

Group Interim Report
First Quarter 2007



KBA Group in Figures

01.01. - 31.03. in €m

| | 2006 | 2007 |
|---|---------|---------|
| Order intake | 340.6 | 350.9 |
| Sales | 309.4 | 414.2 |
| Order backlog at 31.03. | 1,072.1 | 885.4 |
| Export level in % | 83.7 | 88.3 |
| Operating profit/loss | -6.5 | 13.5 |
| Earnings before taxes | -6.5 | 13.0 |
| Net profit/loss | -5.3 | 9.3 |
| Balance sheet total at 31.03. (prior year: 31.12.) | 1,394.2 | 1,445.8 |
| Equity at 31.03. (prior year: 31.12.) | 476.3 | 484.8 |
| Investment in intangible assets, property, plant and equipment | 10.0 | 9.9 |
| Depreciation on intangible assets, property, plant and equipment | 9.4 | 10.2 |
| Payroll on 31.03. | 7,951 | 8,289* |
| Cash flows from operating activities | 57.0 | 41.5 |
| Earnings per share in € | -0.33 | 0.57 |

* including the addition of 286 staff following the first-time consolidation of KBA-MetalPrint

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Title photo: Efficient workflows and cutting-edge manufacturing technology are crucial to maintaining competitive turnaround times and guaranteeing punctual delivery



The KBA Group made a good start to the year, boosting sales in the first quarter by one-third to €414.2m and transforming the pre-tax loss of twelve months earlier into a €13m profit. The volume of new orders rose 3% to €350.9m, primarily driven by brisk demand for special presses.

While the market for sheetfed, commercial and special presses remained firm, this positive first impression was marred by the fact that for several months now there has been a substantial decline in the number of major web press projects put out to tender by the newspaper and gravure industry, and thus in the number of contracts awarded. In North America and Europe, the impact of the internet both on the media habits of young consumers and on the advertising industry is perceptibly reshaping the business strategies of many newspaper and other publishers. The unwelcome consequence for the press engineering industry is a shift in investment priorities, the tendency being to outsource print services rather than retool in-house production lines, to share production plants – increasingly with non-affiliated publishing houses – and to expand cross-media activities. As a result the volume of new orders for newspaper presses fell short of expectations in the first quarter.

In addition, global German players such as ourselves, with export levels of over 80%, are more dependent than other branches of the engineering industry on dollar-denominated markets. In many cases, the strength of the euro seriously impairs our ability to defend margins when bidding for contracts against US, Japanese and other Asian competitors.

Although a raft of promising projects in the newspaper sector indicates that we can expect to secure a number of major contracts in the months to come, the backlog of orders for web and special presses at the end of the first quarter was comparatively low, at €565.9m. The long production cycles for big web presses mean that in the coming months there will be a substantial drop in capacity utilisation at our factories in Würzburg, Frankenthal and Trennfeld. Having already reduced the number of temporary staff we are now employing some of the other instruments at our disposal to help redress the balance. These include expanding flexitime, reassigning manufacturing tasks within the Group and bringing work in-house that was previously outsourced. The management board is also reassessing capacity needs in the web division based on market projections.

Since continuing weak demand for multi-unit web presses will not impact on turnover until next year, I am confident that we can achieve our sales and profit targets for 2007.



Albrecht Bolza-Schünemann
President and CEO, Koenig & Bauer AG

KBA Shares

KBA shares closed a volatile first quarter at €28.50, down from €29.64 at year's end. Their performance was thus below average compared to both the SDAX and the DAX, which climbed by around 10% and 5% respectively.

April brought a further slide in the value of our shares following the release at a press conference on 29 March at KBA sheetfed and web press user Stürtz, in Würzburg, of the financial figures for 2006 and outlook for 2007, which in some areas fell short of analysts' expectations.

Koenig & Bauer shares



Management Report

Market Environment

While the domestic economy and exports remained buoyant, with the German engineering industry's above-average sales volumes of previous years being followed by a further increase in turnover and by steady demand in many sectors, over the past six months press manufacturers did not figure among the high flyers. Statistics issued in April by the VDMA, the German Machinery and Plant Manufacturers' Association, revealed that demand for printing presses in the first two months of 2007 was 3% down on the prior-year period. This was due to a slackening – albeit temporary – in domestic demand, the imposition of import duties by China, and other regional barriers. On top of this, manufacturers of newspaper and gravure presses, of which KBA is one, were affected by the smaller number of major contracts put out to tender in these sectors.

