
29 .	-	Purchase in long-term marketable securities (available-for-sale-papers)	(2,201)	(2,885)
30 .	+	Payments received from the sale of short-term marketable securities (available-for-sale-papers)	709	11,801
31 .	-	Purchase in short-term marketable securities (available-for-sale-papers)	(9,896)	(11,262)
32 .	=	Cash provided by (used for) investing activities	(21,737)	(7,344)
Financing activities				
33 .	-	Repayment of long-term debts	(988)	(1,112)
34 .	+/-	Increase/(decrease) of short-term debts	2	0
35 .	+/-	Increase/(decrease) of Shareholders' loans	(4)	(1)
36 .	-	Repayment of convertible bonds	0	(37)
37 .	-	Purchase of own shares	(999)	(697)
38 .	+	Sales of own shares	253	143
39 .	-	Dividends paid	(6,554)	(6,046)
40 .	+/-	Tax withdrawal personally liable shareholder	(841)	(1,171)
41 .	=	Cash provided by (used for) financing activities	(9,131)	(8,921)
42 .	+/-	Increase/(decrease) of currency exchange rate changes	(243)	(302)
43 .	=	Net increase/(decrease) in cash and cash equivalents (Total of lines 24, 32, 41, 42)	7,768	(513)
44 .	+	Cash and cash equivalents on January 1	12,597	13,110
45 .	=	Cash and cash equivalents on December 31	20,365	12,597
Additional cash flow information:				
Tax paid			(5,414)	(2,549)
Interest paid			(191)	(343)

Non-cash transactions:
In 2004, unrealized gains and losses from available-for-sale-papers are shown under other comprehensive income

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (US-GAAP) OF MÜHLBAUER HOLDING AG & CO. KGAA

	Notes	Number of shares	Ordinary share capital TEUR	Fixed capital TEUR	Additional paid-in capital TEUR	Retained earnings TEUR	Other comprehensive income/(loss): Cumulative transaction adjustments TEUR	Other comprehensive income/(loss): Available-for-sale-securities TEUR	Total TEUR
Balance Jan. 01, 2003		**6,108,775**	**7,819**	**(2,980)**	**58,351**	**34,907**	**(128)**	**284**	**98,253**
Net earnings		-	-	-	-	6,514	-	-	6,514
Other comprehensive income/(loss)	(24)	-	-	-	-	-	(312)	1,188	876
Total comprehensive income/(loss)		-	-	-	-	6,514	(312)	1,188	7,390
Deferred compensation	(25)	-	-	-	61	-	-	-	61
Purchase of own shares	(23)	(51,711)	(66)	-	(631)	-	-	-	(697)
Sale of own shares	(23)	18,371	24	-	120	-	-	-	144
Tax withdrawal personally liable shareholder	(23)	-	-	-	-	(1,171)	-	-	(1,171)
Dividends		-	-	-	-	(6,046)	-	-	(6,046)
Balance Dec. 31, 2003		**6,075,435**	**7,777**	**(2,980)**	**57,901**	**34,204**	**(440)**	**1,472**	**97,934**
Net earnings		-	-	-	-	16,937	-	-	16,937
Other comprehensive income/(loss)	(24)	-	-	-	-	-	(243)	614	371
Total comprehensive income/(loss)		-	-	-	-	16,937	(243)	614	17,308
Deferred compensation	(25)	-	-	-	179	-	-	-	179
Purchase of own shares	(23)	(35,964)	(46)	-	(316)	(637)	-	-	(999)
Sale of own shares	(23)	17,325	22	-	231	-	-	-	253
Tax withdrawal personally liable shareholder	(23)	-	-	-	-	(841)	-	-	(841)
Dividends	(23)	-	-	-	-	(6,554)	-	-	(6,554)
Balance Dec. 31, 2004		**6,056,796**	**7,753**	**(2,980)**	**57,995**	**43,109**	**(683)**	**2,086**	**107,280**

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

A. BASIC PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS

(1) THE COMPANY

Mühlbauer Holding AG & Co. Kommanditgesellschaft auf Aktien, Roding ('Mühlbauer' or 'company') is an international enterprise that develops, produces and distributes a wide range of systems and turnkey solutions for the manufacture of

- Smart Cards – chip cards, contactless cards, dual-interface cards, smartmedia / multimedia cards;
- Smart Labels – intelligent labels for contactless data transfer;
- Semiconductor Products for a variety of microelectronic applications.

Additional segments of activity are the manufacturing of production lines and handling systems for the electronic industry, manufacturing industrial image processing systems for several industries as well as the production of precision parts. Mühlbauer's range of services also encompasses the development and production of systems for the manufacture of carrier tapes for the electronic industry.

The company has production plants located in Roding and Stollberg, Germany. Mühlbauer also operates a network of international sales and service offices in France, China, Taiwan, Australia, Mexico, Brazil, Thailand, Philippines, South Africa and Serbia in addition to independent sales and service companies in the USA and Malaysia. The company also makes use of the services of commercial agencies in various countries.

(2) BASIS OF PRESENTATION

The Initial Public Offering of the company took place on July 10, 1998. The shares are listed on the Prime Standard of the Frankfurt Stock Exchange.

The consolidated financial statements were prepared based on the financial reporting standards used in the USA ('United States Generally Accepted Accounting Principles' or 'US-GAAP').

Mühlbauer Holding AG & Co. KGaA is a joint stock company according to German law. In accordance with the regulations of the German Commercial Code (HGB) and the Corporation Law (AktG), the company must prepare the consolidated financial statements based on the accounting regulations of the HGB. Pursuant to § 292a HGB, the consolidated financial statements according to German law are not required, if consolidated financial statements based on international principles such as US-GAAP are submitted. With the present consolidated financial statements, Mühlbauer takes advantage of the exemption as defined in § 292a HGB. In order to comply with the prerequisites for the exemption, the notes contain additional information not required by US-GAAP. The management report was prepared in accordance with the regulations of § 290 para. 1 and the following HGB.

All numerical figures contained in these consolidated financial statements are indicated in thousand Euro ('TEUR'), unless explicitly stated otherwise. Negative amounts are indicated in parentheses.

As at December 31, 2004, the consolidated companies include – besides the Mühlbauer Holding AG & Co. KGaA – seven German and two foreign subsidiary companies listed below as well as the special fund.

German companies:

Name and registered office	Interest in %	Equity capital in TEUR	net earnings in TEUR
Mühlbauer Aktiengesellschaft, Roding	100	63,622	12,013
ASEM Präzisions-Automaten-GmbH, Dresden	100	1,424	392
Rommel GmbH, Ehingen	100	3,869	0
systronic Systemlösungen für die Elektronikindustrie GmbH, Flein	100	811	236
Tema GmbH, Schwelm	100	1,648	83
Mühlbauer ID Services GmbH, Roding	100	(968)	(642)
takeID GmbH, Oberhaching[1]	100	(100)	(125)
Special fund (separate assets)[2]	100	15,170	515

[1] the Shareholders' Meeting on October 4, 2004 supplemented on October 19, 2004 decided on the changes of the company (before 'MB ID2 GmbH') with registered office (before 'Roding') as well as on the object of the company

[2] financial year from December 1 to November 30

Foreign companies:			
Name and registered office	Interest in %	Equity capital in TEUR[3]	net earnings in TEUR[4]
Mühlbauer, Inc., Newport News, Virginia	100	695	105
Muhlbauer Sdn. Bhd., Melaka, Malaysia	100	1,685	223

[3] conversion to exchange rate at reference date December 31, 2004
[4] conversion to transaction rate

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include, in addition to Mühlbauer Holding AG & Co. KGaA, all subsidiaries in which Mühlbauer exerts direct or indirect control due to the majority of the voting rights.

The financial statements for all companies included in the consolidated financial statements, which were – apart from the special fund whose financial year ends on November 30 – compiled at the balance sheets date, are accounted for on the basis of uniform accounting principles. Financial statements compiled pursuant to country-specific principles are brought in line with standard accounting principles of the Mühlbauer Holding AG & Co. KGaA, if they are not conform to US-GAAP. With regard to the figures of the previous year, which faces the figures of the fiscal year 2004, accounting principles have generally remained unchanged.

Intermediate results, expenses and earnings as well as receivables and liabilities between the consolidated companies are eliminated in the consolidated financial statements.

CORPORATE MERGERS

The balance sheets for corporate mergers are prepared according to SFAS No. 141 'Business Combinations' of the Financial Accounting Standards Board (FASB) using the purchase method. The assets purchased and debts taken over are given in respective current value. A remaining positive difference (goodwill) after disclosure of hidden reserves and debts found, is applied in the balance sheets. A resulting passive difference, insofar it still exists after proportional deduction of certain assets of the fixed assets, will be accounted for as an extraordinary gain affecting the result.

FOREIGN CURRENCY TRANSLATION

The functional currency of the subsidiary companies in foreign countries is in each case the local currency at locality of the subsidiary company. With the exception of stockholders' equity, which is converted at historical rates, the assets and liabilities quoted in foreign currencies are converted at the rate on the balance sheets day. The items of the statements of income are converted at the rate on the day of each transaction. Conversion differences resulting from these transactions are listed separately as items of stockholders' equity without affecting the result.

In the following the exchange rates used for drawing up the consolidated financial statements in accordance with SFAS No. 52 'Foreign Currency Translation' are shown:

		Rate on closing date		Mean average rate	
		December 31, 2004	December 31, 2003	2004	2003
Currency:		EUR	EUR	EUR	EUR
Malaysia	100 MYR	19.3098	21.0018	21.1494	23.2385
USA	1 USD	0.7329	0.7964	0.8039	0.8833

Foreign currency transactions are each translated with the valid daily rate. Foreign currency gains and losses are posted under other earnings or expenses affecting the results.

SALES RECOGNITION

Sales revenues from machines and plants are realized in accordance with the principles of the Staff Accounting Bulletin (SAB) No. 104 'Revenue Recognition in Financial Statements' less customer bonuses and discounts, when risks and opportunities connected with the property have been transferred to the purchaser, the price has been stipulated and the asset is probable. Three criteria are relevant for recognizing sales revenues:

- The plant has been set up for productive purposes at customer's site
- The pre-acceptance tests were done successfully
- Pre-acceptance tests have proven their suitability for a successful final acceptance

If sales contracts consist of multiple elements, the company applies the principles set forth in EITF 00-21 'Revenue Arrangements with Multiple Deliverables'. Under such sales contracts, sales are only recognized, if a market value for non-delivered elements is available and the individual element is of value to the customer. If these conditions are not met, sales will be recognized after the complete service has been performed.

Sales on services are realized when the service is performed or on a pro-rata basis in the presence of service contracts.

Commissions paid are considered as marketing expenses.

PRODUCT-RELATED COSTS

Expenditures for product marketing and advertising, transporting the goods and for other sales-related activities are recorded as expenses as they occur. Accruals for guarantees are formed beginning at the time the sales are realized. Research and development costs are posted as expenses at the full cost as they occur.

EARNINGS PER SHARE

In calculating earnings per share, all effects from rights of conversion into stockholders' equity are included, in accordance with SFAS No. 128 'Earnings per Share'. When this dilution is applied, two categories are to be indicated for earnings per share. For the category 'basic earnings per share', diluted shares are not taken into account; the consolidated earnings are divided by the weighted average of the issued shares. The category 'diluted earnings per share', in addition to the weighted average of shares issued, also takes into account-diluted shares, which arise as a result of convertible bonds.

The conversion of the weighted average of shares issued for calculating 'Basic Earnings per Share' to the weighted average of the shares issued for calculating 'Diluted Earnings per Share' is calculated as follows:

	2004 Quantity	2003 Quantity
Weighted average of shares for calculating 'Basic Earnings per Share'	6,066,989	6,099,342
Dilutive effect of stock options and convertible bonds	0	0
Weighted average of shares for calculation of 'Diluted Earnings per Share'	6,066,989	6,099,342

CASH AND CASH EQUIVALENTS

Cash and cash equivalents refer to current credit balances at financial institutions, cash deposits and cash positions that can be liquidized on short notice (original maturity of three months or less).

TRADE RECEIVABLES

Accounts receivables with maturity periods of up to one year are booked at the nominal amount, accounts receivables with maturity period of over one year are booked as discounted value. Recognizable risks are allowed for value adjustments.

INVENTORIES

Inventories are assessed either at the cost of acquisition and manufacture or at the lower market value. Raw materials, auxiliary and operational materials are assessed primarily at the floating average price. Finished and unfinished products, including order-related development costs, are assessed according to the principle of unit valuation. Direct material production unit costs and proportional material and production overhead costs are carried as assets under standard utilization. Depreciation of inventory risks, arising from increased storage periods and reduced usability, are recognized in an appropriate and sufficient manner.

SECURITIES

Marketable securities are assessed by 'specific identification' in accordance with SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities' at the stock exchange or market price on the closing date. Unrealized gains and losses are posted as affecting income for 'trading' securities that were acquired for ready sale. Unrealized profits and losses for securities that are neither intended as a permanent component of the company's assets nor for reselling ('available-for-sale' securities) are not posted as affecting income; but are indicated as 'Other Comprehensive Income' and with due consideration to deferred taxes.

