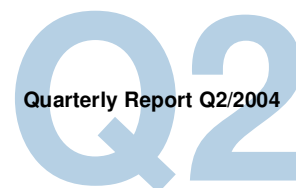


Strong business in the 2nd quarter — Mühlbauer increased sales and results significantly



- **EBIT of 5.5 m EUR causes the best quarterly result since three years**
- **Compare to last year pretax profit margin with 16% more than doubled**
- **Net earnings enlarged by 177.7% to 3.4 m EUR — earnings per share tripled to 0.24 EUR**
- **Working Capital again reduced — Free cashflow further increased**
- **Order income distinctly raised — first majore order for ID-Card-Project**
- **Sales caught up significantly with orders**

Dear Sir or Madam,

Mühlbauer technology group, listed in the German Prime Standard, has finalized the second quarter 2004 successfully with the best **EBIT** since three years and a sales plus of 47.6%. So the earnings before interest and taxes (EBIT) climbed by 205.9% to 5.5 m EUR (1.8), while — based on the improved interest result (compared with last years Q2) - the **earnings before taxes** (EBT) increased to 5.6 m EUR (1.8) in the same period. Thus the **pretax profit margin** in the second quarter reached comfortable 16.0% (7.7%) and reflects at the same time the leverage potential of earnings during a time of growing business. 3.4 m EUR (1.2) were earned net by Mühlbauer in the period under report. That means a plus of 177.7%. **Earnings per share** tripled to 0.24 EUR (0.08). The profitable growth of this year's first quarter could be continued. On half year basis EBIT was extended by 143.0% to 7.4 m EUR (3.0) and earnings per share climbed by 135.7 % to 0.33 EUR (0.14).

Cashflow and equity capital

As a result of a consistently accomplished working-capital-management the working capital dropped to a new all-time low of 29.6 m EUR (39.6), in spite of strong sales at the end of the second quarter. Based on the additional liquidity caused by this the **free cashflow** was growing to EUR +8.8 m EUR (+1.2). With +15.5 m EUR in the first half of 2004 the free cashflow reached a value far beyond the (+0.7) in the same period of last year and already 45% above the total free cashflow in 2003 (+10.6). The current **equity ratio** still shows a high value of 71.4% (as per 31.12.2003: 78%) in spite of +16.7% higher dividends than in the previous year paid to the shareholders. This value also shows – as a difference between assets and liabilities – the fundamental base of the global acting company.

Order income and order backlog

Order Income increased in second Quarter 2004 to 63.7 m EUR, that's more than double of this figure in Q2/2003 (27.7). Supported by a majore order for the gradual delivery of a turn-key solution for manufacturing of ID-cards for a ministry of interior the core business *Smart Identification* reached an all time high of 38.2 m EUR (11.0) – a growth of 246.9%. Stimulated by the dynamic growth of national economies in Far East, also the order income in *Semiconductor Related Products* Sector grew by 55.9% to 19.4 m EUR (12.4) – a value higher than this was only reached once before in the company's history. The Order income of 2.3 m EUR in *Traceability* Sector sets a mark 101.1% above last years figure (1.2) in the same period, while *Precision Parts and Systems* could increase its order income by 25% to 3.8 m EUR (3.1). On half year basis order income reached 99.5 m EUR (50.9), a growth of 95.4%. With an order backlog at the end of the 2nd quarter 2004 at 69.1 m EUR. (32.4) the orderbooks of the worldwide operating Muehlbauer Group are filled up very well.

Sales

As expected also sales caught up significantly with orders. Sales improved by 47.6% to 35.3 m EUR (23.9). In regional view Europe remains the core market of the Mühlbauer company with a quota of 70.6% (73.3%) followed by Asia 22.3% (23.0%). 6.8% (1.9%) of the sales were realized in the NAFTA-Region and South Americas. The share of sales in the other regions Africa and Australia was 0.3% (1.8%). During the first six months of this year the consolidated sales grew up to 56.3 m EUR (46.7). This means an increase of 20.5%.

Research and Development

In 2nd quarter 2004 Mühlbauer invested a total of 3.3 m EUR (2.8) or in other words 9.5% (11.9%) of sales in research and development. Beside numerous research projects the advancement of semiconductor-related product solutions and Smart-ID-Equipment is appreciable.

