Mühlbauer
High Tech International

Innovations worldwide

ANNUAL REPORT 2005

KEY FIGURES

		2005	2004	Change %
Sales	TEUR	147,932	128,939	14.7
Research and development expenses	TEUR	15,264	13,048	17.0
EBIT[1]	TEUR	33,074	27,238	21.4
Pretax profit margin	%	23.4	21.6	8.3
Net earnings	TEUR	23,020	17,823	29.2
Earnings per share	EUR	1.59	1.23	29.3
Free Cashflow	TEUR	22,726	27,163	(16.3)
Working capital[2]	TEUR	24,894	26,297	(5.3)
Working capital-intensity[3]	%	16.8	20.4	(17.5)
Capital expenditures	TEUR	6,272	11,706	(46.4)
Equity ratio	%	76.2	74.6	2.1
Dividend per share[4]	EUR	0.90	0.60	50.0
Share price (Year-End-Close)	EUR	40.80	26.71	52.8
Market Capitalization (Year-End-Close)	TEUR	599,600	392,532	52.8
Employees (Average per year)	number	1,433	1,338	7.1

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

Loyalty

Flexibility

Quality

Commitment

Team spirit

Competence

Speed

Reliability

Openess

Responsibility

Innovation

Concentration

The Mühlbauer Holding AG & Co. KGaA

- SmartID
  - Cards & TECURITY®
  - Smart Label
- Semiconductor
  - Semiconductor Backend
  - OEM
  - Vision Systems
- Traceability
- Precision Parts

Related Services

Mühlbauer around the globe – Our partnership knows no bounds

USA
Mexico
Brazil
Germany (11)
France
UAE
South Africa
India
Thailand
Malaysia
China (2)
Taiwan
Philippines
South Korea
Australia

As an international technology group, Mühlbauer strives to be precisely where its customers are. With 26 locations around the globe we are present in international markets and have a close-knit network of sales and services.

Our customers can therefore rely on extremely fast response times and our full commitment. State-of-the-art technology solutions from a single source, high quality and competent technical services. This makes us a partner!

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Creating the future together

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

2005 was an extremely exciting and challenging year. However, we were able to continue our path of growth in a straight and consistent line and were once again able to conclude the financial year successfully. With a sales increase of 14.7% to EUR 147.9 million, we in fact set a new record in the company's history, with regard to figures. The Mühlbauer share rose 52.8% and outperformed the TecDAX by 38.1% by the year end. In this year, we again want our shareholders to participate in the positive development of the business. We will therefore propose an increase in dividends to EUR 0.90 to our shareholders, thus continuing our long-term, profit-oriented corporate policy.

In 2005 we focused our attention and energy especially on the TECURITY® market. In this still very young market we were able to position ourselves as a provider of comprehensive solutions for innovative identification documents even at the highest government levels. Meanwhile we are involved in several, also governmental ID projects around the globe, providing support to our customers as a competent and reliable partner. As we are the only company worldwide to offer the entire range of system solutions for the Smart Card industry, we are sure that we will in fact be able to extend our presence on the market in future.

Management Board of the Mühlbauer AG (left to right): Gerhard Gregori (COO), Josef Mühlbauer (CEO), Hubert Forster (CFO), Thomas Betz (Divisional CMO)

We have also prepared for growth in the RFID sector. Last year this sector already contributed strongly to sales. The rising acceptance of the RFID technology over the years to come will most likely trigger decisive demand. If one believes the forecasts of the market research institutes, the need for RFID tags will mushroom in future. Once the day arrives, our customers can count on us: we already have at our disposal all procedures currently used on the market for the production of Smart Labels and cover the entire value-added chain.

Although our efforts received economic accreditation, we are not resting on our laurels. We are consistently focusing ahead, after all, the points for the future must be set now. Last year, our business already underwent distinct aggravation. The global market is becoming increasingly rough. Competition is set to increase. We have systematically prepared for this challenge: Our products are already excellently positioned in the up and coming markets. We offer our customers high-tech system solutions, which are always at the very tip of the latest developments, thanks to our strong innovative strength.

All of us, staff and Management Board alike, are consistently working at extending our technological lead through speed, flexibility and team spirit, in accordance with our corporate culture, to increase the company's performance. Qualifications, expertise and the commitment of our staff play a significant role in this undertaking. The holistic training and further education of our staff will therefore continue to be awarded particular attention at Mühlbauer.

We are convinced that we will once again, in 2006, be able to hook up to the successes of previous years. It is our goal to consistently utilise the growth on the TECURITY® market to increase the value of the company in a sustained manner. In so doing, we are constantly aware of the confidence that you are investing in the Mühlbauer Group. Your confidence is our motivation and obligation to continually implement our corporate strategy and achieve our corporate goals.

I would be pleased if you decided to continue down this path with us in 2006 – the 25th anniversary of our company – and wish to thank you for your support.

Roding, February 2006

Yours sincerely

Josef Mühlbauer
Chief Executive Officer (CEO)

The Mühlbauer share

- **52.8% rise of the Mühlbauer share**
- **TecDAX outperformed by 38.1%**
- **Further dividend increase**
- **Stronger communication with the financial community**

Sharp rise in DAX and Nikkei

Global economic growth was stable in the 2005 calendar year, although the sharp increase of energy prices, rising US money market interest, global terror and natural catastrophes were dampening influences. The share markets initially remained stable and subsequently developed nicely in Japan and Europe. The clear outperformance of the share against the US leading exchange can be interpreted as a sign of the emancipation of European share markets.

While the Dow Jones was slightly negative at the end of 2005, at -0.6%, the DAX rose by +27.1%, followed by the EURO STOXX at +21.3%. The Nikkei index in fact achieved growth of a full +40.2%, taking the lead before the European and US American stock exchanges.

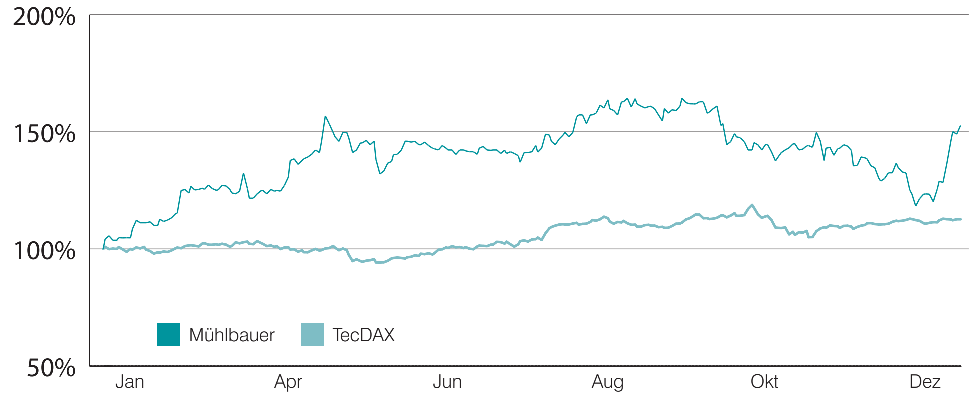
Development of the Mühlbauer share

With the outset of 2005, the Mühlbauer share – which is also represented in the newly created index for owner-managed, medium-sized businesses (GEX) since 2005 – succeeded in clearly dissociating itself from the TecDAX, at EUR 26.71 and continued the upwards climb it commenced in 2004. Following a brief period of consolidation and sideways movement of the share, it achieved its annual high in August and September 2005, with a closing price of EUR 43.90. The weakness the share experienced in autumn was overcome with an impressive development of the share price at the end of the year. At the end of 2005, the share was listed at EUR 40.80, which corresponds to growth of 52.8%. As a result, the Mühlbauer share significantly outperformed the TecDAX once again in the 2005 financial year. In the same period, the TecDAX achieved growth of only 14.7%. As a result of the price increase, the market capitalization of Mühlbauer Holding AG & Co. KGaA rose to EUR 599.6 million to the year end (PY: EUR 392.5 million).

The average daily trading volume[1] of 7959 shares (PY: 7478 shares) can be considered an indication of an extremely stable shareholder structure, that includes virtually 100% of our staff. The stable investment behavior of our shareholders also provides a consistent basis for our corporate strategy, which targets long-term, sustained growth.

Dividend increase[2]

In the 2005 financial year the Mühlbauer Group achieved a net income for the year of EUR 23.0 (PY: EUR 17.8 million), thus exceeding the value for the previous year by 29.2%. This is equivalent to a yield of EUR 1.59 earnings per share (PY: EUR 1.23). We will continue the profit-oriented dividend policy we implemented since being publicly listed, as usual. The personally liable shareholder and the Supervisory Board will therefore make the following proposal to the Annual General Meeting: payment of a dividend of EUR 0.90 per share. This is a 50,0% increase over the previous year.



Investor Relations – our tool for reliable communications

Since its listing in the quality segment Prime Standard, Mühlbauer Holding AG & Co. KGaA has met the high international requirements towards transparency of this segment. Active and open communication with the capital market plays a special role in this. We are in constant dialogue with investors and financial analysts and provide a detailed overview of the economic situation of the Mühlbauer Group in the context of roadshows, analysts' conferences and numerous one-on-one meetings. The Capital Markets Day held at the Group's headquarters in the first quarter 2005 not only presented numbers and facts to an international audience but also provided intensive insights into the business model of the company. We intend to continue our Investor Relations work with straightforward and transparent financial communications, to increase the confidence of our shareholders and acquire new investors. To this end, we are also utilizing the internet: at its web presence www.muehlbauer.de, the Mühlbauer Group publishes annual reports, quarterly reports, research reports and press releases, under the heading Investor Relations. Interested parties can thus quickly gain an overview of important events in the company's business development and can find contact data should they have further queries.

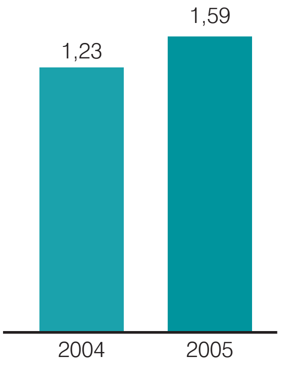
Ratios	2005	2004
Share price (Xetra)		
Annual high (in EUR)	43.90	31.50
Annual low (in EUR)	26.71	18.80
Year end (in EUR)	40.80	26.71
Market capitalization[3]		
Annual high (in EUR thousand)	645,158	462,924
Annual low (in EUR thousand)	392,532	276,285
Year end (in EUR thousand)	599,600	392,532
Share Values		
Earnings (in EUR)	1.59	1.23
Dividend[2] (in EUR)	0.90	0.60
Trading volumes (in share certificates)[1]		
Average per trading day	7,959	7,478
Whole year (in million share certificates)	2.05	1.92

[1] Total of Xetra and on-floor trading in Frankfurt a. M.
[2] subject to agreement by the Annual General Meeting
[3] with regard to total capital

Financial calendar

March 21, 2006:	Accounts press and analysts' conference, Roding
May 3, 2006:	Quarterly report I/2006
May 4, 2006:	Annual General Meeting, Roding
August 1, 2006:	Quarterly report II/2006
October 31, 2006:	Quarterly report III/2006
March 2007:	Annual report 2006

Earnings per share in EUR



Contact data Investor Relations

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Corporate Governance

Responsible corporate management

On February 26, 2002, the government committee German Corporate Governance Codex presented a code of conduct for the Management Boards and Supervisory Boards of publicly listed companies. In parallel, the German Stock Corporation Act requires the Management Board and Supervisory Board of a publicly listed company to provide a Declaration of Conformity once a year to the effect that the code of conduct was and is observed or which recommendations of the Code were or are not applied.

In 2003 – above and beyond legal requirements – Mühlbauer Holding AG & Co. KGaA passed its own Corporate Governance Codex. This is based on the recommendations of the German Corporate Governance Codex and interprets the recommendations from the viewpoint of the company's legal form.

The personally liable shareholder and the Supervisory Board have agreed to the company's own Corporate Governance Codex. Furthermore, all members of the Management Board of Mühlbauer Aktiengesellschaft (hereinafter referred to as "Management") individually declared their compliance with the provisions set out in the company's own Codex.

Any amendments to the German Corporate Governance Codex in November 2002, May 2003 and June 2005 were entered into Mühlbauer's own Corporate Governance Codex in a timely manner.

In December 2005, the personally liable shareholder and Supervisory Board issued the Declaration of Conformity for 2005 and posted it to the company's Internet site (www.muehlbauer.de) for public access. The Declaration states which provisions of the German Corporate Governance Codex the company corresponded and corresponds with and which recommendations of the Codex were or are not applied.

In its legal form Mühlbauer Holding AG & Co. KGaA meets most target provisions of the German Corporate Governance Codex. As a result of intense and regular deliberation, the personally liable shareholder and the Supervisory Board have, however, also decided that the company will not conform to a number of provisions. These provisions and the reasons for – future – non-conformity are presented in the following section:

Deductible on D&O insurance

No deductible has been agreed in respect of the D&O insurance. A deductible would restrict opportunities for acquiring management staff with extensive entrepreneurial experience, as these would have to take into account liability risks, even in the event of negligent conduct. Apart from that, the agreement of deductibles in the management area is still uncommon (Figure 3.8 para. 2).

Remuneration and individualized details on Management's remuneration

As opposed to the German Corporate Governance Codex (Figure 4.2.3 para. 2 clause 4) the stock option plans resolved by the Annual General Meeting in the past do not include any cap for extraordinary, unforeseeable developments. However, so far stock options have neither been issued to the personally liable shareholder nor to the members of Management.

The company does not consider there to be a necessity to determine a cap as the future distribution of stock options is scheduled to be effected on an individual basis and only in small tranches.

The basic principles of the stock option plan resolved by the Annual General Meeting on May 4, 2000, are outlined in the annual report. Any further details of the remuneration system, the concrete design of the stock option plan or information on the value of stock options are neither provided on the Internet site of the company nor in the company's annual report (Figure 4.2.3 para. 3). Also, the chairman of the Supervisory Board will not provide the Annual General Meeting with information on the basic principles of the remuneration system and their amendment (Figure 4.2.3 para. 4).

The contents of stock option plans and remuneration systems are the result of intensive discussions within the Group. The publication of details would increase the risk of a targeted solicitation of executives, as details of the remuneration structure would subsequently also be transparent to competition.

As Management is collectively responsible for the management of the company, individualized details on management remuneration will not be provided in the notes to the consolidated financial statements (Figure 4.2.4 clause 2).

Formation of committees on the Supervisory Board

Due to the fact that the Supervisory Board consists of only three members, no committees are formed (Figure 5.2 clause 2, Figure 5.3.1 clause 1, Figure 5.3.2 clause 1).

Composition of the Supervisory Board and remuneration of its members

Mühlbauer refrains from defining an age limit for the members of the Supervisory Board (Figure 5.4.1 clause 2) as, in the opinion of the company, the age of a person is not the sole factor in determining whether the person is able to observe a mandate adequately or not.

With regard to the composition of the Supervisory Board, the primary objective for the company is the provision of professional consultation to and monitoring of Management. Members of the Supervisory Board can also be suitable for this if they do not meet the criteria for independence within the meaning of Figure 5.4.2 clause 1 of the German Corporate Governance Codex (Codex Figure 5.4.2). The company is of the opinion that no conflict of interest will arise if the members of the Supervisory Board have a business or private relationship to the company.

The possibility of the previous representative of the personally liable shareholder or a member of Management of Mühlbauer Aktiengesellschaft being appointed to the Chair of the Supervisory Board or the Chair of a Supervisory Board committee is not excluded. Instead, such staffing issues shall be decided on an individual case basis. In contrast to the German Governance Codex, there are no plans to justify a corresponding intention to the Annual General Meeting (Codex Figure 5.4.4).

The remuneration for the members of the Supervisory Board is defined in the Articles of Association of Mühlbauer Holding AG & Co. KGaA and only provides for a fixed remuneration component. The introduction of a variable remuneration component is not planned as the company does not believe that such a component would generate additional incentive (Figure 5.4.5 para. 2 clause 1).

The Chairman of the Supervisory Board Dr. Thomas Zwissler received a fixed Supervisory Board remuneration of a total of EUR 6,400.00 (net) for the year under review, the member of the Supervisory Board Dr. Peter Drexel a total of EUR 4,800.00 (net) and the member of the Supervisory Board Dr. Frank Scholz a total of EUR 1,600.00 (net). The remuneration paid to the Supervisory Board members Dr. Thomas Zwissler and Dr. Peter Drexel are based on the positions they hold with Mühlbauer Holding AG & Co. KGaA and Mühlbauer Aktiengesellschaft.

Transparency

In the past financial year, the company was notified of the following transactions: the member of the Supervisory Board Dr. Peter Drexel disposed of a total of 2,000 shares on February 7, 2005, at a unit price of EUR 33.10 and of a total of 3,000 shares on April 1, 2005, at a unit price of EUR 38.00. Ulrike Drexel, the wife of the Supervisory Board member Dr. Peter Drexel acquired a total of 1,146 shares on April 6, 2005, at a unit price of EUR 39.50 and a total of 2,000 shares on September 28, 2005, at a unit price of EUR 40.20.

As per December 31, 2005, the personally liable shareholder held a total of 3,296,852 shares in his sole participation in SECURA Vermögensverwaltungs GmbH. The ownership represents 52.50% of the shares issued by Mühlbauer Holding AG & Co. KGaA. The Supervisory Board held 300 shares (which corresponds to 0.00%) and the Management of Mühlbauer Aktiengesellschaft 72,417 shares (which corresponds to 1.15%). Neither the personally liable shareholder, the Supervisory Board nor the Management of Mühlbauer Aktiengesellschaft held options or other derivatives as per December 31, 2005.

Accounting and audit of the financial statements

Before presenting the recommendation for the appointment of the external auditor, the Supervisory Board obtained a statement from the external auditor explaining to what extent relationships exist between the external auditor, his corporate bodies, the audit manager of the company or its corporate bodies. There were no doubts as to the independence of the external auditor. In addition, the Supervisory Board came to an agreement with the external auditor, in accordance with Figure 7.2.3 of the Codex, that the external auditor shall immediately report all events and findings made in the course of the audit that are relevant to the responsibilities of the Supervisory Board.

The Supervisory Board also determined that the auditor shall inform the Supervisory Board or make a note in the audit report, if he detects any deviations to the Declaration provided by the personally liable shareholder and Supervisory Board in respect of the Codex.

The Corporate Governance Codex determines the rules for a good and value-oriented management. These rules can, however, only provide the framework. An indispensable condition for the lasting success of a company is the confidence it enjoys among customers, investors and employees. The management and control of our company and its business are led by the high demands towards the realization of standards and values on which our corporate culture is based: loyalty, responsibility, openness as well as respect towards law and order.

Mühlbauer Holding AG & Co. KGaA

The personally liable shareholder	The Supervisory Board

CONCENTRATION

"To approach every task with concentration and the necessary amount of energy – that is my motto, at work and in sports. An eye that sees what is essential is helpful in respect of hitting the mark."

A. Huber, Industrial mechanic

Cards & TECURITY®

With more than 30 ID projects worldwide – including seven ePassport projects – Mühlbauer is extending its market position in the Cards & TECURITY® sector even further.

Those who use chip cards rarely stop to consider what they involve. At Mühlbauer, however, every detail is scrutinized; after all, Smart Cards are our core business. For 18 years we have focused on the development of new procedures and the optimization of processes. As a result, we are the only technology company offering the full range of system solutions in Smart Card production: from chip card modules to the finished personalized card. Thus, we cover the entire range and are available to our customers as a competent contact for all sectors.

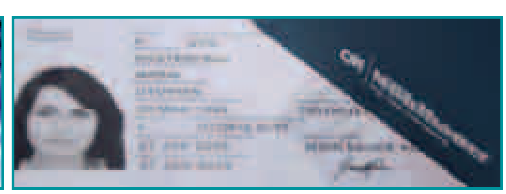
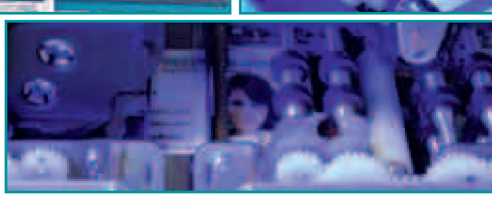
Smart Cards are not only simply small, useful aids in our everyday lives; they are increasingly replacing conventional paper documents such as driver's licenses, vehicle registration certificates and personal ID cards. The benefits are obvious: Smart Cards are particularly forgery-proof and easy to check for authenticity. Authorized bodies can quickly read and compare the data while unauthorized third parties are unable to gain an insight. Chip cards have a long life span and are flexible. As they can not only be read but also written on, an adjustment of the record is easily possible by authorized staff at any time.

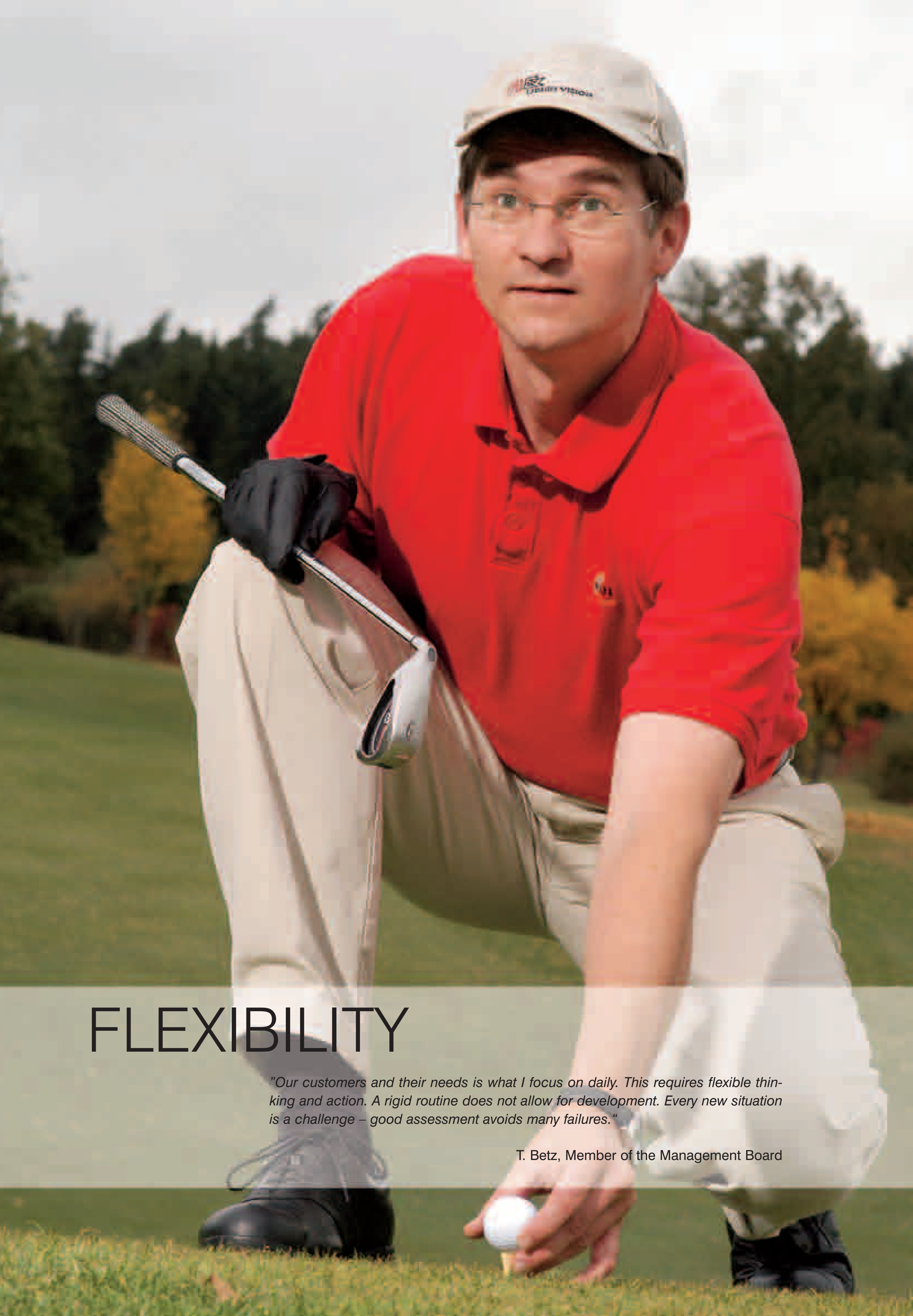
In contrast to the magnetic strip procedure, which provides only insufficient protection against abuse, chip cards are considered to be safe carriers of sensitive data. The term TECURITY® was coined by Mühlbauer by merging technology and security. It is an accurate description of our market segment dealing with innovative technology solutions for security-oriented applications. Since the terrorist attacks of September 11, 2001, one aspect reigns supreme: to better control cross-border traffic in future, an unforgeable document for unambiguous identification is required – the electronic passport. We increasingly targeted this market in 2005.

