

Strategy of product and market diversification ensures high sales – profitability further consolidated

- Order income worth EUR 50.4 million once again slightly up on last year (49.3) despite moderate Smart Label business
- High level of EUR 90.2 million in order backlog provides solid basis for further business development
- Sales of EUR 40.3 million almost on same level of last year (41.7)
- EBIT rate at a profitable 20.9% (22.7)
- Net earnings of EUR 6.1 million slightly down on last year (6.4) – earnings per share at EUR 0.42 (0.44)

Q2 2006

Discover the smart world of



Ladies and Gentlemen,

The Mühlbauer technology company, quoted on the Prime Standard and worldwide active provider of system solutions for the TECURITY market, ends Q2 despite the expected weakness in Smart Label with another slight improvement in new orders over the same period of last year (49.3) and managed to raise its order backlog to the record level of EUR 90.2 million at the end of the reporting period.

Sales could – due to project business – not yet fully profit from the positive trend in demand and, with EUR 40.3 million, were slightly down on the comparable value of last year (41.7). As a consequence of the product mix and increased risk measures in inventories, **gross profits on sales** amounted to EUR 16.9 million over the same period of time – after EUR 18.3 million in the year before. **Earnings before interest and taxes (EBIT)** generated during the reporting period decreased 11.1% to EUR 8.4 million compared to last year's EUR 9.5 million and equal an EBIT rate of a respectable 20.9% (22.7). **Earnings before taxes (EBT)** reached EUR 9.0 million (10.0) and **pretax profit margin** came in at 22.3% – after 24.0% in the year before. **After taxes** another EUR 6.1 million (6.4) can be transferred to retained earnings. This equals a ratio of **earnings per share** of EUR 0.42 (0.44). Over a period of 6 months, the Mühlbauer Group generated a EUR 77.7 million volume in sales, which is 16.2% more than last year (66.9), while the EBIT over the same period of time rose 37.4% to EUR 16.3 million (11.9) and earnings per share improved to EUR 0.81 (0.57).

Financial strength and shareholders' equity

In particular due to the business-related build-up in inventories, the successive consumption of payments received on orders as well as higher advance tax payments over the year, Q2 **free cashflow** fell to EUR +2.1 million and was clearly down on the comparable EUR +9.6 million of last year. Over a period of six months, free cashflow stood at EUR +3.6 million – compared to +14.9 in the year before. Accordingly **net working capital** consequently rose from last year's EUR 18.6 million to EUR 32.2 million at the end of the reporting period. Over the first six months of the current financial year, the company's net cash declined, as a result of a 50% increase in dividend payments to shareholders, by EUR 9.6 million to EUR 46.4 million. On June 30, 2006, the **equity ratio** of 74.0% was 2.2% points down on the previous year (76.2).

Order income and order backlog

In the reporting period the global technology group's order books posted another slight increase of 2.3% to EUR 50.4 million compared to the relatively high value of last year (49.3). While the SmartID core business worth EUR 26.4 million closed 9.7% down on the same level of last year (29.2) despite the positive trend in demand for TECURITY solutions but curbed by the expected weakness in Smart Label, all other business sectors showed a consistently positive performance: The demand for mature technology solutions in the semiconductor industry was rewarded with a 16.8% order increase to EUR 16.3 million (14.0). The Traceability market also improved significantly. New orders grew 29.2% year-on-year and contributed an order value of EUR 3.6 million (2.8). The business area Precision Parts and Systems posted EUR 4.1 million during the reporting period and climbed 23.8% (3.3) year-on-year. Considering the value of order income acquired

during the reporting period, consolidated order books were filled with EUR 88.2 million (85.1) in the first half of the current financial year. For the technology group this means an 3.6% increase compared to the first half of the last financial year. The order backlog until June 30, 2006, amounted to EUR 90.2 million and was 9.7% up on last year's EUR 82.2 million and has thus formed a solid basis for a positive trend in business.

Sales

The Mühlbauer Group's EUR 40.3 million sales in the second quarter of 2006 were – due to project business – 3,2% down on last year's comparable quarter (41.7). Divided by regions, Europe with sales of 53.8% (53.4) remained the biggest market followed by Asia with 37.4% (30.1). The North and South American share on sales fell on the basis of the weak Smart Label business to 4.3% (12.8) and the remaining continents of Africa and Australia stood at 4.5% (3.7). Consolidated sales rose to EUR 77.7 million (66.9) over the first six months. This equals an increase of 16.2%.

Research and Development

For strengthening its technological competence and position in attractive growth markets, the Mühlbauer Group did extensive research and development in Q2, 2006. Investments in this sector totaled EUR 4.7 million (4.5). In its core business area the worldwide operating company concentrated on developing new converting lines and extending the value chain in Smart Label. Mühlbauer is also dedicated to further developing centralized passport personalization solutions.

