

SmartID catching up strongly – great interest of market in Cards & TECURITY® creates positive mood

Q3 2006

- Order income 20.6% higher than previous year at EUR 36.9 million (30.6) – SmartID contributes 57.4%
- Group sales at EUR 37.1 million (41.6) due to temporary delays in projects
- Pretax profit margin spurred by positive financial result – with 27.4% (28.8) at an extremely high level
- Net earnings for the period EUR 6.8 million (7.9) due to sales
- Earnings per share at EUR 0.47 (0.54)

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Ladies and Gentlemen,

The Mühlbauer technology group, international and independent consultant and manufacturer of innovative security solutions for the TECURITY® market, **continued its push ahead** during the reporting period. While the order book increased by 23.4% to EUR 21.2 million (17.2) over the previous year, due to the **strong demand** for the unique range of solutions from the **Cards & TECURITY® area**, located within the company's core business area SmartID, the overall order book grew by 20.6% to EUR 36.9 million (30.6). On a nine-month comparison of the SmartID area, the company - at EUR 65.2 million (70.2) - lags only 7.2% behind the order income of the previous year, which benefited from the strong demand for Smart Label technologies. With regard to the consolidated order income of EUR 125.1 million (115.8) it is in fact 8.1% ahead in the nine-month comparison. Thus, the company once again succeeded in compensating for temporary volatility through market diversification. Due to temporary delays in governments projects, **sales** have so far not benefited from this positive development and, at EUR 37.1 million (41.6), lagged the previous year's value by 10.7%. As a result of the different product mixes in the periods under comparison, at EUR 8.6 million (11.2), **earnings before interest and taxes (EBIT)** were 23.8% below the comparative value of the previous year, which still corresponds to a high EBIT rate of 23.0% (27.0). In contrast, **earnings before taxes (EBT)** were spurred by the extremely positive rate of net interest income (EUR 1.6 million, PY: 0.8) and reached a level of EUR 10.2 million (12.0) during the reporting period. This corresponds with an extremely positive **pretax profit margin** of 27.4% (28.8). After deduction of taxes, a further EUR 6.8 million (7.9) can be transferred to retained earnings; this corresponds to **earnings per share** of EUR 0.47 (0.54). On a nine-month comparison, Mühlbauer increased sales by 5.9% to EUR 114.8 million (108.4). In the same period, EBIT rose 7.7% to EUR 24.9 million (23.1), while earnings per share increased by a total of 15.3% to EUR 1.28 (1.11).

Financial strength and shareholders' equity

As a result of scheduled investments, **free cashflow** in the reporting period amounted to EUR -4.0 million (-5.6). In the nine-month comparison free cashflow was virtually balanced at EUR -0.5 million (+9.3). **Net working capital** rose from EUR 31.2 million to EUR 41.8 million, due in particular to the further diversification of products. At the end of the reporting period the Group's **net cash** amounted to EUR 41.9 million (43.0). The equity ratio was 78.4%, compared with 75.2% in the previous year.

Order income and order backlog

In addition to the positive development of Mühlbauer's core business area SmartID, the areas Traceability as well as Precision Parts and Systems managed to post significantly more orders than in the same period of the previous year. While Traceability's order income rose 46.5% to EUR 3.8 million (2.6), order income in Precision Parts and Systems shot up 57.6% to EUR 4.5 million (2.8). As a consequence, the weakness in the semiconductor industry recorded during the reporting period and the resultant decline of order income

in Semiconductor Related Products to EUR 7.4 million (8.0) was more than compensated for. The order backlog still stands at a high level: on 30 September 2006 it stood at EUR 89.1 million and is thus 25.4% higher year-on-year (71.1).

Sales

In Q3 2006 sales of the technology provider amounted to EUR 37.1 (41.6), 10.7% lower year-on-year, due to temporary project delays caused by the governments. In Europe the Mühlbauer Group achieved a 52.1% (51.3) share in sales, followed by Asia with 33.5% (27.9). North and South America contributed a share in sales of 11.8% (19.6), while the remaining continents Africa and Australia achieved 2.6% (1.2). In the nine-month comparison, consolidated sales improved 5.9% year-on-year, to EUR 114.8 million (108.4).