Securities, which are possible to held to maturity by the company – which is intended – are posted with its continuative purchase costs ('held-to-maturity'). In case available-for-sale and held-to-maturity securities are expected to permanently decrease in value, the negative difference is posted as affecting income.

The company decides at the time on which securities are purchased, which category they are to be placed into, and verifies the classification at any balance sheets date.

'Available-for-sale' securities, whose market value is predicted to permanently fall below the purchase price, are depreciated. Depreciation is charged to income over the reporting period by considering the impairment to be permanent.

FIXED ASSETS

Fixed assets are assessed at the purchase or manufacturing costs less cumulative depreciations. The schedule depreciations are linear, over a common useful life based on categories, as follows:

Buildings	10 - 33 years
Technical equipment	5 - 10 years
Other equipment, fixtures and office equipment	3 - 10 years

Costs for spare parts, periodic maintenance and repairs are recorded as they occur based on actual costs. Significant renewal or expansion investments are quoted as assets, if they increase the useful life of an asset. Financing costs for particular qualifying assets are quoted as assets. In the event of losses in assets, the corresponding historical purchase costs and cumulative depreciations are accounted for as write-offs and the difference to the sale proceeds is posted as a profit or loss under the other earnings or expenses.

INTANGIBLE ASSETS

Acquired intangible assets with a determinable useful life consist primarily of licenses and acquired technological know-how, which are carried as acquisition costs and linearly depreciated over the expected useable life of 3 years.

Pursuant to SFAS No. 142, goodwill is no longer impaired, but according to SFAS No. 142 regulations are tested for possible depreciation at least once every year or in case of major developments or changed circumstances. The company carried out the annual examination in June, 2004. If the book value of the business unit including goodwill is higher than the market value, the depreciation is obtained from the difference between book value of goodwill and market value of goodwill.

VALUE PRESERVATION OF LONG-TERM ASSETS

Intangible assets bearing a certain useful life and other long-term assets are subject to the 'impairment test' in accordance with SFAS No. 144 'Accounting for the Impairment or Disposal of Long-Lived Assets' if facts or changes in circumstances indicate that the respective book values are no longer valid. A decrease is to be considered if the total of all future non-discounted cash flows from the utilization of the asset is not sufficient to cover the corresponding book value. The book value of the respective asset is depreciated to the market value, which is generally determined by applying the discounted future cash flows.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the company to reduce particular exchange rate risks emerging in the course of business. The accounting of derivative financial instruments is realized pursuant to SFAS No. 133 'Accounting for Derivative Instruments and Hedging Activities', extended by SFAS No. 137 'Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133 an amendment of FASB Statement

No. 133', SFAS No. 138 'Accounting for Certain Derivative Instruments and Certain Hedging Activities' and SFAS No. 149 'Amendment of Statement 133 on Derivative Instruments and Hedging Activities'. Derivative financial instruments are accounted for at their market value under Other Current Assets or Current Liabilities. The company currently holds derivates only for hedging foreign currency risks. The market value of financial instruments including derivates is displayed in Note (26).

PENSION AND POSTRETIREMENT BENEFITS

The accounting and assessment of accruals for pensions is based on the pension report according to the 'projected unit credit method' in compliance with SFAS No. 87 'Employers' Accounting for Pensions'.

In December 2003, the FASB issued SFAS No. 132 'Employers' Disclosures about Pensions and Other Postretirement Benefits – an Amendment of FASB Statements No. 87, 88 and 106', which revises the obligation of the employer to disclose pensions or other postretirement benefits. SFAS No. 132, revised in 2003, includes additional disclosure principles (compared to the replaced original SFAS No. 132).

OTHER ACCRUALS

Accruals are formed, if an obligation towards third parties exists on the closing date. The assessment of other accruals is based on the facts on the balance sheets date and any information or events that come to light after the closing date. The calculation of the contingency accrual is based on a variable percentage of the guaranteed revenue, the calculation of which is based on past experience with a certain probability for service under a guarantee.

INCOME TAX

The company applies SFAS No. 109 'Accounting for Income Taxes'. According to the liabilities method, deferred tax assets and liabilities are formed for the expected tax consequences resulting from the differences in assets and liabilities between the consolidated book values and the tax values. The applicable tax rates and tax regulations are used that are valid at the time these differences are eliminated. Deferred tax assets are examined for future practicability and depreciated, if necessary.

As far as the shares in incorporated enterprises can be sold tax-exempt in Germany beginning January 1, 2002 due to new legislature, this tax exemption was taken into account in determining deferred taxes as at December 31, 2004.

The personally liable shareholder is subject only to trade tax within the company. The taxation of his share of earnings with respect to corporation tax and solidarity surcharge is within the personal realm of the personally liable shareholder, in which the applicable individual tax rates are used. The amounts of tax to be added and considered in the case of the personally liable shareholder are offset against tax accruals and charged against his variable capital (cf. also note (23)).

INVESTMENT GRANTS RECEIVED

Tax-exempt investment grants received are recorded as income at the date of claim. Taxable investment grants for fixed assets are deferred and assigned as income congruent to the corresponding expenses for the period. The investment subsidies allocated to the research and development of new products and processes are assigned as income affecting the operating result analogous to the related costs incurred in the respective period.

STOCK OPTION PLANS

The company accounts for its remunerations in the form of stock option plans on the basis of the intrinsic value method according to APB 25 'Accounting for Stock Issued to Employees' and records the personnel costs during the relevant period of time. The company also publishes the supplementary information required by SFAS No. 123 'Accounting for Stock-Based Compensation' supplemented by SFAS No. 148 'Accounting for Stock-Based Compensation – Transition and Disclosure (see note (25)).

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires, to a certain degree, estimates and assumptions by the management. These estimates and assumptions affect the presentation of assets and liabilities, the statements of eventual liabilities on the balance sheets date and the presentation of earnings and expenses for the reporting period. The actual amounts can deviate substantially from the estimates.

NEW ACCOUNTING PRINCIPLES

In December 2003, the FASB issued FIN 46 (revised December 2003 as FIN 46R). FIN 46R further explains how to identify Variable Interest Entities ('VIE') and how to determine when a business enterprise should include the assets, liabilities, non-controlling interest and results of VIE in its financial statements. The company does not expect any material impact on consolidated financial statements from the implementation of FIN 46R.

In December 2003, the SEC issued Staff Accounting Bulletin ('SAB') No. 104, 'Revenue Recognition,' which supercedes SAB 101, 'Revenue Recognition in Financial Statements.' SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21, 'Revenue Arrangements with Multiple Deliverables.' The issuance of SAB 104 reflects the concepts contained in EITF 00-21. The other revenue recognition concepts contained in SAB 101 remain largely unchanged. The issuance of SAB 104 did not have a material impact on our consolidated financial statements.

In September 2004, EITF No. 03-1 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments' was issued. EITF 03-01 contains new principles for assessing and recognizing other temporary impairment on debt and equity securities, accounted for under SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities', as well as new disclosures to be made for certain assets considered to be temporarily impaired. While the disclosure requirements for certain debt and equity securities and assets accounted for under the Cost Method have to be applied for reporting periods ending after December 15, 2003, the FASB Board ordered all FASB members to postpone the principles of assessing and recognizing in Issue No. 03-1. The postponement does, however, not exempt from the obligation to recognize other temporary impairment on the basis of already existing binding principles. The company does not expect any material impact on earnings and financial conditions from the implementation of EITF 03-1.

In September 2004, the EITF reached a consensus on Issue No. 04-1, 'Accounting for Preexisting Relationships between the Parties to a Business Combination'. This Issue applies when two parties that have a pre-existing contractual relationship enter into a business combination. Specifically, the Issue is whether a consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of a pre-existing contractual relationship exists, thus requiring accounting separate from the business combination. If separate accounting is required, then the measurement of the settlement amount will be decided. Finally, if it is determined that assets of the acquired entity that are related to a pre-existing contractual relationship with the acquiring should be recognized as part of the business combination, whether the acquiring entity should recognize those assets as intangible assets apart from goodwill will be decided. EITF 04 -1 is effective for business combinations consummated and goodwill impairment tests performed in reporting periods beginning after October 13, 2004. The company does not expect any material impact on earnings and financial conditions from the initial implementation of EITF 04-1.

In September 2004, the EITF reached a consensus on Issue No. 04-8, 'The Effect of Contingently Convertible Debt on Diluted Earnings per Share'. EITF 04-8 requires that all issued securities that have embedded conversion features that are contingently exercisable upon the occurrence of a market-price condition should be in the calculation of diluted earnings per share, regardless of whether the market price trigger has been met. EITF 04-8 will become effective in the period when the proposed amendment to SFAS No. 128, 'Earnings per Share', becomes effective. We currently have no contingently convertible debt and the adoption of EITF 04-8 is not expected to materially impact diluted earnings per share.

In November 2004 the Financial Accounting Standards Board (FASB) has issued FASB Statement No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, 'Inventory Pricing', to clarify the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that '... under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges...'. This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of 'so abnormal'. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The provisions of Statement 151 should be applied prospectively. The issuance of SFAS No. 151 did not have a material impact on our consolidated financial statements.

In December 2004 the Financial Accounting Standards Board (FASB) has issued FASB Statement No. 153 Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29, 'Accounting for Nonmonetary Transactions', is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The company does not expect any material impact on earnings and financial conditions from the implementation of SFAS No.153.

In December 2004, the Financial Accounting Standards Board (FASB) has issued a revision of Statement No. 123 'Accounting for Stock-Based Compensation'. This Statement supersedes APB Opinion No. 25 'Accounting for Stock Issued to Employees', and its related implementation guidance. In addition, this Statement amends FASB Statement No. 95 'Statement of Cash Flows'. The Statement addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprises equity instruments or that may be settled by the issuance of such equity instruments. The Statement eliminates the ability to account for share-based compensation transactions using APB No. 25, and generally requires instead that such transactions be accounted for using a fair-value based method. Companies are required to recognize an expense for compensation cost related to share-based payment arrangements including stock options and employee stock purchase plans. The revised standard is effective for public companies for periods beginning after June 15, 2005. The company is currently verifying the effects of the revised SFAS No.123 on its accountable business transactions.

(4) ACQUISITIONS

Founded on July 31, 2003, the Roding based file company MB ID2 GmbH started its activities in September 2004. Within an asset deal, MB ID2 GmbH aquired intangible assets, movable fixed assets and a customer order from the insolvent SD Industries GmbH and hired the employees of this company. As agreed at the Annual General Meeting on October 4, 2004, with an amendment in October 19, MB ID2 GmbH was renamed takeID GmbH. Synchronous the company's headquarters moved from Roding to Oberhaching near Munich. The object of takeID GmbH is planning, developing and integrating hard- and software for security systems and projects. The changes agreed on at the Annual General Meeting were filed with the Commercial Registry of the District Court Munich on December 13, 2004. The purchase price for the acquired assets amounted to TEUR 85 and was paid in cash to the insolvent SD Industries GmbH after the creditor committee's approval. At the acquisition date, the current value of the assets had approximately the same value as the purchase price.

B. EXPLANATIONS ON THE CONSOLIDATED STATEMENTS OF INCOME

(5) SALES

Sales are divided into segments and regions as indicated under Section (27). The reductions in sales mainly comprise customer discounts for short-term payments.

(6) PRODUCT RELATED EXPENSES

Marketing and advertising expenses mainly listed under sales expenses amount to TEUR 779 (2003: TEUR 1,007) in the reporting period. Transport costs amount to TEUR 793 (2003: TEUR 623).

(7) SUPPLEMENTARY DETAILS ON OPERATIVE EXPENSES AND OTHER EARNINGS

Material costs in fiscal 2004 and 2003:

	2004 TEUR	2003 TEUR
Expenses for raw materials, supplies and purchased merchandise	36,397	23,365
Expenses for services taken	3,224	2,059
Total	**39,621**	**25,424**

Personnel expenses in fiscal 2004 and 2003:

	2004 TEUR	2003 TEUR
Salaries and wages	37,146	32,943
Social security contributions	7,478	6,869
Pensions	486	110
Total	**45,110**	**39,922**

Other earnings in fiscal 2004 and 2003 are divided as follows:

	2004 TEUR	2003 TEUR
Earnings from plan assets	1,185	1,096
Investment grants (taxable)	815	876
Foreign currency gains	666	396
Disappearance of liabilities	439	0
Canteen sales	224	189
Insurance and other recoveries	205	61
Vehicle utilization	199	212
Reversal of accruals	156	623
Reversal of evaluation accruals on accounts receivables	103	352
Investment grants (non taxable)	16	195
Gains/(losses) from the sale of fixed assets	75	175
Other	364	182
Total	**4,447**	**4,357**

Foreign currency gains and losses in fiscal 2004 and 2003

	2004 TEUR	2003 TEUR
Foreign currency losses	(315)	(436)
Foreign currency gains	666	396
	351	**(40)**

(8) INCOME TAXES

Expenses (gains) on income taxes for fiscal 2004 and 2003 ending on 31 December:

	December 31 2004 TEUR	2003 TEUR
German corporation tax	4,991	1,403
German solidarity tax	278	70
German trade tax	3,417	1,242
Foreign income tax	129	55
Current taxes	**8,815**	**2,770**
Regions		
Germany	8,686	2,715
Abroad	129	55
Deferred tax expense (gains)	**559**	**207**
Regions		
Germany	557	148
Abroad	2	59
Total	**9,374**	**2,977**

The following table shows the transit calculation from expected tax expenses to disclosed tax expenses. To determine expected tax expenses, the valid effective corporation tax rate of 26.375% (previous year: 27.9575%) for fiscal 2004 is multiplied by the earnings after trade taxes.