The ePassport is already being issued by several countries – and many more countries are working towards this goal, will therefore follow suit within the foreseeable future. Mühlbauer is currently involved in seven ePassport projects and supplied the machines for chip coding. As a provider of comprehensive solutions we are able to offer even more: before the data of a passport, e.g. the facial image, signature and, in the near future, also fingerprints can be stored on a chip, they must first be recorded in a suitable form. Mühlbauer therefore also offers its customers systems for the so-called data capturing, for data processing and for the later reading of the personalized chip card.

The areas in which Smart Cards can be applied are virtually unlimited. As a result we always keep a watchful eye on all developments in this area. Once demand for a new application arises, we are already focusing on how we can manufacture this product at a high quality without loss of time. Our new machines are ready to go – at precisely the time our customers need them.



FLEXIBILITY

"Our customers and their needs is what I focus on daily. This requires flexible thinking and action. A rigid routine does not allow for development. Every new situation is a challenge – good assessment avoids many failures."

T. Betz, Member of the Management Board

Smart Label

Smart Labels benefit from the increasing acceptance of the RFID technology. Mühlbauer is prepared for growth.

Goods are moved from A to B, every day and at many places around the world. The RFID technology (Radio Frequency Identification) is increasingly used to maintain the necessary overview at all times and to optimize logistics processes. In this sector the Mühlbauer Group got the ball rolling as early as 1996. Since then we have been the market leader for production technologies relating to the manufacture of Smart Labels.

Smart Labels are increasingly replacing conventional labels – and they are capable of so much more than their predecessors. Once they are firmly attached to a certain object, they provide the object with a distinctive identity and enable the gaining of object-accompanying information from one destination to the other. A Smart Label need neither be touched nor optically recorded. A small radio antenna transmits the encrypted information stored in the chip to a reading device. This contactless transmission of data renders RFID flexible, fast and reliable.

Hewlett-Packard has already, for some time, been utilizing the many benefits of the RFID technology. The time required for storage and dispatch has already been reduced considerably by no longer using the rather cumbersome bar code reading devices; losses and errors caused by manual handling in the organisation centers can now be avoided more easily. Typical cost drivers can now be reduced perceptibly thanks to Smart Labels. Other application areas of the RFID technology are also gaining ground. With regard to goods that are commonly at risk of being forged or stolen, i.e. specific drugs or high-quality clothing, the focus is on the clear and unambiguous identification of these. By now brand piracy results in considerable economic damage. Smart Labels protect – mistakes all but excluded.

Many logistics companies are now working at introducing the RFID technology. "First Movers" even advertise their investment in this future-oriented development. Studies prove that major demand for RFID tags will be generated over the next few years, as more than half of the companies surveyed are currently preparing for the use of RFID. The low level of standardization, however, still requires a large amount of flexibility in the production process sector. At Mühlbauer, we are well prepared for this development. We support all procedures for the production of Smart Labels currently on the market.

Our customers have many requirements. Reacting flexibly to these requirements is our challenge, which we are happy to meet, time and time again. The good relationships to our customers keep us on our toes. Together we are preparing ourselves and getting fit to meet the challenges of the years to come.





PERSISTENCE

”Complex production techniques are not created in a day. To me product management is a challenge that can only be optimally mastered through clear objectives, full commitment and the appropriate handling of own resources. As a reliable partner to our customers, we don’t stop half way – we achieve our goals!”

M. Zetterer, Product Manager

Semiconductor Related Products

With innovative technology solutions, the Mühlbauer Group focuses on promising niches of the semiconductor market. Quality and technological lead consolidate the company's position.

The chip keeps our modern world moving. And every time one of these tiny modules moves something, a Mühlbauer technology might have been in play. The segment Semiconductor Related Products comprises our range of semiconductor related systems for a host of different technology solutions, be they products of day-to-day life such as mobile phones, watches and consumer electronics, PCs, Smart Cards and Smart Labels or highly sensitive systems for use in medical technology, aviation and aerospace or security technology.

Those wanting to operate this market segment must be able to appreciate the wind of change and prove their perseverance. The yardstick is constantly rising. On the one hand there is the desire for cost reduction and high unit numbers, on the other hand, there is the demand for the highest level of quality and customization. More and more capacity can be realized with ever smaller carriers. The requirements towards production accuracy and the reliability of semiconductors are therefore constantly rising. Many complex systems are already operating with extremely small and sensitive microchips. We consider this to be our core competence. We ensure the quality demanded by means of a two-stage process. Precise production processes initially enable a high level of production accuracy. Then comprehensive tests involving optical, mechanical and electronic means guarantee the perfect quality and function of the semiconductor module.

We are consistently working at realizing the systems of the future. To us, progress is not an obligation but a matter of course. Innovations involving chip production once again opened interesting outlooks in 2005. The successful market launch of the next Die Sorter generation has set a new global benchmark with regard to processing speed. Other product areas of our company benefit from this development indirectly by being able to take over and successfully integrate this new technology.

Industrial image processing has increasingly established itself as a separate product sector by utilizing synergies within the Group. Testing systems are no longer just machine components but are developing to become an autonomous product. Technologically leading system solutions, in particular for printing and coin inspection are successfully sold internationally. Promising paths are opening up here that we intend to proceed unwaveringly.

High-tech products are some of the most short-lived products of our times and this is precisely why we place value on continuity in Semiconductor Related Products. We are keeping pace with the future!





SPEED

"Speed is closely connected to experience. The decisive factors are, in particular: acting and reacting properly. Hectic generates insecurity and ends up slowing you down. I use my energy targetedly. Thus, solutions are quickly developed that our customers can rely on."

F. Wicker, Electronics designer

Traceability

The demand for the traceability of products and modules is growing. We, at Mühlbauer, recognized this at an early stage.

Many things we use these days are very complex, technologically speaking. We even entrust our lives to some of these objects. If you take a seat in your car, you are assuming that the technical components cooperate smoothly. Safety starts with the producer, through the rapid and complete traceability of production processes. The Mühlbauer Group also makes its contribution in this segment.

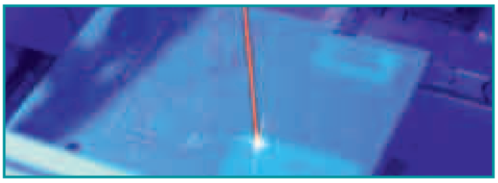
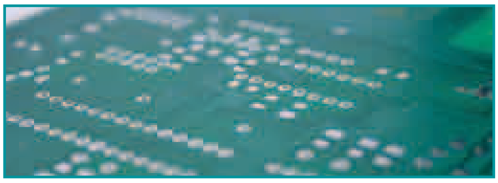
For a module to become clearly identifiable, it can be assigned a two-dimensional code. This marking is applied by means of an inkjet procedure, through labelling or laser technology; a process, which is not only to be effected rapidly but also with extreme precision. After all, the marking should also be legible on the minutest components. The marked part now differs from all other components of the same build – it leaves a clear trace on its way to becoming incorporated into the end product. Machine readability of the data enables complete archiving and guarantees the constant availability of the information. Via the serial number of a device the entire development process can be traced and all manufacturers of the individual components are identifiable.

Not only the manufacturers of particularly sensitive electronic devices are demanding 100 percent traceability of electronic modules – from incoming goods to outgoing goods. In view of the increasing share of electronics in automotive engineering, the need for transparency is also rising in the automotive industry. Traceability can be used both to control the process and to delimit errors. It is thus possible to quickly find the causes and to take the corresponding measures. Without this procedure, a recall campaign could result in disaster to a car manufacturer. Traceability also serves to prevent errors and provides an important contribution to greater product safety.

The Mühlbauer Group is a specialist for the production of all components in the Traceability segment. It produces labelling systems for printed circuit boards as well as the respective reading devices and data management systems. The entire range is, however, even more widespread. It also comprises the machines for Board Handling: loading and unloading stations, magazine buffer systems, flip and turn stations as well as transport tapes. An automated system for the testing and repair of printed circuit boards complements the range. This completes a perfect package of products.

Increasingly complex systems determine our lives. Safety is a matter of transparency and opportunities for rapid intervention. This applies to our working methods and our traceability systems. We are therefore capable of fully meeting the individual requirements of our customers within as short a time as possible – and we always stay on the ball.



TEAM SPIRIT

"There are many situations we can only master through cooperation. This is an experience we make every day. Team spirit, that is the will to perform and the ability to acknowledge other persons' skills. A common goal and cooperation within the team ensure that everyone gives their best."

C. Eichler, Tool mechanic

Precision Parts & Systems

Mühlbauer is a partner for the production of highly precise individual parts for industries that are sensitive towards security technology issues, who is in demand globally. Constant investments in new production technologies enable an extremely high level of quality and flexibility.

Quality requires precision – to an extent that long exceeds our day-to-day perception. Mühlbauer employs the people who enable this level of precision. To them a precision of 0.002 millimeters is a normal production requirement and not simply a number. The staff from Precision Parts & Systems operate as a team and continually face new challenges. Similar to a team, that counts on every individual player, the function of an entire machine can depend on the quality of a tiny precision part. There is no room for errors.

Some 400 highly qualified and committed employees at the Roding and Stollberg sites, who were largely trained by Mühlbauer currently contribute to the fact that a growing amount of new ideas from research and industry are becoming reality. The requirements towards precision and stability are constantly rising. Our production is therefore based on state-of-the-art production technologies and the expertise of our staff: values that are by no means static but undergo constant development at Mühlbauer. We therefore continually invest into new production machines and systems. Quality assurance is a firm component of production. Our customers can rely on the fact that every single part is carefully tested prior to delivery. This is how we achieve the highest level of quality and ensure both the function and the durability of our products. Our production always meets the requirements of the current quality standard.

Precision Parts works for external customers from sophisticated industries such as aviation and aerospace, motor sports, medical technology, optics, assembly automation, measuring technology and the semiconductor industry. Long-term partnerships with these customers meanwhile have a very positive effect. In addition, all precision parts required by Mühlbauer itself are of course produced here within cycle time – and we are a very demanding customer. In two production centers we produce precision parts over night. We are always capable of reacting fast and flexibly towards the requirements of our international customers. Apart from quality, adherence to deadlines is a matter of course. Throughout the entire process chain, our clients receive everything from a single provider.

In future our customers from research and industry will continue to place ever new and greater requirements on the quality of precision parts. We are excellently prepared for this. We will grow in line with the tasks ahead of us.

TECHNIQUE

"The appropriate technique is required to remain on top continually, particularly in choppy waters. Competence and supremacy are the key elements for successful work in Service and Support. We are always available to our customers – around the clock."

T. Dollinger, Team Leader

Service & Support

Intensive customer support from the initial request to production support renders Mühlbauer a reliable and permanent partner to its customers.

The customer service provided after delivery of a machine is all the more important, the more complex a technology is. Simply starting up the machine is no longer enough. Mühlbauer sees its customers as permanent partners. The structure of our Service & Support segment is correspondingly diverse. Even though the problems and questions reoccur, Service is always customized. Every machine and every customer has its own history.

Our technical service hotline is capable of answering questions directly or determining the optimum approach for an individual solution together with the respective specialist department. Some problems can be solved by telephone, simply by providing the right answer. Service technicians can perform diagnoses using remote service tools, alter configurations or import software updates. And even if the on-site presence of service staff at the customer is absolutely required in some cases – this does not pose a problem to Mühlbauer. We currently have 26 locations on five continents and within a period of 24 hours, at most, our service technicians can be where their help is required. At the same time, separate specialist departments in Roding and Stollberg ensure that spare parts are stored in sufficient volumes and quantities, so that they are available on-site in time if required – worldwide.

Customized service contracts enable the optimum servicing of the machines. Our customers need not deal with the servicing aspect of the machines, as they can rely on the fact that the necessary measures are taken at the right time. But trouble-shooting and servicing are only one aspect of support. We offer our customers comprehensive training opportunities. Depending on their requirements, different qualification levels can be acquired.

At Mühlbauer, service does not start with the delivery of a machine. Consultation is offered prior to this. We support our customers in finding the optimal technical solution for their requirements. Sometimes corresponding visual aids already suffice. Our sample production demonstrates the entire range of opportunities to interested parties. Thus decisions can be made more easily. However, support by Mühlbauer can also be required even if the customer does not have any technical problem. If production suddenly experiences staff shortages, we offer the opportunity to temporarily assist the production team, so that full capacity utilization of the machines is guaranteed.

The interaction of different technologies and the commitment of our staff results in optimal customer care. As a stable company with excellent prospects for the future, Mühlbauer excels in one area, in particular: it is a reliable competent partner who will continue to be available to its customers whenever required, be it day or night.

Management Report

In the 2005 financial year, the Mühlbauer technology group strongly pushed ahead the development of its technological base and further extended its position as an efficient and reliable partner on the TECURITY® market. At the same time, the identification of its employees with the corporate culture, which is characterized by great dynamics and full commitment, was further consolidated and reinforced. This resulted in a successful financial year with new record levels in sales and earnings. A financial year in which the strategy of earnings-oriented growth was hugely successful.

OVERVIEW OF THE 2005 FINANCIAL YEAR

- The significant stimulation of demand for Smart Label technologies and the overall positive development on the TECURITY® market was sufficient to overcompensate for the decline on the semiconductor market – as stated in the goals formulated at the outset of the year.

- Thanks to its good technological positioning Mühlbauer benefited particularly strongly from the increasing establishment of the RFID technology in goods logistics and sold more systems in the reporting period than ever before.

- In the 2005 financial year Mühlbauer pushed globalization of the Sales and Support areas further ahead by opening up new customer care centers in Dubai, UAE and in Seoul, South Korea. In November 2005, the development of a branch in India commenced.

- Consolidated sales of Mühlbauer rose 14.7% in the 2005 financial year, thus reaching a new record high of EUR 147.9 million.

- Gross profit on sales increased strongly against consolidated sales and rose 20.2% in 2005, to EUR 64.4 million.

- In a weak semiconductor environment Mühlbauer was able to further improve its operating income and to achieve a new record due to its niche strategy and market diversification. Earnings before interest and taxes (EBIT) thus rose from EUR 27.2 million to EUR 33.1 million, corresponding to an EBIT margin of 22.3% (PY: 21.1%).

- Interest result was more than doubled as a result of the rise in liquidity by EUR 0.9 million to EUR 1.6 million.

- Consolidated net earnings advanced from EUR 17.8 million to EUR 23.0 million. Earnings per share were also considerably above the previous year's value, at EUR 1.59.

- Due to scheduled tax payments that were EUR 10.4 million higher than in the previous year, Free cashflow was 16.3% lower year-on-year, at EUR 22.7 million. Overall liquidity rose EUR 13.0 million to EUR 57.0 million year-on-year.

- The personally liable shareholder and the Supervisory Board will continue their dividend policy, which is oriented on the earnings strength of the company and intend to propose the payment of a dividend of EUR 0.90 (PY: EUR 0.60) to the Annual General Meeting.

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

- As a result of its technological competence and longstanding experience on the TECURITY® market Mühlbauer was chosen as project partner for the personalization of electronic passports with biometric data by countries such as Austria, Russia, Singapore, Thailand, Hong Kong and Sweden.

- Mühlbauer concluded particularly significant agreements with several customers during the year under review: the British DVLA (Driver and Vehicle Licensing Agency) will have its new British driver's licenses produced on Mühlbauer personalization systems. In addition, Mühlbauer will take over DVLA's support and service for a period of up to seven years. The Spanish authority "Dirección General del Patrimonio del Estado" will utilize Mühlbauer's "Express Solution" CLP 54 in the pilot phase of the world's first decentralized ID card project.

- Based on the assumption of a further implementation of national ID projects, the extension of demand for Smart Label technologies and a further recovery of the semiconductor industry, we anticipate sales of the product portfolio offered by Mühlbauer to continue to rise in 2006 and the following years.

THE COMPANY AND FRAMEWORK CONDITIONS

The company. Mühlbauer Holding AG & Co. KGaA was formed in May 1998, from what was originally a one-man-business, founded in 1981 by Josef Mühlbauer. The Mühlbauer Group can look back on a 25 year old tradition that is characterized by pioneering achievements in mechanical engineering and plant construction. The technology group has since become a global and independent consultant and manufacturer of technologically innovative security solutions in a market segment the company refers to as the TECURITY® market. With approx. 1,500 employees at 26 locations on five continents, Mühlbauer is the leading provider of production systems for the Smart Card industry. It is our goal to achieve sustained income and to constantly increase the value of the company. In so doing we want to take the lead in all our business areas and grow more rapidly than our competitors. For this purpose, Mühlbauer is pursuing a strategy of earning-oriented growth. It is based on technology competence and is driven by continuous innovations in our range of products. Hereby, we focus on rapidly growing and future-oriented areas of our market, which is why we are extending our presence globally without neglecting our primary market in Europe. As the leading provider worldwide, with approx. 80 different standard and customized products, Mühlbauer offers a comprehensive range from a single source. This ensures that we can continuously extend our position in the globalized markets of TECURITY® and the Smart Label industry.

Satisfied customers are a prerequisite for Mühlbauer's growth: we want our customers to see Mühlbauer as their most efficient and reliable partner on the markets relevant to us. We have therefore oriented our business policy on increasing their competitiveness with the assistance of our products and services. Our technological competence and our market expertise, which are part of most valuable assets, form the basis for this. We ensure the continued existence of our company through innovations, as we open up new applications through them, can offer our customers better solutions and extend business contacts.

Mühlbauer has developed a network of sales and service locations, resulting from the need to be close to customers worldwide. Sales engineers and technical experts at 26 locations on five continents provide around the clock customer care. This global network is constantly being extended.

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

Some 59% of Mühlbauer's sales of EUR 147.9 million in the 2005 financial year were achieved by the business area SmartID, 24% by the area Semiconductor Related Products, 7% by Traceability Solutions and 10% by Precision Parts. The most important markets in the 2005 financial year were Germany, which contributed 30% to sales, the remaining European markets (21%), Asia (31%), the Americas (15%) and other (3%).

In its core business area SmartID, the Mühlbauer technology group is the only company worldwide to offer the entire range of system solutions for the manufacture of all card types from a single source. Mühlbauer system solutions are used in the production of ID cards, ePassports, eVisa, contact and contactless cards, dual interface cards and multimedia cards. Furthermore, its manufacturing technologies in the product area Smart Label cover all procedures currently utilized on the market in the production of Smart Labels for the security, service and textile industries and for retail.

The area Semiconductor Related Products develops, produces and sells innovative technology solutions for specific niche applications in the back-end area of the semiconductor industry, high-tech test and carrier tape systems and is an OEM partner of well-known global companies.

In the Traceability area, Mühlbauer develops and produces labeling systems for the traceability of electronic components. The product range in this area also extends to the relevant reading devices and data management systems and to circuit board handling machines.

At two independent manufacturing centers in Germany, the area Precision Parts produces highly precise individual components for industries that are sensitive towards security technology issues, such as aerospace, motor sports and medical technology; due to its longstanding manufacturing competence this area also supports the sale of high-quality products from the above areas.

Economic framework conditions

Global economy.[1] The global economy continued growing in 2005. Although the strong rise in oil and raw material prices reduced the speed of expansion somewhat, growth remained steady at 4.3% when compared with global real gross domestic product (GDP)[2]. Growth in the USA declined somewhat year-on-year, however, it still underwent a strong increase of 3.6%. A change in framework conditions, external disruptions and natural catastrophes as well as a rise in crude oil and raw material prices did not exert a major influence on the domestic economy of the USA. Even the repeated increase of the key interest rate to the current 4.25% was only conditionally passed on to the capital market rates. Japan has obviously overcome its longstanding economic weakness although the rate of growth has recently slowed down again. An increase of exports to neighboring countries and a clear upwards trend with regard to domestic demand resulted in the positive development of GDP in 2005. Apart from Japan, China and India also recorded strong expansion with growth rates in excess of 7%. Although China had been expected to experience less growth, the boom did not flatten out in the year under review. The Euro zone lagged behind the above mentioned national economies with an increase in GDP of 1.4%. In the year under review, Germany also experienced a domestic weakness with growth of 1.1%. Although exports continued to develop positively, as a result of a devaluation of the euro, the rise in energy prices impacted domestic demand negatively and private consumer spending reduced even further.

[1] Sources: ifo Munich, 2005; DZ Bank, 2005; HWWA, 2005
[2] Weighting on the basis of purchase price parities such as the International Monetary Fund (IMF)

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The market for digital security and contactless identification. Our market assessment in respect of the ongoing need of numerous states for security-oriented applications was confirmed. Many governments worldwide utilized the established framework conditions in 2005 and strongly pushed ahead developments for the introduction of electronic ID. Germany, for example, was one of the first EU countries to introduce the new electronic passport, thus complying with the EC regulation to equip the passports with machine-readable biometric data of the holder; in Asia, for instance, Thailand started issuing ID cards with biometric data. Overall, a global rise in demand, in particular, for centralized and decentralized personalization systems for the application of a range of different security features on passports, ID cards, electronic driver's licenses or EuropeanMasterVisa cards was ascertained in the last calendar year. This clearly shows that an increasing number of countries are prepared to meet the demand for chip-based ID documents, in order to fit these with biometric characteristics.

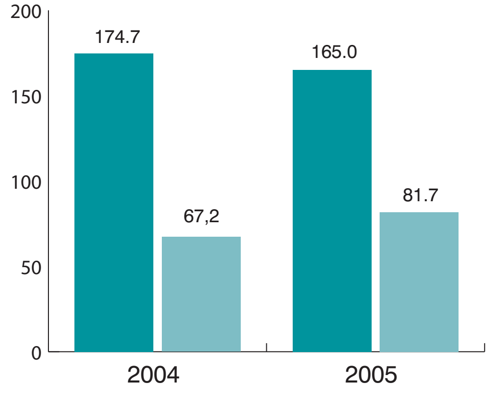
As a result of the increasing use of the RFID technology, the market for contactless identification via Smart Labels also offered considerable potential for growth. So far, the public has only become aware of the use of radio chips in pilot projects run by leading trade chains such as Metro, Wal-Mart or Tesco. However, these trade chains have since commenced the scheduled extension of the RFID technology along their entire logistics process chain, in cooperation with their suppliers and partners. In addition, this application has been extended to many other industries: companies such as Hewlett-Packard utilize RFID technology to optimize their trade logistics, airports label luggage with RFID labels, in libraries books on loan are fitted with transponder labels and in an increasing number of clinics patients are, on admission, issued a bracelet with an integrated RFID tag containing all their personal and treatment data. All these examples already make one issue clear: Smart Labels have potential as a mass technology.

In contrast to the up-and-coming TECURITY® and RFID markets, growth of the semiconductor market leveled off significantly in 2005. While the semiconductor area underwent growth of 28% in the 2004 calendar year, the industry association SIA (Semiconductor Industry Association) forecast a decline in growth to approx. 7% for the 2005 calendar year. Despite this, there were sections within the semiconductor industry that were less affected by the weakness of the market than others.

Business development

Order income and order backlog. In the 2005 financial year Mühlbauer posted order incomes totaling EUR 165.0 million thus dropping 5.5% below the level of the previous year (EUR 174.7 million). On December 31, 2005, the order backlog amounted to EUR 81.7 million and was thus EUR 14.5 million or 21.5% above the level of the previous year (EUR 67.2 million). The foreign share of the present orders increased to 88.6% (PY: 77.4%) and amounted to EUR 72.4 million. This corresponds with an increase of EUR 20.4 million or 39.2%. The domestic order backlog dropped by EUR 5.9 million or 38.9% to EUR 9.3 million.

At EUR 101.6 million, the core business area SmartID was able to increase its orders – despite a large order of EUR 25 million included in the value of the previous year (EUR 97.2 million) – by a further 4.6% and to further consolidate its market position. Orders for the personalization of electronic passports with biometric data for the countries of Austria, Russia, Singapore, Thailand, Hong Kong and Sweden are particularly significant at this point. In the product area Smart Card, a tender for delivery and service of



Consolidated order income and order backlog

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personalization systems for the new British driver's licenses was won. Furthermore, Mühlbauer qualified for the pilot phase of the world's first decentralized ID project in Spain. In addition, significant order increases resulting from the successful marketing of the TAL product line, the elite product for the manufacture of RFID Smart Labels must also be emphasized. In total, the order backlog in the SmartID area rose from EUR 50.4 million at the end of 2004 to EUR 63.4 million on December 31, 2005.

Incoming orders in Semiconductor Related Products considerably lagged expectations in 2005, at EUR 39.2 million, as the readiness of many of our customers to invest was low due to the significantly weaker growth of the semiconductor market in the 2005 financial year. This corresponds to a relative decline of 22.6% against the previous year (EUR 50.6 million). While the DS product line asserted itself despite strong competition, the unfavorable market conditions resulted in significant decreases in respect of OEM products and coating technologies. On December 31, 2005, at EUR 12.5 million, the order backlog was up EUR 3.0 million against the value of the previous year (EUR 9.5 million) due to the fact that sales were lower than incoming orders.