Employment

At the end of Q2/2004 the Mühlbauer Group employed 1.321 (1.249) employees worldwide. 174 (188) of these employees were young people who serve an apprenticeship. The high innovative strength of the company was personified by 231 (198) highly qualified employees working at the end of June 2004 in the research centres.

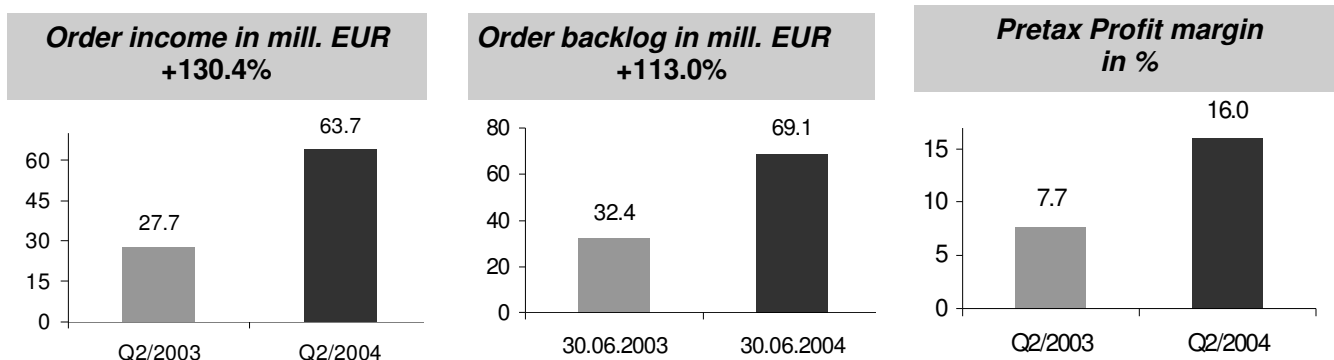
Outlook

The technology group was using the last 2 years to concentrate on its core competences, to enlarge them and to get a good position in promising future markets. A definite cost consciousness as well as fast and flexible acting in the markets was helping the company to increase its profit margin to more than 15%. The Mühlbauer Group classifies this as a pleasant development after a long lean period and sees itself on the right way using its strategy.

Additionally the technology group sees the current order backlog of almost 70 m EUR building a strong base for the further extension of its business. For supporting the possible growth, this year the company plans capital expenditures of nearly 8 m EUR. Because of our current market position and of our conservative accounting policy we assume, a still positive atmosphere in the markets provided, that we can go on optimising our sales and results.

Yours sincerely

MÜHLBAUER HOLDING AG & CO. KGaA
 Personally liable shareholder



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

**Consolidated Statements of Income ¹⁾
(US-GAAP)**

	Q2/2004 April 1, to June 30, 2004	Q2/2003 April 1, to June 30, 2003	HY 2004 January 1, to June 30, 2004	HY 2003 January 1, to June 30, 2003
Sales	35,269	23,895	56,300	46,719
Cost of sales	(23,487)	(15,898)	(36,425)	(31,886)
Gross Profit	11,782	7,997	19,875	14,833
Operating expenses				
Sales, general and administrative expenses	(4,570)	(3,980)	(8,712)	(7,561)
Research and development expenses	(3,344)	(2,838)	(6,547)	(5,634)
Operating income	3,868	1,179	4,616	1,638
Other income and expenses				
Interest income	256	411	470	579
Interest expenses	(63)	(348)	(144)	(468)
Other income	1,583	603	2,784	1,407
Income before income taxes	5,644	1,845	7,726	3,156
Income taxes	(2,225)	(614)	(2,894)	(1,005)
Net earnings	3,419	1,231	4,832	2,151

Earnings per common share in EUR				
basic	0.24	0.08	0.33	0.14
fully diluted	0.24	0.08	0.33	0.14

Weighted average of common shares				
basic	6,082,514	6,137,898	6,082,514	6,137,898
fully diluted	6,082,612	6,137,898	6,082,612	6,137,898