Research and Development

To extend the innovative strength and the technological positioning of the company, in particular on the TECURITY® market, the Mühlbauer Group in Q3 2006 invested a total of EUR 4.4 million (3.9) in its research and development work. In development, the focus was on the new and further development of decentralized personalization systems and the design of new processes to increase the throughput of specific system solutions. In the Smart Label area, the focus was on the development of new converting lines that produce tickets.

Outlook

The market's mood for technology solutions from the Cards & TECURITY® area is good. Due to the market's great interest in implementing security-oriented identification systems and innovative card applications, we expect a further boost to our business over the next months. Here our expectation is based on our excellent market position, our range of solutions that is unique in the world, and the high number of reference projects that recommend us as a reliable partner for governments and authorities of other states.

The positive trend in Smart Labels experienced in the first two quarters of the financial year has continued in the reporting period. While the market was, in the past, controlled by only a few major players from certain countries, a shift towards a broader customer base in other countries can be noted.

With our comprehensive range of solutions, based in the SmartID area and consisting of innovative products, user-oriented software solutions and a distinct proximity to our customers, we consider ourselves in an excellent position to benefit strongly from the market potential relevant to us.

Yours sincerely

MÜHLBAUER HOLDING AG & CO. KGaA

Personally liable shareholder

Consolidated Statements of Income¹⁾ (IFRS)

	July 1, to Sep 30, 2006	July 1, to Sep 30, 2005	Jan 1, to Sep 30, 2006	Jan 1, to Sep 30, 2005
1. Sales	37,123	41,560	114,818	108,442
2. Cost on sales	(20,905)	(23,187)	(64,189)	(61,044)
3. Gross profit	16,218	18,373	50,629	47,398
4. Operating expenses				
a) Selling expenses	(2,633)	(2,009)	(8,249)	(7,082)
b) Administrative expenses	(1,599)	(1,616)	(5,210)	(5,222)
c) Research and development	(3,905)	(3,465)	(13,375)	(11,517)
d) Other income	515	136	1,117	510
e) Other expenses	(42)	(200)	(57)	(1,004)
5. Operating Income	8,554	11,219	24,855	23,083
6. Financial Result				
a) Financial income	1,957	970	3,243	1,877
b) Financial expenses	(353)	(220)	(427)	(298)
7. Income before income taxes	10,158	11,969	27,671	24,662
8. Income taxes	(3,348)	(4,083)	(9,138)	(8,507)
9. Net earnings	6,810	7,886	18,533	16,155

Earnings per share in EUR				
basic	0.47	0.54	1.28	1.11
fully diluted	0.47	0.54	1.28	1.11

Weighted average of shares				
basic	6,081,439	6,067,440	6,081,439	6,067,440
fully diluted	6,081,672	6,067,448	6,081,672	6,067,448

1) uncertified

Consolidated Interim Balance Sheets (IFRS)

	Sep 30, 2006 ¹⁾	Dec. 31, 2005 ²⁾
ASSETS		
Short-term assets	104,829	105,128
Cash and cash equivalents	12,187	13,507
Marketable securities	19,575	32,687
Trade accounts receivables, net	26,640	21,985
Other current assets	2,366	2,441
Tax receivables	1,324	976
Inventories	42,737	33,532
Long-term assets		
Investment and long-term assets	10,944	11,088
Marketable securities	10,390	10,809
Trade accounts receivables, net	554	279
Fixed assets	40,131	39,018
Land and buildings, net	26,702	27,343
Technical equipment, net	8,026	5,965
Furniture and office equipment, net	5,246	5,510
Buildings and equipment in progress	157	200
Intangible assets	8,907	8,412
Software and licenses	893	638
Capitalized development costs	8,014	7,774
Deferred tax assets	187	99
Other fixed assets	931	510
TOTAL	165,929	164,255