Outlook

The strategy of product and market diversification pursued by the company proved once again to be successful. The result is another slight increase in new orders to a total of more than EUR 50 million over last year's comparable period of time, which was only topped once in the company's 25 year old history. With a new record level in order backlog worth EUR 90.2 million, the technology company has created a sound base for its further business development. The growth market of 'Smart Label' is undisputed. Nevertheless, the world market for the manufacture of RFID-Smart Label has been temporarily stagnating for one year. Existing overcapacities as well as delays arising from new chip generations have triggered a temporary slowdown in spending in the TAL product line. From today's point of view it cannot be predicted if the desired upswing will take place in the second half of the year. Although there was an improvement in Q2 new orders compared to Q1, 2006, the market gave no clear signs of an increased economic activity.

In the TECURITY market, Mühlbauer is the only company worldwide capable of developing and offering all required production systems for manufacturing ID cards and ePassports as a one-stop provider. The increasing number of reference projects qualify the company as a reliable partner for even more national governments and authorities. The solution provider considers itself extremely well positioned in order to generate above-average gains in this highly sensitive market for digital security.

Yours sincerely

MÜHLBAUER HOLDING AG & CO. KGaA

Personally liable shareholder

Consolidated Statements of Income¹⁾ (IFRS)

	April 1, to June 30, 2006	April 1, to June 30, 2005	Jan 1, to June 30, 2006	Jan 1, to June 30, 2005
1. Sales	40,347	41,692	77,695	66,882
2. Cost on sales	(23,421)	(23,430)	(43,284)	(37,857)
3. Gross profit	16,926	18,262	34,411	29,025
4. Operating expenses				
a) Selling expenses	(2,648)	(2,811)	(5,616)	(5,073)
b) Administrative expenses	(1,610)	(1,975)	(3,611)	(3,606)
c) Research and development	(4,473)	(3,936)	(9,470)	(8,052)
d) Other income	150	188	602	374
e) Other expenses	78	(252)	(15)	(804)
5. Operating Income	8,423	9,476	16,301	11,864
6. Financial Result				
a) Financial income	588	559	1,286	907
b) Financial expenses	(4)	(47)	(74)	(78)
7. Income before income taxes	9,007	9,988	17,513	12,693
8. Income taxes	(2,877)	(3,600)	(5,790)	(4,424)
9. Net earnings	6,130	6,388	11,723	8,269

Earnings per share in EUR				
basic	0.42	0.44	0.81	0.57
fully diluted	0.43	0.44	0.81	0.57

Weighted average of shares				
basic	6,078,797	6,063,654	6,078,797	6,063,654
fully diluted	6,079,080	6,063,654	6,079,080	6,063,654

1) uncertified

Consolidated Interim Balance Sheets (IFRS)

	June 30, 2006 ¹⁾	Dec. 31, 2005 ²⁾
ASSETS		
Short-term assets	106,769	105,128
Cash and cash equivalents	13,409	13,507
Marketable securities	21,982	32,687
Trade accounts receivables, net	27,154	21,985
Other current assets	2,317	2,441
Tax receivables	1,839	976
Inventories	40,068	33,532
Long-term assets		
Investment and long-term financial assets	11,850	11,088
Marketable securities	11,436	10,809
Trade accounts receivables, net	414	279
Fixed assets	38,740	39,018
Land and buildings, net	26,577	27,343
Technical equipment, net	6,588	5,965
Furniture and office equipment, net	5,243	5,510
Buildings and equipment in progress	332	200
Intangible assets	8,168	8,412
Software and licenses	611	638
Capitalized development costs	7,557	7,774
Deferred tax assets	1,022	99
Other fixed assets	806	510
TOTAL	167,355	164,255

	June 30, 2006 ¹⁾	Dec. 31, 2005 ²⁾
LIABILITIES AND STOCKHOLDERS` EQUITY		
Short-term liabilities	39,603	35,000
Debt	445	960
Trade accounts payable	8,610	6,150
Downpayments received on orders	11,762	10,330
Other liabilities	3,772	6,385
Accrued income taxes	5,221	2,919
Other accruals	9,793	8,256
Long-term liabilities	3,937	4,109
Deferred tax liabilities	3,937	4,109
Shareholders` equity	123,815	125,146
Ordinary share capital (par value 1.28 EUR; 6,380,000 ordinary shares authorized; 6,279,200 shares issued, there of 6,076,903 ordinary shares outstanding)	8,038	8,038
Own shares	(241)	(259)
Fixed capital contributions	(2,980)	(2,980)
Additional paid-in capital	59,842	59,319
Other comprehensive income	1,941	2,219
Retained earnings	57,215	58,809
TOTAL	167,355	164,255