1) uncertified

Consolidated Interim Balance Sheets (US-GAAP)

	JUNE 30, 2004 ¹⁾	DECEMBER 31, 2003 ²⁾
ASSETS		
Current Assets	79,596	72,418
Cash and cash equivalents	9,164	12,597
Securities	13,265	3,498
Trade receivables	22,626	20,348
Inventories	32,436	34,227
Deferred tax assets	689	201
Prepaid expenses	323	165
Other currents assets	1,093	1,382
Investment and long-term financial assets	10,488	9,241
Securities	10,488	9,241
Fixed Assets	41,223	41,333
Land	1,586	1,586
Building, net	27,635	28,409
Technical and other equipment, net	11,183	11,298
Buildings and equipment in progress	819	40
Intangible assets	379	877
Goodwill	0	468
Software and licenses	379	409
Other long-term assets	2,110	1,687
TOTAL	133,796	125,556

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	28,636	17,724
Short term debts	2	0
Debts maturing within one year	987	986
Trade payables	7,214	4,751
Downpayments received on orders	5,050	329
Shareholders' loans	39	39
Other current liabilities	4,701	4,959
Accruals for income taxes	4,232	2,135
Other accruals	6,411	4,525
Long-term liabilities	9,653	9,898
Long term debt	1,419	1,913
Investment grants received	6,060	5,993
Deferred tax liabilities	1,220	1,274
Pension accrual	954	718
Stockholders' equity	95,507	97,934
Common stock (par value 1.28 EUR; 6,380,000 common shares authorized; 6,279,200 shares issued; thereof outstanding: 6,065,746 shares)	8,038	8,038
Own shares	(274)	(261)
Fixed capital contributions	(2,980)	(2,980)
Additional paid in capital	58,075	57,901
Retained earnings	31,244	34,204
Other comprehensive income	1,404	1,032
TOTAL	133,796	125,556

¹⁾uncertified

²⁾certified

Consolidated Statements of Cash Flows ¹⁾ (US-GAAP)

			Jan 01 to June 30, 2004	Jan 01 to June 30, 2003
Operating Activities				
1		Income before income taxes including profit of the pls ²⁾	7,726	3,156
2		Consolidated net income including profit of the pls ²⁾	4,832	2,151
3	+/-	Expenses/(income) from the employee profit-sharing programs	171	0
4	+/-	Depreciations/(appreciations) to - fixed assets - software and licenses - goodwill	2,705 124 468	2,927 292 0
5	-/+	(Gains)/losses from the sale of objects from the assets	(20)	(170)
6	-	Currency differences from the transition of assets	(2)	6
7	-/+	Realized net (gains)/losses from securities and long-term financial assets ³⁾	(233)	138
8	-/+	(Increase)/decrease of trade receivables	(1,239)	(1,311)
9	+/-	Increase/(decrease) of value adjustments for trade receivables	(1,039)	(17)
10	-/+	(Increase)/decrease of inventories	(3,090)	627
11	+/-	Value adjustments for inventories	4,881	3,553
12	-/+	(Increase)/decrease of deferred tax assets	(505)	(448)
13	-/+	(Increase)/decrease of prepaid expenses	(158)	(149)
14	-/+	(Increase)/decrease of other current assets	289	(257)
15	-/+	(Increase)/decrease of other long-term assets	(423)	0
16	+/-	Increase/(decrease) of trade payables	2,463	(2,014)
17	+/-	Increase/(decrease) of down payments received on orders	4,721	(780)
18	+/-	Increase/(decrease) of other liabilities	(258)	(1,334)
19	+/-	Increase/(decrease) of accruals for income taxes	2,097	(344)
20	+/-	Increase/(decrease) of deferred tax liabilities	(54)	(122)
21	+/-	Increase/(decrease) of other accruals	1,886	1,105
22	+/-	Increase/(decrease) of investment grants received	67	(24)
23	+/-	Increase/(decrease) of pension liabilities	236	71
24	=	Cash provided by (used for) operating activities	17,919	3,900
Investing activities				
25	+	Payments received from disposals of object of the assets	50	694
26	-	Purchase in fixed assets	(2,623)	(2,976)
27	-	Purchase in software and licenses	(94)	(274)
28	+	Sale of securities (Investment and long-term financial assets) ³⁾	1,121	1,026
29	-	Purchase in securities (Investment and long-term financial assets) ³⁾	(2,201)	(948)
30	+	Sale of securities (Current assets) ³⁾	517	1,158
31	-	Purchase in securities (Current assets) ³⁾	(9,896)	(1,510)
32	=	Cash provided by (used for) investing activities	(13,126)	(2,830)
Financing activities				
33	-	Repayment of long-term debts	(494)	(620)
34	+/-	Increase/(decrease) of short-term debts	2	41
35	+/-	Increase/(decrease) of shareholder loans	0	(1)
36	-	Purchase of own shares	(706)	(353)
37	+	Sale of own shares	219	142
38	-	Dividends paid	(6,554)	(6,045)
39	-	Tax withdrawal pls ²⁾	(761)	0
40	=	Cash provided by (used for) financing activities	(8,294)	(6,836)
41	+/-	Increase/(decrease) of currency exchange rate changes	68	(67)
42	=	Net Increases/(decreases) in cash and cash equivalents (Σ of lines 40, 41, 32 und 24)	(3,433)	(5,833)
43	+	Cash and cash equivalents on January 1	12,597	13,110
44	=	Cash and cash equivalents on June 30	9,164	7,277
Additional cash flow information				
Tax paid			(1,689)	(907)
Interest paid			(91)	(117)