	December 31 2004 TEUR	in %	December 31 2003 TEUR	in %
Earnings before tax	26,311	100.0	9,491	100.0
Trade tax expense	(3,605)	(13.7)	(1,334)	(14.1)
Earnings after trade taxes	**22,706**	**86.3**	**8,158**	**85.9**
Expected corporation tax expense (including solidarity tax)	(5,989)	(26.4)	(2,281)	(28.0)
Non-tax-deductible expenses	(152)	(0.7)	(50)	(0.6)
Tax differential, foreign	(8)	(0.0)	(91)	(1.1)
Tax benefit on elimination of intermediate earnings	0	(0.0)	(61)	(0.7)
Deductible taxes	0	(0.0)	123	1.5
Tax-free income	5	(0.0)	209	2.5
Tax losses carried forward	14	0.1	0	(0.0)
Tax reimbursement /(back duties) prior years	55	0.2	(127)	(1.6)
Other	(22)	(0.1)	(3)	(0.0)
Corporation tax expense (including solidarity tax)	(6,097)	(26.9)	(2,281)	(28.0)
Tax expense before tax reduction on earnings related to the personally liable shareholder	**(9,702)**	**(36.9)**	**(3,615)**	**(38.1)**
Tax saving on earnings related to the personally liable shareholder	328	1.2	638	6.7
Disclosed tax expense	**(9,374)**	**(35.6)**	**(2,977)**	**(31.4)**

The tax saving on earnings related to the personally liable shareholder originates due to the fact that the corporation tax and the solidarity tax on earnings related to the personally liable shareholder aren't shown in the consolidated financial statements. These taxes are allocated directly to the personally liable shareholder and are paid by him separately – independent of the applicable tax rates for the company. The percentage of the tax expense before tax reduction on earnings related to the personally liable shareholder (36.9%) is therefore the same as the effective tax rate to be applied to the earnings allocated to the original shareholders. In the previous year it amounted to 38.1%.

When calculating foreign deferred taxes, the local applicable tax rate was used. For deferred taxes in Germany, the following tax rates were used:

- 13.70%[1] for trade tax
- 26.38% for corporation tax and corresponding solidarity tax (5.50%)

[1] average tax rate of national operational facilities

The total tax burden for the reporting year contains tax benefits for previous years of TEUR 55. For total tax burden of the previous year this amount stood at TEUR 330. Tax losses carried forward are treated as tax reductions and are included in the determination of deferred taxes. These tax losses carried forward (TEUR 1,559) – notwithstanding changes in legislation – can be carried forward without limitations. In the previous year, they totaled TEUR 1,129.

The deferred tax assets and liabilities as at December 31, 2004 and 2003 break down as follows:

	December 31	
	2004	**2003**
	TEUR	**TEUR**
Tax losses carried forward	1,559	1,129
Investment grants	1,243	1,311
Trade receivables	697	17
Inventories	217	0
Marketable securities	0	25
Pension liabilities	0	23
Elimination of intermediate earnings	0	1,097
Other	29	0
	3,745	3,602
Total deferred tax assets	**1,297**	**1,271**
Fixed assets	6,564	7,034
Trade receivables	1,835	0
Marketable securities	591	322
Inventories	543	371
Pension liabilities	473	799
Unrealized gains and losses on currency translations	347	131
Other	75	1
	10,428	8,658
Total defferred tax liabilities	**(3,055)**	**(2,344)**
Net amount of deferred tax assets and liabilities	**(1,758)**	**(1,073)**

The deferrals and accruals for deferred taxes are calculated as follows:

	December 31	
	2004	**2003**
	TEUR	**TEUR**
Short-term deferred tax liabilities	(1,120)	(272)
Short-term deferred tax assets	958	473
	(162)	201
Long-term deferred tax liabilities	(1,935)	(2,072)
Long-term deferred tax assets	339	798
	(1,596)	**(1,073)**

C. EXPLANATIONS ON THE COMPANY BALANCE SHEET

(9) SECURITIES AND LONG-TERM FINANCIAL ASSETS

The acquisition costs and market value of available-sale debt certificates and securities with equity interests listed under 'Marketable securities' and 'Long-term Financial Assets' break down as follows:

	December 31, 2004				December 31, 2003			
	Acquisition costs	Unrealized gains	Unrealized losses	Exchange/ market value	Acquisition costs	Unrealized gains	Unrealized losses	Exchange/ market value
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Debt certificates	10,035	425	(20)	10,440	8,919	349	(27)	9,241
Shares	3,301	1,119	(357)	4,063	3,347	608	(457)	3,498
Commercial papers	9,053	139	-	9,192	-	-	-	-
Total	**22,389**	**1,683**	**(377)**	**23,695**	**12,266**	**957**	**(484)**	**12,739**

The following table presents the costs of acquisition as well as the market price of debt certificates at the end of the year after the contractual maturity:

	December 31, 2004		December 31, 2003	
	Acquisition costs TEUR	Exchange/ market value TEUR	Acquisition costs TEUR	Exchange/ market value TEUR
Debt certificates due				
within one year	299	306	0	0
between 2 and 5 years	7,868	8,173	4,631	4,772
between 6 and 10 years	1,868	1,961	4,288	4,469
	10,035	**10,440**	**8,919**	**9,241**

The real maturity date may deviate from the contractual maturity due to selling or repayment rights.

Gains from the sale of debt certificates amount to TEUR 1,121 (previous year TEUR 9,893). Realized gains during the reporting year amount to TEUR 36 (previous year TEUR 69). Gains from the sale of shares during the reporting year amounted to TEUR 709 (previous year TEUR 2,950). Herefrom realized gains amount to TEUR 39 (previous year TEUR 919) and realized losses TEUR 217 (previous year TEUR 366).

(10) TRADE RECEIVABLES

Trade receivables as at December 31, 2004 and 2003 break down as follows:

	December 31	
	2004 TEUR	2003 TEUR
Gross value of trade receivables	23,351	22,591
Less value adjustments	(1,648)	(2,243)
	21,703	**20,348**

The development of value adjustments for accounts receivables during the reporting period was as follows:

	2004 TEUR	2003 TEUR
Value adjustments at the beginning of the fiscal year	2,243	3,784
Increase or (decrease) in value adjustments during the reporting period	(598)	(1,541)
Write-offs of trade receivables	(577)	(2,166)
Payments received and recoveries from accounts receivables written off	580	2,166
Value adjustments as of fiscal year end	**1,648**	**2,243**

All trade receivables consist of a remaining maturity of no more than one year. Due to a broad customers base in different branches and countries worldwide, the risk of business concentration and a consequent risk of loss is considered to be very unlikely. Neither in 2004 nor in the previous year, individual customers accounted for 8.2% (previous year 6%) or more on total sales.

(11) INVENTORIES

Inventories as at December 31, 2004 and 2003 break down as follows:

	December 31	
	2004 TEUR	2003 TEUR
Raw materials, auxiliary and operating materials	6,076	5,180
Unfinished products	22,611	22,806
Finished products	3,529	6,241
	32,216	**34,227**

In fiscal 2004 und 2003, valuation adjustments on inventories amounted to a total of TEUR 5,533 and TEUR 4,627. For the determination of all value adjustments during the reporting period, additional factors for assessing inventory risks were used. These factors contributed to a negative assessment of TEUR 3,986.

(12) OTHER CURRENT ASSETS

Other current assets as at December 31, 2004 and 2003 break down as follows:

	December 31	
	2004 TEUR	2003 TEUR
Investment and technology grants (taxable)	852	718
Investment grants (non taxable)	504	195
Interests	248	229
Paid deposits	259	89
Tax receivables	161	26
Derivative financial instruments	74	0
Receivables from suppliers	50	21
Security deposits	49	0
Other	115	104
	2,312	**1,382**

(13) FIXED ASSETS

The breakdown of fixed assets as at December 31, 2004 and 2003 is presented in the following overview:

	Land and buildings TEUR	Technical equipment TEUR	Other equipment TEUR	Buildings and equipment in progress TEUR	Total TEUR
Acquisition costs					
January 1, 2004	42,785	33,859	19,110	40	95,794
Currency translations	-	-	(22)	-	(22)
Additions	5,923	2,053	3,361	4,064	15,401
Retirements	-	(541)	(1,466)	(4,035)	(6,042)
December 31, 2004	**48,708**	**35,371**	**20,983**	**69**	**105,131**
Cumulative depreciations					
January 1, 2004	12,790	27,843	13,828	-	54,461
Currency translations	-	-	(19)	-	(19)
Additions	1,715	1,895	2,079	-	5,689
Retirements	-	(541)	(1,224)	-	(1,765)
December 31, 2004	**14,505**	**29,197**	**14,664**	**-**	**58,366**
Net book value, December 31, 2004	**34,203**	**6,174**	**6,319**	**69**	**46,765**
Net book value, December 31, 2003	29,995	6,016	5,282	40	41,333

Any restraints on disposal arise from note (28).

To costs of acquisition and manufacture for particular long-term construction activities comprehend interest expenses during the construction period amounting to TEUR 63. They are impaired over the asset's useful life and amount to TEUR 2 annually.

(14) INTANGIBLE ASSETS

The breakdown of intangible assets as at December 31, 2004 and 2003 is presented in the following overview:

	Software and licenses TEUR	Goodwill TEUR	Total TEUR
Acquisition costs			
January 1, 2004	4,852	785	5,637
Currency adjustments	-	-	-
Additions	340	-	340
Retirements	-	-	-
December 31, 2004	**5,192**	**785**	**5,977**
Cumulative depreciations			
January 1, 2004	4,443	317	4,760
Currency adjustments	-	-	-
Additions	267	468	735
Retirements	-	-	-
December 31, 2004	**4,710**	**785**	**5,495**
Net book value on December 31, 2004	**482**	**0**	**482**
Net book value on December 31, 2003	409	468	877

Pursuant to SFAS No. 141 'Business Combinations', the company conducted goodwill amortization worth TEUR 468. The results of an analysis conducted by the company on current projects, changes in market and competitive conditions, structural challenges in order to achieve set profit targets, the company decided to adjust its business models and to consequently amortize goodwill of Rommel GmbH. Last year, goodwill was not amortized. More information on goodwill is given in Note (3).

(15) OTHER FIXED ASSETS

Other fixed assets as at December 31th, 2004 and 2003 break down as follows:

	December 31	
	2004 TEUR	2003 TEUR
Plan assets	1,301	1,306
Long-term share of accounts receivables	7	381
	1,308	**1,687**

The long-term share of accounts receivables has been discounted at a factor of 3%, which represents the same percentage as last year. The provisional maturity period is as follows:

	TEUR	TEUR
2005	0	373
2006	7	8
	7	**381**

(16) SHORT-TERM DEBT

The company has agreed on mutually independent short-term credit lines with several financial institutions. These credit lines were TEUR 21,200 and TEUR 21,900 by December 31, 2004 and 2003, respectively, and are unsecured. Of these, TEUR 15,451 and TEUR 17,346 were available by December 31, 2004 and 2003, respectively.

The total amount of interest payments for short-term credit claims was TEUR 6 and TEUR 9 in 2004 and 2003, respectively. Interest payments were made either monthly or quarterly, in accordance with the agreements drawn up with the various banks. The average interest rate for short-term debts was 4.25% and 3.80% on December 31, 2004 and 2003, respectively.

(17) CURRENT PORTION OF LONG-TERM DEBT

The current portion long-term debt has the following maturity:

	2004 TEUR	2003 TEUR
1st quarter	7	7
2nd quarter	487	486
3rd quarter	7	7
4th quarter	487	486
	988	**986**

Interest is paid, according to the agreements with various banks, either monthly, quarterly or semi-annually. With respect to the securities provided, we refer to note (20).