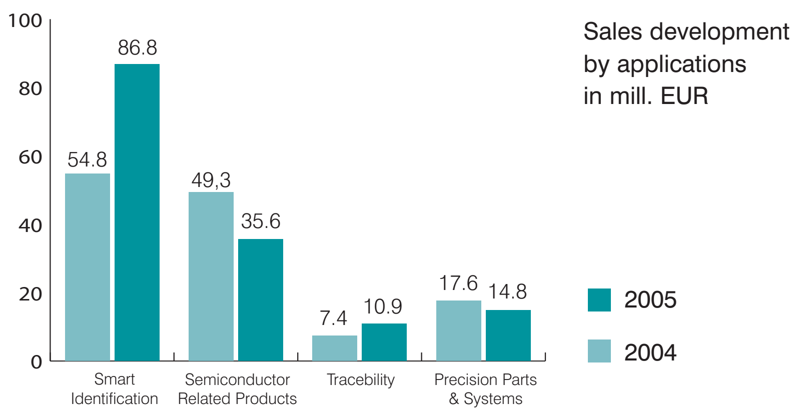
The Traceability area launched new systems on the market in the context of its product and market offensive. Due to the market success of the new labeling systems order income rose 15.8% to EUR 10.9 million (PY: EUR 9.4 million). Compared to the sector as a whole, Mühlbauer thus further extended its position. The order backlog as per December 31, 2005, remained constant at EUR 2.5 million (PY: EUR 2.5 million).

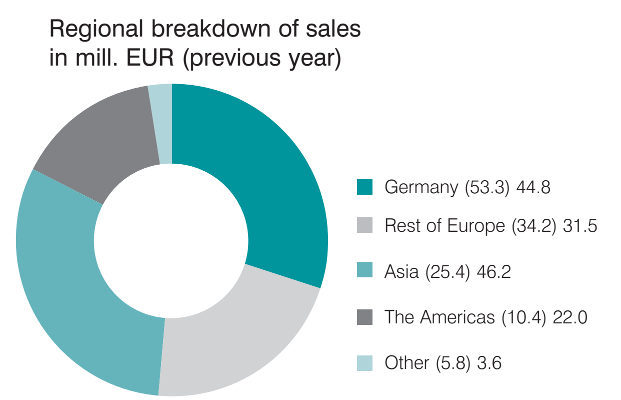
A lack of large orders from the semiconductor industry was responsible for the fact that Precision Parts underwent a downturn of 23.9% in the 2005 financial year with order income of EUR 13.3 million (PY: EUR 17.5 million) and was unable to keep up the previous year's pace. At the end of the reporting period the order backlog totaled EUR 3.3 million, 30.7% less than at the end of the previous year (EUR 4.8 million).

Sales.[3] The rise in demand for technology solutions in respect of the production of security-oriented identification documents and Smart Labels positively affected our sales development. Consolidated sales rose 14.7% to EUR 148.1 million (PY: EUR 129.1 million). Domestic sales declined 16.0% to EUR 44.8 million in the reporting period; foreign sales underwent an upswing of 36.2% to EUR 103.3 million. The export quota was 69.7% after 58.7% in the previous year. SmartID increased sales by 58.4% to EUR 86.8 million (PY: EUR 54.8 million). At EUR 35.6 million, sales in Semiconductor Related Products was 27.9% below the value of the previous year (EUR 49.3 million), as a result of the weak business with semiconductors. Business volumes in Traceability rose 47.4%, from EUR 7.4 million in 2004 to EUR 10.9 million in 2005. At EUR 14.8 million, business volumes in Precision Parts were down 16.0% from the previous year's value (17.6 million).

EARNINGS SITUATION

Earnings before interest and taxes (EBIT) and earnings before taxes. In the year under review Mühlbauer once again displayed great earnings strength. Due to its niche strategy and market diversification the company again succeeded in achieving a record result despite the weak semiconductor environment. Earnings before interest and taxes (EBIT) advanced from EUR 27.2 million to EUR 33.1 million, which corresponds to an EBIT margin of 22.3%





[3] Sales figures are the gross values before subtraction of any deductions on sales proceeds of EUR 0.2 million (PY: EUR 0.2 million)

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

(21.1%). The reason for the earnings increase is the further rise of sales, to which particularly personalization solutions for ID cards and electronic passports as well as systems for the production of RFID Smart Labels contributed, without losing sight of cost consciousness. These factors assisted the company in achieving a strong EBIT growth of 21.4% while sales increased by 14.7%.

Earnings before taxes is also worth noting. In the reporting period EBT rose from EUR 27.9 million to EUR 34.7 million due to higher liquidity and the subsequent increase in financial result. This corresponds to a pretax profit margin of 23.4% (PY: 21.6%) and thus to higher year-on-year growth.

Gross profit, which advanced strongly – by 20.2% to EUR 64.4 million – compared to sales, demonstrate how the increased sales volume affects cost of sales. While these rose by a mere 10.8%, the situation within this cost position is quite varied. Material expenses and changes in inventory, for example, rose relatively strong to 12.0%, largely due to price increases of individual raw materials, comparatively higher shares of purchased parts in the changed product mix and changes during the reporting period in respect of the evaluation of inventory risks. At 10.1%, personnel expenditure, however, developed only weakly in contrast to cost of sales. Depreciation dropped 8.1% while other operating expenses were 18.6% higher, in particular due to the rise in travelling connected to the sales increase.

The rise in **selling expenses** by 21.2% from EUR 7.7 million to EUR 9.3 million reflects our effort to constantly improve the global market position of the Mühlbauer technology group. The greatest cost increases here related to personnel expenses as well as fair costs and travelling. Selling expenses thus make up 6.3% of sales against 5.9% in the previous year. **Administrative expenses** developed oppositely. These were reduced by 5.9%, from EUR 7.1 million to EUR 6.6 million, largely due to a drop in personnel expenditure and reduced depreciation. As a result, in the year under review administrative expenses amounted to only 4.5% of sales, after 5.5% in the previous year. **Research and development expenses** also rose. In the reporting period they amounted to EUR 15.3 million and were thus 17.0% higher year-on-year (EUR 13.0 million). Here a rise in personnel expenses and higher expenses for legal and consultation costs in connection with the application for patents and trademarks, in particular, increased expenditure. The share of capitalized production costs for the development of basic technologies amounted to EUR 3.0 million (PY: EUR 2.0 million) in the year under review. Scheduled (EUR 1.5 million, PY: EUR 1.2 million) and unscheduled (EUR 0.2 million) depreciation on capitalized development costs developed oppositely thus raising costs. **Other income and expenses** are not directly assigned to our core activities and can consists of various different items, from one period to the other, including profits and losses from currency differences. EUR 0.7 million of the EUR 1.5 million drop in balance from EUR +1.4 million in the previous year to EUR -0.1 million largely resulted from unrealized and realized currency losses in connection with internal corporate settlements and provisions for contingent losses from financial derivatives concluded. Additional effects arose due to the fact that the previous year's result was impacted by earnings of EUR 0.4 million relating to other periods, resulting from the abolition of obligations, as well as EUR 0.2 million higher insurance and other compensation payments, while, in the year under review, EUR 0.2 million higher income was recorded due to the sale of fixed assets.

Consolidated statements of income in millions	2005 EUR	%	2004 EUR	%	+/- EUR	%
Sales	147.9	100.0	128.9	100.0	19.0	14.7
Cost of sales	(83.5)	(56.5)	(75.3)	(58.5)	(8.2)	10.8
Gross profit	64.4	43.5	53.6	41.5	10.8	20.2
Selling expenses	(9.3)	(6.3)	(7.7)	(5.9)	(1.6)	21.2
Administrative expenses	(6.6)	(4.5)	(7.1)	(5.5)	0.5	(5.9)
Research and development	(15.3)	(10.3)	(13.0)	(10.1)	(2.3)	17.0
Other income	0.7	0.4	1.5	1.2	(0.8)	(57.5)
Other expenses	(0.8)	(0.5)	(0.1)	(0.1)	(0.7)	672.1
Operating income (EBIT)	33.1	22.3	27.2	21.1	5.9	21.4
Financial result	1.6	1.1	0.7	0.5	0.9	149.5
Income before income taxes	34.7	23.4	27.9	21.6	6.8	24.4
Income taxes	(11.7)	(7.9)	(10.1)	(7.8)	(1.6)	15.9
Net earnings	23.0	15.5	17.8	13.8	5.2	29.2

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

Financial result. The financial result was improved considerably in the year under review and now amounts to EUR +1.6 million (PY: EUR +0.7 million). This corresponds to an increase of 149.5%. The reasons for this positive development are, on the one hand, the results achieved through securities – from minus EUR 0.5 million in the previous year to plus EUR 1.8 million in the reporting period; on the other hand, interest income advanced from EUR 0.3 million in the previous year to EUR 0.5 million in the year under review due to the increase in liquidity. Interest expenses rose from EUR 0.2 million in the previous year to EUR 0.5 million in the year under review. This increase is largely due to interest payable in connection with the non-recourse sale of future payment claims and a value adjustment on a loan granted.

Income taxes. In the reporting period expenses in respect of income taxes of EUR 11.6 million (PY: EUR 10.1 million) arose. Compared to the EBT of EUR 34.7 million (PY: EUR 27.9 million) this results in an actual tax rate of 33.6% against 36.1% in the previous year. The decline in tax rate is largely the result of a drop in tax rate of one of our subsidiaries, tax-free income from securities sales and – at the end of the moratorium – a raise of a partial amount of the corporation tax credit.

The higher tax rate in the previous year was mainly due to the non-tax deductible depreciation of Rommel's goodwill and the consumption of a deferred tax asset with no effect on the income statement formed for the purpose of eliminating midway profits. Furthermore, the tax rate increased in 2004 due to non-reportable losses from the sale of securities.

Net earnings. All these individual effects resulted in the fact that our net earnings rose by EUR 5.2 million in the year under review: net earnings for the year amounted to EUR 23.0 million; the sales yield after taxes was 15.5%, after 13.8% in the previous year and earnings per share totaled EUR 1.59 (PY: EUR 1.23).

Dividend. The company will continue its dividend policy of previous years and enable shareholders of the limited partnership to adequately participate in the income of the past financial year. In so doing, the personally liable shareholder and the Supervisory Board want to once again base the payout on the sustained earnings strength of the company. In view of the further increase of income in 2005, the personally liable shareholder and the Supervisory Board intend to propose to the Annual General Meeting to pay out a dividend of EUR 0.90 (PY: EUR 0.60), a year-on-year rise of 50%. At 6.1 million shares with dividend entitlement the total payout to the shareholders of the limited partnership amounts, on the approval of the Annual General Meeting, to approx. EUR 5.5 million. The personally liable shareholder will receive EUR 7.8 million, in accordance with his shareholding.

FINANCIAL SITUATION

Cashflow. The cashflow demonstrates the origin and utilization of cashflows in the reporting periods. It thus plays a key role in evaluating the financial situation of the company. The outflows from investment and financing activities are determined in an indirect relation to payments. The inflows from operating activities are indirectly derived from the consolidated profit for the year. With the Free cashflow we provide

Consolidated statements of cashflows in millions	2005 EUR	2004 EUR	+/- EUR	%
Cash provided by operating activities	32.1	40.9	(8.8)	(21.4)
Cash used for investing activities	(21.9)	(14.7)	7.2	48.8
Cash used for financing activities	(10.6)	(9.1)	1.5	16.2
Free cashflow	22.7	27.2	(4.5)	(16.3)
Liquid funds	29.5	29.4	0.1	0.2

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our investors with a ratio which shows the change in liquidity, taking into account investments. Free cashflow is defined as an inflow from operating activities and outflow from investment activities, adjusted by the purchase and disposal of securities and financial assets as well as the resultant net profits and losses, payments from the disposal of fixed assets as well as the resultant profits and losses and currency differences from the translation of fixed assets. The liquid fund shown in the cashflow statement comprise cash and cash equivalents and marketable securities, insofar as these can be disposed of within a three month period.

At EUR 32.1 million, **cashflow from operating activities** in 2005 was EUR 8.8 million below the level of the previous year (EUR 40.9 million). While cash generated from operating activities rose to EUR 48.0 million, largely due to a EUR 1.5 million higher business performance over the previous year (EUR 46.5 million), this was offset by the EUR 10.4 million higher income tax payment.

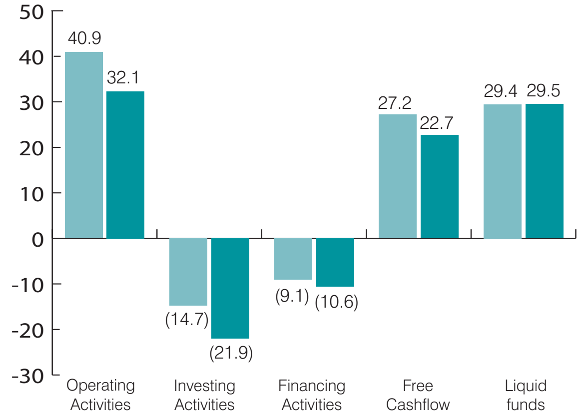
Cashflow from investment activities rose by EUR 7.2 million to EUR 21.9 million in the reporting period. The rise is largely due to the reallocation of existing liquid funds to marketable securities contained in current assets (EUR 7.0 million) and to financial assets (EUR 3.5 million) as well as higher capital expenditure in respect of development costs (EUR 1.0 million). Offsetting effects, which reduced cashflow from investment activities, were recorded in respect of fixed and intangible assets (EUR 4.3 million).

Cashflow from financing activities increased by EUR 1.5 million year-on-year and largely comprises the dividend for the 2004 financial year that is EUR 2.5 million higher than in the previous year and EUR 0.2 million higher withdrawals for personal tax payments of the personally liable shareholder. The company achieved an inflow of EUR 0.5 million from the disposal of proprietary shares while the balance from the purchase and disposal of proprietary shares was minus EUR 0.7 million in the previous year. The dividend payout proposed in respect of the 2005 financial year is not yet included in the cashflow statement for 2005 as no resolution has been made so far and no outflows have occurred.

Of the individual cashflows, the liquid funds remained virtually unchanged at EUR 29.5 million against December 31, 2004 (EUR 29.4 million). Total liquidity, including the longer-term deposits and securities rose by EUR 13.0 million to EUR 57.0 million.

Free Cashflow. At EUR 22.7 million, free cashflow was 16.3% below the level of the previous year (EUR 27.2 million), largely due to scheduled tax payments that were EUR 10.4 million higher than in the previous year and the development of working capital (EUR 3.7 million). Offsetting effects, which increased free cashflow, arose as a result of the EUR 5.2 million year-on-year increase in net earnings for the year and the EUR 3.3 million drop in capital expenditure.

Capital requirements and refinancing. In the 2006 financial year we require capital to finance operating business, to repay loans due, to pay our contingent liabilities, provided they occur and for the scheduled execution of investments. We meet these requirements through cashflow from current business, available funds and disposable securities as well as short-term loans of a total of EUR 25 million, available at the end of 2005, of which EUR 4.5 million had been utilized by December 31, 2005.



Cashflow in mill. EUR from

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

ASSET SITUATION

The **balance sheet total** of the company rose 10.6% year-on-year to EUR 164.3 million (PY: EUR 148.5 million). **Short-term assets** increased by EUR 13.5 million, from EUR 91.7 million to EUR 105.2 million, largely due to the extension of liquid funds (EUR +12.3 million). At the end of the 2005 financial year trade accounts receivables dropped by EUR 0.5 million to EUR 22.0 million. Inventories developed oppositely; at EUR 33.6 million these increased by EUR 1.4 million or 4.1% against the previous year (EUR 32.2 million).

In the year under review, **long-term assets** advanced by EUR 2.3 million, from EUR 56.8 million to EUR 59.1 million. While the share of investment and long-term financial assets rose by EUR 0.9 million or 9.3%, from EUR 10.2 million to EUR 11.1 million – due to a year-on-year increase in marketable securities of EUR 0.7 million and trade accounts receivables of EUR 0.2 million with a residual term of more than one year – fixed assets dropped slightly, by EUR 0.5 million, from EUR 39.5 million to EUR 39.0 million. Within fixed assets, buildings declined by EUR 1.6 million, due to scheduled depreciation. Technical equipment machines developed differently to the previous year, by undergoing an increase of EUR 1.0 million. The increase results from additions totaling EUR 2.2 million, offset by scheduled depreciation amounting to EUR 1.2 million. Intangible assets rose, in particular due to capitalized development costs (EUR 3.0 million) as well as additions in respect of software and licenses (EUR 0.5 million). Scheduled (EUR 1.9 million) and unscheduled depreciation (EUR 0.2 million) developed oppositely. The increase of other fixed assets (EUR +0.5 million) is the result of the plan assets exceeding the pension obligations.

On the liabilities side, **short-term liabilities** rose by EUR 2.4 million, to EUR 35.0 million. While other short-term liabilities increased, in particular due to subsidies already received for investment measures yet to be executed (EUR +0.5 million) and unrealized losses from rate-hedging transactions (EUR +0.3 million), other accruals largely increased by EUR 2.6 million to EUR 8.3 million due to higher guarantee accruals, personnel obligations and higher risks from sales activities. Trade accounts payable had an offsetting effect. To the end of the 2005 financial year these dropped by EUR 2.3 million to EUR 6.1 million. The strong reduction of accrued income taxes by EUR 4.3 million, from EUR 7.2 million to EUR 2.9 million is the result of scheduled tax payments in respect of the year under review and the previous year.

The decline of **long-term liabilities** by EUR 1.0 million to EUR 4.1 million is the result of the further repayment (EUR 0.9 million) of a loan that was taken up in connection with the development of the Roding site. Furthermore, deferred tax liabilities declined by EUR 0.1 million.

In the 2005 financial year, **shareholders' equity** rose to EUR 125.2 million (PY: EUR 110.8 million). The increase is due to the net earnings for the year achieved during the reporting period (EUR 23.0 million; PY: EUR 17.8 million). The dividend paid in the 2004 financial year (EUR 3.6 million) and the payment of the share in profits of the personally liable shareholder (EUR 5.4 million) were offset against shareholders' equity. The shareholders' equity ratio rose by 1.6% to 76.2% (PY: 74.6%).

Consolidated balance sheets in millions	2005 EUR	%	2004 EUR	%	+/- EUR	%
Short-term assets	105.2	63.9	91.7	61.8	13.5	14.6
Long-term assets						
Financial assets	11.1	6.8	10.2	6.8	0.9	9.3
Fixed assets	39.0	23.8	39.5	26.6	(0.5)	(1.2)
Intangible assets	8.4	5.1	6.9	4.6	1.5	22.4
Deferred tax assets	0.1	0.1	0.2	0.2	(0.1)	(57.7)
Other fixed assets	0.5	0.3	0.0	0.0	0.5	1721.4
Total assets	164.3	100.0	148.5	100.0	15.8	10.6
Short-term liabilities	35.0	21.3	32.6	21.9	2.4	7.6
Long-term liabilities	4.1	2.5	5.1	3.5	(1.0)	(19.6)
Shareholders' equity	125.2	76.2	110.8	74.6	14.4	12.9
Total liabilities	164.3	100.0	148.5	100.0	15.8	10.6

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

VALUE-ORIENTED CONTROL PARAMETERS

Management and control of the Mühlbauer Group is effected on the basis of a report and ratio-backed management system, which is constantly extended. In so doing, the focus is on the sustained earnings-oriented growth of the entire group. Our integrated controlling concept allows for a targeted control and coordination of the activities of decentrally controlled areas, supports the decentralized responsibility for business processes and guarantees transparency across areas.

The goal of the integrated controlling concept is the timely detection of gaps between the actual and the target condition. This requires the existence of high-quality reporting systems for actual and target calculations as well as internal and external reporting. The values determined in accordance with IFRS form the basis of our reporting system.

In our controlling concept operational elements are linked with timely reporting, accompanied by target-oriented measures and regular communication. The central control parameters are composed of incoming orders, sales, the development of costs and price, average term of payment and earnings before interest and taxes (EBIT).

The result of the analysis of control parameters is directly linked with escalation processes at Mühlbauer. These processes consist of measures to counteract unfavorable developments, decisions on investment measures, the selection and expansion of product areas with which the targeted growth is to be realized or the timely withdrawal from activities that do not achieve sufficient earnings contributions.

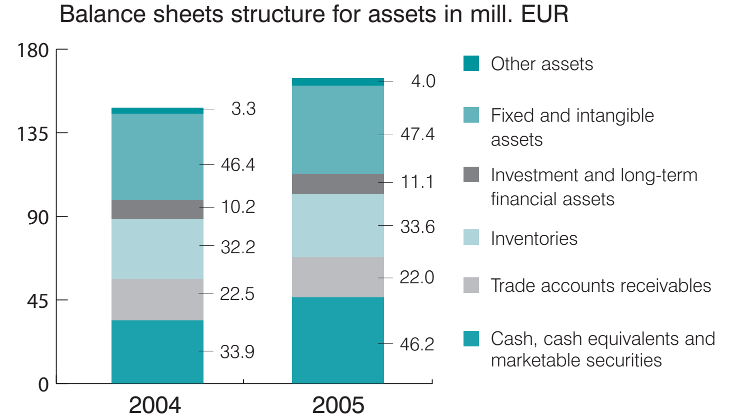
The goal of the control tools used by the Mühlbauer Group is the support of management in generating a sustained increase of corporate value.

SUSTAINABILITY REPORT

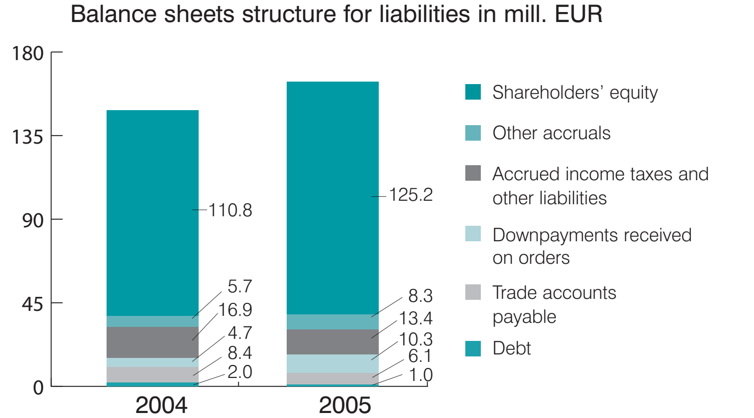
Quality. Quality management plays a key role to a company in the high-tech industry. At Mühlbauer, quality management is considered an integrated management responsibility. This means that the quality of the products is first and foremost influenced by mastered and stable processes. As a result, the constant improvement of all business and production processes is awarded the utmost attention. Fulfillment of the DIN EN ISO 9001 standard is determined throughout the group on an annual basis in the context of an audit of the management system by external auditors. In addition, Mühlbauer's own auditors monitor the management system on an ongoing basis, in the context of set audit programs. The auditors document and evaluate the results, thus enabling the early recognition of deviations in respect of functions and the introduction of corresponding measures.

Production. Mühlbauer has production sites in Roding and Stollberg and employs 367 staff in production. Highly precise components for Mühlbauer's product portfolio and for other highly sensitive industries such as aerospace, Formula 1 racing or medical technology are produced on premises of more than 12,000 m^2. The most important processes in production are: sawing, drilling, turning, milling, welding, punching and testing. The raw materials used in production are primarily aluminum, stainless steel, cast iron scrap, plastic, titanium and copper.

Balance sheets structure for assets in mill. EUR



Balance sheets structure for liabilities in mill. EUR



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Areas of particular environmental relevance are
- the surface treatment systems
- the central wastewater treatment system for waste process water from preliminary and final surface treatment
- the waste management systems
- the hazardous substances store
- the central oil store
- the gas station for company vehicles
- the fuel oil tanks for the operation of the combined heat and power plants.

Technically experienced staff as well as plant security enable the optimum prevention of and defense against environmental damage in these areas. Technological monitoring systems and automatic fire alarm systems assist in reporting failures and fires to the alarm control units automatically.

Social responsibility. Currently, 1,461 people work for the Mühlbauer Group around the globe and stand for innovative technology solutions. Mühlbauer supports its staff in old age through a pension fund held by a major insurance company that offers Mühlbauer employees favorable conditions.

Mühlbauer offers job starters a widespread systematic basic professional training. Job starters can make their choice from a total of 13 technical jobs that require training and 2 clerical jobs. In the year under review more than 220 young people underwent professional training at Mühlbauer. Apart from the extensive professional training opportunities, the company also offers a comprehensive range of further education programs. In Roding alone, Mühlbauer finances up to 10 events annually, that every employee can attend free of charge after work. The contents range from technical subjects to fitness offers in the company's own training center, computer literacy and language courses to personal development.

A company medical officer has been on-site at the group headquarters in Roding, the largest site, with more than 800 employees, since 1990. Here, a panel physician executes the necessary, legally regulated occupational medical check-ups. The medical officer as well as trained first-aid staff is of course also available to help in the event of occupational accidents, emergencies and acute illnesses. At the other plants as well, panel physicians and ambulance technicians ensure medical care.

