Koenig & Bauer Group

Group Interim Report
First Quarter 2009

KBA Group in Figures

01.01. - 31.03. in €m

	2008	**2009**
Order intake	370.3	**219.5**
Sales	301.7	**220.2**
Order backlog at 31.03.	860.5	**500.8**
Export level in %	84.1	**83.5**
Operating loss	–5.0	**–32.7**
Earnings before taxes	–6.4	**–35.2**
Net loss	–1.0	**–33.2**
Balance sheet total at 31.03. (prior year: 31.12.)	1,181.4	**1,106.4**
Equity at 31.03. (prior year: 31.12.)	411.1	**375.2**
Investment in intangible assets, property, plant and equipment	14.9	**6.3**
Depreciation on intangible assets, property, plant and equipment	9.7	**7.3**
Payroll at 31.03.	8,181	**7,646**
Cash flows from operating activities	88.6	**19.2**
Earnings per share in €	–0.06	**–2.03**

Title photo: Several KBA Compacta commercial web presses will ship this year to printers in Latin America

2009 is proving to be a challenging year for large sections of the German economy. As a global player, KBA has been experiencing the full impact of the international recession for many months now. Nor do we expect demand to recover until the end of the present financial turmoil is in sight, liquidity is restored to the real economy and investment revived by renewed faith in the buoyancy of the markets. We estimate that this will happen some time next year.

The printing press sector must adjust to a diminished market volume, with little prospect of a post-crisis return to the levels of 2005 and 2006, when investment boomed. We have already made a start and prescribed a radical slimming cure for all our business operations. Value adjustments and provisions for the consolidation and realignment of our production plants were disclosed as a heavy charge in the 2008 financial statements. For accounting purposes they are therefore a past expense.

Much as we regret the inevitable job losses, from the business perspective the global economic and market climate leaves us no viable alternative but to implement the scheduled retrenchments. Short-time work, which we introduced some months ago, may be an appropriate tool when production capacity is temporarily underutilised, but it cannot offset a sustained plunge in demand on the scale we have experienced.

Since the fundamental realignment of Group activities was delayed pending the conclusion of constructive but prolonged negotiations with employee representatives and tariff partners, we could not set the wheels in motion until a few days ago. The figures for the first quarter therefore show no sign of the benefits we anticipate to both costs and earnings.

During that period there was still no light at the end of the tunnel, with sluggish investment causing a year-on-year drop of over 40% in the Group order intake. While this compared well with the rest of the industry, the challenges associated with such a massive plunge in demand are staggering. A 27% slide in Group sales, and the inevitable delay before measures to reduce personnel and materials costs gain traction, resulted in a substantial pre-tax loss (EBT) of €35.2m. But although our performance to 31 March fell short of our 2009 objectives, it was roughly in line with our quarterly planning.

In the current market environment the management board's prediction of a 20% decline in sales is fairly optimistic, as is the balanced pre-tax result we are targeting. We shall therefore continue to devote all our energies to pursuing these goals, keeping you posted on progress in our interim reports.

Our broad product range means that we are better placed than many in the industry to address both high-volume and niche markets. Our net financial position is positive, our equity ratio is twice the average in the engineering sector and our corporate financing is secure. As the pioneering founder of the international printing press industry, over the past 192 years KBA has weathered major wars, the Great Depression of 1929 and a succession of economic slumps. So we are confident that the current recession will be no exception.

Our present economy-related losses notwithstanding, we urge you, our shareholders, to retain your shares in a healthy enterprise which will enter the next upturn in fine fettle. We greatly appreciate your continued faith in our management, and loyalty to KBA.