(18) OTHER CURRENT LIABILITIES

Other current liabilities as at December 31, 2004 and 2003 break down as follows:

	December 31 2004 TEUR	 2003 TEUR
Salaries and wages	2,411	2,057
Social security contributions	1,536	1,336
Income tax on salaries and wages	841	762
Customer liabilities	225	0
Loan servicing	183	0
Capital formation	70	52
Deferred income	61	8
Taxes	0	348
Grants	0	165
Other	169	231
	5,496	**4,959**

(19) OTHER ACCRUALS

Other accruals as at December 31, 2004 and 2003 break down as follows:

	December 31 2004 TEUR	 2003 TEUR
Personnel and social security obligations	2,657	1,680
Guarantees	1,459	1,242
External services	1,355	355
Legal costs	519	557
Services yet to be performed	290	468
Commissions	32	59
Other	677	164
	6,989	**4,525**

(20) LONG-TERM DEBTS

Long-term debts as at December 31, 2004 and 2003 break down as follows:

	December 31 2004 TEUR	2003 TEUR
Syndicated loan from the Commerzbank AG (former SchmidtBank AG) (5,113 TEUR) and the Landesanstalt für Aufbaufinanzierung (2,556 TEUR), nominal value 7,669 TEUR, term through 30.06.2006, semi-annual repayment of 480 TEUR on 30.06. and 30.12., Variable interest rate based on tranches 1st installment 2,556 TEUR, interest 5.71% (fixed through June 30, 2006) 2nd installment 2,556 TEUR, interest 5.74% (fixed through June 30, 2006) 3rd installment 2,557 TEUR, interest 5.76% (fixed through June 30, 2006)	1,438	2,397
Loan from the Sparkasse Ehingen Nominal value 614 TEUR, annuity repayment with monthly payment of 5.1 TEUR Interest rate 7% (fixed through April 30, 2006)	475	502
Loans	**1,913**	**2,899**
less debts maturing within one year	988	986
Long-term debts	**925**	**1,913**

The maturity of the long-term debts to financial institutions can be taken from the following chart:

	December 31, 2004 TEUR
2005 (short-term)	988
2006	925
	1,913

The total amount of assured debts as at December 31, 2004 and 2003 was TEUR 1,913 (thereof TEUR 1,438 secured debts and TEUR 475 registered land debts) and TEUR 2,899 (thereof TEUR 2,397 secured debts, TEUR 502 registered land debts). Of this total the short-term share of long-term debts amounts to TEUR 988 (2003: TEUR 986).

(21) INVESTMENT GRANTS RECEIVED

The company received grants for the erection of production, administrative and technological facilities from various public institutions as a result of state-sponsored business promotion programs. The investment grants contained in the present financial statements as at December 31, 2004 and 2003 break down as follows:

	December 31 2004 TEUR	2003 TEUR
As at the beginning of the financial year	5,993	5,832
Investment grants received during the fiscal year	2,207	1,037
	8,200	6,869
Reversal for fiscal year analogous to corresponding assets	831	876
As at end of fiscal year	**7,369**	**5,993**

(22) POSTRETIREMENT AND POSTEMPLOYMENT BENEFIT LIABILITIES

The company grants to the top management performance oriented promises of pension. The amount of the promised pensions are measured in the individual case according to the period of activity as member of the top management and the average income over the last three years before retirement or completion of the pension age stated in the pension benefit. It covers claims to old age, disablement, widow and orphan pensions. For the financing of the commitments rising out of these pension promises are the pension obligations covered by the assets in external restricted asset pensions and life insurances ('plan assets').

The accounting and assessment of pension obligations as well as the necessary expenditures to cover these obligations is based on SFAS No. 87 'Employers' Accounting for Pensions' according to the 'Projected Unit Credit' method. Future salary increases and other increases are included in the assessment.

The following table shows the change in the future interest cash value with respect to the projected benefit obligation (PBO), shown in detail in the previous and reporting year:

	2004 TEUR	2003 TEUR
PBO at beginning of the fiscal year	1,746	609
Service cost	146	80
Interest cost	96	18
Prior service cost	0	1,038
Actuarial losses/(gains)	158	1
PBO at the end of fiscal year	**2,146**	**1,746**

The following table displays the development of the plan assets in the previous and reporting year:

	2004 TEUR	2003 TEUR
Market value of plan assets at beginning of the fiscal year	1,306	248
Actual gains (expenses) from plan assets	65	(53)
Reinvestments	0	(35)
Employer contributions (special endowment)	0	570
Employer contributions (normal)	1,120	576
Market value of plan assets at the end of the fiscal year	**2,491**	**1,306**

The financing status of the plan assets and the transition from financing status to the amounts indicated as net in the consolidated balance sheets are as follows:

	2004 TEUR	2003 TEUR
Market value of plan assets	2,491	1,306
PBO	(2,146)	(1,746)
Financing status	345	(440)
Actuarial loss	168	9
Prior service cost	807	1,038
Transition asset	(19)	(19)
Balance sheets amount	**1,301**	**588**

The plan assets were balanced with the PBO during the reporting year, since the plan assets were pledged to the pension beneficiaries at the end of the reporting period. 'Prior Service Cost' resulting from prior plan amendments will be distributed over the estimated years of service of the beneficiaries.

The period-related net pension expenditures in the statements of income are divided as follows:

	2004 TEUR	2003 TEUR
Service cost	146	80
Interest cost	96	18
(Gains)/expenses from plan assets	(65)	53
Prior Service Cost	231	0
Amortization still not realized commitments	(1)	(1)
Period-related net pension expenditure	**407**	**150**

The calculation of the actuarial values is based on the following assumptions:

	2004	2003
Discount rate	5.0 %	5.5 %
Salary trend	3.0 %	3.0 %
Pension trend	1.5 %	1.5 %

Since none of the pension beneficiaries will reach the year of the pension start within the next ten years, pension payments are not listed here. The company expects an long-term return on plan assets of at least 3.25%.

(23) SHAREHOLDERS' EQUITY

Number of issued shares

The number of no-par-value shares issued by Mühlbauer Holding AG & Co. KGaA on December 31, 2004 amounted to 6,279,200 (previous year: 6,279,200), consisting of 6,279,199 (previous year: 6,279,199) non-registered shares and one registered share. The bearer of the registered share is entitled to dispatch one-third of all supervisory board members to the supervisory board. The dispatch right does not apply insofar and as long as the bearer of the share granting dispatch rights is the personally liable shareholder or one of the members of the board of directors. Each share represents a share in the share capital for the amount of EUR 1.28, entitles the bearer to one vote in the Annual General Meeting and is fully entitled to dividends. Dividends can be distributed only from the distributable earnings in accordance with the commercial financial statements of Mühlbauer Holding AG & Co. KGaA.

The shares of the personally liable shareholder are excluded from exercising the voting right insofar as the voting concerns matters involving him or his control. The personally liable shareholder is obligated to the company – with no legal obligation – for a period of ten years, not to exercise his voting right and his right to participate in Annual General Meetings from his 2,000,000 shares originating from his entitlement to conversion of part of his capital share B for the amount TEUR 2,560, exercised on November 27, 2001 as long as he is the owner of the shares. Excepted from this are only the cases in which the exercise of the voting right or the participation right is necessary to prevent serious damage to the company or if the Annual General Meeting votes on matters for which a majority of at least 75% of the entire existing share capital of the company is necessary, according to the company charter. Furthermore, the personally liable shareholder is obligated to the company to place the shares arising from their sale as a result of exercising this right either on a broad base among institutional and/or private investors or to sell them only to institutional investors. Excepted from the above restriction of sale is the transfer of the shares in question to a company affiliated with the personally liable shareholder or to Mr. Josef Mühlbauer, whereby the personally liable shareholder is obligated in this respect to the company to execute such transfers only if the respective buyer accepts the obligations based on the statement of obligation of the personally liable shareholder toward the company.

The share ownership of the ordinary share capital is presented below:

Name	December 31, 2004		December 31, 2003	
	TEUR	%	TEUR	%
SECURA Vermögensverwaltungs GmbH[1]	4,220	52.50	4,220	52.50
Free float	3,532	43.96	3,556	44.25
	7,752	96.46	7,776	96.75
Own shares	285	3.54	261	3.25
	8,037	**100.00**	**8,037**	**100.00**

[1] the personally liable shareholder holds 100% of the share of SECURA

Own shares

The Annual General Meeting decided on April 29, 2004 to cancel the authorization of the personally liable shareholder to purchase own shares, limited up to September 30, 2004 in accordance with the resolution of the Annual General Meeting of April 29, 2003 in view of the impending expiration of the authorization and to authorize the personally liable shareholder, as the representative of the company, to purchase shares owned by the company in order to

- offer shares to third parties within the frameworks of corporate mergers, corporate acquisitions or participations or
- retire shares or

- to offer shares to owners of subscription rights or
- to offer corporate shares to employees and/or members of the top management or to offer shares to affiliated companies.

The authorization is limited to the purchase of a total of up to 10% of the ordinary share capital, this is not exceeding 627,920 shares in total. The authorization can be exercised in whole or in part, once or several times. The authorization takes effect on April 29, 2004 and is until through September 30, 2005.

The purchase of shares takes place via the stock exchange or by means of a public purchase offer to all shareholders.

If the purchase of the shares takes place directly via the stock exchange, the value of the share paid by the company (no including incidental costs) must not exceed the price determined on the trading day by the opening auction in the XETRA system of the Deutsche Börse AG or another system replacing the XETRA system by more than 5%. The minimum price must not be more than 25% lower than that price.

If the purchase of the shares takes place by means of a public purchase offer to all shareholders, the offered purchase price or the limits of the offered purchase price spread per share (not including incidental costs) must not exceed the closing price in the XETRA system of the Deutsche Börse AG or another system replacing the XETRA system on the third trading day before the day of publication of the offer of sale by more than 10%, and the minimum price must be no lower than 10% below that price. The volume of the offer can be limited. As far as the entire application of the offer exceeds this volume, the acceptance must take place on a pro-rata basis. The privileged acceptance of a small quantity of up to 100 tendered shares of the shareholders is permissible.The rules and regulations for purchasing and taking over shares ('Wertpapiererwerbs- und Übernahmegesetz') have to be taken into account.

During the reporting period, the company exercised the authorization for purchasing own shares and purchased a total of 35,964 own shares with a par value of EURO 46,033.92 (corresponds to about 0.57% of the share capital) at an average price of EUR 27.79. 14,934 own shares (EUR 19,115.52) were sold to employees within the stock ownership plan, which was released by the company. 2,391 units (EUR 3,060.48) were sold to employees for fix and variable remunerations. The number of sold own shares during the reporting year amounts to about 0.28% of the ordinary share capital.

The following table gives an overview of the average subscription price for employees per share:

Period of time	Subscription price per share EUR
1st quarter	12.75
2nd quarter	28.00
3rd quarter	21.00
4th quarter	26.86

On December 31 ,2004, the company disposes of 222,404 own shares with a par value of EUR 284,677.12. The percentage of own shares on the ordinary share capital amounted to 3.54% on December 31, 2004. The value of own shares is assessed using the par value method.

Limited capital

Pursuant to the company's statute, its limited capital is increased in a limited manner up to TEUR 2,081 and reduced year-over-year (TEUR 2,126) by TEUR 45. The reduction follows the convertible bond program – set by the company on July 10, 1998 – for executives and owners of key positions within the Mühlbauer Group and the consequent cancellation of the created, and not used, limited capital.

Authorized capital

The personally liable shareholder is authorized, on approval of the supervisory board, to raise the ordinary share capital once or several times by at most TEUR 4,019 by issuing new no-par value shares in the name of the bearer against cash or non-cash contributions until April 15, 2009. The shareholder has to be generally given the right to purchase shares, which can be excluded for certain transactions on approval of the supervisory board.

Fixed contribution of the personally liable shareholder

The fixed capital contribution of the personally liable shareholder, wich doesn't contribute to the ordinary share capital ('fixed capital contribution of the personally liable shareholder' or 'Capital share B') for the amount of TEUR 10,774.

The contribution of the personally liable shareholder was in the form of contributing all shares of Mühlbauer GmbH, which was converted to Mühlbauer Aktiengesellschaft on May 5, 1998. The contribution of the company shares according to US-GAAP is a 'common control transaction' and, in accordance with APB 16 'Business Combinations', was entered in the balance sheets at the book value of the shares. At the time of contribution, this was TEUR 51.

The Annual General Meeting, with the approval of the personally liable shareholder, can resolve to convert the Capital Share B into ordinary share capital. The conversion takes the form of a capital increase. The subscription right of the shareholders can be excluded from this. The face value of the capital increase corresponds to the face value of the affected capital of the personally liable shareholder. As far as authorized capital exists, the capital increase for conversion of the fixed capital contribution of the personally liable shareholder into ordinary share capital is to be performed from the authorized capital. If this is not possible on legal grounds or if the authorized capital is insufficient, then the conversion takes place by means of conducting the limited capital increase, as far as limited capital exists. If this is not possible on legal grounds or if the amount of capital increase from the limited capital increase is insufficient, then the Annual General Meeting is entitled to create the prerequisites for conversion by means of a capital increase. The subscription right of the shareholders can be excluded from this procedure.

In the event of a complete conversion of the Capital Share B, the increase of the ordinary share capital exceeds the book value of the fixed capital contribution by TEUR 13,754.

The personally liable shareholder, in the event that his capital share is completely converted to ordinary share capital, shall cease to be the personally liable shareholder when the capital increase takes effect.