A company with the self-image of Mühlbauer cannot act independently of its regional and social environment. The Group therefore provides social and community projects, particularly regional ones, with considerable financial support under the management of the Josef Mühlbauer Foundation which was set up by the founder of the Mühlbauer Group. Furthermore, the company supports charitable purposes within the region through regular monetary and in-kind donations. With sports activities, such as the 1st Mühlbauerlauf held in 2005, a race in support of an aid project for children, the major share of employees was in fact motivated to help and actively involved in fund raising activities.

FACTOR INPUT

Investments

In the reporting period Mühlbauer invested a total of EUR 6.3 million (PY: EUR 11.7 million) in intangible and fixed assets across the group. The investments focused on the equipment of the Stollberg-based technology park with innovative production centers as well as replacement and extension investments in the company's fleet. In addition, investments were made in the IT infrastructure to further increase data speed and availability.

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Depending on the business situation, we expect to invest between EUR 5 and 7 million in fixed and intangible assets in the 2006 financial year, largely into our production site in Roding as well as in the development of our locations abroad. The ongoing improvement of productivity and technology at our research and development center in Dresden is also scheduled. On December 31, 2005, approx. EUR 1.4 million had been firmly agreed, this amount is included in the unconditional obligation to accept.

Research and development

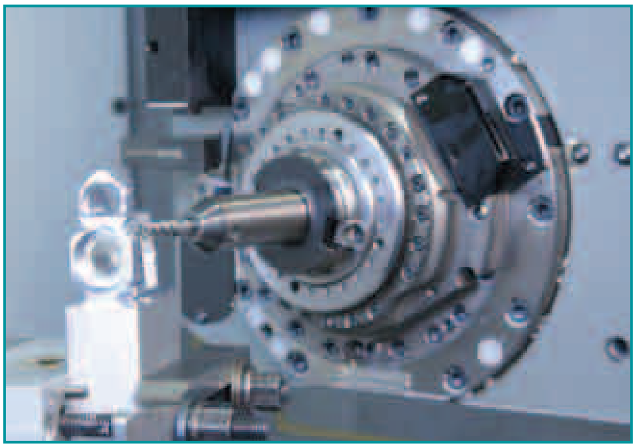
The traditionally strong, flexible and rapid innovative strength of the company is the basis for the high technical competence of the Mühlbauer Group. It is only through the continued strong development of technological expertise that the rising demands of the market can be fulfilled. To generate efficient and reliable solutions in ever briefer development and production cycles, an average of 300 highly qualified technicians and engineers – in close cooperation with customers, universities and institutes – work in the research and development centers that are spread across several locations.

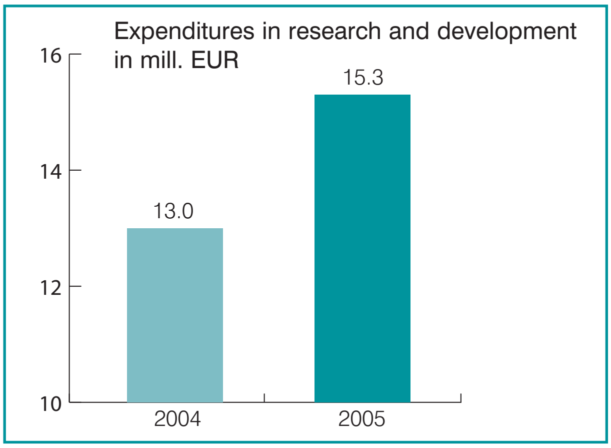
In order to strategically secure Mühlbauer's own developments against global competition, the portfolio of patents was further extended in the past financial year and more than 20 patents and trademarks were applied for. The high level of significance that the Research and Development area holds within the Mühlbauer Group is also reflected in capital expenditure: minus capitalized development costs (EUR 3.0 million; PY: EUR 2.0 million) and grants received by local and regional authorities for some of our R&D projects (EUR 0.7 million; PY: EUR 0.8 million) and plus depreciation on these (EUR 1.7 million; PY: EUR 1.2 million) capital expenditure amounted to EUR 15.3 million for the year under review and was thus 17.0% above the value of the prior year (EUR 13.0 million). Based on sales this corresponds with an R&D rate of 10.3% (PY: 10.1%).

SmartID. We adjusted to the new requirements that arose in the course of including biometric identification characteristics in ID documents at an early stage. Our focus was therefore on the extension of systems for the personalization of passports and cards that enable both the optical and electronic implementation of biometric data at the highest security levels. Whilst SCP (Smart Card personalization systems technology) and IDENTIFIER systems (passport personalization systems technology) underwent further development as centralized production solutions for high volumes, the newly developed smaller personalization systems such as CLP 54 (Card Laser Personalization – series 54) and IDENTIFIER 54 (passport personalization system – series 54) enable the personalization of cards or passports in a safe decentralized environment. Mühlbauer thus offers regional organizations solutions, e.g. to create security documents on-site and without delay. Despite their small size, these production systems combine excellent quality with state-of-the-art technology.

In addition to these base developments, further modules and specific solutions for passport production and card personalization can be included in the portfolio. In so doing, testing devices that subject the passports to mechanical and electronic function tests play a decisive role in the production environment of the passport and card manufacturers, as they are also responsible for the quality of the passports and cards.

Together with the software solutions in the data capture and data management areas, the Mühlbauer Group now holds complete solutions for the centralized and decentralized personalization of ID documents on a uniform technological base.





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The TAL (Tag Assembly Line) line of products that is included in the business area Smart Label was also able to record progress and development. In 2005, the range for flip-chip assembly was extended by the basic development of faster TAL and FCM (Flip Chip Mounter) system technologies, which will sport a much higher assembly rate than their predecessors. Furthermore, the existing FCM assembly line was adapted to further specific customer requirements and extended by product-specific modifications.

Semiconductor Related Products. In the area of flip-chip semiconductor assembly the market demanded ever more efficient or productive systems. With the development of an even faster Die Sorter generation – based on the existing product family – we reacted toward this trend and were able to present our customers with a new Die Sorter, which has set a new benchmark due to its greater productivity and service-friendliness. Our carrier tape systems also benefited from further developments. The multitrack machines CT-MR 8/24 (Carrier Tape – series MR 8/24) and CT 8/24 RP that were already established on the market underwent further development, as a result of which productivity and precision in the production of straps was raised.

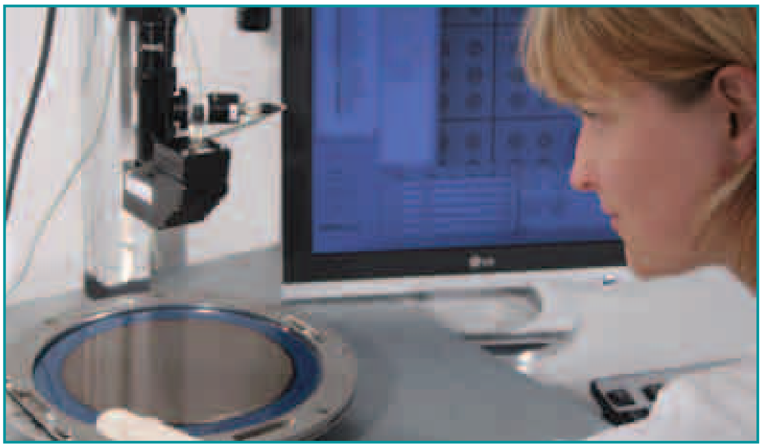
Traceability. Driven by ever more complex electronic modules, the requirements profile for production systems in the assembly of SMD (Surface Mounted Device) has changed considerably. While Traceability customers previously primarily requested systems with standardized options, this has shifted significantly towards customized special systems on the basis of standard components. These very different requirements and concepts were met with a newly developed marking platform and various adjustments.

Procurement

The 2005 financial year was characterized by a further considerable increase in raw material prices for steel and aluminum. However, long-term price agreements with suppliers and volume bundling enabled us to ward off the increases so that the purchase costs did not fully impact the Group. Besides, prices for all other additionally purchased components remained virtually stable. Overall, expenditure for acquired services and the purchase of raw, auxiliary and operating materials totaled EUR 47.5 million (PY: EUR 39.6 million).

Within the company, project purchasing has gained significantly in importance as a strategic element. Purchasing staff is already involved in the respective project teams at the offering and development stages to be able to plan costs and agree supply contracts at an early stage. The principle "Buy centrally, procure decentrally“ is consistently implemented. Purchase conditions are negotiated centrally; procurement is subsequently effected via local providers, taking into consideration economic aspects. In so doing, company-wide coordination and the use of consignment stores guarantee continual procurement.

As the quality of the additionally purchased products must meet even the highest customer requirements, staff at Mühlbauer are always aware of the particular importance of an effective quality management. We



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only cooperate with suppliers whose products were qualified by us and thus correspond with the Group's quality standards. Furthermore, we regularly execute supplier and product audits to permanently guarantee the high quality of our products.

In the second half of 2005, a further step was taken to introduce eBusiness: the implementation of an electronic document management system. This facilitates our internal business processes, resulting in a reduction of process costs. In future, we will continue to extend our eBusiness system targetedly and gradually push ahead the processing of purchasing procedures on the basis of modern communications and procurement technologies.

While ensuring our independence, our procurement policy is still characterized by close cooperation with our suppliers. In the context of a win-win situation we maintain trusting and friendly relationships with our suppliers. Together we can thus achieve an optimum in quality and efficiency, to the benefit of our customers.

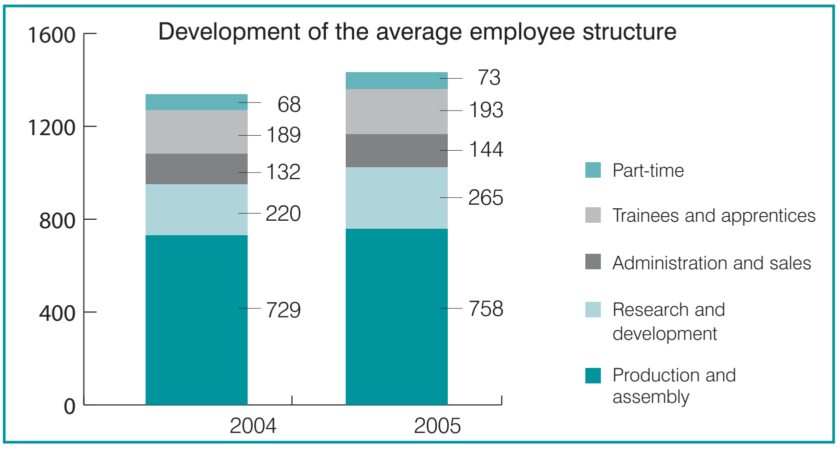
EMPLOYMENT

To a company that strives toward technical and economic leadership, the technical and social competence of its employees is valuable capital. Besides training and further education, in 2005, interest focused on another important factor for success: the identification of staff with corporate values as a base for responsible, committed, dynamic and team-oriented action. In brief: the corporate culture of the Mühlbauer Group.

Behind the staff training referred to as "Speed", kicked off in 2005, stands the conviction that corporate culture is not simply something that exists on paper but that needs to be communicated and experienced. To render the decisive values something that all employees can experience to the same extent, the entire staff came together in small groups to attend various training sessions. The goal of these exercises was also to find out more about one's own strengths and to experience team spirit beyond the confines of production sites and offices. These experiences will enter into day-to-day operations and will boost the company's efficiency so that values such as speed and flexibility are realized permanently.

Despite the general trend toward the streamlining of staff in other businesses, Mühlbauer has once again increased employee numbers. On the reporting date the number of employees amounted to 1,461, 48 more than in the previous year. This figure includes 222 (PY: 211) trainees and apprentices. In spite of this rise in staff numbers, the rate of trainees and apprentices was 15.2% (PY: 14.9%). This continuity is based on the preparedness to take responsibility for young people and the future of the Group.

In-house training thus is and will remain a key issue to Mühlbauer. It is considered a direct investment in the future. The newly created training center with apprentices' workshop and computer rooms enables practical and theoretical learning at a high level. While intellectual fitness is a must, employees can further their physical fitness in the company's own fitness studio. The trainees and apprentices gain sound and detailed knowledge on the basis of Mühlbauer's corporate culture – ideal conditions for the



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next generation of this company's employees. As a result, virtually 100% of the trainees and apprentices are taken over by Mühlbauer once they finish their professional training.

In a company with a promising future, such as Mühlbauer, training can always be one of several qualification modules. The concept of "lifelong learning" is consistently implemented and the further education of employees showing potential is promoted. Apart from the usual qualification measures, a special forum for the training and further education of executives is therefore to be created that provides for cooperation with different educational institutions. Facilities have already been created for this. An in-house management academy is a vision for the future, which may very soon be reality.

In the year under review personnel expenditure of the Mühlbauer Group amounted to EUR 49.9 million (PY: EUR 45.0 million). This corresponds to a year-on-year increase of 10.7%. Salaries and wages account for EUR 41.1 million (PY: EUR 37.2 million). Social security contributions amounted to EUR 8.8 million (PY: EUR 7.8 million). This corresponds with an increase of 12.7%.

EVENTS AFTER THE 2005 FINANCIAL YEAR

No events occurred after the reporting date 2005 that were of major significance to Mühlbauer and could impact the assessment of the company.

RISK REPORT

Business activities bear an inherent risk. One of the most important managerial responsibilities is therefore to keep risk as low as possible or to ensure that the ratio of risk to earnings expectations is within reason. This is why Mühlbauer implemented a risk management system that is subject to continual development and that has established itself across the Group over the years. Sensitization of all staff, worldwide, to identify and notify risks at an early stage and to monitor them on a regular basis is a key concern that is experienced and communicated across the Group. Furthermore, it is necessary to be able to make goal-oriented management decisions. For this reason, the risk management system is extensively documented in the intranet and can be accessed by all employees, around the globe. The informal notification of newly identified risks via the intranet to the risk committee or directly to a member of Management without having to observe a strict line of reporting allows for a rapid reaction and, if necessary, immediate introduction of corresponding measures.

In addition to other reporting elements, in business control and in felling management decisions, management therefore makes use of the half-yearly risk inventory and the resultant risk report, which is explicitly discussed in the risk committee meeting. Furthermore, the presentation of information on the risk situation by the Management Board is an important element of regular Supervisory Board meetings. In the context of analyzing individual risks these are presented at an area and group level as portfolios, together with the direction they are taking, to render developments discernible immediately. This is a responsibility of the risk committee. Earnings before in-

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terest and taxes (EBIT) is used as a uniform assessment criterion. A plausible and detailed explanation on how the ratios ”probability of occurrence“ and ”extent of damage“ are calculated, the mention of measures to counteract the risk and an implementation schedule must be provided and must be comprehensibly documented. The development of the individual risks is constantly monitored at area level and correspondingly communicated.

The efficiency of the system is monitored internally, further developed and is subject of the audit of the annual financial statements. It fully meets the requirements of § 91 para. 2 AktG (German Stock Corporation Act).

The internal risk management system serves the purpose of the systematic and early identification, assessment and control of risks within the Mühlbauer Group. Risks must be measured, monitored, reduced with suitable counter measures and rendered manageable.

The following sections list risks of which management is aware that they can issue a significant negative impact on the asset, financial and earnings situation of the Group. Even risks that are currently considered to be minor are monitored, as even such risks can negatively impact future business activities.

- **Business-environment and industry risks:**

In an industry with short innovation cycles, high customer requirements and an increasing cost and competitive pressure, it is of particular importance to constantly coordinate one’s products and services with the demands of the market. Any changes of the business environment, of customer requirements or competitive behavior must be kept up-to-date through intensive and permanent analyses and research. As a result, we make use of a variety of different sources of information, which, when they are not sufficiently utilized can result in faulty estimates and depict the market incorrectly. By using a constantly up-to-date and comprehensive information and communications tool, as well as the intensive analysis of existing market information, the Group keeps this risk at a manageable level.

If customer relationships are not observed and maintained, this may lead to a decline of customer satisfaction, which can negatively impact our business if it is not noticed in time. It is therefore necessary to maintain and intensify ongoing contact with our customers. Key account managers who recognize complex correlations, provide optimal customer care around the globe and enter into partnerships with customers are additionally capable of discerning negative trends and to counteract these successfully.

The markets relevant to Mühlbauer place high demands on the product and services portfolio of the company. A high level of specialist competence and flexibility in the development and introduction of innovative technologies present a challenge to Mühlbauer, which could entail the permanent loss of its reputation should it not be able to provide its customers with high-quality and optimum product solutions. To avoid this, Mühlbauer places great value on high quality standards in the product and Human Resources areas and on intensive coordination with customers to avoid any misunderstandings right from the start. Regular team meetings ensure interdisciplinary communication and a target-oriented mode of operation.

Classical contents of large projects such as their technological implementation, specific legal issues, sales, logistics and stable financing repeatedly present new challenges to the company. It is important, particularly with regard to the control and coordination of the project, that experienced and competent staff from the different areas cooperate closely to guarantee high-quality processing within schedule and avoid contractual penalties or claims for damages. This is supported by a risk-oriented customized contract management with the project partners involved, to successfully and effectively counteract risks.

• **Technology risks:**

As a provider of complete turnkey solutions, Mühlbauer operates on a market characterized by brief innovation cycles, short-lived technologies and constantly changing customer requirements. Therefore our business success is highly dependent on not only positioning newly developed and improved products and services on the market optimally and early but also to constantly align their conformity with requirements. Delays due to failures in development can impact the earnings situation of our company quite considerably. Selection of the appropriate base technology and its regular optimization is therefore of major importance when developing a new product. To minimize technological risk we place great value on constant market observations and the internal training of specialists who research new process techniques and develop them so that they can be launched on the market. This is also done in close cooperation with associates and research facilities. In developing new processes, infringements of patent rights may occur, which can result in legal proceedings and – irrespective of this – also in considerable costs. The company therefore has a comprehensive, corporate Patent Management, which assists in the event of queries regarding possible infringements of patent rights.

Extensive research into trademarks must be effected, particularly in newly targeted areas. However, even in existing areas the trademark portfolio must be consistently extended and monitored. Patent Management and Product Management cooperate closely so that the respective product areas are kept informed of relevant trademark issues.

If customers bring into circulation incorrectly manufactured products or defective products – due to the fact that the defect was not recognized by quality-assurance measures and processes – this can result in high follow-up costs, possible callbacks, production downtime or new production through to compensation claims by the customer, thus significantly affecting our asset, financial and earnings situation. Furthermore, this can negatively impact the company's reputation on the market. Continual quality checks, certification by independent external institutions and customized contracts are among the measures intended to keep the risk of financial loss at a manageable level.

With regard to the external procurement of specific components, the latent risk exists of dependence on individual suppliers, which can be aggravated further in the event of a take-over or insolvency. Irrespective of the above, long terms of delivery or quality defects among single-source suppliers can lead to considerable delays in the development and manufacture of products. We counter this risk with a host of risk-minimizing measures such as the permanent optimization of supplier and process certification, the conclusion of quality assurance agreements and the further pursuit of the second-source strategy.

• **IT risks:**

Data availability, data security and data integrity are components that must be ensured by IT to render ensuing risks manageable. The risk of a non-rever-

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sible loss of data is largely minimized at Mühlbauer by the additional daily backup of all data on magnetic tape and regular tests in respect of their retrieval. The company protects itself against serious external attacks on the IT system by utilizing the latest firewall and virus protection software solutions. Irrespective of the measures already taken and the company's good standing in this respect, which has been externally audited and certified, a certain residual risk still remains. Data abuse and data theft are further potential risks in the IT area. The company counters such intrinsic interference with measures including encryption concepts, rights management and the provision of information on data security and data abuse to all staff.

- **Personnel risks:**

As a result of its global orientation and positioning on high-tech markets the company is constantly on the search for highly qualified staff. The recruitment of specialists and executives that meet the company's high requirements and are additionally able to identify with the rural environment on a permanent basis is often difficult. With its open and straightforward corporate culture and its wide range of training and further education measures and additional benefits, the company wants to boost its attractiveness as a long-term and potential employer and acquire external specialists and executives. In parallel, the development of internal specialists and executives is being pushed. The company tries to meet fluctuating demands and the resultant risk of staffing overcapacities without having to effect layoffs, by providing staff with uniform qualification standards, thus being able to deploy employees flexibly, across departments. Limited term contracts also assist in delimiting this risk.

- **Currency risk:**

The global orientation of our business activities results in the fact that certain activities are not executed in euro but predominantly in US dollars. Currency rate fluctuations can have a negative impact on sales and earnings. To hedge against such risks, we not only utilize appropriately designed offers and agreements but also derivative financial tools such as forward exchange deals and currency swaps. The hedging activities cover risks from booked basic business and additionally from pending delivery and service activities. Forward exchange deals are concluded at the time the order is placed or, insofar as market expectations permit, at a later point in time, to cover currency fluctuations until the date of payment. In so doing, planned transactions are covered, as the basic business does not in fact exist at the date of conclusion and only comes into existence once sales have been realized.

With regard to derivative finance tools Mühlbauer is exposed to a credit risk arising through the non-fulfillment of contractual agreements by the contract partners. This credit risk is minimized by only concluding basic business with contract partners with excellent creditworthiness. Corporate control and delimitation of currency risks is effected by Management.

- **Other risks:**

Our business processes can be impacted through damage caused by water, storm or fire. We are protected against such effects by a comprehensive insurance package, which is regularly checked and adjusted as required.

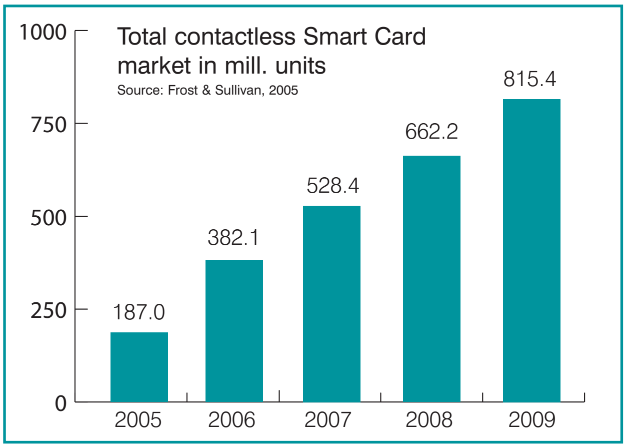
In the past financial year, no risks were identified to the company as a going concern. Risks constituting a threat to the company's continued existence are not discernible.

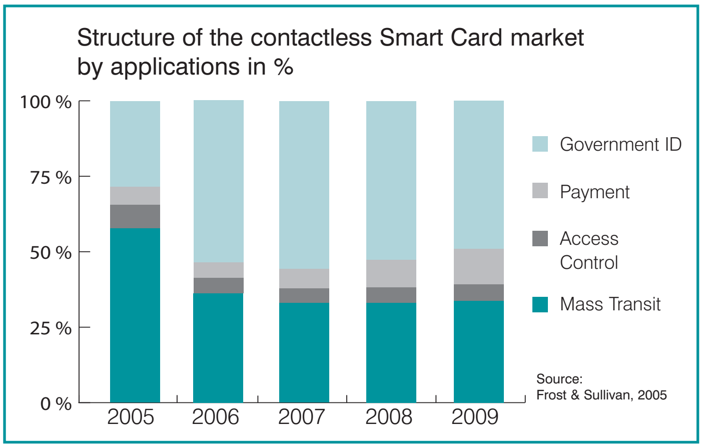
OUTLOOK

Global economy[4] Leading economic research institutes are expecting a slightly stronger expansion of the global economy in 2006, which will, amongst other factors, also depend on further oil price in creases, the upward revaluation of the euro exchange rate and the rise of interest rates. In the USA, GDP growth will lose some of its momentum, as private consumer spending is expected to drop and investment activities of companies are expected to decline as a result of a rise of financing costs. However, in return, the speed of expansion e.g. in Japan is set to increase as income and employment perspectives are improving considerably and a clear upwards trend in domestic demand is discernible as a result. Economic momentum is to lose none of its dynamics, even in China and India, and expand strongly, while economic activity in the euro zone and also in Germany is set to accelerate considerably. A favorable euro exchange rate and a still favorable international environment provide a good basis to further increase exports in 2006, as these still play an important role within the economy. Also, a pull forward effect in respect of private consumer spending is anticipated in Germany as well as increased investment activities for equipment and other assets, with better depreciation conditions.

Industry development In future, the driver of growth on the TECURITY® market will continue to be not the economy but rather the interest of governments and authorities in electronic identification documents with biometric data. Some countries are already issuing these innovative identification documents, in many other states conversion to them is already scheduled or imminent. Thus, all member states of the European Union must introduce electronic passports by 2006. From 2007 these electronic passports must not only include a facial image but must also store two fingerprints. Furthermore, from October 2006, entry to the USA – for the countries participating in the visa waiver program – shall only be possible without a visa if a machine-readable electronic passport is presented, the radio chip of which is capable of storing biometric data. It is therefore to be expected, that most of the 27 states will have introduced the ePass by 2007, at the latest.[5] However, not only ePassports are in demand, other applications such as ID cards or electronic driver's licenses are already increasingly being requested by the authorities of many countries. The market research institute Frost & Sullivan has therefore forecast a constant rise in demand on the Smart Card market for the next few years, which will be increasingly characterized by applications at the government ID level.