1) uncertified
2) certified

Consolidated Statements of Cash Flow¹⁾ (IFRS)

			Jan 01 to June 30, 2006	Jan 01 to June 30, 2005
Cash provided by operating activities				
1.		Net earnings	11,723	8,269
2.	+	Income taxes	5,790	4,424
3.	+	Interest expenses	55	77
Adjustments for non cash expenses and income				
4.	+/-	Expenses/(income) from employee profit-sharing programs	158	115
5.	+/-	Depreciations/(appreciations) to fixed assets	2,950	2,922
6.	+/-	Depreciations/(appreciations) to intangible assets	235	160
7.	+/-	Depreciations/(appreciations) to capitalized development costs	2,062	751
8.	+/-	(Gains)/losses from the sale of fixed assets	(117)	(102)
9.	+/-	Currency differences from the transition of fixed assets	4	(7)
10.	+/-	Realized net (gains)/losses from short- and long-term marketable securities	(331)	(83)
11.	+/-	(Gains)/losses from the change in fair value of financial instruments	(84)	123
12.	+/-	(Increase)/decrease of deferred tax assets	(923)	(405)
13.	+/-	Increase/(decrease) of deferred tax liabilities	(128)	(177)
Changes in working capital				
14.	+/-	(Increase)/decrease of inventories	(6,536)	(5,229)
15.	+/-	(Increase)/decrease of trade accounts receivables and other short-term assets	(6,256)	(333)
16.	+/-	Increase/(decrease) of trade accounts payables and other liabilities	3,335	10,284
17.	=	Cash generated from operating activities	11,937	20,789
18.	-	Income tax paid	(4,541)	(1,250)
19.	-	Interest paid	(25)	(64)
20.	=	Cash provided by operating activities	7,371	19,475
Cashflow from investing activities				
21.	+	Proceeds from disposals of fixed assets	152	193
22.	-	Purchase of fixed assets	(2,179)	(3,419)
23.	-	Purchase of intangible assets	(235)	(125)
24.	-	Expenditures for capitalized development costs	(1,845)	(1,254)
25.	+	Proceeds from sales of long-term marketable securities (available-for-sale-papers)	2,399	0
26.	-	Acquisitions of long-term marketable securities (available-for-sale-papers)	(2,620)	(3,827)
27.	+	Proceeds from sales of short-term marketable securities (available-for-sale and held-to-maturity papers)	7,047	9,557
28.	-	Acquisitions of short-term marketable securities (available-for-sale and held-to-maturity papers)	(6,981)	(16,216)
29.	=	Cash used for investing activities	(4,262)	(15,091)
Free cashflow			3,556	14,869
Cashflow from financing activities				
30.	-	Repayment of long-term debts	0	(925)
31.	+/-	Increase/(decrease) of short-term debts	(515)	710
32.	+	Proceeds from sales of own shares	383	453
33.	-	Dividends paid	(12,186)	(9,034)
34.	+/-	Tax withdrawal personally liable shareholder	(1,131)	(967)
35.	=	Cash used for financing activities	(13,449)	(9,763)
36.	+/-	Increase/(decrease) of currency exchange rate changes	(39)	683
37.	=	Net increases/(decreases) in cash and cash equivalents (Total of lines 20, 29, 35, 36)	(10,379)	(4,696)
38.	+	Liquid funds on January 1	29,486	29,418
39.	=	Liquid funds on June 30	19,107	24,722

1) uncertified

Consolidated Statements of Changes in Shareholders' Equity (IFRS)

	Total number of shares Number	Own shares Number	Ordinary share capital TEUR	Fixed capital TEUR	Additional paid-in capital TEUR	Other comprehensive income / (loss)		Retained earnings TEUR	Total TEUR
						Cumulative transaction adjustment TEUR	Available-for-sale securities TEUR		
Balance Dec 31, 2004 ¹⁾	6,279,200	(222,404)	7,753	(2,980)	58,739	(238)	1,667	45,892	110,833
Net earnings	-	-	-	-	-	-	-	8,270	8,270
Other comprehensive income / (loss)	-	-	-	-	-	683	422	-	1,105
Total comprehensive income / (loss)	-	-	-	-	-	683	422	8,270	9,375
Deferred compensation	-	-	-	-	115	-	-	-	115
Proceeds from sales of own shares	-	18,783	24	-	429	-	-	-	453
Tax withdrawal personally liable shareholder	-	-	-	-	-	-	-	(967)	(967)
Dividends paid	-	-	-	-	-	-	-	(9,034)	(9,034)
Balance June 30, 2005 ²⁾	6,279,200	(203,621)	7,777	(2,980)	59,283	445	2,089	44,161	110,775

