

Profitable growth continued in the 2nd quarter

Quarterly Report Q2/2003



- EBIT more than doubled from EUR 0.8m to EUR 1.8m
- Group net income quadrupled from EUR 0.3m to EUR 1.2m
- EPS increased from EUR 0.03 to EUR 0.08
- Order income increased by 24.3 % from EUR 22.3m to EUR 27.7m
- Sales increased by 16.0 % from EUR 20.6m to 23.9m

SYSTEMS FOR A SAFER WORLD.

Dear Sirs, dear Madams,

Due to sales increases and effective cost management Mühlbauer technology group could improve profits considerably. **EBIT** increased from EUR 0.8m to EUR 1.8m (+122 %). **Earnings before taxes** increased from EUR 0.3m to EUR 1.8m, corresponding to a return on sales of 7.7 % (1.3 %). **Net earnings** increased from EUR 0.3m to EUR 1.2m (+ 266 %). **Earnings per share** amounted to EUR 0.08 (EUR 0.03). Mühlbauer continued the profitable growth from the first quarter and increased EBIT on half year basis by 166.7 % and EPS by 180.0 %.

Order income and order backlog

Order income amounted to EUR 27.7m, 24.3 % higher than in the second quarter 2002 (EUR 22.3m). As in the first quarter 2003 Semiconductor Related Products benefited from growing demand for mature technological backend solutions and grew by 71.0 % while Smart Identification increased 8.3 % despite long project engineering phases. Compared to Half Year 2002 (EUR 40.4m) order income increased 26.1 % to EUR 50.9m. Order backlog as of June 30, 2003 totalled EUR 32.4m (EUR 38.7m), 9.3% higher than Q1/2003.

Sales

Sales grew by 16.0 % to EUR 23.9m (EUR 20.6m) in the second quarter. In regional terms, Europe remains the core market with a share of sales of 73.3 % (77.8 %). Asia enlarged its share of sales from 19.2 % in the second quarter 2002 to 23.0 %. On half year basis sales increased 12.2 % to EUR 46.7m (EUR 41.6m).

Research and Development

Mühlbauer invested a total amount of EUR 2.8m (EUR 2.7m) in research and development in the second quarter, which is 11.9 % (13.2 %) of sales. Besides various R&D projects the pre-personalization of multimedia applications and increased efficiency of backend solution technologies for new and strong growing module forms in the semiconductor market can be mentioned.

if no other statement, figures in brackets from second quarter 2002

Employment

On June 30, 2003 the Mühlbauer Group employed 1.249 (1.234) employees worldwide. Innovative strength was personified by 198 (191) employees, working in R&D. For a sustainable company development, 188 (197) employees were serving an apprenticeship in technical and commercial areas, which is 15.1 % (16.0 %) of all personnel.

Outlook

The heightened world-wide security needs create new demands for safety engineering. Smart Cards and Smart Labels are solutions which reach these demands. Among other things their security features and storage capacities connected with intelligent radio frequency identification (RFID) enable efficient safety and access control, product identification (e.g. inventories), transportation solutions (e.g. electronic toll) and baggage identification (e.g. flight baggage). According to research studies¹⁾ the world-wide RFID market will grow to more than 4 bn. US dollars in the next years.

Mühlbauer sees itself very well positioned in this growth market for safety engineering. The offer spectrum has therefore been widened in the area of High End Personalization systems (ID card and identification systems) impressively. "Midget 540", presented for the first time on the CardTech/ SecurTech in Orlando, Florida, in May unites different applications with a small footprint: magnet coding modules, coding stations for contacting cards with electronic chip, station for non-contacting cards with electronic chip and laser inscription system for the production for ID-, GSM/UMTS-, bank- (debit) cards. It is an optimal solution for decentralized personalization and a high-quality office solution for small production runs.