Accounts of the personally liable shareholder

The following accounts are maintained at Mühlbauer Holding AG & Co. KGaA for the personally liable shareholder:

- an interest-free Capital Account I, to which the Capital Share B for the current amount of TEUR 10,774 is posted,
- an interest-free Capital Account II as an additional paid-in account, to which additional money to be paid for the contribution of the capital share is posted, and which currently shows no balance,
- an interest-free Capital Account III as a retained earnings account, to which earnings the personally liable shareholder is entitled to but which cannot be withdrawn are posted, and which currently shows no balance,
- an interest-free account for losses carried forward, to which the shared losses of the personally liable shareholder are posted and which currently shows no balance, and
- a clearing account as an active account, to which the accessible earnings, withdrawals, employment compensation, interest and other payment transactions between the company and the personally liable shareholder are posted. The balance as of the closing date was TEUR 5,389 (previous year: TEUR 4,432), resulting from the earnings related to the personally liable shareholder for the reporting year to the amount of TEUR 6,231 (previous year TEUR 5,603) less the tax given addable amounts incurred on the earnings to the amount of TEUR 842 (previous year TEUR 1,171). As far as legally permissible, the personally liable shareholder can withdraw funds from the clearing account during the current fiscal year without interest accrual in any case for payment of personal taxes related to himself or his partners in connection with his participation. Otherwise, interest is to be calculated for the debit and credit balances of the clearing account at an interest rate 2% above the respective base interest rate of the authoritative central bank.

Additional paid-in capital

The additional paid-in capital refers to the premium of the capital increase entered in the commercial register on July 8 , 1998 upon the initial public offering (IPO) of the company, the capital increase via new shares, which was also provided with additional capital (greenshoe option) less the costs of the IPO. The capital increase carried out in financial year 1999 in connection with the adjustment to the Euro in accordance with Section 6 of the resolution of the Annual General Meeting of May 6 , 1999 was posted as a debit to the additional paid-in capital.

The development of the additional paid-in capital is presented below:

	TEUR
Premium for the 2,680,000 individual share certificates of EURO 23.26 ('ex split') issued for IPO	62,347
Cost of IPO	(3,907)
Withdrawal of the share premium account for adjustment of the ordinary share capital to the Euro	(7)
Premium on the purchase of own shares	(2,883)
Sales price exceeding the par value of sold own shares	844
Premium on the 19,200 newly created shares from exercise of conversion rights	446
Increase of compensation (reserves for expenditures connected with convertible bond program connected with convertible bond program in accordance with APB no. 25)	1,061
As at December 31, 2003	**57,901**
Premium on the purchase of own shares	(316)
Sales price exceeding the par value of sold own shares	231
Increase of compensation (reserves for expenditures connected with the employee share program in accordance with APB no. 25)	179
As at December 31, 2004	**57,995**

Dividend distribution

The personally liable shareholder participates in the assets of the company including the hidden reserves, and in the profit and loss of the company, as well as in liquidation revenue to the extent, that the ratio of his Capital Share B corresponds to the ordinary share capital.

The calculation of the profit and loss related to the personally liable shareholder is based on the result determined in the individual financial statements of Mühlbauer Holding AG & Co. KGaA in accordance with commercial principles:

	Mühlbauer Holding AG & Co. KGaA TEUR
Earnings before profit or loss of personally liable shareholder	10,556
+ Corporation tax expenditure (including tax amounts on the corporation tax)[1] [2]	309
+ Expenditure for other taxes and duties affecting only the ordinary share capital	8
Assessment basis	10,873
Profit or loss based on the share of the personally liable shareholder of total capital[3]	6,231

[1] after deducting tax addable contributions occurring for the personally liable shareholder to the amount of TEUR 842 (pervious year TEUR 493)
[2] after balancing tax refunds of a different period to the amount of TEUR 37 (previous year TEUR 16)
[3] of this total, TEUR 18 (previous year TEUR 178) are for previous years

The earnings to which the personally liable shareholder is entitled, is – insofar as a loss is carried over – initially to be used to balance out the losses carried forward account.

Otherwise, the earnings of the personally liable shareholder are to be deposited to the personally liable shareholder's Capital Account III, if and insofar as the earnings to which the shareholders are allocated to the retained earnings. The retained earnings amounts thus to be allocated to Capital Account III are to be assessed in such a way, that they are proportional to the ratio of the personally liable shareholder's capital share to the ordinary share capital. As far as the personally liable shareholder's earnings are not to be used to balance out the losses carried forward account or for endowment of the Capital Account III, they shall be deposited to the clearing account. The above applies accordingly, if amounts are withdrawn from the retained earnings.

The personally liable shareholder shall receive compensation for all expenses incurred in connection with managing the company.

The Annual General Meeting resolved on April 29 , 2004 to distribute a dividend of EUR 0.35 for each share qualifying for dividends for the financial year 2003. Altogether, TEUR 2,122 were distributed. The earnings allocated to the personally liable shareholder before deducting tax credits were (1,171) TEUR 5,603. The personally liable shareholder recommends the distribution of a dividend of EUR 0.60 for fiscal year 2004 for each share qualifying for dividends from the earnings as shown in the balance sheets and to carry forward the remaining earnings to new account.

For the calculation of the distribution volume in the company, only the results determined by means of commercial accounting regulations apply. The theoretically distributable volume calculated from the undistributed profits and the net earnings of the companies affiliated with the group is TEUR 35,982 as of December 31, 2004 (previous year: TEUR 23,082). An additional possible distributable volume of TEUR 2,036, which corresponds to the amount of last year, results from existing retained earnings.

(24) OTHER COMPREHENSIVE INCOME

The changes in Other Comprehensive Income for the fiscal years 2004 and 2003 are presented below:

	2004 before taxes TEUR	2004 Tax effect TEUR	2004 Net TEUR	2003 before taxes TEUR	2003 Tax effect TEUR	2003 Net TEUR
Difference from currency translation	(243)	-	(243)	(312)	-	(312)
Unrealized gains/(losses) from the market assessment of securities:						
Change in the unrealized gains/(losses)	833	(71)	762	578	22	600
Realized (gains)/losses	(149)	1	(148)	599	(11)	588
Unrealized gains/(losses), total	684	(70)	614	1,177	11	1,188
Cumulative changes in Other Comprehensive Income	**441**	**(70)**	**371**	**865**	**11**	**876**

(25) STOCK COMPENSATION PLAN

Stock-option programs

Due to the Annual General Meeting of May 4, 2000, the management board has been authorized, with the approval of the supervisory board, to issue to members of the management, the executive staff and employees in key positions subscription rights for up to 66,000 shares issued to the owner in the form of 'naked options'. For this purpose the ordinary share capital was raised by TEUR 84. The new ordinary shares participate in earnings beginning with the start of the fiscal year in which they are issued by exercising subscription rights.

The subscription price corresponds to the average spot rate of the company's share on the Frankfurt stock exchange on the last five trading days before the beginning of the issue period. The subscription rights can be exercised up to 30% after expiration of a waiting period of 2 years, up to 60% after a waiting period of 3 years and up to 100% after a waiting period of 4 years.

The subscription rights can be exercised by those entitled, only if the pretax profit margin (based on US-GAAP) is at least 15% according to the last quarterly report before the time of exercise or if the increase in value of the shares between granting of the subscription rights and the last trading day before the time of exercise is at least as high as the NEMAX All Share index during the same period. The management has been authorized to define further individual criteria within the option contract. Subscription rights not exercised expire upon termination of the employment contract of the entitled person or after a period of 6 years after granting of the rights.

During the reporting year no subscription rights from this program were granted.

Pursuant to the resolution of the Annual General Meeting, the personally liable shareholder is authorized to offer own shares to employees. Rights for acquiring shares (purchase rights) granted to employees, can be exercised after reaching certain targets at a fixed purchase price per Mühlbauer share. The purchase right can generally be exercised within a certain period of time without a waiting period. The basic data of purchase rights are set forth below:

			December 31, 2004	
Purchase right granted	**Purchase price EUR**	**Granted purchase rights pce.**	**Existing purchase rights pce.**	**Exercisable purchase rights pce.**
2002	21.00	1,069	512	512
2004	28.00	3,128	3,128	3,128

During the fiscal year, deferred compensation expenses (before tax) of TEUR 8 were recorded. No expenses were recorded in the previous year.

The time value of the options issued by the company in 2004 and 2002 was determined at the day of grant on the basis of a specific option price model considering specific conditions of issue. The premises and the resulting total value necessary for determining the time value are set forth below:

	2004	**2002**
Average of expected divided return in %	0.0	0.0
Expected volatility in %	133	143
Risk-free interest rate in %	3.4	4.7
Expected time to exercise in years	5	5
Time value per option right in EUR	24.12	19.18
Total value per program in TEUR	75	10

If personnel expenses were accounted for on the basis of the fair-value according to SFAS No. 123, resulting in stock option expenses on the basis of the above-mentioned fair-values, the consolidated net earnings and the earnings per share pursuant to SFAS No. 148 'Accounting for Stock-Based Compensation – Transition and Disclosure' would have decreased as stated in the following pro-forma indications:

	2004 TEUR
Consolidated net earnings	
As reported	16,937
Plus:	
Deferred compensation expenses	8
Minus:	
Deferred compensation expenses (determined on fair-value)	(75)
Pro-forma	**16,870**
Basic and fully diluted earnings per share in EUR	
As reported	1.17
Pro-forma	1.17

Stock ownership plan to employees

The company offers employees and trainees as from the second year of training (hereinafter called 'employees') the opportunity to obtain shares within given deadline at most favorable conditions. To qualify to participate the employees must have been working basically at least six months in a working relationship not under notice to leave before the share offer and to the point in time of the appropriation of the shares. Moreover, the purchase of shares is subject to restrictions in respect of the numbers of share, which the employees can sign. In all participating companies in the Group in Germany there is a uniform restrictive blocking period. The shares are freely disposable after elapse of the restrictive blocking period. The number of shares distributed through this offer amounted to 14,943 (previous year 12,867) in the business year; the difference between the exercised and market price to the amount of TEUR 166 (previous year TEUR 61) has been booked under personnel expenses.

D. FURTHER EXPLANATIONS

(26) FINANCIAL INSTRUMENTS

Fair-value of financial instruments

The book values of the essential financial instruments of the company at the qualified date are summarized disclosed. The book values of cash and cash equivalents, short-term accounts receivables and payables as well as accruals and other current liabilities of the company correspond approximately their fair-values due to their short maturities to December 31, 2004. The fair-values of long-term trade receivables of the company are calculated on the basis of the discounted cash flow analysis based on an interest rate of 3%.

Forward exchange contracts

Within its risk management program, the company makes use of derivative financial instruments for limiting currency risks out of bilateral deliveries. Forward exchange contracts are concluded when placing the order or later for hedging currency risks at the date of payment. Since at the time of conclusion, the basic transaction is not present and only arises out of realizing sales, this transaction can be classified as a hedging transaction. The company currently only holds forward exchange contracts in the form of forward contracts for selling US Dollar and Arab Dirham with different maturities to August 18, 2005. They are calculated at their fair-value and recognized under Other Current Assets or Current Liabilities. Changes in the fair-value are included in the consolidated statements of income under Foreign Currency Gains/Losses.

Currency Swaps

For hedging US Dollar exchange risks, currency swaps have been concluded by the company. Currency swaps show maturities of up to January 31, 2005. These swaps are evaluated at their qualifying date and recognized at the fair-value under Other Current Assets or Current Liabilities.

The following table shows book and fair-values for long-term trade receivables, long-term debt as well as derivative financial instruments.