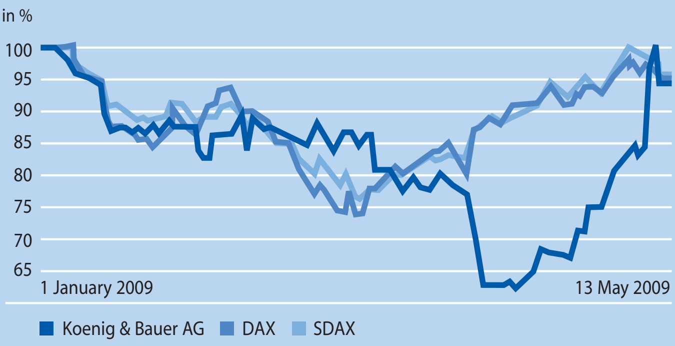
Würzburg, 15 May 2009
Management Board
Koenig & Bauer AG

Helge Hansen
President and CEO

KBA Shares

As skittish investors continued to cause major fluctuations in share prices on international stockmarkets, the DAX and SDAX indices lost 15.1% and 15.2% of their value respectively. Initially KBA shares followed the same trajectory, but from mid-January to mid-March remained relatively stable between €8 and €9. However, negative reports from the industry on substantial declines in the volume of incoming orders for printing equipment in February, and the publication on 26 March of our preliminary Group figures for 2008, caused a massive slide in value. At the end of the quarter KBA shares hit an historic low of €7. After falling even further, to a new low of just €6.15, they made a modest recovery in the second half of April, but remained highly volatile. Shortly before this report went to print they had made good the losses of the first four months and were hovering around the €10 mark.

Koenig & Bauer shares from 01.01. to 13.05.2009



Management Report

Market Environment

German exporters, particularly the automotive, chemical and engineering sectors, have felt the impact of recessionary forces in the global economy more than many other branches of industry. From January to March 2009 all 28 sectors of the engineering industry surveyed in the latest economic report issued by the VDMA (German Machinery and Plant Manufacturers' Association) posted a year-on-year decline in order intake. Alongside the print media industry's heavy exposure to economic and advertising cycles, investment is being stifled by structural changes which the current crisis has served to accelerate. Having said that, exporters of printing- and paper-related technology saw the rate of decline in new business slow compared to the final quarter of 2008, and moved up from the lower ranks to midfield.

With demand in many core markets showing no sign of reviving, the Group **order intake** in the first quarter fell to €219.5m, 40.7% below the prior-year figure of €370.3m. At 28.7%, the drop in new orders for web and special presses to €142.2m (2008: €199.3m) was smaller, with contracts for newspaper presses being awarded by printers in China, Germany, the Czech Republic, Ecuador and North America, and a number of new bookings for niche products such as security presses. But orders for sheetfed presses plummeted from €171m to just €77.3m under the dual impact of weak economies in many countries and the persistently restrictive financing policies of many banks and leasing companies. Nor has the ongoing decline in sheetfed demand been confined to our mainstream formats: even niche products such as metal-decorating presses have been affected.

The Group **order backlog** of €500.8m was roughly the same as at the beginning of the year but 41.8% below the prior-year figure of €860.5m. The volume of unfilled orders for web and special presses, which have longer production cycles, stood at €394m (2008: €611.5m), the corresponding figure for batch-produced sheetfed presses was €106.8m (2008: €249m).

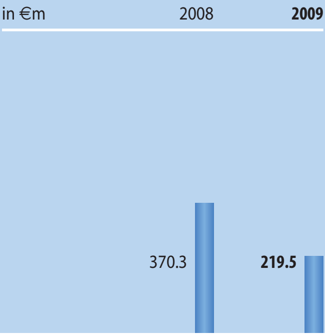
Earnings, Finances and Assets

Group **sales** fell 27% to €220.2m (2008: €301.7m), in line with the plunge in global growth. Despite the cost savings delivered by the adoption of short time, **earnings** in the first quarter were hit by a lack of profit contributions. However, the package of additional measures approved at the end of March will produce a steady reduction in personnel and materials costs in subsequent quarters. To achieve our sales target of around €1.2bn we are also planning to increase the volume of shipments in the course of the year.