The Group **order intake** in the first quarter totalled €350.9m, or 3% higher than twelve months earlier (€340.6m). While continuing brisk demand for security presses pushed up web and special press bookings by 7.3% to €180.2m (2006: €167.9m), the volume of incoming orders for newspaper presses was only a little higher than in the previous year and thus fell short of expectations. A further contract for a decorative gravure press failed to compensate for a cyclical slump in demand for publication gravure presses. However, our sheetfed business remained steady and, at €170.7m, approached the prior-year figure €172.7m, with a higher inflow of orders for large- and superlarge-format presses than at the same time last year. The niche markets addressed by our manufacturing subsidiaries also reported steady growth.

The **order backlog** shrank from €1,072.1m in 2006 to €885.4m following a jump in shipments coupled with only a modest increase in new contracts. The volume of orders on hand for web and special presses fell to €565.9m (2006: €750.4m). Because of the lengthy manufacturing cycles associated with web presses, this is not enough to ensure full employment at the relevant production plants in the second half-year. A €319.5m (2006: €321.7m) backlog of orders for sheetfed presses, which have shorter delivery time-frames, will keep our production plants in Radebeul and Dobruška (Czech Republic) busy until well into the second half of the year.

Earnings, Finances and Assets

Cost savings and a substantial improvement in sales transformed pre-tax **earnings** from a €6.5m loss in the first quarter of 2006 to a €13m profit.

Order intake

in €m

2006

2007

340.6

350.9

Sales

in €m

2006

2007

309.4

414.2



Total **Group sales** of €414.2m surpassed the prior-year figure of €309.4m by 33.9%. Sales of web and special presses showed an even bigger jump, from €146.7m to €257.6m. There was a disproportionately big increase in shipments of commercial and security presses compared to newspaper presses. Sheetfed sales of €156.6m in the first quarter were not in line with our annual targets and barely approached the prior-year level of €162.7m.

While domestic sales, at €48.3m, were roughly on a par with the previous year (€50.4m), we raised our export level from 83.7% in 2006 to 88.3%. Once again the rest of Europe was our biggest market, with sales worth €228.9m contributing 55.3% of Group revenue, a substantial increase from €165.4m and 53.5%. Asia and the Pacific came second in the league table with €60.2m (2006: €59.8m), equivalent to 14.5% of the total (2006: 19.3%). The delivery of various newspaper and commercial presses pushed up earnings in North America from €22.9m to €42.7m, as a result of which the proportion of Group earnings generated rose from 7.4% in 2006 to 10.3%. Sales in Latin America and Africa soared to €34.1m, or 8.2% (2006: €10.9m and 3.5%), following the production start-up of a book-printing press and several security presses in Africa.