	2004			2003		
	Nominal volume	Bookvalue TEUR	Fair-value TEUR	Nominal volume	Bookvalue TEUR	Fair-value TEUR
Long-term trade receivables	-	8	7	-	398	381
Long-term debt	-	925	925	-	1,913	1,913
Forward exchange transactions	2,180	2,180	2,091	-	-	-
Cross-currency-swaps	(297)	(297)	(278)	-	-	-

Gains and losses from currency hedging transactions in fiscal 2004 and 2003 were as follows:

	2004 TEUR	2003 TEUR
Realized	76	0
Unrealized	67	0
Net gains/(losses) from currency hedging transactions	**143**	**0**

(27) SEGMENT REPORT

The company develops, produces and sells products for the Smart Card-, Smart Label- and Semiconductor industries. The main customers are the Smart Card, Smart Label and Semiconductor industries. Due to the high density of the individual business sectors, which contributes to the use of comprehensive synergy effects, the reporting is conducted in accordance with SFAS No. 131 'Disclosures about Segments of an Enterprise and Related Information' in a single segment. The additional information required by SFAS No. 131 as of December 31, 2004 and December 31, 2003 appeared as follows:

Sales by application	2004 TEUR	2003 TEUR
Smart Identification	54,541	39,335
Semiconductor Related Products	48,875	35,619
Traceability	7,390	5,679
Precision Parts and Systems	17,603	14,680
	128,409	**95,313**
Deductions in earnings	(229)	(109)
	128,180	**95,204**

Sales by regions	2004 TEUR	2003 TEUR
Germany	53,068	45,316
Rest of Europe	34,122	21,175
Asia	25,215	21,676
North America	8,227	4,221
Africa	5,278	2,380
South America	2,136	403
Australia	363	142
	128,409	**95,313**
Deductions in earnings	(229)	(109)
	128,180	**95,204**

Book value of intangible and fixed assets	2004 TEUR	2003 TEUR
Germany	47,137	42,123
Asia	56	62
Rest of Europe	39	16
North and South America	15	9
Total	**42,247**	**42,210**

(28) OTHER FINANCIAL OBLIGATIONS

The contractual obligations of the company to third parties to December 31, 2004 and 2003 are as follows:

	2004 TEUR	2003 TEUR
Contractual obligations:		
Obligations from purchasing and maintenance contracts	6,475	3,034
Obligations from rental contracts	322	297
Total contractual obligations	**6,797**	**3,331**

The following table provides an overview of the maturities of the contractual obligations:

	TEUR
2005	6,434
2006	311
2007	50
2008	1
2009	1
Total	**6,797**

The following possible obligations of the company to third parties existed to December 31, 2004 and 2003 without possible obligations arising out of legal disputes:

	2004 TEUR	2003 TEUR
Possible obligations:		
Guarantees, warranties and contracts	8,198	4,192
Restricted grants of public authorities	3,427	9,193
Total of possible obligations	**11,625**	**13,385**

The following table provides an overview of the maturities of possible obligations:

	TEUR
2005	6,800
2006	1,199
2007	(197)
2008	398
2009	854
afterwards	2,571
Total	**11,625**

The company received investment grants for building and financing certain production centers. These amounts are assigned as income affecting the income when certain criteria are met. The company received certain grants under the condition that certain project related criteria will be met after receiving these grants. The company is obliged to fulfill these conditions. Should these conditions not be met, a limited amount of at most TEUR 3,857 from the grant can be claimed back until December 31, 2004. The company has moreover, in its character as parent company, assumed joint liability for its consolidated companies to pay back the amount due, if these companies do not fulfill their grant obligations. The maximum amount of money that can be claimed back from consolidated companies amounts to TEUR 4,833 at the relevant date of December 31, 2004.

In connection with its regular business activities, the company is obliged, for certain sales and other contracts to exempt its contracting party from certain risks related to the basic transaction. The maximum amount for possible future payments for this kind of agreement amounts to TEUR 1,410 at the relevant date of December 31, 2004.

(29) NUMBER OF EMPLOYEES

The average number of employees was as follows:

	2004 Number	2003 Number
Skilled workers	553	515
Salaried employees	528	484
	1,081	999
Trainees and part-time employees	257	263
	1,338	**1,262**

The number of employees by regions for the fiscal year is as follows:

	2004 number	2003 number
Germany	1,296	1,218
Asia	28	28
North / South America	11	11
Rest of Europe	3	5
Total	**1,338**	**1,262**

(30) SIGNIFICANT DIFFERENCES BETWEEN GERMAN- AND US-GAAP

Mühlbauer Holding AG & Co. KGaA, as a German parent company, must prepare its financial statements according to the financial reporting regulations of the German Commercial Code (HGB). However, § 292a of the German Commercial Code (HGB) exempts a company from this obligation, if it prepares and publishes financial statements based on internationally accepted accounting principles (such as US-GAAP). The company prepares its financial statements according to US-GAAP. In the following, the significant differences between the US- and German-GAAP relevant for the company with respect to balance sheets, assessment and consolidation methods are explained.

Essential differences:
Financial reporting according to US-GAAP differs from those of the German Commercial Code (HGB) with respect to the objectives. While US-GAAP focuses on providing information to investors that is relevant for decision-making, German financial reporting places greater emphasis on the protection of creditors and the principle of caution.

Classification regulations:
The balance sheets classification in accordance with US-GAAP is oriented on the planned liquidation of assets and the expiration of debts within the usual business activities. The balance sheets classification for German legislative trade purposes is defined as matter of principle for capital companies in § 266 Federal German Commercial Code (HGB). The classification in this case is oriented on the holding period of the assets or financial sources such as debts and stockholders' equity in the company.

Turnover realization:
The turnover realization follows in accordance with the Federal German Commercial Code (HGB) and US-GAAP in principle according to the same principles insofar as the performance has been given and payment has followed. Differences can occur in respect of the point in time of payment if the performing company is taken over further financial operative or performance related commitments for the performance receiving company or the agreed amounts are not adequately objected.

Marketable Securities:
The assessment of securities of current assets, which corporate shares or creditor rights, is based on the strict lowest value principle, according to § 253 III of the German Commercial Code (HGB). The assessment is determined upward by the acquisition costs and downward by the market price. Unrealized gains do not become effective until the sale of the security. Securities of the financial assets are always carried as assets with the acquisition costs. Depreciations of a lower attached fixed value (e.g. lower market price) are obligatory in case of expected constant reduction in value and optional in case of non-constant reduction in value.

According to US-GAAP securities in the financial statements are assessed at their market price on the balance sheets data. Unrealized gains and losses are treated as effective for 'trading' securities. Unrealized gains and temporarily unrealized losses are treated as neutral for available-for-sale securities, after taking into account deferred taxes, in a separate item in the stockholders' equity under other comprehensive income. In the event of an expected constant reduction in value of available-for-sale securities, the negative difference is also treated as effective.

Fixed assets:
Depreciations solely on the basis of tax regulations in the financial statements of the consolidated companies, in particular special depreciations in accordance with § 3 of the Zone Edge Incentive Law (Zonenrandförderungsgesetz/ZRFG) and § 4 of the Development Areas Law (Fördergebietsgesetz/FGG) are now allowed according to US-GAAP.

Goodwill:
In accordance with SFAS No. 141, capital consolidation in connection with SFAS No. 142, goodwill and other intangible assets under US-GAAP, goodwill in the

case of capital consolidation by application of the procurement method after June 30, 2001, is no longer to be appreciated but to be checked every year as to its retained value. Under the Federal German Commercial Code (HGB) goodwill is to be written off over the period of the service to be expected.

Derivative financial instruments:
Under the Federal German Commercial Code (HGB), derivatives are generally not accounted for. This means, increases in value are not taken into consideration. For decreases in value, which result in unrealized losses, accruals have to be formed. According to US-GAAP, derivative financial instruments have to be recognized at the fair-value in the balance sheets. Changes in the fair-value are recognized in the statements of income under other comprehensive income. It depends on the fact, if derivative financial instruments are part of a hedging transaction and it depends on the type of hedging transaction.

Deferred taxes:
According to German accounting principles, favorable deferred taxation items that result from a tax loss carried forward, are not assessed. Only favorable deferred taxation items resulting from the assessment differences between trade law and tax regulations can be assessed. For unfavorable deferred taxation items, a provision has to be formed.

According to US-GAAP, deferred taxes are determined using the liability method. For this purpose, timing differences between book values of the consolidated balance sheets and the tax balance sheets are generally accounted for by means of deferred taxes. However, the favorable deferred taxes are reported on the balance sheets, only if their realization can be deemed to be probable. After calculating the favorable deferred taxes, their value should be assessed. If necessary, a partial or complete adjustment of the item may be necessary. Contrary to German accounting principles, deferred taxes resulting from tax losses carried forward must be reported in the balance sheets.

The assessment of deferred taxes must take place at the tax rate expected at the time of elimination of temporal differences. Amounts resulting from changes in tax rates are accounted for as effective at the time that the law takes effect.

Accruals:
According to German trade regulations, provisions for contingencies can be accrued in certain cases without an obligation toward third parties. According to US-GAAP, provisions are to be accrued only for existing obligations toward third parties and otherwise only for very specific criteria.

Accruals for pensions and similar liabilities:
According to US-GAAP, the pension obligations resulting from performance-oriented defined benefit plans are calculated according to the projected unit credit method. In this method, the cash value of pension liabilities required as obligations increases from year to year by the cash value of the additional entitlement earned by the employees (accumulation method). The basis for the calculation of these annual pension costs is the cash value of the earned pension expectancy, taking into consideration future salary and wage adjustments (PBO) and a discounting factor corresponding to the capital market interest of high-quality fixed-interest securities. Therefore, the PBO is not the same as the required obligation amount.

In the financial statements of the consolidated companies prepared according to German financial reporting principles, reserves for pension liabilities toward employees that existed on the closing date of the financial statements were determined using the partial taxable value method in accordance with § 253 I clause 2 of the German Commercial Code (HGB). Adjustments for future salary and wage increases are not taken into account by this method. The obligations are assessed completely as an actuarial liability with respect to retirement age, life expectancy and other factors using a fixed annual interest rate of normally 6%.

Changes in Other Comprehensive Income:
Other comprehensive income according to US-GAAP includes unrealized gains and losses from the market assessment of securities (available-for-sale securities) and differences resulting from the translation of foreign currency.

Stock-option programs:
Under the Federal German Commercial Code (HGB) accruals are to be formed for granted stock-options, if the fair-value is above the exercise price for the option right at the balance-sheets date. Under US-GAAP, the company recognizes granted share options according to the intrinsic value method pursuant to APB 25 'Accounting for Stock Issued to Employees', not resulting in recognizing expenses, if the fair-value per share at the date of issue of the option is not higher than the exercise price.

Costs for capital increase:
In accordance with the Federal German Commercial Code (HGB) the expenditure in direct connection with going on the stock exchange are to be booked as ex-

penses. According to US-GAAP these expenses are to be offset against additional paid-in capital.

Own shares:
According to US-GAAP, own shares that are in the possession of the company are openly deducted directly from the stockholders' equity. The German financial reporting regulations require own shares to be shown in the balance sheets in the category of securities under current assets.

Foreign currency translation:
According to US-GAAP, trade receivables and liabilities in foreign currencies are translated at the exchange rate on the balance sheets day. Resulting unrealized gains or losses are posted as earnings affecting the income. Under German principles, foreign currency claims and liabilities are assessed with the exchange rate at the date of the business transaction or at the more unfavorable rate at the balance sheets date in the process of which unrealized losses are recognized in the statements of income.

Consolidated statements of income:
According to US-GAAP the statements of income is to be prepared according to the cost-of-sales method.

(31) STATEMENTS IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GERMAN CORPORATE GOVERNANCE CODEX

Article 5.4.5:

The compensation of the supervisory board is laid down according to a proposal of the personal liable shareholder and supervisory board at the Annual General Meeting and regulated under § 16 of the statute of the Mühlbauer Holding AG & Co. KGaA. The cash compensation comprises apart from the reimbursement of cash expenditures solely of a fixed share whereby the chairman of the supervisory board receives double the amount and the deputy chairman one and a half times the amount of a supervisory board member.

The members of the supervisory board received the following total payments in fiscal 2004 and 2003[1]:

	2004			2003		
	Fixed remuneration TEUR	Fee for tax and legal consultancy TEUR	Total remuneration TEUR	Fixed remuneration TEUR	Fee for tax and legal consultancy TEUR	Total remuneration TEUR
Dr. Thomas Zwissler (chairman)[2]	6	6	12	4	11	15
Dr. Peter Drexel	5	-	5	5	-	5
Dr. Frank Scholz	-	-	-	1	-	1
Steffen Harlfinger[3]	2	-	2	-	-	-
Dr. Hermann Orth (chairman)[4]	-	-	-	2	22	24
Dipl.-Betriebswirt Carl-Franz von Quadt[4]	-	-	-	1	-	1
	13	**6**	**19**	**13**	**33**	**46**

[1] related to the group
[2] from April 29, 2003
[3] from April 2, 2003 / employee representative of Mühlbauer AG
[4] unitl April 29, 2003

Article 6.6:

Directors Dealings

During the reporting year neither by the personally liable shareholder himself nor by members of the supervisory board as well as related persons notifiable share transaction were performed.

Share ownership

The spread of the total possessions of the personally liable shareholder, management[1] and members of the supervisory board received shares to December 31, 2004 are as follows:

Name	December 31, 2004 Items	December 31, 2004 Share on ordinary share capital	December 31, 2003 Items	December 31, 2003 Share on ordinary share capital
Personally liable shareholder[2]	3,296,852	52.50%	3,296,852	52.50 %
Management	71,614	1.14%	68,689	1.09 %
Supervisory board	5,446	0.09%	5,446	0.09 %
Total	**3,373,912**	**53.73%**	**3,370,987**	**53.68 %**

1 member of management board of Mühlbauer AG
2 included in this value are 2,000,000 million non-par individual shares or 31.85% of the ordinary share capital for which the SECURA Vermögensverwaltungs GmbH, a company held by the personally liable shareholder to 100% has no voting rights. The personally liable shareholder is committed to the Mühlbauer Holding AG & Co. KGaA commencing as from September 9, 2002 not to use the voting rights for these shares of a period of 10 years for the share which he owns. Exceptions to this are solely those cases in which practicing the right of voting or acting in the interests of participant right is necessary to prevent serious damage to the company or when the Annual General Meeting decides on agenda items which call for the majority of minimum 75% of the total existing ordinary share capital of the company is necessary in accordance with the companies statute.