Apart from the TECURITY® segment, the market for contactless identification via labels is also predicted to undergo considerable growth. In the past a rising acceptance and use of the RFID technology could already be noted, which is set to increase significantly particularly over the next few years according to industry experts. Depending on which institute provides the figures, the forecasts are somewhat different. However, there is agreement that the RFID market offers great opportunities. The Gartner market research institute, for example, anticipates tremendous growth with regard to investments in the RFID technology and expects the investments to exceed the USD 3 billion mark by 2010. Consequently, investment volume is set to increase six-fold within the next five years. IDTechEx experts are expecting RFID tag sales of 1.3 billion units for the current year and 3.2 billion units for 2007.[6] The management consultancy Forrester Research in fact forecasts 45 billion sold RFID tags for 2009, while Frost & Sullivan expect global sales in respect of RFID equipment to amount to USD 11.6 billion in 2010.[7]





[4] Source: ifo Munich, 2005; DZ Bank, 2005; HWWA, 2005
[5] Source: Keesing Journal of Documents & Identity, Annual Report ePassports 2005 - 2006

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

The anticipated recovery of the semiconductor industry is also included in the positive outlook on future developments. Global growth of the semiconductor industry is expected to accelerate in the years to come. Industry experts have forecast growth of approx. 8% for 2006, while SIA (Semiconductor Industry Association) anticipates growth well above 10% for the following years.[8] According to experts, the fact that the fluctuations on the semiconductor market have reduced considerably, plays an important role. The reason provided for this reduction is supposedly the fact that the semiconductor industry has been able to react faster and more precisely toward fluctuations in demand and new market requirements.

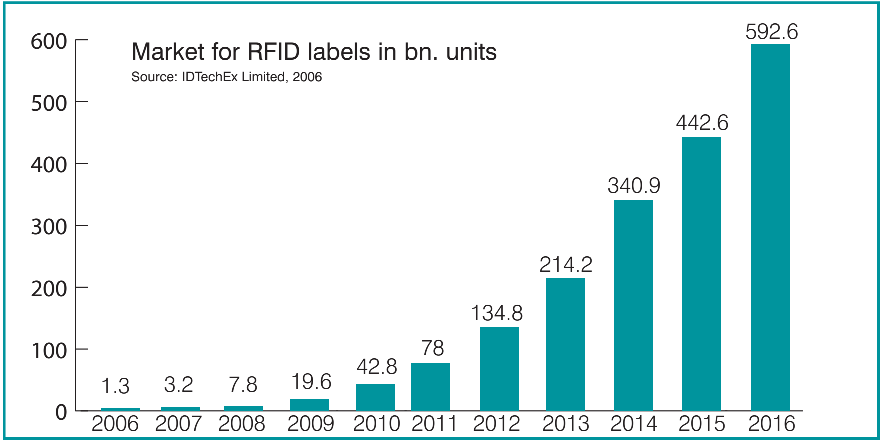
The Mühlbauer technology group considers itself in a good position at the beginning of 2006. The reasons for this are, in particular, the further extension of the product portfolio within the TECURITY® market in 2005, the establishment of the company in strategically important projects and the resultant extension of its market position as well as the clear medium-term solution strategy.

The continuation of many countries' plans to implement security-oriented identification systems in a Smart Card and passport format plays a major role with regard to the further development of the Mühlbauer Group. With its range of solutions in the SmartID area, consisting of innovative products, user-oriented software solutions and clear customer proximity, the company hopes to benefit directly from this growth.

Everything points to the fact that the Smart Label technology will continue to assert itself and that global numbers of these intelligent labels will increase further. Mühlbauer is excellently prepared for this growth and already has mature and innovative technology solutions for the production of RFID Smart Labels. As a result of the varying supply and demand ratio we can, however, not rule out that demand for technology solutions develops contrary to the unit numbers required by the market over certain periods. In view of the high scope for growth, we are in fact expecting competition in the markets relevant to Mühlbauer to sharpen and the price pressure to increase.

Industry experts forecast the continued recovery of the semiconductor industry. With its product lines in the area of Semiconductor Related Products Mühlbauer has specialized on specific niche markets. From experience, these niches do not necessarily reflect the high cyclicity of the semiconductor industry. For this reason we anticipate a business development for the 2006 financial year, which at least corresponds with the general trend.

The trend toward more investments in Traceability should continue in 2006. On the one hand, this is proven by the survey of projects processed with a clear schedule, on the other hand, cautious growth in 2006 is uncontested among experts. The ongoing shift of our customers' production abroad requires investments in the new sites while the remaining sites must also be prepared for the new competitive situation, which again requires investments. Market leadership is targeted on a strongly growing market with traceability solutions; mainly laser marking systems and reading applications. As a result of its market position as well as its innovative and high-quality product portfolio, Mühlbauer considers itself well positioned to continue to benefit from future market developments.



[6] Source: IDTechEx Limited, 2006 [7] Source: Handelsblatt, October 19, 2005 [8] Source: www.sia-online.org

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

The **investments** of up to EUR 7 million scheduled for 2006 will predominantly be made into the further extension of the Roding and Dresden sites. This extension shall be effected in correspondence with the actual development of business. In the course of the further globalization of the Group, investments have been scheduled for the development of locations in Asia. If the year develops on schedule, new jobs will be created abroad.

Mühlbauer expects **business to develop positively**, medium-term as well. In so doing the company is still targeting organic growth that is to be supplemented by selected minor acquisitions.

DISCLAIMER

This Management Report contains future-oriented statements based on assumptions and estimates of Mühlbauer's management. Although we assume the expectations of these forecasts to be realistic, we cannot guarantee that they prove to be correct. The assumptions can bear risks and insecurities, which may lead to a considerable deviation between the actual results and the forecasts. Among the factors that can cause such deviations are changes in the economic and business environment, project-related financing risks, exchange rate and interest rate fluctuations, the introduction of competitive products, a lack of acceptance of new products or services and alterations of the business strategy. An update of the forecasts by Mühlbauer is neither planned nor does Mühlbauer accept an obligation to do so.

The percentages in comparison with the previous year were determined on the basis of the exact figures and may differ from the rounded figures

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (IFRS) FROM JANUARY 1 TO DECEMBER 31, 2005 OF MÜHLBAUER HOLDING AG & CO. KGaA

	Notes	Jan. 01-Dec. 31, 2005 TEUR	%	Jan. 01-Dec. 31, 2004 TEUR	%
1. Sales	(3)	**147,932**	**100.0**	**128,939**	**100.0**
2. Cost of sales	(5)	(83,518)	(56.5)	(75,365)	(58.5)
3. Gross profit		**64,414**	**43.5**	**53,574**	**41.5**
4. Selling expenses	(6)	(9,280)	(6.3)	(7,657)	(5.9)
5. Administrative expenses	(7)	(6,646)	(4.5)	(7,062)	(5.5)
6. Research and development	(8)	(15,264)	(10.3)	(13,048)	(10.1)
7. Other income	(9)	653	0.4	1,535	1.2
8. Other expenses	(9)	(803)	(0.5)	(104)	(0.1)
9. Operating income		**33,074**	**22.3**	**27,238**	**21.1**
10. Financial result					
a) Financial income	(10)	2,335	1.6	1,048	0.8
b) Financial expenses	(10)	(741)	(0.5)	(409)	(0.3)
11. Income before income taxes		**34,668**	**23.4**	**27,877**	**21.6**
12. Income taxes	(11)	(11,648)	(7.9)	(10,054)	(7.8)
13. Net earnings		**23,020**	**15.5**	**17,823**	**13.8**
Earnings per share in EURO					
basic	(12)	1.59		1.23	
fully diluted	(12)	1.59		1.23	
Weighted average of shares					
basic	(12)	6,072,107		6,066,989	
fully diluted	(12)	6,072,459		6,066,989	

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

CONSOLIDATED BALANCE SHEETS (IFRS) AS AT DEC. 31, 2005 OF MÜHLBAUER HOLDING AG & CO. KGaA

	Notes	Dec. 31, 2005 TEUR	Dec. 31, 2004 TEUR
ASSETS			
Short-term assets			
Cash and cash equivalents	(13)	13,507	20,365
Marketable securities	(14)	32,687	13,561
Trade accounts receivables, net	(15)	21,985	22,462
Other current assets	(16)	2,441	2,461
Tax receivables	(17)	976	670
Inventories	(18)	33,532	32,216
		105,128	**91,735**
Long-term assets			
Investment and long-term financial assets			
Marketable securities	(19)	10,809	10,134
Trade accounts receivables, net	(15)	279	7
		11,088	**10,141**
Fixed assets			
Land and buildings, net	(20)	27,343	28,916
Technical equipment, net	(20)	5,965	5,010
Furniture and office equipment, net	(20)	5,510	5,481
Buildings and equipment in progress	(20)	200	65
		39,018	**39,472**
Intangible assets			
Software and licenses	(21)	638	411
Capitalized development costs	(21)	7,774	6,459
		8,412	**6,870**
Deferred tax assets	(11)	**99**	**234**
Other fixed assets	(25)	510	28
		510	**28**
		164,255	**148,480**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term liabilities			
Debt	(22)	960	1,023
Trade accounts payable		6,150	8,383
Downpayments received on orders		10,330	4,704
Other liabilities	(23)	6,385	5,496
Accrued income taxes	(24)	2,919	7,230
Other accruals	(24)	8,256	5,699
		35,000	**32,535**
Long-term liabilities			
Debt	(22)	0	925
Deferred tax liabilities	(11)	4,109	4,187
		4,109	**5,112**
Shareholders' equity			
Ordinary share capital (par value 1.28 EUR; 6,380,000 ordinary shares authorized; 6,279,200 ordinary shares issued, there of 6,076,763 ordinary shares outstanding)	(26)	8,038	8,038
Own shares	(26)	(259)	(285)
Fixed capital contribution	(26)	(2,980)	(2,980)
Additional paid-in capital	(26)	59,319	58,739
Other comprehensive income	(26)	2,219	1,429
Retained earnings	(26)	58,809	45,892
		125,146	**110,833**
		164,255	**148,480**

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

CONSOLIDATED STATEMENTS OF CASHFLOWS (IFRS) OF MÜHLBAUER HOLDING AG & CO. KGaA

			Jan. 01 - Dec. 31, 2005 TEUR	Jan. 01 - Dec. 31, 2004 TEUR
Cash provided by operating activities				
1.		Net earnings	23,020	17,823
2.	+	Income taxes	11,648	10,054
3.	+	Interest expenses	507	191
Adjustments for non cash expenses and income				
4.	+/-	Expenses/(income) from employee profit-sharing programs	121	249
5.	+/-	Depreciations/(appreciations) to fixed assets	5,780	5,691
6.	+/-	Depreciations/(appreciations) to intangible assets	392	735
7.	+/-	Depreciations/(appreciations) to capitalized development costs	1,727	1,187
8.	+/-	(Gains)/losses from the sale of fixed assets	(161)	6
9.	+/-	Currency differences from the transition of fixed assets	(10)	0
10.	+/-	Realized net (gains)/losses from short- and long-term marketable securities	(889)	(5)
11.	+/-	(Gains)/losses from the change in fair value of financial instruments	(32)	(67)
12.	+/-	(Increase)/decrease of deferred tax assets	135	721
13.	+/-	Increase/(decrease) of deferred tax liabilities	12	436
Changes in working capital				
14.	+/-	(Increase)/decrease of inventories	(1,316)	2,011
15.	+/-	(Increase)/decrease of trade accounts receivables and other short-term assets	(531)	(1,633)
16.	+/-	Increase/(decrease) of trade accounts payables and other liabilities	7,634	9,081
17.	=	Cash generated from operating activities	48,037	46,480
18.	-	Income tax paid	(15,799)	(5,414)
19.	-	Interest paid	(105)	(173)
20.	=	Cash provided by operating activities	32,133	40,893
Cashflow from investing activities				
21.	+	Proceeds from disposals of fixed assets	294	236
22.	-	Purchase of fixed assets	(6,755)	(11,366)
23.	-	Purchase of intangible assets	(670)	(340)
24.	-	Expenditures for capitalized development costs	(3,042)	(2,023)
25.	+	Proceeds from sales of long-term marketable securities (available-for-sale-papers)	300	1,121
26.	-	Acquisitions of long-term marketable securities (available-for-sale-papers)	(4,850)	(2,201)
27.	+	Proceeds from sales of short-term marketable securities (available-for-sale and held-to-maturity papers)	2,588	709
28.	-	Acquisitions of short-term marketable securities (available-for-sale and held-to-maturity papers)	(9,753)	(843)
29.	=	Cash used for investing activities	(21,888)	(14,707)
Free cashflow			22,726	27,163
Cashflow from financing activities				
30.	-	Repayment of long-term debts	(925)	(988)
31.	+/-	Increase/(decrease) of short-term debts	(63)	(2)
32.	-	Purchase of own shares	0	(995)
33.	+	Proceeds from sales of own shares	485	253
34.	-	Dividends paid	(9,033)	(6,554)
35.	+/-	Tax withdrawal personally liable shareholder	(1,070)	(841)
36.	=	Cash used for financing activities	(10,606)	(9,127)
37.	+/-	Increase / (decrease) of currency exchange rate changes	429	(238)
38.	=	Net increase/(decrease) in cash and cash equivalents (Total of lines 20, 29, 36 and 37)	68	16,821
39.	+	Liquid funds on January 1	29,418	12,597
40.	=	Liquid funds on December 31	29,486	29,418

We refer to additional informations on page 69 of the accompanying notes.
The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Notes	Total number of shares	Own shares	Ordinary share capital TEUR	Fixed capital TEUR	Additional paid-in capital TEUR	Other comprehensive income/(loss): Cumulative transaction adjustments TEUR	Other comprehensive income/(loss): Available for-sale-securities TEUR	Retained earings TEUR	Total TEUR
Balance Dec. 31, 2003		**6,279,200**	**(203,765)**	**7,777**	**(2,980)**	**58,676**	**0**	**1,053**	**35,996**	**100,522**
Net earnings		-	-	-	-	-	-	-	17,823	17,823
Other comprehensive income/(loss)	(26)	-	-	-	-	-	(238)	614	-	376
Total comprehensive income/(loss)	(26)	-	-	-	-	-	(238)	614	17,823	18,199
Deferred compensation	(26)	-	-	-	-	249	-	-	-	249
Purchase of own shares	(26)	-	(35,964)	(46)	-	(417)	-	-	(532)	(995)
Proceeds from sales of own shares	(26)	-	17,325	22	-	231	-	-	-	253
Tax withdrawal personally liable shareholder	(26)	-	-	-	-	-	-	-	(841)	(841)
Dividends	(26)	-	-	-	-	-	-	-	(6,554)	(6,554)
Balance Dec. 31, 2004		**6,279,200**	**(222,404)**	**7,753**	**(2,980)**	**58,739**	**(238)**	**1,667**	**45,892**	**110,833**
Net earnings		-	-	-	-	-	-	-	23,020	23,020
Other comprehensive income/(loss)	(26)	-	-	-	-	-	429	361	-	790
Total comprehensive income/(loss)	(26)	-	-	-	-	-	429	361	23,020	23,810
Deferred compensation	(26)	-	-	-	-	121	-	-	-	121
Purchase of own shares	(26)	-	-	-	-	-	-	-	-	0
Proceeds from sales of own shares	(26)	-	19,967	26	-	459	-	-	-	485
Tax withdrawal personally liable shareholder	(26)	-	-	-	-	-	-	-	(1,070)	(1,070)
Dividends	(26)	-	-	-	-	-	-	-	(9,033)	(9,033)
Balance Dec. 31, 2005		**6,279,200**	**(202,437)**	**7,779**	**(2,980)**	**59,319**	**191**	**2,028**	**58,809**	**125,146**

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

Notes

A. GENERAL INFORMATION

(1) BASIC PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The following standards and interpretations were not voluntarily applied prematurely and must be applied from 2006 onwards:

IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Scope of SIC-12 consolidation – special purpose entities

Premature application of the above standards would have no impact on the consolidated financial statements as Mühlbauer Holding AG & Co. KGaA and its subsidiaries do not own corresponding assets or the statement of equity and external funds would remain unchanged.

A transition in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards" between US-GAAP and IFRS is effected in section F "Other notes".

The consolidated financial statements are drawn up in euro, which represents both the functional currency and the reporting currency of the company. Insofar as no other representation is pointed out, all amounts shown in these consolidated financial statements relate to thousand euro ("TEUR"). Negative values are represented in brackets.

The consolidated financial statements are prepared on the basis of historical cost, restricted by the financial assets that are available for disposal as well as financial assets and financial liabilities (including derivative financial instruments) that have an effect on the statements of income at the fair value.

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

- Trade accounts receivables
- Inventories
- Development expenses
- Accruals

Any change of estimate is recorded for the respective period and offset against the item in respect of which it was formed.

(2) SUMMARY OF KEY ACCOUNTING PRINCIPLES

PRINCIPLES OF CONSOLIDATION

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

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

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

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

On December 31, 2005, the scope of consolidation of the company not only comprised Mühlbauer Holding AG & Co. KGaA but also a further 7 subsidiaries in Germany and 3 abroad as well as a special fund.

The companies in which the group holds shares and their equity and annual result, determined in accordance with the regulations of the respective country, are shown below.

German companies:

Name and registered office	Share in equity in %	Equity in TEUR	Annual result in TEUR
Mühlbauer Aktiengesellschaft, Roding	100	66,229	15,607
ASEM Präzisions-Automaten-GmbH, Dresden	100	2,203	779
Rommel GmbH, Ehingen	100	3,169	300
Systronic Systemlösungen für die Elektronikindustrie GmbH, Flein	100	831	19
Tema GmbH, Schwelm	100	2,085	437
Mühlbauer ID Services GmbH, Roding	100	1,465	2,433
takeID GmbH, Oberhaching	100	(18)	82
Special fund (separate assets)[1]	100	21,968	624

Foreign companies:

Name and registered office	Share in equity in %	Equity in TEUR[2]	Annual result in TEUR[3]
Mühlbauer, Inc., Newport News, Virginia, USA	100	922	133
Muhlbauer Sdn. Bhd., Melaka, Malaysia	100	1,814	1,009
Muehlbauer Middle East FZ-LLC, Dubai United Arab Emirates[4]	100	(14)	(37)

[1] Financial year from Dec. 1 to Nov. 30, [2] Translation at the exchange rate on the reporting date Dec. 31, 2005, [3] Translation at the transaction rate, [4] Initial consolidation on Oct. 6, 2005

CHANGES IN THE SCOPE OF CONSOLIDATION

On October 6, 2005, the group founded Muehlbauer Middle East FZ-LLC. Entry into the Commercial Register of the "Technology and Media Free Zone Authority" of Dubai was effected as no. 20328. The registered office of Muehlbauer Middle East FZ-LLC is "Dubai Internet City", United Arab Emirates. Muehlbauer Middle East FZ-LLC has the function of a sales and service company for a firmly defined licensed territory allocated to it. The purpose of the company is, in particular, the sale of "Smart-ID" technologies and semiconductor related products as well as the service and support for such technologies and products. The subscribed capital of the company is AED 100,000 and is divided into 100 no-par value shares with a notional share in the subscribed capital of AED 1,000 per no-par value share.

CURRENCY TRANSLATION

The annual financial statements of subsidiaries drawn up in foreign currencies are translated in accordance with the concept of the functional currency. As the subsidiaries are economically independent entities, the functional currency of the subsidiary corresponds with the respective local currency. In so doing, the exchange rate on the reporting date is used for the items on the balance sheet – with the exception of equity, which is translated at historic exchange rates – while the items on the statement of income are translated using the exchange rate at the time of the transaction. Any differences in the currency translation of assets and debt over the translation of the previous year, as well as differences in translation between the statement of income and the balance sheet are listed separately within equity at ”Other comprehensive income“, with no effect on the income statement.

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

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

Currency:		Rate on reporting date December 31, 2005 EUR	Rate on reporting date December 31, 2004 EUR	Average rate 2005 EUR	Average rate 2004 EUR
Malaysia	100 MYR	22.2997	19.3098	21.1917	21.1494
USA	1 USD	0.8443	0.7329	0.8030	0.8039
United Arab Emirates	1 AED	0.2298	0.1996	0.2186	0.2188

REALIZATION OF SALES AND OTHER OPERATING INCOME

Sales comprise the fair value achieved in respect of the sale of goods and services, excluding sales tax and discounts and after elimination of sales within the Group. Sales are realized as follows:

Sales proceeds from the sale of products are recorded in correspondence with the criteria of IAS 18 ”Revenue“ if the relevant opportunities and risks were transferred and no right of disposal or effective authority to dispose remains, a price has been agreed or can be defined and the payment of the price can be expected and the costs pertaining to the sale can be reliably determined. In substantiating these criteria, the company defines the following conditions for a listing as sales:

- Pre-acceptance tests were successfully executed.
- Pre-acceptance tests have been proven to be reliable indicators of successful final acceptance and their share in installation is considered insignificant with regard to the overall order value.
- Opportunities and risks connected with the ownership have been transferred to the customer.

Under certain circumstances it may be necessary to apply the criteria to individual delimitable components of an entire agreement to depict the economic content of the transaction appropriately.
With regard to the division of the entire agreement value, the so-called ”Relative Fair Value Method“ is to be utilized, on principle. According to this method, the agreement value must be divided up at the ratio of the fair values of the individual elements.

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

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at market value and comprise cash, demand deposits, other short-term highly liquid financial assets with an original term of three months at most, as well as advances on current accounts. On the balance sheet, advances on current accounts that have been utilized are shown under the short-term liabilities as debt.

TRADE ACCOUNTS RECEIVABLES

Trade accounts receivables with a term of up to one year are valued at their fair value, trade accounts receivables with a term of more than one year are valued at amortized cost in accordance with the effective interest rate method. Default risks are taken into consideration through value adjustments. The company controls such risks through a consistent management of receivables fitted with escalation processes and linked to regular reporting as well as an extensive creditworthiness check of new customers.

INVENTORIES

Inventories in the form of unfinished and finished products are valued at acquisition or production cost whereas raw, auxiliary and operating materials are predominantly valued at the moving average price. In accordance with IAS 2 "Inventories (2004)" cost of production not only comprises the directly attributable individual costs but also the overheads attributable to the production process including appropriate depreciation to production systems. Financing costs are not taken into consideration. Where necessary, the lower realizable net sales value is used.

FINANCIAL ASSETS

Financial assets are divided into the categories "at fair value through profit or loss, held to maturity" and "available for sale" and are each valued separately and individually at their market value. Any alterations of market value are settled as income for such assets that are held for trading purposes (at fair value through profit or loss). Financial assets to be held until final maturity (held to maturity) are valued at amortized cost. Unrealized profits and losses in respect of securities that are allocated to the category "available for sale", due to their categorization as financial assets available for disposal, are included in equity. If securities of the category "available for sale" are disposed of or impaired, the adjustments of the fair value accumulated in equity are recorded in the statement of income as income, as profits or losses from financial assets. Initial recording and the disposal of financial assets is effected as soon as the underlying transaction is executed.

Classification is dependent on the respective purpose for which the financial assets were acquired. Management determines the classification of the financial assets on initial recording and checks the classification on every reporting date.

Financial assets are listed as short-term assets if they are either held for trading purposes or are most likely realized within 12 months after the reporting date.

FIXED ASSETS

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

In the event of public grants or allowances for the acquisition or production of assets, the acquisition and production costs are reduced by the amount granted or allowed, in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance (2004)".

The assets included in fixed assets – with the exception of real estate – are depreciated on a straight-line basis, in correspondence with their utilization. The depreciation of buildings is based on a period of utilization of up to 33 years. Technical equipment is depreciated over a maximum of 10 years. Depreciation for other assets and furniture and office equipment is 3 to 10 years.

Profits and losses from the disposal of assets are determined as the difference between the disposal proceeds and the asset value and recorded as income.

INTANGIBLE ASSETS

Intangible assets comprise software, concessions, licenses, trademarks and similar rights as well as goodwill and capitalized development costs including any advance payments made towards such rights and values.

Intangible assets are stated with their amortized acquisition and production costs. In so doing, concessions, licenses, trademarks and software are on principle depreciated on a straight-line basis over a period of 3 years.

Goodwill from business acquisitions are not subjected to scheduled depreciation in accordance with IFRS 3 "Business Combinations" in connection with IAS 36 "Impairment of Assets" as well as IAS 38 "Intangible Assets (2004)". Instead, the impairment of goodwill is investigated annually. In so doing, the net asset values of goodwill are offset against the discounted cashflows expected in accordance with medium-term planning and a subsequent government perpetuity of the respective units.