Order backlog

in €m

2006

2007

1,072.1

885.4

Net profit/loss

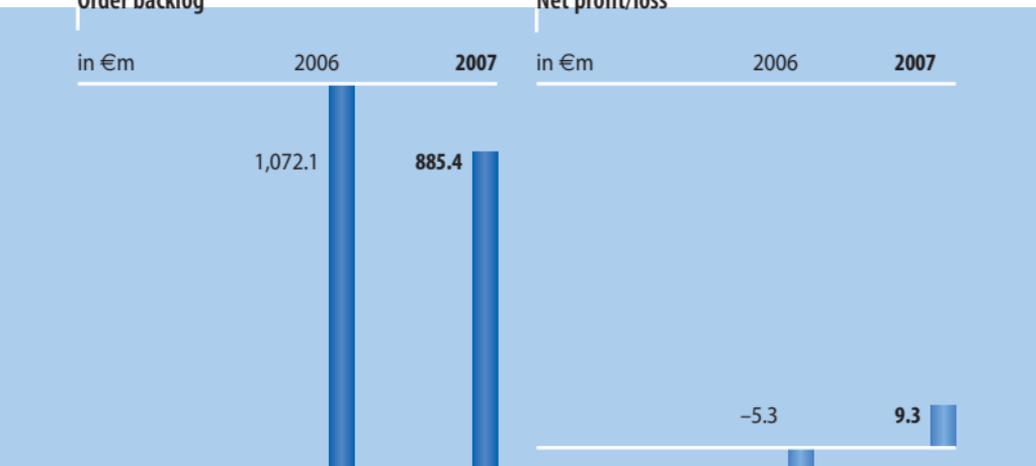
in €m

2006

2007

-5.3

9.3



The cost of sales was €309.2m, resulting in a gross profit margin of 25.4%, up from 21% twelve months earlier. Shipping schedules pushed distribution costs up from €33.9m to €43.6m. An operating loss of €6.5m in the first quarter of 2006 was transformed into an **operating profit** of €13.5m in 2007, most of it generated by web and special presses. Following a financial loss of €0.5m, **earnings before taxes** (EBT) amounted to €13m (2006: a €6.5m loss). We closed the quarter with a **net profit** of €9.3m (2006: a loss of €5.3m) and proportional **earnings per share** of 57 cents, up from a loss of 33 cents the previous year.

Finances

Cash flows from operating activities ebbed to €41.5m from €57m the year before. After deducting cash flows from investing activities the **free cash flow** fell to €35m (2006: €51.6m), while the cash flow from financing activities was more or less balanced, at –€0.5m. **Funds** swelled to €188.3m from €154m at the end of December.

Order intake/backlog Sheetfed offset presses

in €m

2006

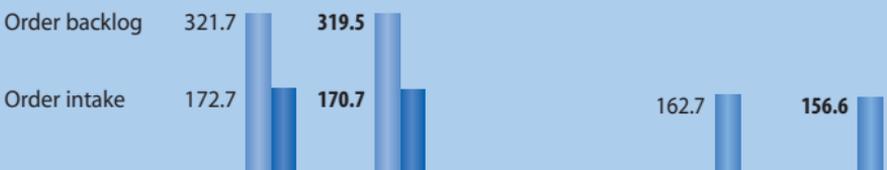
2007

Sales Sheetfed offset presses

in €m

2006

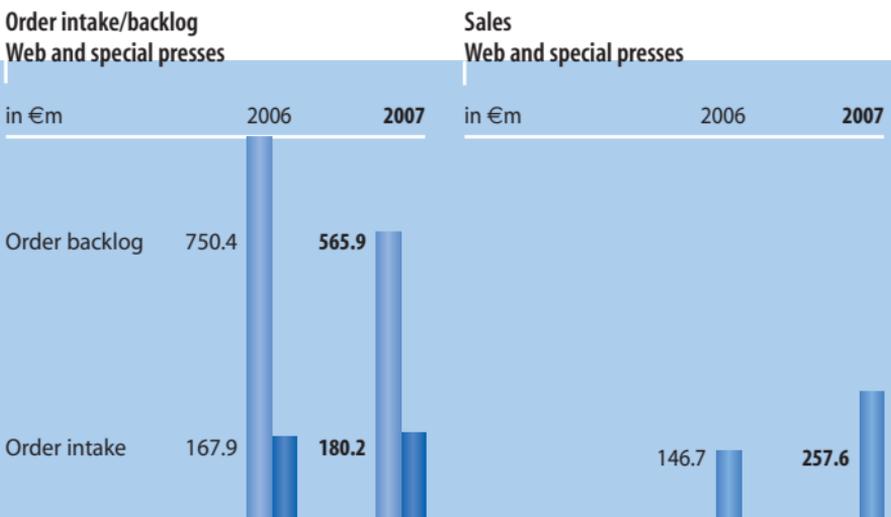
2007



Equity stood at €484.8m, 33.5% of the higher balance sheet total. An increase in provisions contributed to a €43.1m leap in liabilities, though bank loans of €78.2m were virtually the same as at the end of 2006 (€78.8m).

Assets

The Group **balance sheet total** rose to €1,445.8m from €1,394.2m at the end of last year, primarily as a result of a €34.2m increase in cash and cash equivalents and a €42.9 pre-production jump in inventories. **Assets** were trimmed by a €24.4m reduction in trade receivables. The level of investment in intangible assets, property, plant and equipment remained virtually unchanged (€9.9m compared to €10m in 2006). The main items on the list were high-performance machining centres for our German, Czech and Austrian production plants.