	Sep 30, 2006 ¹⁾	Dec. 31, 2005 ²⁾
LIABILITIES AND STOCKHOLDERS` EQUITY		
Short-term liabilities	31,548	35,000
Debt	257	960
Trade accounts payable	6,928	6,150
Downpayments received on orders	8,850	10,330
Other liabilities	3,157	6,385
Accrued income taxes	2,802	2,919
Other accruals	9,554	8,256
Long-term liabilities	4,335	4,109
Deferred tax liabilities	4,335	4,109
Shareholders` equity	130,046	125,146
Ordinary share capital (par value 1.28 EUR; 6,380,000 ordinary shares authorized; 6,279,200 shares issued, there of 6,091,703 ordinary shares outstanding)	8,038	8,038
Own shares	(240)	(259)
Fixed capital contributions	(2,980)	(2,980)
Additional paid-in capital	59,871	59,319
Other comprehensive income	1,332	2,219
Retained earnings	64,025	58,809
TOTAL	165,929	164,255

1) uncertified
2) certified

Consolidated Statements of Cash Flow¹⁾ (IFRS)

			Jan 01 to Sep 30, 2006	Jan 01 to Sep 30, 2005
Cash provided by operating activities				
1.		Net earnings	18,533	16,155
2.	+	Income taxes	9,138	8,507
3.	+	Interest expenses	38	299
Adjustments for non cash expenses and income				
4.	+/-	Expenses/(income) from employee profit-sharing programs	188	121
5.	+/-	Depreciations/(appreciations) to fixed assets	4,514	4,300
6.	+/-	Depreciations/(appreciations) to intangible assets	422	277
7.	+/-	Depreciations/(appreciations) to capitalized development costs	2,420	1,145
8.	+/-	(Gains)/losses from the sale of fixed assets	(174)	(118)
9.	+/-	Currency differences from the transition of fixed assets	6	(35)
10.	+/-	Realized net (gains)/losses from short- and long-term marketable securities	(1,709)	(794)
11.	+/-	(Gains)/losses from the change in fair value of financial instruments	(76)	117
12.	+/-	(Increase)/decrease of deferred tax assets	(88)	(705)
13.	+/-	Increase/(decrease) of deferred tax liabilities	264	77
Changes in working capital				
14.	+/-	(Increase)/decrease of inventories	(9,205)	(4,171)
15.	+/-	(Increase)/decrease of trade accounts receivables and other short-term assets	(5,585)	(3,572)
16.	+/-	Increase/(decrease) of trade accounts payables and other liabilities	(4,477)	4,628
17.	=	Cash generated from operating activities	14,209	26,231
18.	-	Income tax paid	(7,422)	(9,726)
19.	-	Interest paid	(38)	(76)
20.	=	Cash provided by operating activities	6,749	16,429
Cashflow from investing activities				
21.	+	Proceeds from disposals of fixed assets	290	207
22.	-	Purchase of fixed assets	(5,721)	(5,465)
23.	-	Purchase of intangible assets	(705)	(563)
24.	-	Expenditures for capitalized development costs	(2,660)	(2,079)
25.	+	Proceeds from sales of long-term marketable securities (available-for-sale-papers)	2,399	300
26.	-	Acquisitions of long-term marketable securities (available-for-sale-papers)	(2,620)	(4,850)
27.	+	Proceeds from sales of short-term marketable securities (available-for-sale and held-to-maturity papers)	23,127	5,098
28.	-	Acquisitions of short-term marketable securities (available-for-sale and held-to-maturity papers)	(16,357)	(8,253)
29.	=	Cash used for investing activities	(2,247)	(15,605)
Free cashflow			(460)	9,269
Cashflow from financing activities				
30.	-	Repayment of long-term debts	0	(925)
31.	+/-	Increase/(decrease) of short-term debts	(703)	424
32.	+	Proceeds from sales of own shares	383	484
33.	-	Dividends paid	(12,186)	(9,034)
34.	+/-	Tax withdrawal personally liable shareholder	(1,131)	(967)
35.	=	Cash used for financing activities	(13,637)	(10,018)
36.	+/-	Increase/(decrease) of currency exchange rate changes	(70)	762
37.	=	Net increases/(decreases) in cash and cash equivalents (Total of lines 20, 29, 35, 36)	(9,205)	(8,432)
38.	+	Liquid funds on January 1	29,486	29,418
39.	=	Liquid funds on September 30	20,281	(20,986)