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

DEFERRED TAX ASSETS

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

DERIVATIVE FINANCIAL INSTRUMENTS

To hedge risk positions from currency fluctuations the company also utilizes derivative financial instruments such as forward exchange deals and currency swaps. The hedging transactions cover risks from booked basic business and, on top of that, from pending delivery and service activities. With regard to derivative financial instruments the Mühlbauer Group is exposed to a credit risk through non-fulfilment of contractual agreements by the contract partner. This credit risk is minimized by only concluding basic business with contract partners of excellent creditworthiness. Corporate control and delimitation of currency risks is effected by Management.

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

PENSION AND POSTRETIREMENT BENEFITS

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

OTHER ACCRUALS

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

DEBT

The first time debt is posted this is effected at the fair value, after deducting transaction costs. In following periods they are valued at amortized cost; every difference between the payment amount (after deduction of transaction costs) and the repayment amount is recorded as income over the term of the loan, utilizing the effective interest rate method.

Amounts due to banks with a term of less than 12 months after the reporting date are considered short-term liabilities.

DEFERRED TAX LIABILITIES

Deferred taxes result from different valuations in the commercial and tax balance sheets of the group companies and from consolidation measures, insofar as these differences balance out in the course of time. The delimitation of deferred taxes is effected in accordance with IAS 12 ”Income Taxes“. The tax rates current in the individual countries on the reporting date or resolved and known future tax rates are applied in accordance with the ”Liability Method“. Deferred tax assets and deferred tax liabilities are only offset if the law allows for this. Deferred tax liabilities are not discounted, in accordance with the regulations of IAS 12 ”Income Taxes“.

STOCK OPTION PLANS

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

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

The valuation of the stock options granted is effected on the basis of the fair value method in accordance with IFRS 2 ”Share-based Payment (2004)“ and by applying the Black-Scholes option pricing model. IFRS 2 ”Share-based Payment (2004)“ was not applied to stock options assured before November 8, 2002, and stock options granted after November 7, that became non-forfeitable before January 1, 2005. Such stock options are valued on the basis of the intrinsic value method in accordance with APB 25 ”Accounting for Stock Issued to Employees“.

B. EXPLANATIONS TO THE CONSOLIDATED STATEMENTS OF INCOME

(3) SALES

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

(4) COSTS OF FUNCTIONAL AREAS

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

	2005 TEUR	2004 TEUR
Material expenses (External supplies)	47,518	39,621
Personnel expenditure	49,890	45,044
Depreciation	7,026	6,782
Total	**104,434**	**91,447**

(5) COST OF SALES

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

(6) SELLING EXPENSES

In addition to the costs of the sales departments and the field staff, marketing and distribution costs also comprise advertising costs (TEUR 650; PY: TEUR 783) and costs for logistics (TEUR 1,250; PY: TEUR 1,006). The position also includes the major share of devaluations on trade accounts receivables. In the year under review, value adjustment expenses on trade accounts receivables and other financial assets amounted to TEUR 332 (PY: TEUR 77).

(7) ADMINISTRATIVE EXPENSES

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

(8) RESEARCH AND DEVELOPMENT

In accordance with IAS 38 ”Intangible Assets (2004)“, all research costs under this position are directly recorded as expenses. The costs from the development of a product which is ready for the market are capitalized if they meet the criteria for the capitalization of development costs. The non-capitalizable development costs are listed under this position. Research and development expenses and depreciation on capitalized development costs before capitalized own funds amounted to TEUR 18,306 (PY: TEUR 15,070) in the past financial year. Research costs include refunds for research and development of TEUR 684 (PY: TEUR 781).

(9) OTHER INCOME AND EXPENSES

	2005 TEUR	2004 TEUR
Canteen earnings	308	224
Gains from the sale of fixed assets	170	74
Other	127	205
Insurance and other reparations	48	205
Disappearance of liabilities	-	439
Foreign currency profits (losses)	(744)	388
Donations	(49)	(24)
Losses from the sale of fixed assets	(10)	(80)
Total	**(150)**	**1,431**

(10) FINANCIAL RESULT

	2005 TEUR	2004 TEUR
Interest and dividend income from fixed-interest securities	918	530
Other interest and similar earnings	472	296
Earnings from the valuation of assets and debts	-	147
Realized income from securities and financial assets	945	75
Financial income	2,335	1,048
Interest and similar expenses	(507)	(191)
Expenses from the valuation of assets and debts	(178)	-
Realized losses from securities and financial assets	(56)	(218)
Financial expenses	(741)	(409)
Total	**1,594**	**639**

(11) INCOME TAXES

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

	2005 TEUR	2004 TEUR
Actual national tax expenditure	11,681	8,968
Actual international tax expenditure	66	76
Actual tax expenditure	**11,747**	**9,044**
Relating to other periods	9	63
(Earnings) from the dissolution of accrued income taxes	(18)	(147)
(Earnings) from the application of tax credits	(218)	-
Actual taxes on income and earnings	**11,511**	**8,897**
National deferred tax expenses (gains)	120	1.105
International deferred tax expenses (gains)	17	52
Taxes on income and earnings	**11,648**	**10,054**

Tax expenditure comprises corporation and trade income taxes of the national companies and comparable income taxes of the international companies. Other taxes are included in the respective functional areas. Deferred taxes result from valuations that deviate in time between the tax balance sheets of the companies and the valuations in the consolidated balance sheet, taking into consideration the "Liability method".

The reconciliation of the deferred tax assets and liabilities on the balance sheet and the deferred taxes in the statement of income is represented as follows:

	2005 TEUR	2004 TEUR
Changes in deferred tax assets in acc. w. the balance sheet	(135)	(721)
Changes of deferred tax liabilities in acc. w. the balance sheet	78	(505)
Changes of deferred tax assets/liabilities that do not affect income	(89)	69
Exchange rate fluctuation	9	-
Deferred taxes in acc. w. the statement of income	**(137)**	**(1,157)**

On the reporting date the subsidiaries of Mühlbauer Holding AG & Co. KGaA had corporation tax loss carryovers of TEUR 228 (PY: TEUR 1,559) and trade income tax loss carryovers of TEUR 228 (PY: TEUR 1,523). The reduction of tax loss carryovers in 2005 resulted in a higher income tax burden of TEUR 533 (PY: TEUR -165). Overall, the deferred tax assets from future tax benefits amount to TEUR 93 (PY: TEUR 626). All loss carryovers can be carried over indefinitely.

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

		December 31, 2005		December 31, 2004
	Assets TEUR	Liabilities TEUR	Assets TEUR	Liabilities TEUR
Trade accounts receivables, net	6	-	-	665
Inventories	17	121	62	198
Marketable securities	-	66	-	147
Fixed assets	323	1,683	339	1,758
Capitalized development costs	-	2,836	-	2,357
Pension accruals	326	-	292	-
Unrealized profits and losses from currency translation	2	33	-	119
Tax loss carryovers	93	-	626	-
Other	71	109	6	34
Subtotal	838	4,848	1,325	5,278
Balance of deferred tax assets and liabilities	(739)	(739)	(1,091)	(1,091)
Total deferred taxes	**99**	**4,109**	**234**	**4,187**

Deferred tax assets and liabilities are offset if deferred taxes exist in respect of the same tax authority. The probable realization of deferred tax assets and liabilities can be found in the following table:

		December 31, 2005		December 31, 2004
in TEUR	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Realization within 12 months	99	559	90	770
Realization after more than 12 months	-	3,550	144	3,417
	99	**4,109**	**234**	**4,187**

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

		2005	2004
Income before income taxes	TEUR	34,668	27,877
Rate of income tax including trade tax	%	36.7	36.7
Expected income tax expenditure with uniform tax burden	**TEUR**	**(12,721)**	**(10,238)**
Reconciliation:			
Deviating national tax burden	TEUR	158	173
Deviating international tax burden	TEUR	335	40
Tax share for:			
Tax-free earnings	TEUR	31	8
Non-tax deductible expenditure	TEUR	(102)	(410)
Actual taxes relating to other periods	TEUR	12	61
Tax credits from previous years	TEUR	218	-
Income tax expenditure before tax reduction on earnings related to the personally liable shareholder	**TEUR**	**(12,069)**	**(10,366)**
Effective tax rate	%	34.8	37.2
Tax saving on earnings related to the personally liable shareholder	TEUR	421	312
Income tax expenditure shown	**TEUR**	**(11,648)**	**(10,054)**
Tax rate in acc. w. the statement of income	%	33.6	36.1

The tax saving on earnings related to the personally liable shareholder arises due to the fact that the corporation tax and the solidarity surcharge on the earnings of the personally liable shareholder need not be posted by the company. These taxes are directly attributable to the personally liable shareholder and are individually taxed by him, irrespective of the tax rates applicable to the company. The percentage of tax expenditure before tax reduction on earnings related to the personally liable shareholder (34.8%, PY: 37.2%) thus corresponds with the effective tax rate that is to be applied on the earnings attributable to the shareholder of the limited partnership.

(12) EARNINGS PER SHARE

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

		2005	2004
Income before income taxes	TEUR	34,668	27,877
Portion of share capital in total capital	%	42.73	42.73
Portion of income before income taxes applicable to the shareholders of the lim. part.	TEUR	14,814	11,912
Effective tax rate	%	34.8	37.2
Effective tax amount	TEUR	5,155	4,430
Portion of net earnings for the year applicable to the shareholders of the lim. part.	TEUR	9,659	7,482
Weighted average of common shares	No.	6,279,200	6,279,200
Repurchased shares (weighted)	No.	(207,093)	(212,211)
Weighted average of shares issued	No.	6,072,107	6,066,989
Dilution effects from subscription rights of employees and executives	No.	352	-
Weighted average of shares issued (fully diluted)	No.	6,072,459	6,066,989
Basic earnings per share	EUR	1.59	1.23
Diluted earnings per share	EUR	1.59	1.23

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

C. EXPLANATIONS ON THE CONSOLIDATED BALANCE SHEETS

(13) CASH AND CASH EQUIVALENTS

in TEUR	December 31, 2005	December 31, 2004
Deposits with financial institutions	13,464	20,251
Checks, cash and amounts due on demand	43	114
	13,507	**20,365**

The development of cash and cash equivalents that form the liquid funds in accordance with IAS 7 ”Cash Flow Statements (2004)“ is represented in the statements of cashflows.

(14) MARKETABLE SECURITIES

in TEUR	December 31, 2005	December 31, 2004
Securities of the category ”available for sale“		
Shares and comparable securities	11,701	4,063
Bonds	4,007	306
Money market papers	-	9,192
Securities of the category ”held to maturity“		
Shares and comparable securities	16,979	-
	32,687	**13,561**

Marketable securities are common short-term securities of the categories ”available for sale“ and ”held to maturity“. The valuation of the ”available for sale“ securities is effected at market value, while changes within the context of the normal volatility of market values are directly taken into account in equity. Reporting of the ”held to maturity“ securities is effected at amortized cost.

(15) TRADE ACCOUNTS RECEIVABLES

in TEUR	December 31, 2005			December 31, 2004		
	residual term of up to 1 year	residual term of more than 1 year	Total	residual term of up to 1 year	residual term of more than 1 year	Total
Trade accounts receivables, net	23,329	279	23,608	24,110	7	24,117
Less value adjustments	(1,344)	-	(1,344)	(1,648)	-	(1,648)
	21,985	**279**	**22,264**	**22,462**	**7**	**22,469**

The short-term trade accounts receivables are reported at their fair values. The long-term share of these receivables is discounted with a factor of 3%, unchanged to the previous year. The resultant interest amounted to TEUR 26 (PY: TEUR 0).

(16) OTHER CURRENT ASSETS

in TEUR	December 31, 2005	December 31, 2004
Paid deposits	830	239
Investment grants	364	504
Sales tax receivables	358	160
Interest receivables	317	248
Investment and technology grants	173	852
Deferred expenses	153	149
Receivables from suppliers	31	50
Security deposits	9	49
Derivative financial instruments	1	74
Other	205	136
	2,441	**2,461**

The other current assets are reported at their fair value. If default risks or other risks exist, they are taken into consideration through value adjustments. With regard to the market values of the financial instruments, we herewith refer to information provided in the note (29).

(17) TAX RECEIVABLES

The tax receivables of TEUR 976 (PY: TEUR 670) comprise corporation tax and the solidarity surcharge of the national companies as well as comparable income taxes of the international companies.

(18) INVENTORIES

in TEUR	December 31, 2005	December 31, 2004
Raw materials, auxiliary and operating materials	6,175	6,076
Unfinished products	23,284	22,611
Finished products	4,073	3,529
	33,532	**32,216**

Of the inventories reported on December 31, 2005, TEUR 6,239 (PY: TEUR 9,422) was valued at its net disposal value. In the year under review inventory assets were devalued by TEUR 5,827 (PY: TEUR 5,533). Through the change of criteria for the determination of inventory risks resulting from fluctuations on the market, TEUR 2,969 higher valuation discounts have arisen against the previous year.

(19) FINANCIAL ASSETS

in TEUR	Fixed asset securities of the category ”available for sale“
Accumulated acquistition values	
January 1, 2004	8,919
Additions	2,201
Retirements	(1,085)
Reclassification in other securities of current assets	(300)
December 31, 2004	9,735
Additions	4,850
Retirements	-
Reclassification in other securities of current assets	(4,014)
December 31, 2005	**10,571**
Accumulated changes in value	
January 1, 2004	322
Write-ups/(depreciation)	7
Retirements	(36)
Reclassification in other securities of current assets	(6)
Adjustment of financial assets to market values not affecting income	112
December 31, 2004	399
Write-ups/(depreciation)	(80)
Retirements	(1)
Reclassification in other securities of current assets	7
Adjustment of financial assets to market values not affecting income	(87)
December 31, 2005	**238**
Market values	
December 31, 2004	10,134
December 31, 2005	**10,809**

Financial assets of the category ”available for sale“ are on principle stated at market value, any changes of market value are taken into equity without affecting income.

Residual term of financial assets in TEUR	December 31, 2005 Acquisition values	December 31, 2005 Market values
Between 1 and 2 years	2,898	2,862
Between 2 and 5 years	6,594	6,839
Between 6 and 10 years	1,079	1,108
	10,571	**10,809**

(20) FIXED ASSETS

in TEUR	Land, rights similar to land and buildings , including buildings on property owned by others	Technical equipment, net	Other assets, net furniture and office equipment	Advances paid on fixed assets and buildings and equipment in progress	Total
Accumulated acquisition values					
January 1, 2004	37,035	29,978	17,533	40	84,586
Currency adjustments	-	-	-	-	-
Additions	4,629	1,513	3,058	4,060	13,260
Retirements	-	(541)	(1,452)	(4,035)	(6,028)
December 31, 2004	41,664	30,950	19,139	65	91,818
Currency adjustments	-	-	61	-	61
Additions	52	2,054	2,353	185	4,644
Retirements	-	(1,011)	(2,327)	(9)	(3,347)
Transfers	(66)	170	(65)	(41)	(2)
December 31, 2005	**41,650**	**32,163**	**19,161**	**200**	**93,174**
Accumulated depreciation					
January 1, 2004	(11,289)	(25,077)	(12,826)	-	(49,192)
Currency adjustments	-	-	-	-	-
Additions	(1,459)	(1,404)	(2,042)	-	(4,905)
Retirements	-	541	1,210	-	1,751
December 31, 2004	(12,748)	(25,940)	(13,658)	-	(52,346)
Currency adjustments	-	-	(46)	-	(46)
Additions	(1,557)	(1,221)	(2,197)	-	(4,975)
Retirements	-	966	2,247	-	3,213
Transfers	(2)	(3)	3	-	(2)
December 31, 2005	**(14,307)**	**(26,198)**	**(13,651)**	**-**	**(54,156)**
Residual book values					
December 31, 2004	28,916	5,010	5,481	65	39,472
December 31, 2005	**27,343**	**5,965**	**5,510**	**200**	**39,018**

The fixed assets acquired or produced in the financial year have been reduced by grants and allowances totaling TEUR 1,129 (PY: TEUR 2,141).

Depreciation expenses have been taken into account as follows: TEUR 2,818 (PY: TEUR 3,145) in cost of sales, TEUR 734 (PY: TEUR 639) in selling expenses, TEUR 774 (PY: TEUR 578) in administrative expenses and TEUR 649 (PY: TEUR 543) in research and development expenses.

(21) INTANGIBLE ASSETS

in TEUR	Licenses, trademarks and patents, etc. as well as licenses to such rights and assets	Capitalized development costs	Goodwill	Total
Accumulated acquisition values				
January 1, 2004	4,506	7,015	785	12,306
Currency adjustments	-	-	-	-
Additions	288	2,022	-	2,310
Retirements	-	-	-	-
December 31, 2004	4,794	9,037	785	14,616
Currency adjustments	-	-	-	-
Additions	549	3,042	-	3,591
Retirements	(954)	(667)	-	(1,621)
Transfers	-	-	-	-
December 31, 2005	**4,389**	**11,412**	**785**	**16,586**
Accumulated depreciation				
January 1, 2004	(4,162)	(1,391)	(317)	(5,870)
Currency adjustments	-	-	-	-
Additions	(221)	(1,187)	(468)	(1,876)
Retirements	-	-	-	-
December 31, 2004	(4,383)	(2,578)	(785)	(7,746)
Currency adjustments	-	-	-	-
Additions	(322)	(1,727)	-	(2,049)
Retirements	954	667	-	1,621
Transfers	-	-	-	-
December 31, 2005	**(3,751)**	**(3,638)**	**(785)**	**(8,174)**
Residual book values				
December 31, 2004	411	6,459	-	6,870
December 31, 2005	**638**	**7,774**	**0**	**8,412**

The intangible assets acquired or produced in the financial year have been reduced by grants amounting to TEUR 135 (PY: TEUR 52). Depreciation on capitalized development costs includes extraordinary depreciation of TEUR 169 (PY: TEUR 0).

Depreciation on intangible assets of TEUR 40 (PY: TEUR 52) was recorded as income in the statement of income via cost of sales; TEUR 55 (PY: TEUR 55) in selling expenses, TEUR 28 (PY: TEUR 481) in administrative costs and TEUR 1,926 (PY: TEUR 1.288) in research and development expenses.

(22) DEBT

in TEUR	With a residual term of up to 1 year	With a residual term of more than 1 year	Total (December 31, 2005)	With a residual term of up to 1 year	With a residual term of more than 1 year	Total (December 31, 2004)
Amounts due to banks [1]	925	-	925	988	925	1,913
Loans from related parties	35	-	35	35	-	35
	960	**-**	**960**	**1,023**	**925**	**1,948**

[1] thereof secured by real estate liens: TEUR 925 (PY: TEUR 1,913)

The company has agreed separate short-term and unsecured credits with several financial institutions as per December 31, 2005, amounting to TEUR 25,000 (PY: TEUR 21,200). Of this amount, TEUR 20,527 (PY: TEUR 15,451) was available on December 31, 2005. The interest rate is largely based on a variable base rate of interest with a fixed margin.

(23) OTHER LIABILITIES

in TEUR	December 31, 2005	December 31, 2004
Salaries and wages	2,534	2,411
Social security contributions	1,636	1,536
Income tax on salaries and wages	850	841
Grants	496	-
Derivative financial instruments	292	-
Interest and amortization	170	183
Customer liabilities	94	225
Capital formation	65	70
Deferred income	38	61
Other	210	169
	6,385	**5,496**

(24) ACCRUED INCOME TAXES AND OTHER ACCRUALS

in TEUR	As per January 1, 2005	Difference due to currency translation	Consumption	Addition	Dissolution	As per December 31, 2005
Accrued income taxes	7,230	-	(7,148)	2,837	-	2,919
Personnel and social security obligations	2,657	3	(2,637)	3,646	(4)	3,665
Guarantee obligations	1,459	-	(1,448)	2,004	(11)	2,004
Litigation risks	519	-	-	330	(7)	842
Service in progress	263	-	(249)	488	(14)	488
Commissions	32	-	(32)	46	-	46
Other	769	-	(682)	1,211	(87)	1,211
	12,929	**3**	**(12,196)**	**10,562**	**(123)**	**11,175**

Accrued income taxes include current income taxes formed for past financial years and for the 2005 financial year. The personnel-related accruals comprise obligations from overtime, variable payments, contributions and fees as well as leave bonuses. Based on experience, the guarantee obligations comprise accruals to the amount of guarantee claims expected from sales made. The litigation risks take into account obligations from legal disputes. Other obligations largely comprise repurchase obligations towards leasing companies from the sale of machines and risk provisions for losses from pending business. Accruals for repurchase obligations are formed if there are indications that claims may be made toward the company in this respect. In the year under review, a total of TEUR 123 (PY: TEUR 341) were dissolved. The company expects all accruals to become due or to be utilized within 12 months.

(25) PENSION AND POSTRETIREMENT BENEFITS

Different provisions for old age exist in respect of the employees of the Mühlbauer Group. These are generally based on the period of employment and the pay of the staff. Pension obligations exclusively comprise performance-based pension schemes and only include entitlements for pensions to be paid in the future. The pension obligations are secured via backed pension commitments.

The following actuarial parameters have been taken into consideration:

	December 31, 2005	December 31, 2004
Discounting rate	4.25%	5.00%
Future pay increase	3.00%	3.00%
Future pension increase	1.50%	1.50%
Staff turnover	0.00%	0.00%
Expected rate of interest on plan assets	4.50%	4.50%

The value recorded on the balance sheet in respect of "Pension and Postretirement benefits and similar obligations" is derived as follows:

in TEUR	December 31, 2005	December 31, 2004
Accumulated pension obligations	4,196	2,740
Fair value of plan assets	(3,505)	(2,490)
Financial status	**691**	**250**
Unrealized actuarial profits (losses)	(1,201)	(278)
Pension and Postretirement benefits and similar obligations	**(510)**	**(28)**

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

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

in TEUR		2005		2004
Accruals for pension obligations as per January 1		**(28)**		**825**
Amounts recorded as income				
Current service cost	269		233	
Interest expenses on obligations	137		119	
Expected earnings on plan assets	(137)		(85)	
Amortization of past service costs	160	429	0	267
Contributions to plan assets		(911)		(1,120)
Accruals for pension obligations as per December 31		**(510)**		**(28)**

The actual earnings from plan assets amounted to TEUR 103 (PY: TEUR 29) in the year under review.

For contribution-based pension schemes, which result in no further obligations to the companies of the Mühlbauer Group apart from the payment of contributions, the expenses from current contribution payments amounted to TEUR 233 (PY: TEUR 168) in the reporting period. Furthermore, the company paid employer contributions to the statutory pension insurance fund of TEUR 3,356 (PY: TEUR 3,270).

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

(26) SHAREHOLDERS' EQUITY

The development of the individual components of group equity during the 2005 financial year are represented in the consolidated statements of changes in shareholders' equity.

Ordinary share capital

On the reporting date, the ordinary share capital of Mühlbauer Holding AG & Co. KGaA was divided up into 6,279,199 bearer no-par value shares and one registered no-par value share with a calculatory par value of EUR 1.28 each. The bearer of the registered no-par value share holds the right to appoint one-third of all Supervisory Board members to the Supervisory Board. This right of appointment does not exist if and for as long as the registered no-par value share is held by the personally liable shareholder, the personally liable shareholder's partner or one of the members of the Management Board.

In the period until April 15, 2009, and with the agreement of the Supervisory Board, the personally liable shareholder is entitled to increase the share capital by up to a nominal amount of EUR 4,018,688.00 through the issue of new shares against a cash and/or non-cash contribution.

The share capital can be conditionally increased by up to EUR 84,480.00, through the issue of up to 66,000 bearer no-par value shares (conditional capital II). The conditional capital increase is only executed if the holders of subscription rights issued by the company as a result of the authorization resolution passed by the Annual General Meeting on May 4, 2000 and supplemented on June 7, 2001, exercise their options. The new common shares participate in earnings from the beginning of the financial year in which they arise, as a result of exercising subscription rights. The share capital can be conditionally increased by a further EUR 1,996,800.00, through the issue of up to 1,560,000 bearer no-par value shares (conditional capital III). The conditional capital increase is only executed if the Annual General Meeting resolves – with the agreement of the personally liable shareholder – to convert the equity share B to share capital. The new shares participate in earnings from the beginning of the financial year in which they are issued, after exercising the conversion privilege.

Own shares

The personally liable shareholder was entitled, by means of the resolution of the Annual General Meeting of April 28, 2005 – while simultaneously cancelling the authority of the previous year – to purchase shares of the company with a calculatory share in the share capital of 10% at most, i.e. up to 627,920 shares, until September 30, 2006, to render these available to third parties in the context of a merger with another company or in the context of the acquisition of companies or participations therein. The above also applies with regard to the collection of such shares for the purpose of offering them to bearers of subscription rights or for purchase or to offer them to employees and/or members of the company's management or an associated company for purchase. In the reporting period, this authority in respect of the acqusition of own shares was not utilized.