Balance Dec 31, 2005 ¹⁾	6,279,200	(202,437)	7,779	(2,980)	59,319	191	2,028	58,809	125,146
Net earnings	-	-	-	-	-	-	-	11,723	11,723
Other comprehensive income / (loss)	-	-	-	-	-	(39)	(239)	-	(278)
Total comprehensive income / (loss)	-	-	-	-	-	(39)	(239)	11,723	11,445
Deferred compensation	-	-	-	-	158	-	-	-	158
Proceeds from sales of own shares	-	13,945	18	-	365	-	-	-	383
Tax withdrawal personally liable shareholder	-	-	-	-	-	-	-	(1,131)	(1,131)
Dividends paid	-	-	-	-	-	-	-	(12,186)	(12,186)
Balance June 30, 2006 ²⁾	6,279,200	(188,492)	7,797	(2,980)	59,842	152	1,789	57,215	123,815

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 exclusively active in one segment. However, selected information on sales proceeds will subsequently be provided:

	April 1 to June 30, 2006	April 1 to June 30, 2005	Jan 1 to June 30, 2006	Jan 1 to June 30, 2005
SALES BY APPLICATION AREA	40,347	41,692	77,695	66,882
Smart Identification	19,737	24,804	40,756	37,570
Semiconductor Related Products	13,276	9,808	22,356	16,089
Traceability	3,738	3,026	6,654	5,268
Precision Parts & Systems	3,655	4,094	8,044	8,038
<i>Detractions in earnings</i>	<i>(59)</i>	<i>(40)</i>	<i>(115)</i>	<i>(83)</i>
SALES BY REGIONS	40,347	41,692	77,695	66,882
Germany	10,364	16,037	20,217	25,412
Rest of Europe	11,396	6,241	18,732	11,618
Asia	15,110	12,561	32,014	19,137
North America	960	3,822	3,606	6,599
South America	767	1,511	898	1,800
Other	1,809	1,560	2,343	2,399
<i>Detractions in earnings</i>	<i>(59)</i>	<i>(40)</i>	<i>(115)</i>	<i>(83)</i>

Paid or proposed dividends

The ordinary general meeting on May 4, 2006, approved dividends of EUR 0.90 per share with dividend entitlement. Dividends were paid on May 5, 2006, by the Clearstream Banking AG, Frankfurt am Main, and credited to shareholders without corporation tax credit after deducting the 20.0% capital gains tax and the 5.5% solidarity surcharge on the capital gains tax (total 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 % of share capital
As at December 31, 2005	202,437	259,119	3.2
Sales of own shares			
<ul style="list-style-type: none"> • employee sharing program to almost all employees of the Mühlbauer Group as defined in § 19a EStG • payments for variable amounts 	(13,805) (140)	(17,670) (179)	(0.2) (0.0)
As at June 30, 2006	188,492	241,270	3.0

For own shares, sold by the company between January 1, 2006 until June 30, 2006, a total of EUR 383,007 or an average of EUR 27.47 per share was generated. The profit will be used to enhance the working capital.

Due to their accomplished personal or team goals, the employees of the Mühlbauer Group held a total of 1,294 stock options at the end of the reporting period. Every stock option allows the beneficiary to acquire one equity share issued to the holder. The average exercise price is EUR 27.94. All stock options can be exercised without any waiting period.

The company intends to make use of its right to pay the beneficiary in cash instead of distributing shares and therefore taking all option rights from liquid assets. The company intends to make use of its right to pay the beneficiary in cash instead of distributing shares and therefore taking all option rights from liquid assets.

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.

Order backlog

	June 30, 2006 TEUR	June 30, 2005 TEUR
ORDER BACKLOG BY APPLICATIONS	90,208	82,222
Smart Identification	65,622	63,260
Semiconductor Related Products	17,906	13,538
Traceability	3,058	1,954
Precision Parts & Systems	3,622	3,470

Personnel changes in the management and supervisory board

No personell changes werde made to the management or supervisory board in this year's second quarter.

Employees

On June 30, 2006, the Mühlbauer technology group employed 1,511 (1,428) people worldwide. This number includes 196 (180) young people in training. The number of highly-skilled professionals in research and development showed a significant increase to 304 persons compared to the same quarter of last year (281) and consequently reflects the importance of this area for the company's power of innovation.

Capital expenditures

In the reporting period, investments into fixed and intangible assets amounted to EUR 1.9 million (1.3). They consisted mainly of investments in machinery, hard- and software as well as in the fleet of vehicles.

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

None.

Financial Calendar	
October 31, 2006	Quarterly Report III/2006
March 2007	Annual Report 2006
April 26, 2007	Annual General Meeting 2007

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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.

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