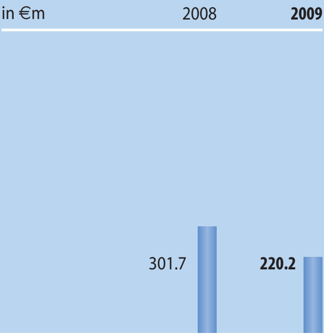
Sales generated by the web and special press division came to €143.4m, just 9.1% below the previous year's €157.7m. Sales revenues from newspaper presses were substantially higher, partially compensating for a decline in sales of commercial and security presses. Our sheetfed division, which has been severely affected by a moratorium on investment since September 2008, saw sales plunge by 46.7% to €76.8m (2008: €144m).

With domestic sales down 24.2% at €36.4m (2008: €48m), the export level stood at €83.5%. Sales to the rest of Europe more than halved, from €183.1m to €81.1m, cutting the percentage of sales generated in this region to 36.8%, well below the customary 50 - 60%. This was due to a much smaller volume of web press shipments and to the fact that sheetfed business was particularly poor in recession-plagued southern Europe and in the UK. A decline in the overall level meant that the proportion of Group sales generated in North America,

Group order intake



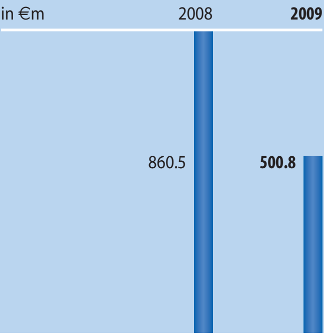
Group sales



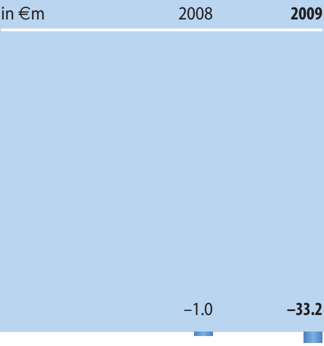
a weak market in recent years, rose from 5% to 13.9% with sales of €30.6m (2008: €15.2m). While sales to Asia and the Pacific, at €36.8m, failed to equal the prior-year figure of €45.5m, they did generate a higher proportion of Group sales (16.7% compared to 15.1%). Africa and Latin America climbed well above their median ranking with a grand total of €35.3m (2008: €9.9m) following the installation of new web presses in Brazil and Sudan, and extensions to existing press lines in Kenya. This pushed up the region's contribution to an historic high of 16.1% (2008: 3.3%).

The sales-related drop in profit contributions and the absence of major cost savings arising from the Group realignment reduced the **gross profit margin** from 25.9% twelve months earlier to 13.6%. Distribution costs sank from €41.3m to €33.4m but administrative expenses remained almost unchanged at €23.6m (2008: €23.1m). The imbalance between other operating income and expenses improved from –€18.8m to –€5.7m. However, our two divisions both contributed to a much higher **operating loss** of €32.7m (2008: –€5m). Following a financial loss of €2.5m we made a **pre-tax loss** (EBT) of €35.2m. While this was much higher than the prior-year loss of €6.4m, it was more or less in line with our expectations for a period when sales were universally slow. After deducting income taxes we disclosed a **Group loss** of €33.2m (2008: a loss of €1m). **Earnings per share** totalled –€2.03 (2008: –6 cents).

Group order backlog



Group net loss



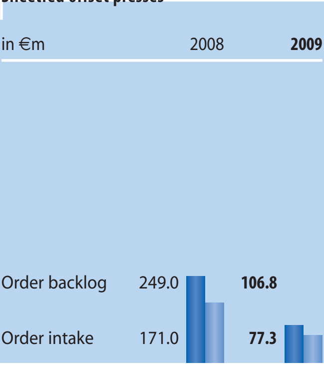
Finances

Cash flows from operating activities were positive, totalling €19.2m (2008: €88.6m). This was largely due to a substantial drop in trade receivables. The **free cash flow** came to €13.5m (2008: €73.7m). At €0.6m, net cash outflows from financing activities were significantly lower than twelve months earlier (€24.2m). However, funds improved from €85.8m at the end of December to €99.4m at the end of March. With bank loans on a par with the previous year (€62.8m compared to €63.2m on 31 December), our net financial position improved during the quarter from €22.6m to €36.6m. On 31 March equity was worth €375.2m, or 33.9% of the balance sheet total. While provisions were marginally higher, a €10.1m reduction in trade payables and a €26.1m reduction in other liabilities following a fall in customer prepayments helped trim total liabilities by €39.1m to €731.2m (31.12.2008: €770.3m).