Of the stock of 222,404 own shares (par value EUR 284,677.12) existing at the beginning of the year under review, the company disposed of 19,967 shares, amounting to a par value of EUR 25,557.76. Of these, 14,336 own shares with a par value of EUR 18,350.08 were sold in the course of the capital formation scheme executed by the company in respect of the employees of the Mühlbauer Group. Some 2,025 shares with a par value of EUR 2,592.00 were disposed of in respect of fixed and variable remuneration to employees, 3,606 shares with a par value of EUR 4,615.68 to serve purchase rights granted to employees of the Mühlbauer Group.

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

Period	Subscription price per share in EUR
1st quarter	22.64
2nd quarter	32.38
3rd quarter	26.32
4th quarter	29.00

As per December 31, 2005, the company held 202,437 own shares with a par value of EUR 259,119.36. The percentage of own shares in the share capital was 3.22% as per December 31, 2005. Own shares are reported using the par value method.

Fixed capital contribution

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

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

Additional paid-in capital

in TEUR	December 31, 2005	December 31, 2004
Premium from capital increases	59,557	59,557
Balance from the premium applicable to the purchase/disposal of own shares (pro rata)	(1,664)	(2,123)
Share-based adjustment item (reserve in respect of expenditure resulting from conversion schemes or stock option programs)	1,433	1,312
Withdrawal from additional paid-in capital to adjust the ordinary share capital to the euro	(7)	(7)
	59,319	**58,739**

The premiums from capital increases were reduced by the transaction costs of TEUR 3,907 directly attributable to capital procurement and the associated income tax benefits of TEUR 671 deducted in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation."

Other comprehensive income

The following table shows the development of the changes in equity that do not affect income from the market valuation of financial instruments in connection with IAS 39 "Financial Instruments: Recognition and Measurement (2004)".

in TEUR	Financial assets of the category "available for sale"	Difference due to currency translation	Total
Status as per January 1, 2005	1,667	(238)	1,429
Adjustment to market values	1,217	-	1,217
Currency adjustments	-	429	429
Deferred taxes in equity	89	-	89
Reclassifications in income statement	(945)	-	(945)
As per December 31, 2005	**2,028**	**191**	**2,219**

Retained earnings and appropriation of earnings

Apart from the retained earnings of Mühlbauer Holding AG & Co. KGaA, retained earnings also comprise the earnings reserves of the subsidiaries included in the consolidated financial statements as well as the effects of consolidation measures.

In addition to the payment of a dividend of EUR 0.60 per no-par value share with dividend entitlement executed in the year under review to the shareholders of Mühlbauer Holding AG & Co. KGaA, amounting to a total of EUR 3,644, the appropriation of earnings also includes the earnings transfer of Mühlbauer Holding AG & Co. KGaA to Mühlbauer Holding AG & Co. Verwaltungs KG due in parallel as a result of the memorandum of association. In correspondence with the capital situation, Mühlbauer Holding AG & Co. Verwaltungs KG participated in the earnings of Mühlbauer Holding AG & Co. KGaA to an amount of TEUR 6,231 (57.27%). Taxes of TEUR 842, paid by the company and to be borne by Mühlbauer Holding AG & Co. Verwaltungs KG are deducted from this amount. The earnings from ordinary business activities on which the statutory earnings transfer is based, minus trade income tax of Mühlbauer Holding AG & Co. KGaA amounted to TEUR 10,873 in the previous year.

Stock option programs

In the context of the stock option program resolved by the Annual General Meeting on May 4, 2000, the personally liable shareholder was authorized – with the agreement of the Supervisory Board – to grant members of management, executives and staff in key functions share subscription rights. For this purpose, the share capital was conditionally increased (conditional capital II) by up to TEUR 84 for the issue of up to 66,000 stock options. Every option entitles the holder to purchase one share of Mühlbauer Holding AG & Co. KGaA, if the conditions for exercising this entitlement are met. The purchase price corresponds with the average spot rate of the company's share at the Frankfurt Stock Exchange on the last five trading days before commencement of the issuing period. Up to 30% of the subscription rights can be exercised after expiry of a waiting period of 2 years, up to 60% after a waiting period of 3 years and up to 100% after expiry of a waiting period of 4 years. The subscription rights can only be exercised by the entitled persons if the pretax proft margin (in accordance with US-GAAP) of the Mühlbauer Group is at least 15% according to the last quarterly report prior to the exercise date, or if the value increase of the shares at least corresponds with the value increase of the NEMAX All Share price index for the period between granting of the subscription rights and the last Stock Exchange Trading day prior to the exercise date. The personally liable shareholder was authorized to determine further individual performance goals within the option agreement. Subscription rights that are not exercised expire when the employment relationship with the person entitled to subscribe ends or after a period of six years of granting subscription rights. In the reporting period no subscription rights were granted from this program.

The personally liable shareholder is authorized, by resolution of the Annual General Meeting, to offer employees own shares of the company for purchase. So far, 5,597 options, distributed across 4 tranches, have been granted. The rights to purchase shares ("purchase right") granted to employees, can be exercised at a previously determined subscription price per Mühlbauer share on the basis of the prior achievement of specific personal performance and team goals. On principle, the purchase right can be exercised within a specific period, without having to observe a waiting period. The development of the stock of all purchase rights for the subscription of shares of Mühlbauer Holding AG & Co. KGaA is shown in the below table:

	Tranche 1	**Tranche 2**	**Tranche 3**	**Tranche 4**
Subscription price in EUR	21.00	28.00	26.00	29.00
Start of the exercise period	March 21, 2002	April 28, 2004	April 28, 2005	July 7, 2005
End of the exercise period	-	April 27, 2009	April 27, 2010	June 30, 2008
Outstanding options as per January 1	512	3,128	-	-
Options issued within the period	-	-	1,000	400
Options exercised within the period	(486)	(1,970)	(1,000)	(150)
Outstanding options as per December 31	26	1,158	-	250
- thereof exercisable on December 31	26	1,158	-	250
Increase of additional paid-in capital (in TEUR)	10	53	25	4

The following table provides an overview of the weighted share price on the day of exercise:

Period	**EUR**
1st quarter	35.55
2nd quarter	38.62
3rd quarter	43.06
4th quarter	32.10

In the financial year, expenses (before taxes) of TEUR 42 (PY: TEUR 84) were taken into consideration in connection with option programs.

Stock ownership plan to employees

The company offers employees and second year apprentices and trainees (hereinafter referred to as "employees") shares at favorable conditions, within the above period. In order to qualify for shares, employees must, on principle, have been in a continuous and unterminated employment relationship or apprenticeship/traineeship in the six month period prior to the share offer as well as at the time the shares are allocated; in addition, the purchase is subject to restrictions regarding the number of shares that can be subscribed by the employees. If the shares are subject to a uniform blocking period applicable to all participating domestic group companies, they are only freely available on expiry of the blocking period. The number of own shares issued as a result of this offer amounted to 14,336 in the financial year; the difference between the purchase and market price of TEUR 79 was posted as personnel expenditure.

(27) LIABILITY AND OTHER FINANCIAL OBLIGATIONS

	December 31, 2005 TEUR
Contractual obligations:	
Obligations from purchase and service agreements	9,470
Obligations from tenancy agreements	315
Total contractual obligations	**9,785**

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

	TEUR
2006	9,377
2007	312
2008	43
2009	27
2010	26
Total	**9,785**

As per December 31, 2005, the following contingent liabilities by the company exist in respect of third parties, without possible obligations from legal disputes:

	December 31, 2005 TEUR
Contingent liabilities:	
Guarantees, sureties and agreements	6,267
Conditional benefits from public authorities	8,115
Total contingent liabilities	**14,382**

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

	TEUR
2006	3,967
2007	889
2008	815
2009	1,109
2010	26
Thereafter	7,576
Total	**14,382**

The company received benefits from public authorities for the construction and financing of specific production facilities. These amounts are recognized as income on meeting defined criteria. The company received certain benefits under the premise that specific project-related criteria are met within a certain timeframe after receipt of the benefits. The company must meet these conditions. If these conditions are, however, not met, a maximum of TEUR 3,344 of the benefits can be demanded to be returned by the reporting date of December 31, 2005. Furthermore, as parent company of its consolidated subsidiaries, the company has accepted co-liability for specific projects in the event that the subsidiaries do not meet obligations associated with benefits and take responsibility for the repayment due. The maximum amount repayable by the consolidated subsidiaries on the reporting date of December 31, 2005, amounts to TEUR 4,771.

In connection with its ordinary business activities, the company is obliged to exempt its contract partners from specific risks linked to basic business, with regard to certain sales and other agreements. The maximum amount of possible future payments for this type of agreement amounts to TEUR 500 on the reporting date of December 31, 2005.

D. SEGMENT REPORTING

The products and services of the company do not comprise significantly different risks and earnings and are comparable, with regard to the type of products, the production process, its customers and with regard to the methods of market processing. Therefore they are not taken into consideration as primary segment reporting format within the meaning of IAS 14 "Segment reporting" and do not require a formal segment reporting. Also, no geographical segments exist that are exposed to different risks and earnings and can be defined as primary segment reporting format. However, selected information on sales is provided subsequently:

Sales by application area	**2005 TEUR**	**2004 TEUR**
Smart Identification	86,861	54,850
Semiconductor Related Products	35,564	49,325
Traceability	10,893	7,390
Precision Parts and Systems	14,789	17,603
	148,107	**129,168**
Deductions in earnings	(175)	(229)
	147,932	**128,939**

Sales by regions	**2005 TEUR**	**2004 TEUR**
Germany	44,828	53,360
Asia	46,160	25,382
Rest of Europe	31,471	34,197
North America	13,595	8,302
South America	8,420	2,136
Africa	3,560	5,428
Australia	73	363
	148,107	**129,168**
Deductions in earnings	(175)	(229)
	147,932	**128,939**

E. NOTES TO THE STATEMENTS OF CASHFLOWS

The cashflow statement in accordance with IAS 7 "Cash Flow Statements (2004)" records cashflows of a financial year to depict information on the financial transactions of the company. The cashflows are differentiated by operating activities as well as investment and financing activities.

The liquid fund in the cashflow statement comprises all cash and cash equivalents listed in the balance sheet as well as marketable securities if these are available within three months.

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

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

In the financial year, the dividend payments made were comprised as follows:

	TEUR	2005 TEUR
Dividends paid to shareholders of the limited partnership		3,644
Statutory earnings transfer by the company to Mühlbauer Holding AG & Co. Verwaltungs KG in respect of the 2004 financial year	6,231	
Taxes paid by the company for account of Mühlbauer Holding AG & Co. Verwaltungs KG	(842)	5,389
Total dividend payment and earnings transfer		**9,033**

F. OTHER NOTES

(28) EVENTS AFTER THE REPORTING DATE

No events occurred after the 2005 reporting date that are of major significance to Mühlbauer and could result in a different assessment of the company.

(29) FINANCIAL INSTRUMENTS

Fair value of financial instruments

The asset values of the major financial instruments of the company on the reporting date are presented here in a summarized form. The asset values of cash and cash equivalents and the marketable securities held until final maturity, the short-term trade accounts receivables and payables, short-term loans as well as the accruals and other short-term liabilities of the company virtually correspond to their fair value considering their short terms until December 31, 2005. The fair values of the company's long-term trade accounts receivables are calculated on the basis of the discounted cashflow analysis, which currently has an interest rate of 3%.

Forward exchange contracts

In the context of risk management, the company utilizes derivative financial instruments to delimit foreign currency risks resulting from bilateral delivery obligations. Forward exchange deals are concluded on placement of the order or, if market expectations allow for it, at a later point in time, to hedge currency rate fluctuations until the date of payment. This is a securing of planned transactions as, at the time of conclusion, the basic business itself has not been produced and only arises on realization of sales. The company currently only has forward exchange contracts in the form of forward contracts in respect of the sale of US dollars and Arab dirhams with different terms of maturity until August 6, 2007. These are valued at market value and recorded as other current assets or short-term liabilities. The change of market value is included in the consolidated statement of income under currency gains or losses.

Currency swaps

To hedge currency risks in US dollars, the company concluded currency swaps. The currency swaps have terms until January 20, 2006. These swaps are assessed on the reporting date and their market values reported in other current assets or the short-term liabilities.

The market values are derived from the amounts at which the forward exchange deals and currency swaps are traded or listed at the reporting date. The fair values were determined on the basis of the regular daily reference prices in interbank trading.

The following table provides the asset and fair values in respect of the long-term trade accounts receivables, the long-term debt and the derivative financial instruments:

		December 31, 2005		**December 31, 2004**
	Total volume TEUR	**Fair value TEUR**	**Total volume TEUR**	**Fair value TEUR**
Long-term trade accounts receivables	-	279	-	7
Long-term debt	-	-	-	925
Forward exchange deals	4,147	4,406	1,883	1,813
Cross-Currency-Swaps	771	804	297	277

In the 2005 and 2004 financial years the profits (and losses) from foreign currency hedging transactions amounted to the following:

	2005 TEUR	**2004 TEUR**
Realized	(60)	76
Unrealized	(292)	37
Net profit (loss) from foreign currency hedging transactions	**(352)**	**113**

(30) INITIAL APPLICATION OF IFRS

As a result of the adjustment of the previous year's reference values, the initial application of the International Financial Reporting Standards (IFRS) resulted in changes between group equity and group net income for the year, recorded in accordance with IFRS for the past reporting period and the corresponding values for this period, previously recorded in accordance with US-GAAP.

In so doing, the reference values were determined as if IFRS had always been applied. The resultant differences between the balance sheet values of the consolidated financial statements in accordance with US GAAP drawn up as per December 31, 2003 and the IFRS opening balance sheet drawn up as per January 1, 2004 were taken into consideration in retained earnings, without an effect on income.

In accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards" group equity in accordance with US-GAAP is subsequently reconciled with group equity according to IFRS:

in TEUR	Comment	December 31, 2004	January 1, 2004
Equity in accordance with US-GAAP		**107,280**	**97,934**
Realization of sales from the disposal of goods and services	a)	697	-
Development expenses	b)	6,459	5,624
Pension and postretirement benefits	c)	(1,272)	(1,413)
Share-based remuneration	d)	-	-
Tax effects of adjustments	e)	(2,195)	(1,654)
Other adjustments		(136)	31
Equity in accordance with IFRS		**110,833**	**100,522**

The effects of adjustments on the consolidated statement of income in accordance with IFRS can be found in the following table:

in TEUR	Comment	January 1 – December 31, 2004
Group net income for the year in accordance with US-GAAP		**16,937**
Realization of sales from the disposal of goods and services	a)	697
Development expenses	b)	835
Pension and postretirement benefits	c)	141
Share-based remuneration	d)	(75)
Tax effects of adjustments	e)	(541)
Other adjustments		(171)
Group net income for the year in accordance with IFRS		**17,823**

a) Realization of sales from the disposal of goods and services

Sales from sales agreements containing several components have so far been realized in accordance with EITF 00-21 "Revenue Arrangements with Multiple Deliverables" in accordance with US-GAAP. With such sales agreements sales were only realized if a market value was available for the components not delivered and the single components in themselves represented a value to the customer. If these conditions were not met, realization was only effected after full provision of the service. In accordance with IAS 18 "Revenue" sales are only recorded after the relevant opportunities and risks in respect of the main service on which the sale is based are transferred to the customer. This applies also to incidental services still outstanding at this point in time if these are insignificant with regard to the main service and the fulfilment of these incidental services does not face significant risks.

b) Development expenses

Non-order related development costs have so far, on principle, been recorded in accordance with US-GAAP in line with FAS 2 "Accounting for Research and Development Costs" as expense incurred in the current reporting period. In accordance with IAS 38 "Intangible Assets (2004)" development costs are capitalized, if the conditions defined therein are met. Capitalization and scheduled depreciation of the development costs results in a different distribution of development costs across time.

c) Pension and postretirement benefits

At the time of transition to IFRS, IFRS 1 "First Time Adoption of International Financial Reporting Standards" enables the stocking up of pension and postretirement benefits to the full scope of obligations ("Defined Benefit Obligation") despite a later application of the corridor method, taking into consideration possible past service costs. This election right was utilized. The opening balance sheet as per January 1, 2004, thus does not include any unrealized actuarial profits or losses, in contrast to reporting in accordance with US-GAAP; the reported pension and postretirement benefits correspond with the full scope of obligations. The stocking up of pension and postretirement benefits to the full scope of obligations in the IFRS opening balance sheet, without an affect on income, results in the non-applicability of amortization of actuarial profits and losses and thus to a lower expenditure from the pension scheme in the following period.

d) Share-based remuneration

In accordance with US-GAAP, share-based remuneration was previously reported in accordance with APB 25 "Accounting for Stock Issued to Employees". The valuation of remuneration granted was effected using the intrinsic value of the options at the time they were granted. The revised SFAS no. 123 "Accounting for Stock-Based Compensation" published in December 2004, abolished APB 25 "Accounting for Stock Issued to Employees" and requires a general valuation of share-based remuneration schemes with the assistance of a method based on the market value such as the Black-Scholes valuation model. The revised standard applies for reporting periods after June 15, 2005. A voluntary application of the standard from January 1, 2005, was recommended. According to IFRS 2 "Share-based Payment (2004)" all share-based remuneration granted after November 7, 2002, that did not expire by January 1, 2005, must be reported using a time value determined by a market value method. The application of the market value method in respect of share-based remuneration that has so far not been reported in accordance with this method due to US-GAAP results in permanent differences and a shift in time of results.

e) Tax effects of adjustments

The position comprises all tax effects from the above adjustments to IFRS. In calculating deferred taxes for the national companies, the tax rate applicable for the respective company on the reporting date or already resolved and known future tax rate, was used. With regard to the international companies, the tax rate of the respective country was used.

(31) CORPORATE GOVERNANCE

The declaration of conformity in accordance with § 161 AktG (German Stock Corporation Act) was issued in December 2005 and has been posted to our website at www.muehlbauer.de so that it can be accessed by our shareholders whenever required.

(32) INFORMATION ON THE REMUNERATION OF THE AUDITOR

The remuneration for the audits executed in the financial year amounts to TEUR 127. Of this amount, TEUR 13 pertain to other periods. In the reporting period, TEUR 1 were spent on other certificates issued by the auditor and TEUR 20 for other services.

(33) RELATIONSHIPS WITH ASSOCIATED COMPANIES AND PERSONS

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

Moreover, the disclosure requirement in accordance with IAS 24 also extends to persons who can exercise a significant influence over the company, i.e. who participate in the financial and business policies of the company without, however, controlling these, including closely related family members. In the 2005 financial year this related to members of the company's Supervisory Board, members of the Supervisory Board and Management Board of Mühlbauer Aktiengesellschaft and their close relatives.

As per December 31, 2005, liabilities of TEUR 6,704 resulting from the earnings transfer of the company to Mühlbauer Holding AG & Co. Verwaltungs KG existed. In addition, as per December 31, 2005, liabilities of TEUR 44 existed toward Mühlbauer Beteiligungs Aktiengesellschaft. This balance results from the compensation of expenditure (TEUR 8) in connection with management, on the one hand, and amounts due to debts plus accrued interest (TEUR 36) on the other. On the reporting date the company also has liabilities in respect of the companies indirectly controlled by Mr. Josef Mühlbauer of TEUR 13.

Following the proposal of the personally liable shareholder and Supervisory Board, the remuneration of the Supervisory Board is determined by the Annual General Meeting. Apart from the compensation of expenses paid in cash the cash payment consists exclusively of a fixed share. With regard to the fixed share, the Chairman of the Supervisory Board receives double the amount of a member of the Supervisory Board and the Vice Chairman one and a half times the amount. The Chairman of the Supervisory

Board, Dr. Thomas Zwissler was paid a fixed share of Supervisory Board remuneration in respect of the reporting period of a total of TEUR 6, the member of the Supervisory Board, Dr. Peter Drexel was paid a total of TEUR 5 and the Supervisory Board member Dr. Frank Scholz TEUR 2. The amounts paid to the Supervisory Board members Dr. Thomas Zwissler and Dr. Peter Drexel derived from the position held within the respective corporate body at Mühlbauer Holding AG & Co. KGaA and Mühlbauer Aktiengesellschaft.

Dr. Thomas Zwissler, Chairman of the Supervisory Board is also an attorney and partner of the international law firm Zirngibl Langwieser. The company occassionally provides legal consultation to the Mühlbauer Group. The fees for such services amounted to EUR 14 in the year under review.

The Management Board of Mühlbauer Aktiengesellschaft received a total remuneration of TEUR 1,300 in the 2005 financial year. In the current financial year these payments consist of TEUR 734 short-term payments (fixed share TEUR 587, variable pay TEUR 147) as well as TEUR 566 for allocations to pension and postretirement benefits.

The companies Mühlbauer Aktiengesellschaft, ASEM Präzisions-Automaten-GmbH and takeID GmbH rent office space from Mr. Josef Mühlbauer, who is the CEO of Mühlbauer Beteiligungs AG and holds sole power of representation. Mühlbauer Beteiligungs AG is the personally liable shareholder of Mühlbauer Holding AG & Co. Verwaltungs KG, which is in turn the personally liable shareholder of Mühlbauer Holding AG & Co. KGaA. The term of the tenancy is indefinite and can be terminated by either party under observance of a notice period of six months in accordance with German legislation. In the 2005 financial year rental costs amounted to TEUR 297.

Mühlbauer Aktiengesellschaft utilizes certain services in respect of the conveyance of passengers, sales promotion and staff development, offered by companies that are indirectly controlled by Mr. Josef Mühlbauer. Mühlbauer Aktiengesellschaft paid TEUR 154 in the 2005 financial year for such services.

(34) NUMBER OF EMPLOYEES

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

	2005 Number	2004 Number
Production and assembly	758	729
Research and development	265	220
Administration and sales	144	132
	1,167	1,081
Apprentices and trainees as well as part-time employees	266	257
Total	**1,433**	**1,338**

Number of employees by region for the 2005 financial year:

	2005 Number	2004 Number
Germany	1,375	1,296
Asia	39	28
North and South America	15	11
Rest of Europe	4	3
Total	**1,433**	**1,338**

(35) CORPORATE BODIES OF THE COMPANY

The Mühlbauer Holding AG & Co. Verwaltungs KG Roding, as personally liable shareholder is entitled to manage and represent the company. The sole limited partner of Mühlbauer Holding AG & Co. Verwaltungs KG is Mr. Josef Mühlbauer, the personally liable shareholder is Mühlbauer Beteiligungs Aktiengesellschaft, Roding. The sole shareholder and only Management Board member of Mühlbauer Beteiligungs Aktiengesellschaft is Mr. Josef Mühlbauer.

The following persons were appointed to the Supervisory Board of Mühlbauer Holding AG & Co. KGaA during the 2005 financial year:

	Age	End of term	Membership on further supervisory boards and other comparable control committees
Dr. Thomas Zwissler Chairman (since April 29, 2003)	37	2008	Attorney and partner of the law firm Zirngibl Langwieser, Munich External seats: Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding (Chairman) • Going Public Media AG, Wolfratshausen (Chairman) Group seats: Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding (Chairman)
Dr. Peter Drexel Vice Chairman (since April 29, 2003)	61	2008	Member of the Divisional Management Board Automation and Drives of Siemens AG External seats: Member of the Supervisory Board • Mühlbauer Beteiligungs AG, Roding (Vice Chairman) Group seats: Member of the Supervisory Board • Mühlbauer Aktiengesellschaft, Roding (Vice Chairman)
Dr. Frank Scholz (since April 29, 2003)	44	2008	Manager at Siemens Business Service GmbH & Co. OHG, Munich

(36) PROPOSAL FOR THE APPROPRIATION OF EARNINGS

In accordance with § 58 para. 2 AktG (German Stock Corporation Act) the dividend distribution of Mühlbauer Holding AG & Co. KGaA is based on the net income for the year shown in the annual financial statements of Mühlbauer Holding AG & Co. KGaA, drawn up according to commercial law. In accordance with the financial statements of Mühlbauer Holding AG & Co. KGaA, drawn up as required by commercial law, a net income for the year of TEUR 6,085 is distributable. The statutory share in profits of TEUR 7,774, attributable to the personally liable shareholder according to his equity share (we refer to the comments in note (26)) was deducted from the net income for the year and entered into his retained earnings. The personally liable shareholder and Supervisory Board of Mühlbauer Holding AG & Co. KGaA intend to propose a dividend distribution of EUR 0.90 per common share, i.e. a total of TEUR 5,469 to the Annual General Meeting for resolution and to carry over the remainder of TEUR 616 as earnings brought forward to a new account.

These consolidated financial statements were released for publication on March 10, 2006.

Mühlbauer Holding AG & Co.
Kommanditgesellschaft auf Aktien

The personally liable shareholder

Auditor's Report

We have audited the consolidated financial statements prepared by the Mühlbauer Holding AG & Co. KGaA comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation are the responsibility of the parent Company's general partner. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, March 13, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Th. H

(Hartmann)	(ppa. Graßnick)
German Public Auditor	German Public Auditor

Report of the Supervisory Board

In the past financial year, developing innovative products and product components as well as further positioning the company as one of the leading providers world-wide in products and system solutions for the TECURITY® and Smart Label industries played a key role. The Supervisory Board actively assisted in this process, which also included changes in the company's risk situation, by advising and discussing with the personally liable shareholder and Management. At the same time, the Supervisory Board performed its statutory supervisory role.