Research and Development

Alongside innovations for launching at next year's Drupa, the world's biggest print media trade fair, Group R&D activities focused on expanding our cutting-edge press range with new market-oriented configurations and applications.

Our web and special press division notched up a world first when our environmentally friendly waterless mini-tower press, the Cortina, demonstrated high-speed job changes from coldset newspapers on newsprint to heatset magazines on coated paper at Eco Print Center in Lokeren, Belgium. What made this so unique is the fact that, unlike conventional newspaper presses, the high-automation Cortina can print heatset and coldset titles using the same inks. Following successful pressroom tests we expanded the Cortina range by adding a 6/2 version (six plates across the cylinder and two plates around) plus a 4/1 version (four plates across and one plate around) to the standard 4/2 model.

Our sheetfed division made a big impact at the Print China trade fair in Dongguan with a new version of our popular Rapida 105 universal medium-format press. The technology and automation level of this new model specifically target commercial and packaging printers in China and other emerging economies. KBA has long

Geographical breakdown of sales

| in % | 2006 | 2007 |
|----------------------|------|------|
| Africa/Latin America | 3.5 | 8.2 |
| Asia/Pacific | 19.3 | 14.5 |
| North America | 7.4 | 10.3 |
| Rest of Europe | 53.5 | 55.3 |
| Germany | 16.3 | 11.7 |

Payroll on 31 March

| | 2006 | 2007 |
|-------------------|-------|-------|
| KBA Group | 7,951 | 8,289 |
| Koenig & Bauer AG | 5,882 | 5,899 |

pioneered the use of gearless direct drives in both sheetfed and web presses, as a means of shortening makeready times, and in the first quarter a further batch of high-performance Rapida 105 presses with cutting-edge DriveTronic technology was shipped to high-volume print providers.

Human Resources

At the end of March the Group payroll totalled 8,289 (2006: 7,951), with the increase largely attributable to the consolidation in mid-2006 of a new subsidiary, KBA-MetalPrint GmbH. Most of the remaining 52 additional staff were hired by our Czech and Austrian operations.

Risk Management

Our risk documentation and monitoring system is described on pages 42 to 45 of the consolidated financial statements for 2006, and there have been no significant changes since then to our risk exposure. We have detected no risks that could pose an existential threat to the Group.

Outlook

Growth projections of well over 2% for Germany, and a robust global economy with growth centres in the Middle and Far East, offer broadly favourable conditions for the export-oriented German engineering industry to maintain its upward momentum for the fourth year in succession. Following a 7.8% increase in production in 2006 and a leap of almost 30% in the intake of new orders for German plant and machinery in the first quarter of 2007 compared to 2006, there is every indication that this dynamic growth will continue.

However, because structural market changes also play a significant role, not every branch of the engineering industry is profiting in equal measure. While press manufacturers serving the packaging and advertising sectors look set to benefit from an anticipated lift in demand for consumer goods in Germany and abroad, investment in other sectors is being curtailed by wrenching changes in the media marketplace, which are forcing the print media to reposition themselves in competition with e-media, and by overcapacity, which continues to squeeze margins at many German and west European printing plants. The relentless rise of the euro against the US dollar and the Japanese yen is having an ever-greater impact on exports by European press manufacturers. On balance, the German Machinery and Plant Manufacturers' Association, VDMA, projects moderate sales growth of 4% in printing and paper technology in 2007.

Following a first-quarter jump in sales and profits and a modest lift in new orders, the KBA management board anticipates some sizeable contracts in the second and subsequent quarters, even in the newspaper sector, which has been less buoyant of late. Shortly before this quarterly report went to press, newspaper publishers in Germany and Spain signed up for the first Commander CT and Cortina 6/2 presses to roll off the production line. We have also exchanged a number of contracts for commercial presses. Our web and special press division is already well on the way to meeting its sales targets for 2007 and a steady inflow of orders for sheetfed presses indicates that sales targets will be met there, too. We therefore anticipate Group sales and pre-tax earnings of a similar magnitude to last year.