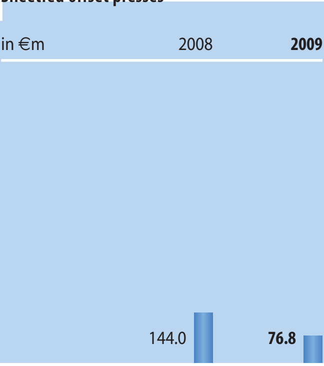
Assets

The Group **balance sheet total**, at €1,106.4m, was €75m down on the year-end figure of €1,181.4m. Liquid assets swelled by €13.6m, but current assets were lower following a €92.3m drop in trade receivables to €232.8m (31.12.2008: €325.1m). Depreciation totalling €7.3m (2008: €9.7m) on intangible assets, property, plant and equipment compared with €6.3m (2008: €14.9m) of investments. The value of non-current assets remained stable at €305.7m (31.12.2008: €305.3m), as did the tangible assets they included (€227m against €227.8m at the end of last year).

Order intake/backlog
Sheetfed offset presses



Sales
Sheetfed offset presses



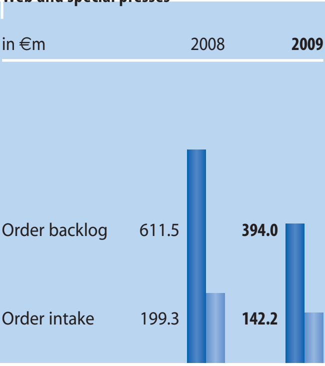
Research and Development

The prowess of our research and development engineers, and KBA's role as the premier innovator among German press manufacturers, were reaffirmed with an outstanding ranking in diverse patents statistics. According to the Heavy Industrial Equipment Patent Scorecard™ published on 21 January by the *Wall Street Journal*, KBA was the only German press manufacturer in the USA to figure among the top 50, being placed seventh overall and second among the European manufacturers featured. And in the list issued in the first quarter by the DPMA (German Patent and Trademark Office) of the 50 most active patentees in 2008, KBA repeated its performance of 2005, ranking 25th in a field of prominent heavyweights with 191 published patent documents – more than any other major German press manufacturer.

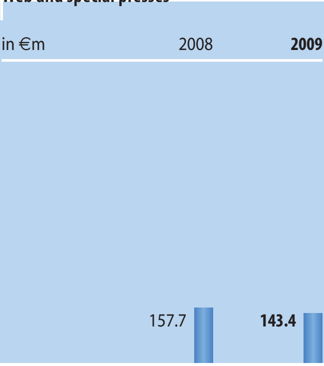
Most of the patents and patent applications relating to web presses were for advances in paper logistics, plate changing and folder delivery in newspaper presses. In our sheetfed division, innovations such as our QualiTronic Mark for tagging faulty sheets directly in the press, or Plate-Ident for checking the correct allocation and automatic pre-registration of plates in the press, underscored KBA's image in the market as a technological bellwether.

Alongside ongoing efforts to cut makeready times, boost net productivity, reduce labour input and enhance quality through automation, our R&D activities increasingly focus on environmental issues, e.g. the conservation of energy and materials within the printing process.