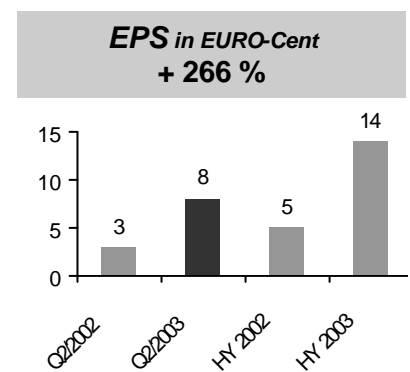
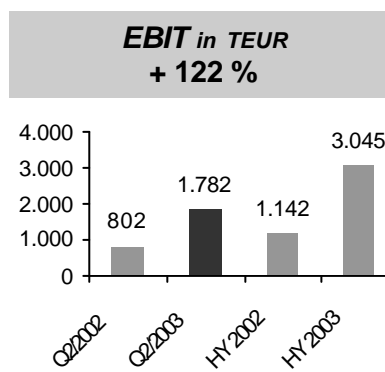
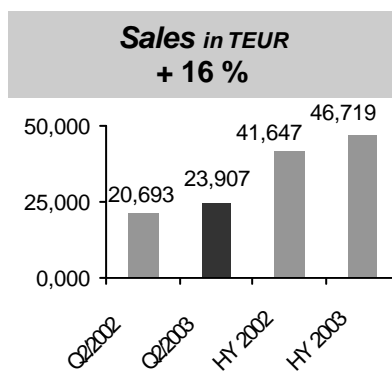
The company wants to maintain and extend its position also in future as one of the leading providers of innovative system solutions for safety applications world-wide. Alongside the increase of the planned sales and marketing activities, the company strives to obtain early involvement in security projects world-wide.

To reach these aims, Mühlbauer focuses on organic growth, but also reviews cooperation possibilities and strategic acquisitions.

Yours sincerely

MÜHLBAUER HOLDING AG & CO. KGaA

Personally liable shareholder



¹⁾ source: Frost & Sullivan
if no other statement, figures in brackets from second quarter 2002

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

	Q2/2003 April 1, to June 30, 2003	Q2/2002 April 1, to June 30, 2002	HY 2003 January 1, to June 30, 2003	HY 2002 January 1, to June 30, 2002
Sales	23,895	20,603	46,719	41,647
Cost of sales	(15,898)	(14,258)	(31,886)	(29,398)
Gross Profit	7,997	6,345	14,833	12,249
Operating expenses				
General and administrative expenses	(3,980)	(3,950)	(7,561)	(7,459)
Research and development	(2,838)	(2,711)	(5,634)	(5,555)
Operating income	1,179	(316)	1,638	(765)
Other income and expenses				
Interest income	411	482	579	1,045
Interest expenses	(348)	(1,009)	(468)	(1,490)
Other income	603	1,118	1,407	1,906
Income before income taxes	1,845	275	3,156	696
Income taxes	(614)	61	1,005	176
Net earnings	1,231	336	2,151	872

Earnings per common share in EUR				
basic	0.08	0.03	0.14	0.05
fully diluted	0.08	0.03	0.14	0.05

Weighted average of common shares				
basic	6,137,898	6,255,223	6,137,898	6,255,223
fully diluted	6,137,898	6,256,856	6,137,898	6,256,856

1) uncertified

**Consolidated Interim Balance Sheet
(US-GAAP)**

	30.06.2003 ¹⁾	31.12.2002 ²⁾
ASSETS		
Current Assets	73,241	79,835
Cash and cash equivalents	7,277	13,110
Securities	3,498	2,261
Trade receivables	20,489	19,161
Inventories	39,165	43,345
Deferred tax assets	1,252	804
Prepaid expenses	325	176
Other currents assets	1,235	978
Investment and long-term financial assets	7,485	7,383
Securities	7,485	7,383
Fixed Assets	40,713	41,189
Land	1,586	1,581
Building, net	29,235	30,044
Technical and other equipment, net	9,892	9,539
Buildings and equipment in progress	0	25
Intangible assets	1,007	1,025
Goodwill	468	468
Software and licenses	539	557
TOTAL	122,446	129,432

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	16,902	20,254
Short term debts	41	0
Debts maturing within one year	985	1,010
Trade payables	5,024	7,038
Downpayments received on orders	824	1,604
Shareholders' loans	39	40
Other current liabilities	3,978	5,312
Accruals for income taxes	416	760
Other accruals	5,595	4,490
Long-term liabilities	10,256	10,925
Convertible bonds	37	37
Long term debt	2,406	3,001
Investment grants received	5,808	5,832
Deferred tax liabilities	1,559	1,681
Pension accrual	446	374
Stockholders' equity	95,288	98,253
Common stock (par value 1.28 EUR; 6,380,000 common shares authorized; 6,279,200 shares issued; thereof outstanding: 6,094,307 shares)	8,038	8,038
Own shares	(237)	(219)
Fixed capital contributions	(2,980)	(2,980)
Additional paid in capital	58,159	58,351
Retained earnings	31,013	34,907
Other comprehensive income	1,295	156
TOTAL	122,446	129,432