Group Balance Sheet

| Assets | | |
|---|----------------|----------------|
| in €m | 31.12.2006 | 31.03.2007 |
| Non-current assets | | |
| Intangible assets | 35.1 | 34.2 |
| Property, plant and equipment | 258.0 | 250.7 |
| Investments and other financial receivables | 25.5 | 25.3 |
| Deferred tax assets | 65.7 | 61.0 |
| | 384.3 | 371.2 |
| Current assets | | |
| Inventories | 377.6 | 420.5 |
| Trade receivables | 399.8 | 375.4 |
| Other financial receivables | 17.8 | 21.7 |
| Other assets | 58.0 | 68.2 |
| Securities | 8.2 | 8.3 |
| Cash and cash equivalents | 145.8 | 180.0 |
| | 1,007.2 | 1,074.1 |
| Assets held for sale | 2.7 | 0.5 |
| Balance sheet total | 1,394.2 | 1,445.8 |
| Equity and liabilities | | |
| in €m | 31.12.2006 | 31.03.2007 |
| Equity | | |
| Share capital | 42.4 | 42.4 |
| Share premium | 84.9 | 84.9 |
| Reserves | 349.0 | 357.5 |
| | 476.3 | 484.8 |
| Liabilities | | |
| Non-current liabilities | | |
| Pension provisions | 99.3 | 100.2 |
| Other provisions | 66.2 | 70.5 |
| Bank loans and other financial payables | 39.9 | 38.8 |
| Other liabilities | 0.6 | 1.0 |
| Deferred tax liabilities | 57.2 | 51.2 |
| | 263.2 | 261.7 |
| Current liabilities | | |
| Other provisions | 138.7 | 167.8 |
| Trade payables | 104.3 | 98.8 |
| Bank loans and other financial payables | 108.9 | 116.7 |
| Other liabilities | 302.8 | 316.0 |
| | 654.7 | 699.3 |
| Balance sheet total | 1,394.2 | 1,445.8 |

Group Income Statement

01.01. - 31.03.

| in €m | 2006 | 2007 |
|-------------------------------------|-------------|--------------|
| Revenue | 309.4 | 414.2 |
| Cost of sales | -244.3 | -309.2 |
| Gross profit | 65.1 | 105.0 |
| Distribution costs | -33.9 | -43.6 |
| Administrative expenses | -23.9 | -25.4 |
| Other operating income and expenses | -13.8 | -22.5 |
| Operating profit/loss | -6.5 | 13.5 |
| Financial result | - | -0.5 |
| Earnings before taxes | -6.5 | 13.0 |
| Income tax expense | 1.2 | -3.7 |
| Net profit/loss | -5.3 | 9.3 |

Statement of Changes in Shareholders' Equity

| in €m | Share capital | Share premium |
|---|------------------|------------------|
| 01.01.2006 | 42.3 | 84.0 |
| Total net loss | | |
| Loss for the period | - | - |
| Primary financial instruments / derivatives | - | - |
| Exchange differences | - | - |
| Other changes | - | - |
| 31.03.2006 | 42.3 | 84.0 |
| 01.01.2007 | 42.4 | 84.9 |
| Total net profit | | |
| Profit for the period | - | - |
| Primary financial instruments / derivatives | - | - |
| Exchange differences | - | - |
| Other changes | - | - |
| 31.03.2007 | 42.4 | 84.9 |

| Reserves | | Total |
|-------------------------|--------------|--------------|
| Recognised in equity | Other | |
| 2.6 | 319.1 | 448.0 |
| – | –5.3 | –5.3 |
| 0.7 | – | 0.7 |
| –0.2 | – | –0.2 |
| 0.5 | –5.3 | –4.8 |
| – | – | – |
| 3.1 | 313.8 | 443.2 |
| 2.1 | 346.9 | 476.3 |
| – | 9.3 | 9.3 |
| –0.5 | – | –0.5 |
| –0.3 | – | –0.3 |
| –0.8 | 9.3 | 8.5 |
| – | – | – |
| 1.3 | 356.2 | 484.8 |

Group Cash Flow Statement

01.01. - 31.03.