Neither the personally liable shareholder, management nor members of the supervisory board held options or other derivatives to December 31, 2004 and 2003.

(32) DECLARATION ON THE CORPORATE GOVERNANCE CODE

The declaration of conformity pursuant to § 161 German Corporation Law (AktG) was filed on December 1, 2004 and is permanently displayed for shareholders on the internet under 'www.muehlbauer.de'.

(33) RELATED PARTY TRANSACTIONS

The board of directors of Mühlbauer Aktiengesellschaft received fixed salary components of TEUR 546 and TEUR 548 in the fiscal years 2004 and 2003, respectively. The variable salary was TEUR 145 and TEUR 130 in the business years 2004 and 2003.

Mühlbauer Aktiengesellschaft and ASEM Präzisions-Automaten GmbH rent office premises from Mr. Josef Mühlbauer, who is the sole member of the board of directors of Mühlbauer Beteiligungs AG, individually authorized to represent. The Mühlbauer Beteiligungs AG is the personally liable shareholder of Mühlbauer Holding AG & Co. Verwaltungs AG which, in turn, is the ultimate personally liable shareholder of Mühlbauer Holding AG & Co. KGaA. The lease contract is of unrestricted duration and can be terminated by either party if they give notice of a period of 6 months by means of a regular announcement of notice according to German law. The rental fees were TEUR 283 in 2004 and TEUR 256 in 2003.

The Mühlbauer Aktiengesellschaft claims specific performances for travelling, the promotion of sales and personnel development from companies which are governed by Mr. Josef Mühlbauer. For those performances the Mühlbauer Aktiengesellschaft spent TEUR 76 in fiscal year 2004 (2003, TEUR 12).

In his capacity as sole member of the board of directors of Mühlbauer Beteiligungs AG, which is itself the personally liable shareholder of the ultimate personally liable shareholder of Mühlbauer Holding AG & Co. KGaA, Mr. Josef Mühlbauer purchased in the fiscal year 2004 2,825 (previous year 2,595) non-par individual shares and on December 31, 2004 holds 67,270 (previous year: 64,445) non-par individual shares of the company.

Mrs. Anna-Antonie Mühlbauer, Mr. Josef Mühlbauer's wife, owns on December 31, 2004 63,503 (previous year: 60,377) non-par individual shares and is the owner of the registered share no. 1. She is therefore entitled to send one third of all members of the shareholders' supervisory board into the supervisory board of the company.

The children of the Mühlbauer married couple altogether hold 8,000 (previous year: 6,000) non-par individual shares of the company on December 31, 2004

(34) MANAGEMENT AND REPRESENTATION OF THE COMPANY

The management and representation of the company is job of the ultimate personally liable shareholder, the Mühlbauer Holding AG & Co. Verwaltungs KG, Roding. Sole limited partner of the Mühlbauer Holding AG & Co. Verwaltungs KG is Mr. Josef Mühlbauer, personally liable shareholder of the Mühlbauer Beteiligungs Aktiengesellschaft Roding. Sole shareholder and sole member of the board of directors of the Mühlbauer Beteiligungs Aktiengesellschaft is Mr. Josef Mühlbauer.

Appointed as supervisory board of the Mühlbauer Holding AG & Co. KGaA were the following gentlemen in the fiscal year 2004:

	Age	End of period	Membership in other Supervisory Councils and other comparable controlling committees
Dr. Thomas Zwissler Chairman (as from April 29, 2003)	36	2008	Lawyer and partner of the legal attorney society Zirngibl Langwieser, Munich
			External mandates:
			Member of the supervisory board • Mühlbauer Beteiligungs AG, Roding (Chairman) • Going Public Media AG, Wolfratshausen (Chairman)
			Company mandates:
			Member of the supervisory board • Mühlbauer Aktiengesellschaft, Roding (Chairman)
Dr. Peter Drexel Vice Chairman (as from April 29, 2003)	60	2008	Member of the board of directors of Siemens Dematic AG
			External mandates:
			Member of the supervisory board • Mühlbauer Beteiligungs AG, Roding (Vice Chairman)
			Company mandates:
			Member of the supervisory board • Mühlbauer Aktiengesellschaft, Roding (Vice Chairman)
Dr. Frank Scholz (as from April 29, 2003)	43	2008	Manager Siemens Business Service GmbH & Co. OHG, München

Independent Auditors' Report

We have audited the accompanying consolidated balance sheet of Mühlbauer Holding AG & Co. KGaA and subsidiaries as of 31 December 2004, and the related consolidated statement of income, statement of changes in equity and cash flows as well as notes for the year then ended. These consolidated financial statements prepared in accordance with United States Generally Accepted Accounting Principles are the responsibility of the Company's general partner. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the general partner, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respect, the net assets and financial position of Mühlbauer Holding AG & Co. KGaA as of 31 December 2004, and its result of operations and its cash flow for the year then ended in conformity with United States Generally Accepted Accounting Principles.

Our audit, which also extends to the group management report prepared by the general partner for the business year from 1 January 2004 to 31 December 2004, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January 2004 to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Munich, March 4, 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Th. H. ppa.

(Hartmann) ppa. (Schwarzfischer)
Wirtschaftsprüfer Wirtschaftsprüfer

Report of the Supervisory Board

The past fiscal year was characterized by the continuous effort to improve the company's profitability and aligning the business strategy to the changing economic environment. The Supervisory Board actively supported this process by advising and discussing with the personally liable shareholder and the Management Board. At the same time, the Supervisory Board performed its statutory supervisory role.

Members of the Supervisory Board

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

Meetings of the Supervisory Board

On four ordinary meetings – on March 9, June 22, September 27 and December 1 – the Supervisory Board informed himself in detail of the company's position and development, strategic corporate planning and all essential business transactions. Actions that are subject to the approval of the Supervisory Board were presented for the board resolution. Decisions were made unanimously. There were no conflicting interests among Supervisory Board members (in particular with regard to the German Corporate Governance Codex).

Committees

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

Financial accounting

The auditor PWC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, was selected as auditor by the Annual General Meeting and appointed by the Supervisory Board. The auditor audited the financial statements of Mühlbauer Holding AG & Co. KGaA and the consolidated financial statements as at December 31, 2004 as well as the management report and consolidated management report including accounting and approved them without qualification. The auditor also confirmed that the consolidated financial statements and the consolidated management report prepared in accordance with US-GAAP fulfill the conditions for exemption of preparing consolidated financial statements and consolidated management report under German law. Furthermore the auditor audited the company's risk management system pursuant to § 317 paragraph 4 of the German Commercial Code (HGB) and confirmed that the statutory management obligations are fully complied with.

On March 7, 2005, the balance sheets meeting of the Supervisory Board was held. The Supervisory Board was provided with all necessary documents before the meeting. The Supervisory Board discussed on the financial statements and the consolidated financial statements in the presence of the auditor who gave a detailed report on the process and all major findings of the audit and provided additional information on request.

On its own close examination of the financial statements, the consolidated financial statements, the managements report and the consolidated management report, the Supervisory Board approved the audit result obtained by the auditor. The Supervisory Board therefore suggests to the Annual General Meeting to confirm the financial statements of Mühlbauer Holding AG & Co. KGaA as at December 31, 2004 submitted in its present form.

The Supervisory Board endorses the proposal of the personally liable shareholder that the net earnings available for distribution for the fiscal year 2004 are used to pay a divided of EUR 0.60 per ordinary share.

Report of the personally liable shareholder on relations to affiliated companies in fiscal year 2004

The auditor also audited the report of the personally liable shareholder pursuant to § 312 AktG on relations to affiliated companies in fiscal year 2004 and reported on the audit result. The following audit certificate was issued:

'As a result of our statutory audit and assessment, we certify that
1. the actual statements in the report are correct,
2. for the legal transactions stated in the report, the service of the company was not unreasonably high'.

The Supervisory Board examined the report on relations to affiliated companies in fiscal year 2004. The Supervisory Board did not raise any objections against the declaration of the personally liable shareholder and against the result of the auditors' report.

The members of the Supervisory Board would like to thank the personally liable shareholder, the Management Board and all employees for their commitment in fiscal 2004.

Roding, March 2005

For the Supervisory Board

(Zwissler)
Chairman

US-GAAP		2004	2003	2002	2001	2000	1999	1998
Consolidated Balance Sheets								
Current assets	TEUR	**90,001**	**72,418**	**79,835**	**83,626**	**93,293**	**85,849**	**81,201**
Cash and cash equivalents	TEUR	20,365	12,597	13,110	2,206	3,618	1,451	14,574
Marketable securities	TEUR	13,255	3,498	2,261	2,592	6,609	17,449	17,153
Trade accounts receivables, net	TEUR	21,703	20,348	19,161	19,645	30,868	21,179	7,110
Inventories	TEUR	32,216	34,227	43,345	52,132	46,253	40,124	39,171
Deferred income taxes	TEUR	0	201	804	459	529	0	0
Prepaid expenses	TEUR	150	165	176	120	126	215	195
Other current assets	TEUR	2,312	1,382	978	6,472	5,290	5,431	2,998
Investment and long-term financial assets	TEUR	**10,440**	**9,241**	**7,383**	**7,749**	**10,762**	**9,819**	**13,100**
Marketable securities	TEUR	10,440	9,241	7,383	7,749	10,762	9,819	13,100
Fixed assets	TEUR	**46,765**	**41,333**	**41,189**	**45,169**	**38,871**	**31,903**	**29,837**
Land	TEUR	1,585	1,586	1,581	1,449	1,333	1,328	1,017
Buildings, net	TEUR	32,617	28,409	30,044	31,030	24,378	20,183	18,905
Technical and other equipment, net	TEUR	12,494	11,298	9,539	12,621	11,416	10,392	9,915
Buildings and equipment in progress	TEUR	69	40	25	69	1,744	0	0
Intangible assets	TEUR	**482**	**877**	**1,025**	**1,398**	**2,009**	**1,220**	**1,342**
Goodwill	TEUR	0	468	468	468	548	643	723
Software and licenses	TEUR	482	409	557	930	1,461	577	619
Other fixed assets	TEUR	**1,308**	**1,687**	**0**	**0**	**0**	**0**	**88**
Current liabilities	TEUR	**31,826**	**17,724**	**20,254**	**23,138**	**27,344**	**20,665**	**24,746**
Short-term debt	TEUR	0	0	0	2,308	959	1,683	1,050
Current portion of long-term debt	TEUR	988	986	1,010	1,174	1,042	1,302	1,334
Trade accounts payable	TEUR	7,028	4,751	7,038	5,646	6,781	5,040	5,449
Downpayments received on orders	TEUR	4,704	329	1,604	4,565	2,976	2,119	923
Shareholders' loans	TEUR	35	39	40	43	53	52	54
Other current liabilities	TEUR	5,496	4,959	5,312	4,757	4,338	3,249	3,258
Accrued income taxes	TEUR	6,424	2,135	760	217	5,326	2,618	7,387
Deferred income taxes	TEUR	162	0	0	0	323	1,409	2,832
Other accruals	TEUR	6,989	4,525	4,490	4,428	5,546	3,193	2,459
Long-term liabilities	TEUR	**9,890**	**9,898**	**10,925**	**12,980**	**13,275**	**13,297**	**13,681**
Convertible bonds	TEUR	0	0	37	39	49	71	76
Long-term debt	TEUR	925	1,913	3,001	3,883	5,057	6,351	7,653
Investment grants received	TEUR	7,369	5,993	5,832	6,721	6,020	4,922	4,336
Deferred income taxes	TEUR	1,596	1,274	1,681	2,013	1,868	1,712	1,345
Postretirement and postemployment benefit liabilities	TEUR	0	718	374	324	281	241	271
Shareholders' Equity	TEUR	**107,280**	**97,934**	**98,253**	**101,824**	**104,316**	**94,829**	**87,141**
Ordinary share capital	TEUR	8,038	8,038	8,038	8,038	4,986	4,967	4,960
Own shares	TEUR	(285)	(261)	(219)	(22)	(21)	(32)	0
Fixed capital contributions	TEUR	(2,980)	(2,980)	(2,980)	(2,980)	66	66	51
Additional paid-in capital	TEUR	57,995	57,901	58,351	60,086	61,018	58,203	58,440
Retained earnings	TEUR	43,109	34,204	34,907	36,442	38,468	32,077	23,323
Other comprehensive income	TEUR	1,403	1,032	156	260	(201)	(452)	367
Total assets and liabilities	TEUR	**148,996**	**125,556**	**129,432**	**137,942**	**144,935**	**128,791**	**125,568**
change yoy								
Current assets	%	24.3	(9.3)	(4.5)	(10.4)	8.7	5.7	122.3
Investment and long-term financial assets	%	13.0	25.2	(4.7)	(28.0)	9.6	(25.0)	0.0
Fixed assets	%	13.1	0.3	(8.8)	16.2	21.8	6.9	23.9
Intangible assets	%	(45.0)	(14.4)	(26.7)	(30.4)	64.7	(9.1)	203.6
Other fixed assets	%	(22.5)	100.0	0.0	0.0	0.0	(100.0)	25.7
Current liabilities	%	79.6	(12.5)	(12.5)	(15.4)	32.3	(16.5)	(15.3)
Long-term liabilities	%	(0.1)	(9.4)	(15.8)	(2.2)	(0.2)	(2.8)	(0.7)
Shareholders' Equity	%	9.5	(0.3)	(3.5)	(2.4)	10.0	8.8	380.7
Key figures								
Capital expentitures	TEUR	11,706	6,224	2,338	13,099	14,137	7,825	11,627
Depreciation and amortization	TEUR	6,424	6,190	6,656	7,319	6,216	5,443	5,133
Working Capital[1]	TEUR	25,578	39,624	45,260	59,215	57,776	49,321	27,166
Working Capital-Intensity[2]	%	20.0	41.6	49.6	66.2	52.4	69,4	50.4
Capital Employed[3]	TEUR	74,133	83,521	87,474	105,782	98,656	82,444	58,433
Net cash position	TEUR	42,112	22,398	18,703	5,139	13,878	19,331	34,736
Equity ratio	%	72.0	78.0	75.9	73.8	72.0	73.6	69.4
Employees								
Average per year	number	1,338	1,262	1,274	1,299	1,206	898	756
Skilled workers	number	553	515	521	574	542	392	345
Salaried employees	number	528	484	484	464	403	296	250
Trainees and part-timers	number	257	263	269	261	261	210	161
Mühlbauer Holding AG & Co. KGaA								
Total stock capital[4]	TEUR	18,811	18,811	18,811	18,811	18,805	18,786	18,765
Total issued and outstanding shares[5]	Tpieces	14,696	14,696	14,696	14,696	14,692	14,677	14,660
Dividend[6]	EUR	0.60	0.35	0.30	0.30	0.35	0.30	0.23
Share price (Year-End-Close)	EUR	26.71	20.50	10.30	29.60	84.00	41.00	33.52
Market Capitalization (Year-End Close)[5]	TEUR	392,532	301,268	151,369	435,004	1,234,128	601,757	491,403