Order intake/backlog
Web and special presses



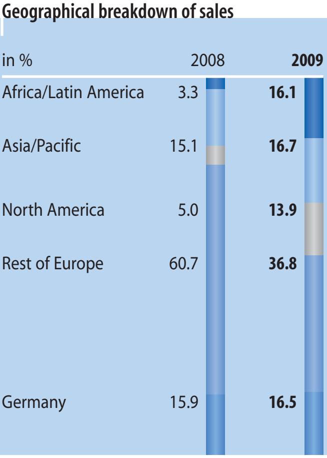
Sales
Web and special presses



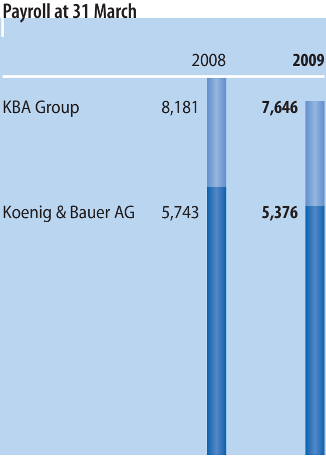
Human Resources

With the global market volume perceptibly shrinking and little prospect of significant improvement in the medium term, the Group workforce was trimmed still further. On 31 March there were 7,646 employees on the payroll, 192 fewer than at the beginning of the quarter and 535 fewer than twelve months earlier. At our domestic web press production plants there was a year-on-year reduction of 189 employees. Payrolls at our sheetfed factories in Radebeul, Mödling (Austria) and Dobruška (Czech Republic) shrank by a total of 308 over the same period. The several hundred staff redundancies scheduled in Radebeul as part of the consolidation programme for our sheetfed division have yet to be implemented, but we shall be making a start in the second quarter.

Geographical breakdown of sales



Payroll at 31 March



Risk Management

The Parent's early warning system is described on pages 39 to 42 of the Group financial statements for 2008. There have since been no significant changes in our risk profile. At present we can discern no risks that could pose an existential threat to Group activities.

Outlook

A marginal lift in the Ifo Business Climate Index and renewed confidence among US consumers in April 2009 have been interpreted by some observers as early indicators of an imminent upturn in economic performance following a rapid global decline over the past six months. At the same time, the hard economic data speak another language. Despite state assistance on a massive scale, the mortgage and banking crisis that triggered this global collapse in growth has yet to be overcome. Most industrialised countries anticipate negative growth rates in 2009, with inevitable consequences for the labour market.

After five years of strong growth, in some sectors by double digits, the VDMA predicts an effective decline in machine output of 10 - 20% for the current year. This unusually broad estimate reflects the prevailing uncertainty concerning developments during the next few months.

The drop of 40.7% in the Group order intake should be viewed in the context of the recessional forces already apparent in the press engineering industry, where the volume of new orders to the end of March was down by 57%. While there was no year-on-year lift in demand for any of the products in our extensive portfolio, the individual segments declined at different rates. This underscores the stabilising impact of maintaining a balance between high-volume and niche products in economically challenging times. There was a higher-than-average drop in the volume of new orders for commercial web presses and sheetfed presses, but a smaller drop in those for newspaper presses and special presses.

From a geographical perspective, the slide in demand has been most evident in US and UK markets (which had been early victims of the recession), in southern Europe – primarily Italy and Spain – and in a broad swathe of eastern and south-eastern European markets, including Russia. A few exceptions, such as a contract for several press lines from a North American customer, merely prove the rule. Business has been somewhat brisker in Germany, France, the Middle East and in the (albeit weakened) growth markets of the Far East, primarily in China.

The global newspaper industry, a key market for KBA, has been hit by a collapse in ad revenues, exacerbated in the USA, the UK and Scandinavia by roiling changes in the media landscape. Commercial web offset printers, not all of whom are highly capitalised, are having to contend with diminishing circulations and page counts for ad-dependent magazine titles, inadequate profit margins in a fiercely competitive marketplace and a highly restrictive financing policy for new investments. Our Radebeul sheetfed operation's pre-eminence in large format means that packaging and book printers constitute a major target group, and these have been postponing investment because existing plants are no longer running at full capacity. Sales of the small-format presses built at our Czech production plant in Dobruška have been affected by a wave of consolidation in the market and much higher barriers to obtaining credit. By our reckoning, the numerous impediments to new investment will persist in the near term, and we are acting accordingly. Demand will not start to revive until some time next year, and then only slowly.