Composition 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

In four ordinary meetings – on March 7, May 23, September 09 and November 25 – the Supervisory Board acquired detailed information on the company's situation and development, strategic corporate planning and all essential business transactions. Great importance attaches to our reporting system for preparing these meetings. The reporting system has been systematically optimized in recent years and informed the Supervisory Board in a timely and comprehensive manner in order to prepare its meetings.

Apart form a few exceptions, all members of the Supervisory Board attended every Supervisory Board meeting. In the course of the meetings, the members of the Supervisory Board could convince themselves of the personally liable shareholder's correct business conduct and of the fact that he had taken all necessary measures in a timely and efficient manner. Above that, the chairman of the Supervisory Board was informed on all major corporate developments and decisions by the personally liable shareholder and Management.

The recommendations and suggestions of the German Corporate Governance Codex were repeatedly subjected to examination. The Supervisory Board had continuously been monitored its efficiency and gave the declaration of conformity pursuant to § 161 AktG (German Stock Corporation Act). Details on this matter will be separately given in the annual report. No conflicting interests among Supervisory Board members (in particular with regard to the German Corporate Governance Codex) were detected. Measures that are subject to the approval of the Supervisory Board were presented to the Supervisory Board for the decision making process. Decisions were made unanimously.

Committees

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

Financial accounting

Selected by the Annual General Meeting, the Supervisory Board commissioned the auditing company PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (formely: PwC Deutsche Revision Aktiengesellschaft Wirtschaftprüfungsgesellschaft), Munich. The external auditor approved the annual financial statement – consisting of the balance sheet, income statement and notes to financial statement – for the financial year from 1st January to 31 December, 2005, using the Mühlbauer Holding AG & Co. KGaA accounting and management report, without qualification. Above that, the external auditor also approved the consolidated financial statements – consisting of the balance sheet, income statement, changes in shareholders' equity, cashflows and notes to consolidated financial statement – as well as the consolidated management report for the financial year from 1st January to 31 December 2005, without qualification. The external auditor audited above that the company's early risk management system pursuant to § 317 para. 4 HGB and confirmed that the statutory management obligations are fully complied with.

On March 20, 2006, the balance sheet meeting of the Supervisory Board was held. The Supervisory Board members were provided with all relevant documents before the meeting. The Supervisory Board debated on the annual financial statement in the presence of the external auditor who gave a detailed report on the process and all major findings of the audit and provided additional information on request.

On close examination of the annual financial statement, the consolidated financial statements, the management report and the consolidated management report, the Supervisory Board approves the audit result obtained by the external auditor. The Supervisory Board therefore suggests to the Annual General Meeting to accept the financial statement of Mühlbauer Holding AG & Co. KGaA as submitted in its present form on December 31, 2005.

The Supervisory Board endorses the proposal of the pesonally liable shareholder to use the net income available to pay out a divided of EUR 0.90 per share on the company's dividend-entitled capital stock for 2005.

Report of the personally liable shareholder on the relation to affiliated companies in the 2005 financial year

The external auditor also audited the personally liable shareholder's report pursuant to § 312 AKtG on the relation to affiliated companies in the 2005 financial year and gave the following certificate:

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

1. the actual information in the report is correct,
2. the service of the company for the legal transactions stated in the report was not unreasonable high."

The Supervisory Board examined the report on relations to affiliated companies in the 2005 financial year. It did not raise any objections against the declaration of the personally liable shareholder and the audit result of the external auditor.

The members of the Supervisory Board would like to thank the personally liable shareholder, the Management Board and all employees for their commitment in the 2005 financial year.

Roding, March 2006

For the Supervisory Board

(Zwissler)
Chairman

Several years overview [1]		2005 IFRS	2004 IFRS	2004 US-GAAP[2]	2003 US-GAAP	2002 US-GAAP	2001 US-GAAP	2000 US-GAAP	1999 US-GAAP	1998 US-GAAP
Consolidated Balance Sheets										
Short-term assets	**TEUR**	**105,128**	**91,735**	**90,001**	**72,217**	**79,031**	**83,167**	**92,764**	**85,849**	**81,201**
Cash and cash equivalents	TEUR	13,507	20,365	20,365	12,597	13,110	2,206	3,618	1,451	14,574
Marketable securities	TEUR	32,687	13,561	13,255	3,498	2,261	2,592	6,609	17,449	17,153
Trade accounts receivables, net	TEUR	21,985	22,462	21,703	20,348	19,161	19,645	30,868	21,179	7,110
Other assets	TEUR	2,441	2,461	2,301	1,521	1,095	1,444	2,382	2,782	3,193
Tax receivables	TEUR	976	670	161	26	59	5,148	3,034	2,864	0
Inventories	TEUR	33,532	32,216	32,216	34,227	43,345	52,132	46,253	40,124	39,171
Long-term assets										
Investment and long-term financial assets	**TEUR**	**11,088**	**10,141**	**10,440**	**9,241**	**7,383**	**7,749**	**10,762**	**9,819**	**13,100**
Marketable securities	TEUR	10,809	10,134	10,440	9,241	7,383	7,749	10,762	9,819	13,100
Trade accounts receivables, net	TEUR	279	7	0	0	0	0	0	0	0
Fixed assets	**TEUR**	**39,018**	**39,472**	**46,765**	**41,333**	**41,189**	**45,169**	**38,871**	**31,903**	**29,837**
Buildings, net	TEUR	27,343	28,916	34,202	29,995	31,625	32,479	25,711	21,511	19,922
Technical equipment, net	TEUR	5,965	5,010	6,174	6,016	*	*	*	*	*
Furniture and office equipment, net	TEUR	5,510	5,481	6,320	5,282	9,539	12,621	11,416	10,392	9,915
Buildings and equipment in progress	TEUR	200	65	69	40	25	69	1,744	0	0
Intangible assets	**TEUR**	**8,412**	**6,870**	**482**	**877**	**1,025**	**1,398**	**2,009**	**1,220**	**1,342**
Goodwill	TEUR	0	0	0	468	468	468	548	643	723
Software and licenses	TEUR	638	411	482	409	557	930	1,461	577	619
Capitalized development costs	TEUR	7,774	6,459	0	0	0	0	0	0	0
Deferred tax assets	**TEUR**	**99**	**234**	**0**	**201**	**804**	**459**	**529**	**0**	**0**
Other fixed assets	**TEUR**	**510**	**28**	**1,308**	**1,687**	**0**	**0**	**0**	**0**	**88**
Short-term liabilities	**TEUR**	**35,000**	**32,535**	**31,664**	**17,724**	**20,254**	**23,138**	**27,021**	**19,256**	**21,914**
debt	TEUR	960	1,023	1,023	1,025	1,050	3,525	2.054	3,037	2,438
Trade accounts payable	TEUR	6,150	8,383	7,028	4,751	7,038	5,646	6,781	5,040	5,449
Downpayments received on orders	TEUR	10,330	4,704	4,704	329	1,604	4,565	2,976	2,119	923
Other liabilities	TEUR	6,385	5,496	5,496	4,959	5,312	4,757	4,338	3,249	3,258
Accrued income taxes	TEUR	2,919	7,230	6,424	2,135	760	217	5,326	2,618	7,387
Other accruals	TEUR	8,256	5,699	6,989	4,525	4,490	4,428	5,546	3,193	2,459
Long-term liabilities	**TEUR**	**4,109**	**5,112**	**10,052**	**9,898**	**10,925**	**12,980**	**13,598**	**14,706**	**16,513**
Convertible bonds	TEUR	0	0	0	0	37	39	49	71	76
debt	TEUR	0	925	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 tax liabilities	TEUR	4,109	4,187	1,758	1,274	1,681	2,013	2,191	3,121	4,177
Postretirement and postemployment benefit liabilities	TEUR	0	0	0	718	374	324	281	241	271
Shareholders' Equity	**TEUR**	**125,146**	**110,833**	**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	8,038	8,038	4,986	4,967	4,960
Own shares	TEUR	(259)	(285)	(285)	(261)	(219)	(22)	(21)	(32)	0
Fixed capital contributions	TEUR	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	(2,980)	66	66	51
Additional paid-in capital	TEUR	59,319	58,739	57,995	57,901	58,351	60,086	61,018	58,203	58,440
Other comprehensive income	TEUR	2,219	1,429	1,403	1,032	156	260	(201)	(452)	367
Retained earnings	TEUR	58,809	45,892	43,109	34,204	34,907	36,442	38,468	32,077	23,323
Total assets and liabilities	**TEUR**	**164,255**	**148,480**	**148,996**	**125,556**	**129,432**	**137,942**	**144,935**	**128,791**	**125,568**
Change yoy										
Short-term assets	%	14.6		24.3	(9.3)	(4.5)	(10.4)	8.7	5.7	122.3
Investment and long-term financial assets	%	9.3		13.0	25.2	(4.7)	(28.0)	9.6	(25.0)	0.0
Fixed assets	%	(1.2)		13.1	0.3	(8.8)	16.2	21.8	6.9	23.9
Intangible assets	%	22.4		(45.0)	(14.4)	(26.7)	(30.4)	64.7	(9.1)	203.6
Deferred tax assets	%	(57.7)		(100.0)	(75.0)	75.2	(13.2)			
Other fixed assets	%	1,721.4		(22.5)	100.0	0.0	0.0	0.0	(100.0)	25.7
Short-term liabilities	%	7.6		79.6	(12.5)	(12.5)	(15.4)	32.3	(16.5)	(15.3)
Long-term liabilities	%	(19.6)		(0.1)	(9.4)	(15.8)	(2.2)	(0.2)	(2.8)	(0.7)
Shareholders' Equity	%	12.9		9.5	(0.3)	(3.5)	(2.4)	10.0	8.8	380.7
Key figures										
Capital expentitures	TEUR	6,272	11,706	11,706	6,224	2,338	13,099	14,137	7,825	11,627
Depreciation and amortization	TEUR	6,172	6,424	6,424	6,190	6,656	7,319	6,216	5,443	5,133
Working Capital[3]	TEUR	24,894	26,297	25,578	39,624	45,260	59,215	57,776	49,321	27,166
Working Capital-Intensity[4]	%	16.8	20.4	20.0	41.6	49.6	66.2	52.4	69.4	50.4
Capital Employed[5]	TEUR	72,834	72,667	74,133	83,521	87,474	105,782	98,656	82,444	58,433
Net cash position	TEUR	56,043	42,112	42,112	22,398	18,703	5,139	13,878	19,331	34,736
Equity ratio	%	76.2	74.6	72.0	78.0	75.9	73.8	72.0	73.6	69.4
Employees										
Average per year		1,433	1,338	1,338	1,262	1,274	1,299	1,206	898	756
production and assembly	Number	758	729							
research and development	Number	265	220							
administration and sales	Number	144	132							
Trainees and part-timers	Number	266	257	257	263	269	261	261	210	161
Skilled workers	Number			553	515	521	574	542	392	345
Salaried employees	Number			528	484	484	464	403	296	250
Mühlbauer Holding AG & Co. KGaA										
Total stock capital[6]	TEUR	18,811	18,811	18,811	18,811	18,811	18,811	18,805	18,786	18,765
Total issued and outstanding shares[7]	TUnit	14,696	14,696	14,696	14,696	14,696	14,696	14,692	14,677	14,660
Dividend[8]	EUR	0.90	0.60	0.60	0.35	0.30	0.30	0.35	0.30	0.23
Share price (Year-End-Close)	EUR	40.80	26.71	26.71	20.50	10.30	29.60	84,00	41.00	33.52
Market Capitalization (Year-End-Close)[7]	TEUR	599,600	392,532	392,532	301,268	151,369	435,004	1,234,128	601,757	491,403

[1] Certain amounts reported in prevous years have been reclassified to conform to the 2005 presentation
[2] A transition of the consolidated balance sheets as at Dec. 31, 2004 from US-GAAP to IFRS you find in the notes
[3] Non interest current assets - non interest current liabilities
[4] Working capital/Sales
[5] Working capital + Fixed assets
[6] Common stock and fixed capital contribution of the personally liable shareholder
[7] Obtained on total stock capital
[8] Subject to the approval of the AGM
* In furniture and office equipment included
** No information due to elimination against long-term assets

Several years overview		**2005 IFRS**	**2004 IFRS**	**2004 US-GAAP[1]**	**2003 US-GAAP**	**2002 US-GAAP**	**2001 US-GAAP**	**2000 US-GAAP**	**1999 US-GAAP**	**1998 US-GAAP**
Consolidated Statements of Income										
Sales										
by applications	TEUR	147,932	128,939	128,180	95,204	91,317	89,422	110,322	71,026	53,910
Smart Identification	TEUR	86,861	54,850	54,541	39,335	50,651	47,781	48,552	34,984	23,226
Semiconductor Related Products	TEUR	35,564	49,325	48,875	35,619	22,103	24,464	42,427	22,159	17,880
Traceability	TEUR	10,893	7,390	7,390	5,679	6,641	7,366	8,616	5,421	7,336
Precision Parts & Systems	TEUR	14,789	17,603	17,603	14,680	12,085	10,116	10,981	8,597	5,203
Other	TEUR	(175)	(229)	(229)	(109)	(163)	(305)	(254)	(135)	265
by regions	TEUR	147,932	128,939	128,180	95,204	91,317	89,422	110,322	71,026	53,910
Germany	TEUR	44,828	53,360	53,068	45,316	43,369	38,059	33,545	27,244	25,098
Other Europe	TEUR	31,471	34,197	34,122	21,175	26,799	24,422	41,482	23,559	11,992
Africa	TEUR	3,560	5,428	5,278	2,380	179	947	1,410	53	2,807
North America	TEUR	13,595	8,302	8,227	4,221	3,392	2,545	6,478	5,598	4,126
South America	TEUR	8,420	2,136	2,136	403	852	3,740	2,592	1,324	1,362
Asia	TEUR	46,160	25,382	25,215	21,676	16,766	19,479	25,016	13,356	8,242
Australia	TEUR	73	363	363	142	123	535	53	27	18
Other	TEUR	(175)	(229)	(229)	(109)	(163)	(305)	(254)	(135)	265
Cost of sales	**TEUR**	**(83,518)**	**(75,365)**	**(76,205)**	**(63,007)**	**(61,370)**	**(60,758)**	**(65,662)**	**(39,061)**	**(31,402)**
of sales	%	(56.5)	(58.5)	(59.5)	(66.2)	(67.2)	(67.9)	(59.5)	(55.0)	(58.2)
Gross profit	**TEUR**	**64,414**	**53,574**	**51,975**	**32,197**	**29,947**	**28,664**	**44,660**	**31,965**	**22,508**
of sales	%	43.5	41.5	40.5	33.8	32.8	32.1	40.5	45.0	41.8
Operating expenses										
Selling and administrative	TEUR	(15,926)	(14,719)	(16,799)	(16,616)	(16,682)	(13,486)	(14,697)	(13,093)	(11,094)
of sales	%	(10.8)	(11.4)	(13.1)	(17.5)	(18.3)	(15.1)	(13.3)	(18.4)	(20.6)
Research and development	TEUR	(15,264)	(13,048)	(14,006)	(11,392)	(10,761)	(10,244)	(9,854)	(6,092)	(3,117)
of sales	%	(10.3)	(10.1)	(10.9)	(12.0)	(11.8)	(11.5)	(8.9)	(8.6)	(5.8)
Other income[2]	**TEUR**	**653**	**1,535**	**4,447**	**4,357**	**3,475**	**3,549**	**3,885**	**2,404**	**2,495**
of sales	%	0.4	1.2	3.5	4.6	3.8	4.0	3.5	3.4	4.6
Other expenses[2]	**TEUR**	**(803)**	**(104)**	*	*	*	*	*	*	*
of sales	%	(0.5)	(0.1)							
EBITDA[3]	**TEUR**	**39,246**	**33,662**	**32,041**	**14,736**	**12,635**	**15,802**	**30,210**	**20,627**	**15,925**
of sales	%	26.5	26.1	25.0	15.5	13.8	17.7	27.4	29.0	29.5
EBIT[4]	**TEUR**	**33,074**	**27,238**	**25,617**	**8,546**	**5,979**	**8,483**	**23,994**	**15,184**	**10,792**
of sales	%	22.4	21.1	20.0	9.0	6.5	9.5	21.7	21.4	20.0
Financial result										
Financial income	TEUR	2,335	1,048	1,109	1,673	1,101	6,397	5,623	3,792	869
of sales	%	1.6	0.8	0.9	1.8	1.2	7.2	5.1	5.3	1.6
Financial expenses	TEUR	(741)	(409)	(415)	(728)	(2,290)	(8,317)	(4,537)	(1,483)	(934)
of sales	%	(0.5)	(0.3)	(0.3)	(0.8)	(2.5)	(9.3)	(4.1)	(2.1)	(1.7)
EBT[5]	**TEUR**	**34,668**	**27,877**	**26,311**	**9,491**	**4,790**	**6,563**	**25,080**	**17,493**	**10,727**
of sales	%	23.4	21.6	20.5	10.0	5.2	7.3	22.7	24.6	19.9
Income taxes	**TEUR**	**(11,648)**	**(10,054)**	**(9,374)**	**(2,977)**	**(1,871)**	**(1,012)**	**(7,383)**	**(3,669)**	**(2,194)**
of sales	%	(7.9)	(7.8)	(7.3)	(3.1)	(2.0)	(1.1)	(6.7)	(5.2)	(4.1)
Ordinary income net of tax	**TEUR**	**23,020**	**17,823**	**16,937**	**6,514**	**2,919**	**5,551**	**17,697**	**13,824**	**8,533**
of sales	%	15.6	13.8	13.2	6.8	3.2	6.2	16.0	19.5	15.8
Extraordinary gains	**TEUR**	**0**	**0**	**0**	**0**	**587**	**0**	**0**	**0**	**0**
of sales	%	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Net earnings	**TEUR**	**23,020**	**17,823**	**16,937**	**6,514**	**3,506**	**5,551**	**17,697**	**13,824**	**8,533**
of sales	%	15.6	13.8	13.2	6.8	3.8	6.2	16.0	19.5	15.8
Change yoy										
Sales	%	14.7		34.6	4.3	2.1	(18.9)	55.3	31.7	9.0
Gross profit	%	20.2		61.4	7.5	4.5	(35.8)	39.7	42.0	(6.1)
EBIT	%	21,4		199.8	42.9	(29.5)	(64.6)	58.0	40.7	(27.8)
EBT	%	24.4		177.2	98.1	(27.0)	(73.8)	43.4	63.1	(24.6)
Ordinary income net of tax	%	29.2		160.0	123.2	(47.4)	(68.6)	28.0	62.0	(4.7)
Net earnings	%	29.2		160.0	85.8	(36.8)	(68.6)	28.0	62.0	(4.7)
Key figures										
Earnings per share										
basic	EUR	1.59	1.23	1.17	0.41	0.20	0.35	1.02	0.68	0.36
fully diluted	EUR	1.59	1.23	1.17	0.41	0.20	0.35	1.02	0.68	0.35
Tax rate for EPS calculation	%	34.80	37.20	36.87	38.10	45.30	21.60	40.50	43.05	50.69
Order income	TEUR	165,001	174,659	174,659	99,308	85,884	93,604	136,255	92,167	56,433
Order backlog	TEUR	81,672	67,209	67,968	27,794	31,820	48,076	56,436	30,598	16,481
Personal costs	TEUR	49,890	45,044	45,110	39,922	38,093	37,888	39,236	27,984	23,116
Return on equity (before tax)	%	27.7	25.2	24.5	9.7	4.9	6.4	24.0	18.4	12.3
Return on Capital Employed[6]	%	45.4	37.5	34.6	10.2	6.8	8.0	24.3	18.4	18.5
Consolidated Statements of cashflow										
Cash provided by (used for) operating activities	TEUR	32,133	40,893	38,879	16,054	23,398	15,159	15,307	(6,037)	(949)
Cash provided by (used for) investing activities	TEUR	(21,888)	(14,707)	(21,737)	(7,344)	(1,864)	(9,872)	(4,701)	(751)	(37,412)
Cash provided by (used for) financing activities	TEUR	(10,606)	(9,127)	(9,131)	(8,921)	(10,243)	(6,840)	(8,558)	(6,335)	52,402
Net Increase/(Decrease) in Cash and Cash equivalents	TEUR	(361)	17,059	8,011	(211)	11,291	(1,553)	2,048	(13,123)	14,041
Free cashflow	TEUR	22,726	27,163	27,171	10,590	20,519	(2,156)	(63)	(9,018)	(8,612)
of sales	%	15.4	21.1	21.2	11.1	22.5	(2.4)	(0.1)	(12.7)	(16.0)

[1] A transition of the consolidated statements of income from Jan. 01 to Dec. 31, 2004 from US-GAAP to IFRS you find in the notes
[2] No comparability due to different treatment between US-GAAP and IFRS
[3] Earnings before interest, tax, depreciation and amortization
[4] Earnings before interest and tax
[5] Earnings before tax
[6] EBIT/capital employed
*Shown under function costs

Adhesive Film Lamination:
Attaching a heat-activated adhesive film to 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 from biometric procedures are used for the unique identification of persons

Board Handling:
Techniques and systems for transporting printed circuit boards in industrial manufacturing and shaping, (e.g. loading and unloading stations, magazine / buffer systems, flip/turn units and conveyors)

Border Crossing:
Hard- and software for safe and quick border crossing as well as for a clear identification of documents and persons

Carrier Tape:
Plastic straps for transporting and providing electronic components

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

Chip on Board:
Technique for attaching and/or wiring dice onto carrier material such as printed circuit boards

Coating & Drying:
Coating and drying of printed circuit boards

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

Credit Card:
Cards for which the credit limit is not prepaid; payments are carried out on receipt of goods or services
Data Capturing: Capturing and storing biometric information

Data Enrollment:
Data capture and processing (e.g. taking and optimizing pictures for further treatment)

Die Bonding:
Placing small silicon chips onto carrier material

Die Sorter:
Equipment for separating and packing good dice

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

Discrete Devices:
Semiconductor products such as low-voltage transistors or diodes

Dual Interface Card:
Card type combining the functions of contact and contactless card technologies

Encapsulation:
Protection of the chip and its wiring by encapsulating the reverse of a chip

Epoxy Die Bonding:
Attaching dice to carrier material using adhesive techniques (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 to carrier material

GSM Card:
Standardized chip card to be used in mobile phones. The "Global System for Mobile Communications" is an international terrestrial mobile telephone system

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

Inkjet:
Thin jets on the print head of an inkjet printer spray ink onto the medium

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" individual data on a chip card module. Application of visible data on a card, a passport or visa is also known as optical personalization

Plug Punching:
Punching out the chip from a standardized chip card for mobile phones

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

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

Pre-Personalization:
Loading an operating system onto a chip

Reel To Reel Process:
Technique for unwinding, treating and rewinding material on a spool

Remote maintenance tool:
Via the remote maintenance tool, the service technician can carry out remote maintenance tasks on the computer (system) of the customer

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 in particular for digital cameras or as a storage medium for music, PDA, etc.

Smart Card:
Chip card, i.e. plastic card equipped with a chip module

Smart Label:
Ultra-flat transponders consisting of chip, antenna and substrate for identifying goods and persons

Smart Media and Multi Media Cards:
Card application used in particular for digital cameras or as storage medium for music, etc.

SMD (Surface Mounted Device):
Components, which are directly soldered to a board without drill holes. SMD components significantly reduce the component density of electronic circuits

Tag:
RFID transponders are also termed as "Tags"

TAL (Tag Assembly Line):
Mühlbauer production system for the manufacture of Smart Inlays (Smart Inlay = antenna and functional chip)

TECURITY®:
Terms a market for technologically sophisticated and security-relevant solutions, taken from the two words **Te**chnology and Se**curity**

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

Traceability:
Pursuing and tracing back units from the raw material to the end product

Transponder:
Antenna located on a Smart Label between flexible carrier layers

Turn-Key Solutions:
Turn-key product and services solutions

Verification:
Verification, if the user of an ID card really is the legal holder

Vision Technology:
Measuring and controlling components using camera systems and software

Wafer:
Ultra-thin and silicon semiconductor disk for producing many individual chips. The dice are sawn from the surface of the wafer

Wafer Level Package:
Finished components on a wafer-basis, which are subject to further processing. For defining the dice, the wafer is sawn

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

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

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

Gross profit on sales
Net sales less cost of sales.

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

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

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

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

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

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

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

EBITDA
Earnings before interest, taxes, depreciation and amortization. EBIT extended by depreciation on fixed assets and amortization on intangible assets shows cash flow features, since non-liquid depreciation and amortization was added to the consolidated net 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.

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

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

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

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

Goodwill
An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under IFRS, 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.

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

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

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

Net cash position
Gross cash position minus current and non-current liabilities.

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

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

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

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

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

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.

Current assets
Assets intended for short-term business activities.

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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