1) uncertified
2) certified

Consolidated Statement of Cash Flow ¹⁾ (US-GAAP)

			01.01.– 30.06.2003	01.01.– 30.06.2002
Operating Activities				
1		Consolidated result before income taxes	3,156	696
2		Consolidated net income	2,151	872
3	+/-	Expenses from the employee profit-sharing program	0	(84)
4	+/-	Depreciations/(appreciations) to - fixed assets - software and licenses	2,927 292	2,965 287
5	-/+	(Gains)/losses from the sale of objects from the assets	(170)	0
6	-	Currency differences from the transition of assets	6	13
7	-/+	Realized net (gains)/losses from securities and long-term financial assets	138	139
8	-/+	Unrealised (gains)/losses from securities (trading papers)	0	212
9	-	Purchase in securities (trading papers)	0	(1,959)
10	-	Purchase in securities (available-for-sale-papers)	(1,510)	0
11	+	Sales of securities (trading papers)	0	1,462
12	+	Sales of securities (available-for-sale-papers)	1,158	0
13	-/+	(Increase)/decrease of trade receivables	(1,311)	1,429
14	+/-	Increase/(decrease) of value adjustments for trade receivables	(17)	(155)
15	-/+	(Increase)/decrease of inventories	627	4,675
16	+/-	Value adjustments for inventories	3,553	(450)
17	-/+	(Increase)/decrease of deferred tax assets	(448)	(582)
18	-/+	(Increase)/decrease of prepaid expenses	(149)	(240)
19	-/+	(Increase)/decrease of other current assets	(257)	5,163
20	+/-	Increase/(decrease) of trade payables	(2,014)	692
21	+/-	Increase/(decrease) of down payments received on orders	(780)	(2,942)
22	+/-	Increase/(decrease) of other liabilities	(1,334)	(671)
23	+/-	Increase/(decrease) of accruals for income taxes	(344)	177
24	+/-	Increase/(decrease) of deferred tax liabilities	(122)	(179)
25	+/-	Increase/(decrease) of other accruals	1,105	1,038
26	+/-	Increase/(decrease) of investment grants received	(24)	(470)
27	+/-	Increase/(decrease) of pension liabilities	71	33
28	=	Cash provided by (used for) operating activities	3,548	11,425
Investing activities				
29	+	Payments received from disposals of object of the assets	694	5
30	-	Purchase in fixed assets	(2,976)	(1,720)
31	-	Purchase in software and licenses	(274)	(79)
32	-	Purchase in securities (available-for-sale-papers)	(948)	(1,941)
33	+	Sales of securities (available-for-sale-papers)	1,026	2,053
34	=	Cash provided by (used for) investing activities	(2,478)	(1,682)
Financing activities				
35	-	Repayment of long-term debts	(620)	(683)
36	+/-	Increase/(decrease) of short-term debts	41	(2,188)
37	+/-	Increase/(decrease) of shareholder loans	(1)	(2)
38	-	Purchase of own shares	(353)	(663)
39	+	Sales of own shares	142	269
40	-	Dividends paid	(6,045)	(4,739)
41	=	Cash provided by (used for) financing activities	(6,836)	(8,006)
42	+/-	Increase/(decrease) of currency exchange rate changes	(67)	(56)
43	=	Net Increases/(decreases) in cash and cash equivalents (\$ of lines 42, 41, 34 und 28)	(5,833)	1,681
44	+	Cash and cash equivalents on January 1	13,110	2,206
45	=	Cash and cash equivalents on March 31	7,277	3,887
Additional cash flow information				
Tax paid			907	3,006
Interest paid			117	201

Non-cash unrealised gains and losses from available-for-sale-papers are shown under other comprehensive income

1) uncertified

Consolidated Statement of Changes in Shareholders Equity (US-GAAP)