1 non interest current assets - non interest current liabilities
2 working capital/sales
3 working capital + fixed assets
4 common stock and fixed capital contribution of the personally liable shareholder
5 obtained on total stock capital
6 subject to the approval of the AGM

US-GAAP		2004	2003	2002	2001	2000	1999	1998
Consolidated Income Statements								
Sales								
by applications	TEUR	**128,180**	**95,204**	**91,317**	**89,422**	**110,322**	**71,026**	**53,910**
Smart Identification	TEUR	54,541	39,335	50,651	47,781	48,552	34,984	23,226
Semiconductor Related Products	TEUR	48,875	35,619	22,103	24,464	42,427	22,159	17,880
Traceability	TEUR	7,390	5,679	6,641	7,366	8,616	5,421	7,336
Precision Parts & Systems	TEUR	17,603	14,680	12,085	10,116	10,981	8,597	5,203
Other	TEUR	(229)	(109)	(163)	(305)	(254)	(135)	265
by regions	TEUR	**128,180**	**95,204**	**91,317**	**89,422**	**110,322**	**71,026**	**53,910**
Germany	TEUR	53,068	45,316	43,369	38,059	33,545	27,244	25,098
Other Europe	TEUR	34,122	21,175	26,799	24,422	41,482	23,559	11,992
Africa	TEUR	5,278	2,380	179	947	1,410	53	2,807
North America	TEUR	8,227	4,221	3,392	2,545	6,478	5,598	4,126
South America	TEUR	2,136	403	852	3,740	2,592	1,324	1,362
Asia	TEUR	25,215	21,676	16,766	19,479	25,016	13,356	8,242
Australia	TEUR	363	142	123	535	53	27	18
Other	TEUR	(229)	(109)	(163)	(305)	(254)	(135)	265
Cost on sales	TEUR	(76,205)	(63,007)	(61,370)	(60,758)	(65,662)	(39,061)	(31,402)
of sales	%	(59.5)	(66.2)	(67.2)	(67.9)	(59.5)	(55.0)	(58.2)
Gross profit	TEUR	**51,975**	**32,197**	**29,947**	**28,664**	**44,660**	**31,965**	**22,508**
of sales	%	**40.5**	**33.8**	**32.8**	**32.1**	**40.5**	**45.0**	**41.8**
Operating expenses								
Selling, general and administrative	TEUR	(16,799)	(16,616)	(16,682)	(13,486)	(14,697)	(13,093)	(11,094)
of sales	%	(13.1)	(17.5)	(18.3)	(15.1)	(13.3)	(18.4)	(20.6)
Research and development	TEUR	(14,006)	(11,392)	(10,761)	(10,244)	(9,854)	(6,092)	(3,117)
of sales	%	(10.9)	(12.0)	(11.8)	(11.5)	(8.9)	(8.6)	(5.8)
Other income	TEUR	4,447	4,357	3,475	3,549	3,885	2,404	2,495
of sales	%	3.5	4.6	3.8	4.0	3.5	3.4	4.6
EBITDA[1]	TEUR	**32,041**	**14,736**	**12,635**	**15,802**	**30,210**	**20,627**	**15,925**
of sales	%	**25.0**	**15.5**	**13.8**	**17.7**	**27.4**	**29.0**	**29.5**
EBIT[2]	TEUR	**25,617**	**8,546**	**5,979**	**8,483**	**23,994**	**15,184**	**10,792**
of sales	%	**20.0**	**9.0**	**6.5**	**9.5**	**21.7**	**21.4**	**20.0**
Interest result								
Interest income	TEUR	1,109	1,673	1,101	6,397	5,623	3,792	869
of sales	%	0.9	1.8	1.2	7.2	5.1	5.3	1.6
Interest expenses	TEUR	(415)	(728)	(2,290)	(8,317)	(4,537)	(1,483)	(934)
of sales	%	(0.3)	(0.8)	(2.5)	(9.3)	(4.1)	(2.1)	(1.7)
EBT[3]	TEUR	**26,311**	**9,491**	**4,790**	**6,563**	**25,080**	**17,493**	**10,727**
of sales	%	**20.5**	**10.0**	**5.2**	**7.3**	**22.7**	**24.6**	**19.9**
Income taxes	TEUR	(9,374)	(2,977)	(1,871)	(1,012)	(7,383)	(3,669)	(2,194)
of sales	%	(7.3)	(3.1)	(2.0)	(1.1)	(6.7)	(5.2)	(4.1)
Ordinary income net of tax	TEUR	**16,937**	**6,514**	**2,919**	**5,551**	**17,697**	**13,824**	**8,533**
of sales	%	**13.2**	**6.8**	**3.2**	**6.2**	**16.0**	**19.5**	**15.8**
Extraordinary gains	TEUR	0	0	587	0	0	0	0
of sales	%	0,0	0,0	0,6	0,0	0,0	0,0	0,0
Net earnings	TEUR	**16,937**	**6,514**	**3,506**	**5,551**	**17,697**	**13,824**	**8,533**
of sales	%	**13.2**	**6.8**	**3.8**	**6.2**	**16.0**	**19.5**	**15.8**
Change yoy								
Sales	%	34.6	4.3	2.1	(18.9)	55.3	31.7	9.0
Gross profit	%	61.4	7.5	4.5	(35.8)	39.7	42.0	(6.1)
EBIT	%	199.8	42.9	(29.5)	(64.6)	58.0	40.7	(27.8)
EBT	%	177.2	98.1	(27.0)	(73.8)	43.4	63.1	(24.6)
Ordinary income net of tax	%	160.0	123.2	(47.4)	(68.6)	28.0	62.0	(4.7)
Net earnings	%	160.0	85.8	(36.8)	(68.6)	28.0	62.0	(4.7)
Key figures								
Earnings per share								
basic	EUR	1.17	0.41	0.20	0.35	1.02	0.68	0.36
fully diluted	EUR	1.17	0.41	0.20	0.35	1.02	0.68	0.35
Tax rate for EPS calculation	%	36.87	38.10	45.30	21.60	40.50	43.05	50.69
Order income	TEUR	174,659	99,308	85,884	93,604	136,255	92,167	56,433
Order backlog	TEUR	67,968	27,794	31,820	48,076	56,436	30,598	16,481
Personnel costs	TEUR	45,110	39,922	38,093	37,888	39,236	27,984	23,116
Return on equity (before tax)	%	24.5	9.7	4.9	6.4	24.0	18.4	12.3
Return on capital employed[4]	%	34.6	10.2	6.8	8.0	24.3	18.4	18.5
Consolidated Statements of cash flow								
Cash provided by (used for) operating activities	TEUR	38,879	16,054	23,398	15,159	15,307	(6,037)	(949)
Cash provided by (used for) investing activities	TEUR	(21,737)	(7,344)	(1,864)	(9,872)	(4,701)	(751)	(37,412)
Cash provided by (used for) financing activities	TEUR	(9,131)	(8,921)	(10,243)	(6,840)	(8,558)	(6,335)	52,402
Net increase/(decrease) in cash and cash equivalents	TEUR	8,011	(211)	11,291	(1,553)	2,048	(13,123)	14,041
Free cash flow	TEUR	27,171	10,590	20,519	(2,156)	(63)	(9,018)	(8,612)
of sales	%	21.2	11.1	22.5	(2.4)	(0.1)	(12.7)	(16.0)

1 earnings before interest, tax depreciation and amortization
2 earnings before interest and tax
3 earnings before tax
4 EBIT/capital employed

Adhesive Film Lamination: Application of a heat-activated adhesive film onto the reverse side of a module

Assembly & Encapsulation: Assembly and encapsulation of semiconductor components

Bare Die on Flex: Technology for producing semiconductor components by attaching dice onto flexible carrier materials as well as assembling and encapsulating semiconductor components

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

Board Handling: Processes and systems for transporting printed circuit boards in industrial manufacturing and shaping, e.g. loading and unloading stations, 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 electronic components

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

Coating & drying: Roller coating, board drying and board cleaning

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

Credit Card: Cards for which the credit limit is not prepaid; payments are carried out on receipt of goods or services

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

Die Sorter: Machine for separating and packing dice

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

Encapsulation: Protecting chip and wiring by encapsulating the reverse of a chip

Epoxy Die Bonding: Application of dice onto carrier material by means of an adhesive process (epoxy process)

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

Flip Chip Technology: For flipping dice 180 degrees in order to attach them onto 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

IATA: International Air Transport Association; an association which represents, leads and serves the airline industry

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

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

Implantation: Embedding a chip in a plastic card

Mechatronics: New technological principle encompassing mechanics, computer science and electronics; mechatronics exercises a positive influence on modularity, planning and developing machines and systems – but also on the diversity of professions

Module: Carrier material for dice with arranged contact elements

Mounter: Machines for mounting, attaching and fixing parts

Personalization: 'Programming' of a chip card module with individual data. Attaching visible personal data on a card, passport or visa is also known as optical personalization

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

Plug Punching: Punching of small fields out of standardized chips cards to be used in mobile phones

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

Pre-Personalization: Loading an operating system onto a chip

Reel To Reel Procedure: Technique for unwinding, treating and winding material

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

Secure Digital (SD) 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, e.g. 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 a storage medium for music, etc.

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

Traceability: Pursuing and tracing units from the raw material to the finished 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 is the legal owner

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; for defining the dice, the wafer is sawn

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

Accumulated Benefit Obligation (ABO): A measure to determine a company's pension-related 'additional minimum liability'. The ABO is based on the same computational methodologies as the projected benefit obligation (PBO), except for compensation levels. The ABO applies to past and current compensation levels. It does not incorporate compensation increases.

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

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

Cash flow: 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 genereted 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 the company spent for investments, or cash it raised from divestitures), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

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 results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

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

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

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

EBIT margin: An indicator of operating performance, calculated as the percentage of EBIT in relation to net 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 earings. 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.

Expected long-term rate of return on pension plan assets: Represents the average rate of earnings expected on plan assets.

Free cash flow: 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.

Funded status of a pension plan: The difference between a pension plan's projected benefit obligation (PBO) and the fair market value of assets designated to the pension plan (plan assets) as of a specific date.

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

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

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

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

Net periodic pension costs (NPPC): The amount of pension costs recorded in the statement of income. Net periodic pension cost components include service cost, interest cost, expected return on plan assets, amortization of unrecognized prior service cost (if any), gains or losses recognized and amortized after exceeding a certain corridor (if any), amortization of unrecognized initial net obligation and/or initial net asset.

Projected Benefit Obligation (PBO): A measure to determine pension liabilities. The PBO is the actuarial present value as of a specific date of employees' vested and non-vested pension benefits incorporating compensation increases, attributable to employee services performed as of that date.

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

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

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

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

U.S. GAAP: Short for 'United States Generally Accepted Accounting Principles'. The accounting concepts, measurements, techniques and standards of presentation applicable to financial statements in the U.S..

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 asstes, calculated as the percentage of working capital in relation to net sales.

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

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