| in €m | 2006 | 2007 |
|--|--------------|--------------|
| Earnings before taxes | -6.5 | 13.0 |
| Non-cash transactions | 9.5 | 10.9 |
| Gross cash flow | 3.0 | 23.9 |
| Changes in inventories, receivables and other assets | 0.6 | -32.0 |
| Changes in provisions and payables | 53.4 | 49.6 |
| Cash flows from operating activities | 57.0 | 41.5 |
| Cash flows from investing activities | -5.4 | -6.5 |
| Cash flows from financing activities | -9.8 | -0.5 |
| Change in funds | 41.8 | 34.5 |
| Effect of changes in exchange rates | - | -0.2 |
| Funds at beginning of period | 129.0 | 154.0 |
| Funds at end of period | 170.8 | 188.3 |

Notes to the Interim Statement to 31 March 2007

1 Accounting Policies

This quarterly report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The disclosures and measurements published in the Group accounts to 31 December 2006 were retained. The interim accounts conform to IAS 34. Taxes on income were disclosed at the average national tax rate applicable. Individual items in the balance sheet and the income statement were aggregated to clarify presentation. Figures represent million euros (€m), unless stated otherwise.

2 Consolidated Companies and Consolidation Principles

There were no changes in the number of consolidated companies or consolidation principles.

The financial statements of foreign entities were translated at the closing rate or at an average exchange rate for the period, as specified in IAS 21.

3 Segment Information

3.1 Business segments

| 01.01. - 31.03. in €m | Web and special presses | | Sheetfed offset presses | |
|--------------------------|-------------------------|-------|-------------------------|-------|
| | 2006 | 2007 | 2006 | 2007 |
| External sales | 146.7 | 257.6 | 162.7 | 156.6 |
| Internal sales | 16.1 | 53.9 | 54.8 | 63.9 |
| Total sales | 162.8 | 311.5 | 217.5 | 220.5 |
| Investment | 6.0 | 4.2 | 4.0 | 5.7 |

3.2 Geographical segments

| 01.01. - 31.03. in €m | 2006 | 2007 |
|--------------------------|--------------|--------------|
| Germany | 50.4 | 48.3 |
| Rest of Europe | 165.4 | 228.9 |
| North America | 22.9 | 42.7 |
| Asia / Pacific | 59.8 | 60.2 |
| Africa / Latin America | 10.9 | 34.1 |
| External sales | 309.4 | 414.2 |

4 Earnings per Share

| 01.01. - 31.03. in € | 2006 | 2007 |
|-------------------------|-------|------|
| Earnings per share | -0.33 | 0.57 |

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,304,400 no-par shares, previous year: 16,264,760 no-par shares).

5 Balance Sheet

5.1 Intangible assets, property, plant and equipment

| in €m | Purchase or manufactur- ing cost | Accumulated depreciation | Residual book value |
|-------------------------------|--|-----------------------------|------------------------|
| Intangible assets | 81.5 | 46.4 | 35.1 |
| Property, plant and equipment | 564.0 | 306.0 | 258.0 |
| Total at 31.12.2006 | 645.5 | 352.4 | 293.1 |
| Intangible assets | 73.9 | 39.7 | 34.2 |
| Property, plant and equipment | 559.6 | 308.9 | 250.7 |
| Total at 31.03.2007 | 633.5 | 348.6 | 284.9 |

Investment in property, plant and equipment totalling €4.7m (first quarter 2006: €4.6m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

| in €m | 31.12.2006 | 31.03.2007 |
|---|--------------|--------------|
| Raw materials, consumables and supplies | 63.1 | 64.7 |
| Work in progress | 288.2 | 322.4 |
| Finished goods and products | 26.3 | 33.4 |
| | 377.6 | 420.5 |

5.3 Liabilities

The €33.4m jump in **other provisions** largely resulted from the accrual of expenses.

A €6.7m increase in **bank loans and other financial payables** was largely attributable to employee benefit obligations and outstanding invoices.

Key Financial Dates

Koenig & Bauer Annual General Meeting
19 June 2007
Congress Centrum Würzburg

Interim report on 2nd quarter 2007
14 August 2007

Interim report on 3rd quarter 2007
15 November 2007



Published by:
Koenig & Bauer AG
Postfach 60 60
97010 Würzburg, Germany

Contact:
Investor Relations
Dr Bernd Heusinger
Tel: (+49) 931 909-4835
Fax: (+49) 931 909-6015
E-mail: bernd.heusinger@kba-print.de
www.kba-print.com