	Number of shares	Common stock	Fixed capital	Additional paid-in capital	Retained earnings	Cumulated Other Comprehensive Income		Total
						Cumulative translation adjustment	Available-for-sale securities	
Balance Dec 31, 2001 ¹⁾	6,262,464	8,016	(2,980)	60,086	36,442	259	1	101,824
Consolidated net income	-	-	-	-	872	-	-	872
Other comprehensive income	-	-	-	-	-	(56)	12	(44)
Consolidated net income regarding other comprehensive income	-	-	-	-	872	(56)	12	828
Deferred compensation	-	-	-	(84)	-	-	-	(84)
Purchase of common stock	(32,450)	(42)	-	(621)	-	-	-	(663)
Disposal of common stock	14,128	18	-	250	1	-	-	269
Dividends	-	-	-	-	(4,739)	-	-	(4,739)
Balance June 30, 2002 ²⁾	6,244,142	7,992	(2,980)	59,631	32,576	203	13	97,435
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
Consolidated net income regarding other comprehensive income	-	-	-	-	2,151	(34)	1,173	3,290
Purchase of common stock	(32,759)	(42)	-	(311)	-	-	-	(353)
Disposal of common stock	18,291	24	-	119	-	-	-	143
Dividends	-	-	-	-	(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

- 1) certified
2) uncertified

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

Changes in the accounting and valuation methods

The shares listed under "trading" securities were converted on 31.12.2002 to "available-for-sale" securities at market value (see also note 5 in the annual report 2002). The unrealised profits from such shares amounted to EUR 1.0m in the period under review. They are listed without any effect on profits under "other comprehensive income". In the same quarter last year the unrealised losses treated as income resulting from such shares amounted to EUR 0.2m. There were no other changes of the accounting and valuation methods.

Breakdown of sales (segment reporting)

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

	Q2/2003 April 1, to June 30, 2003	Q2/2002 April 1, to June 30, 2002	HY 2003 January 1, to June 30, 2003	HY 2002 January 1, to June 30, 2002
SALES BY APPLICATIONS	23,895	20,603	46,719	41,647
Smart Identification	10,377	11,862	20,761	26,849
Semiconductor Related Products	8,722	4,959	14,147	7,116
Traceability (<i>formerly Board Handling</i>)	1,319	1,339	3,308	2,100
Precision Parts & Systems	3,489	2,533	8,549	5,692
<i>Detractions in earnings</i>	(12)	(90)	(46)	(110)
SALES BY REGIONS	23,895	20,603	46,719	41,647
Germany	12,254	11,713	23,466	20,661
Rest of Europe	5,259	4,319	9,955	11,225
Asia	5,494	3,961	10,828	8,041
Americas	446	673	820	1,781
Others	453	28	1,695	49
<i>Detractions in earnings</i>	(12)	(90)	(46)	(110)

Paid or proposed dividends

On the general annual meeting held on April 26, 2003 the majority of the shareholders decided to have a dividend of EUR 0,30 per participating share paid out. The dividend was paid on the 30th of April, 2003 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 %).

Personnel changes in the management or supervisory board

At the end of the general meeting on 29.04.2003, the former members of the supervisory board , Mr. Dr. Hermann Orth, Mr. Dr. Peter Drexel und Mr. Carl-Franz von Quadt, left the supervisory board. In the general meeting on 29.04.2003, Mr. Dr. Peter Drexel, Odelzhausen-Sittenbach, member of the management of Siemens Dematic AG and Mr. Dr. Franc Scholz, Carimate-Vedroni (Como), Italy, manager of Siemens S.p.A., Italy, have been elected in the supervisory board. Furthermore according to §101 paragraph 2 AktG Mr. Dr. Thomas Zwissler, Munich, lawyer, partner at Zirngibl Langwieser was sent to the supervisory board.

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 January 1, 2003	170,425	218,144	2.7
Purchase of own shares from the authorization to purchase own shares as defined in § 71 Par. 1 No. 8 AktG	32,759	41,932	0.5
Sales of own shares as so-called employee shares as defined in § 19a EStG of the Muehlbauer Group payments for variable amounts	(12,867) (5,424)	(16,470) (6,943)	(0.2) (0.1)
As at June 30, 2003	184,893	236,663	2.9

The acquisition price for the shares acquired in the period under review amounted to 353,070 EUR. 142,760 EUR were gained by the sale of shares.

On 30 June 2003 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.

The number of share option rights granted within the framework of the convertible bond program for management staff and the holders of key positions remains unchanged at 28,920. Of the option rights granted within the framework of the option program (tranche 2003/I dated 23.12.2002) for employees, still existed 34,250 on 30.06.2003. With regard to the contents of the two employee participation programs we refer to note (19) of the annual report 2002.

Investments

Investments in tangible and intangible assets amounted to EUR 0.4m (EUR 0.2m in Q2/2002), mainly extension investments in hard- and software

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

None.

Financial calendar 2003	
November 04, 2003	Quarterly Report III/ 2003

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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.