Non-cash transactions: In the period under review non-cash unrealised gains and losses from available-for-sale-papers are shown under other comprehensive income.
Other informations: Last year's amounts of position 31 and 30 were moved from operating activities to investing activities.

¹⁾ Uncertified

²⁾ Personally liable shareholder

³⁾ Available-for-sale-papers

Consolidated Statements of Changes in Shareholders' Equity (US-GAAP)

	Number of shares	Common stock	Fixed capital	Additional paid-in capital	Retained earnings	Other Comprehensive Income/(Loss)		Total
						Cumulative translation adjustment	Available-for-sale securities	
Balance Dec 31, 2002 ¹⁾	6,108,775	7,819	(2,980)	58,351	34,907	(128)	284	98,253
Consolidated net income	-	-	-	-	2,151	-	-	2,151
Other comprehensive income	-	-	-	-	-	(34)	1,173	1,139
Total comprehensive income/(loss)	-	-	-	-	2,151	(34)	1,173	3,290
Purchase of own shares	(32,759)	(42)	-	(311)	-	-	-	(353)
Sale of own shares	18,291	24	-	119	-	-	-	143
Dividends paid	-	-	-	-	(6,045)	-	-	(6,045)
Balance June 30, 2003 ²⁾	6,094,307	7,801	(2,980)	58,159	31,013	(162)	1,457	95,288

Balance Dec 31, 2003 ¹⁾	6,075,435	7,777	(2,980)	57,901	34,204	(440)	1,472	97,934
Consolidated net income	-	-	-	-	4,832	-	-	4,832
Other comprehensive income	-	-	-	-	-	68	304	372
Total comprehensive income/(Loss)	-	-	-	-	4,832	68	304	5,204
Deferred compensation	-	-	-	171	-	-	-	171
Purchase of own shares	(25,645)	(33)	-	(196)	(477)	-	-	(706)
Sale of own shares	15,956	20	-	199	-	-	-	219
Tax withdrawal personally liable shareholder	-	-	-	-	(761)	-	-	(761)
Dividends paid	-	-	-	-	(6,554)	-	-	(6,554)
Balance June 30, 2004 ²⁾	6,065,746	7,764	(2,980)	58,075	31,244	(372)	1,776	95,507

¹⁾ certified
²⁾ uncertified

Additional explanations pursuant to § 63, section 3, subsection 5, section 4 of the stock exchange regulations (“Börsenordnung”):

Breakdown of sales (segment reporting)

Mühlbauer is only involved in one segment. The additional information required by SFAS no. 131 is as follows:

	Q2/2004 April 1, to June 30, 2004	Q2/2003 April 1, to June 30, 2003	HY 2004 January 1, to June 30, 2004	HY 2003 January 1, to June 30, 2003
SALES BY APPLICATIONS	35,269	23,895	56,300	46,719
Smart Identification	15,251	10,377	20,394	20,761
Semiconductor Related Products	14,184	8,722	24,720	14,147
Traceability	1,553	1,319	2,361	3,308
Precision Parts & Systems	4,335	3,489	8,922	8,549
<i>Detractions in earnings</i>	(54)	(12)	(97)	(46)
SALES BY REGIONS	35,269	23,895	56,300	46,719
Germany	15,506	12,254	26,910	23,466
Rest of Europe	9,431	5,259	11,800	9,955
Asia	7,872	5,494	12,773	10,828
Americas	2,423	446	3,913	820
Others	91	453	1,002	1,695
<i>Detractions in earnings</i>	(54)	(12)	(97)	(46)

Paid or proposed dividends

The annual general meeting held on April 29, 2004 decided to have a dividend of EUR 0,35 per participating share paid out. The dividend was paid on April 30, 2004 by the Clearstream Banking AG, Frankfurt/Main, and was credited to the shareholders without corporate income tax credit after deduction of 20.0% capital gains tax as well as a 5.5% solidarity tax on the capital gains tax (altogether 21.1%).

Explanation of the holding of own shares and subscription rights held by board members and employees in accordance with § 160 section 1, subsection 2 and 5 of the German Stock Corporation Act:

OWN SHARES	Number of shares	Par Value in EUR	In 5 % of share capital
As at December 31, 2003	203,765	260,819	3.3
Purchase of own shares From the authorization to purchase own shares as defined in § 71 Par. 1 No. 8 AktG	25,645	32,826	0.4
Sale of own shares employee sharing program to almost all employees of the Mühlbauer Group as defined in § 19a EStG payments for variable amounts	(14,934) (1,022)	(19,116) (1,308)	(0.2) (0.1)
As at June 30, 2004	213,454	273,221	3.4

In the period under report the purchase price for the shares acquired amounted to 705,900 EUR or an average of 27.53 EUR per share. 219,025 EUR or on the average 13.73 EUR per share were gained by the sale of shares to employees of the Mühlbauer group. The obtained cash is intended to strengthen the working capital.

At the end of the period under report employees of the Muehlbauer group held in total 4.197 application rights, regarding the reaching of their personal and their team goals. Each application right authorizes the entitled employee to subscribe one share. The average exercise price is 26.22 EUR. All application rights can be exercised without any lockup period.

The personally liable shareholder was giving out additional 1,000 application rights in the period under report. Every single application right authorizes the entitled employee to subscribe one share. The average exercise price is 26.00 EUR. The granted application rights expire without replacement as far as specified goals are not reached.

The company decide to make use of the authorization, given by the annual general meeting, to grant all application rights out from the own shares. Beside that neither the personally liable shareholder nor any members of the supervisory board held any subscription rights or similar securities pursuant to § 160, section 1, subsection 5 German Stock Corporation Act.

Personnel changes in the management and supervisory board

No personnel changes were made to the management or supervisory board in this year’s second quarter.

Capital expenditures

In the period under review the capital expenditures in tangible and intangible assets amounted to EUR 1.9 m (previous year EUR 0.4 m) and were primarily required for expansion of the machinery, soft- and hardware as well as for assets under construction.

Events of special significance in the period under review and after the end of the quarter which could affect profits

None.

Financial calendar 2004	
November 04, 2004	Quarterly Report III/ 2004
March 2004	Publication of the Annual Report 2004
April 28, 2005	Annual general meeting 2005

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DISCLAIMER

This interim report contains forward-looking statements based on assumptions and estimates made by the management of Muehlbauer. Although we assume that the expectations expressed in these forward-looking statements are realistic, we cannot guarantee that they will prove correct. The assumptions are subject to risks and uncertainties which could lead to a situation where the actual results deviate substantially from the expectations. Factors which could cause such deviations include, among other things, changes in the economic and business environment, foreign exchange and interest rate fluctuations, the introduction of competing products, a lack of market acceptance of new products or services and changes in the business strategy. Muehlbauer does not plan to update the forward-looking statements nor does the company assume any obligation to do so.