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	-	-	-	-	-	-	-	16,155	16,155
Other comprehensive income /(loss)	-	-	-	-	-	762	386	-	1,148
Total comprehensive income /(loss)	-	-	-	-	-	762	386	16,155	17,303
Deferred compensation	-	-	-	-	121	-	-	-	121
Proceeds from sales of own shares	-	19,917	26	-	458	-	-	-	484
Tax withdrawal personally liable shareholder	-	-	-	-	-	-	-	(967)	(967)
Dividends paid	-	-	-	-	-	-	-	(9,034)	(9,034)
Balance September 30, 2005 ²⁾	6,279,200	(202,487)	7,779	(2,980)	59,318	524	2,053	52,046	118,740

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	-	-	-	-	-	-	-	18,533	18,533
Other comprehensive income /(loss)	-	-	-	-	-	(70)	(817)	-	(887)
Total comprehensive income /(loss)	-	-	-	-	-	(70)	(817)	18,533	17,646
Deferred compensation	-	-	-	-	188	-	-	-	188
Proceeds from sales of own shares	-	14,940	19	-	364	-	-	-	383
Tax withdrawal personally liable shareholder	-	-	-	-	-	-	-	(1,131)	(1,131)
Dividends paid	-	-	-	-	-	-	-	(12,186)	(12,186)
Balance September 30, 2006 ²⁾	6,279,200	(187,497)	7,798	(2,980)	59,871	121	1,211	64,025	130,046

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:

	July 1 to Sep 30, 2006	July 1 to Sep 30, 2005	Jan 1 to Sep 30, 2006	Jan 1 to Sep 30, 2005
SALES BY APPLICATION AREA	37,123	41,560	114,818	108,442
Smart Identification	20,143	28,676	60,899	66,246
Semiconductor Related Products	9,903	7,225	32,259	23,314
Traceability	3,463	2,612	10,117	7,880
Precision Parts & Systems	3,677	3,080	11,721	11,118
<i>Detractions in earnings</i>	(63)	(33)	(178)	(116)
SALES BY REGIONS	37,123	41,560	114,818	108,442
Germany	10,559	10,357	30,776	35,769
Rest of Europe	8,805	10,980	27,537	22,598
Asia	12,475	11,609	44,489	30,746
North America	1,144	3,753	4,750	10,352
South America	3,235	4,382	4,133	6,182
Other	968	512	3,311	2,911
<i>Detractions in earnings</i>	(63)	(33)	(178)	(116)

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 • anniversary shares granted to employees of the Mühlbauer Group 	<ul style="list-style-type: none"> (13,805) (140) (995) 	<ul style="list-style-type: none"> (17,670) (179) (1,274) 	<ul style="list-style-type: none"> (0.2) (0.0) (0.0)
As at September 30, 2006	187,497	239,996	3.0

For own shares, sold by the company between January 1, 2006 until September 30, 2006, a total of EUR 383,007 or an average of EUR 25.64 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

	Sep 30, 2006 TEUR	Sep 30, 2005 TEUR
ORDER BACKLOG BY APPLICATIONS	89,103	71,066
Smart Identification	65,657	52,800
Semiconductor Related Products	15,567	13,135
Traceability	3,439	1,893
Precision Parts & Systems	4,440	3,238

Personnel changes in the management and supervisory board

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

Employees

On September 30, 2006, the number of employees in the the Mühlbauer group amounted to 1609 (1471) worldwide. Included in this figure are 238 (222) young people in training. The company's high innovative potential is reflected by 305 (277) highly qualified experts, graduate engineers and technicians in R&D.

Capital expenditures

In the reporting period, investments into fixed and intangible assets amounted to EUR 4.0 million (2.0). The company primarily invested in machinery, soft- and hardware and in its 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	
November 06, 2006	Roadshow London
November 08, 2006	European Mid Cap Conference (Paris)
November 16, 2006	Small & Mid Cap Day (London)
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.