Short-time work, which we introduced at our Radebeul plant in November 2008 and extended to our web press production plants in January, is a comparatively costly instrument and thus inappropriate as a long-term solution for addressing underutilisation. The management board therefore had no option but to downsize capacities and personnel at the production plants directly affected by the global collapse in sheetfed demand, and initiated measures for adjusting our German, Czech and Austrian factories to the smaller market volume anticipated in the medium term. At Group level we envisage a reduction of around 1,000 in the sheetfed payroll by the end of the year compared to the end of 2007, and this inevitably entails redundancies. The core workforce at our web press production plants had already been trimmed in 2007 and 2008, but a further consolidation may be necessary if demand fails to pick up soon.

The restructuring programme drawn up by management should deliver savings of several hundred million euros in personnel and material costs by 2011, and provisions for this are already in place. A drop in commodity and energy prices in the wake of the global downturn has also helped, while the long overdue revaluation of the yen has blunted the competitive edge previously enjoyed by our Japanese rivals. With the financial crisis continuing to inform the US government's fiscal policy and interest rates, the dollar is likely to fluctuate heavily against other currencies.

Although Group order intake and sales were off target in the first three months of the year, and the business environment shows no perceptible signs of recovery, in 2009 we are aiming for sales in the region of €1.2bn. In conjunction with the substantial reduction in our cost base anticipated from our restructuring programme, we believe that a balanced pre-tax result (EBT) is within our capabilities. In subsequent years we foresee a sustained improvement in earnings as the global economy picks up speed again. Developments in our markets worldwide will have a fundamental impact on how closely we meet our targets. We shall discuss this in more detail nearer the time.

Group Balance Sheet

Assets in €m	31.12.2008	**31.03.2009**
Non-current assets		
Intangible assets	26.7	26.2
Property, plant and equipment	227.8	227.0
Investments and other financial receivables	23.4	23.0
Other assets	1.2	0.8
Deferred tax assets	26.2	28.7
	305.3	**305.7**
Current assets		
Inventories	392.3	390.7
Trade receivables	325.1	232.8
Other financial receivables	26.6	31.2
Other assets	35.7	37.8
Securities	10.6	8.8
Cash and cash equivalents	85.8	99.4
	876.1	**800.7**
Balance sheet total	**1,181.4**	**1,106.4**

Equity and liabilities in €m	31.12.2008	**31.03.2009**
Equity		
Share capital	42.6	42.6
Share premium	86.7	86.7
Reserves	281.8	245.9
	411.1	**375.2**
Liabilities		
Non-current liabilities		
Pension provisions	102.3	103.1
Other provisions	89.3	95.4
Bank loans and other financial payables	28.4	27.5
Other liabilities	3.4	1.0
Deferred tax liabilities	22.9	22.6
	246.3	**249.6**
Current liabilities		
Other provisions	186.4	181.6
Trade payables	72.1	62.0
Bank loans and other financial payables	104.5	100.7
Other liabilities	161.0	137.3
	524.0	**481.6**
Balance sheet total	**1,181.4**	**1,106.4**

Group Income Statement

01.01. - 31.03. in €m	2008	**2009**
Revenue	301.7	220.2
Cost of sales	–223.5	–190.2
Gross profit	**78.2**	**30.0**
Distribution costs	–41.3	–33.4
Administrative expenses	–23.1	–23.6
Other operating income and expenses	–18.8	–5.7
Operating loss	**–5.0**	**–32.7**
Financial result	–1.4	–2.5
Earnings before taxes	**–6.4**	**–35.2**
Income tax	5.4	2.0
Net loss	**–1.0**	**–33.2**

Statement of Comprehensive Group Income

01.01. - 31.03. in €m	2008	**2009**
Net loss	**–1.0**	**–33.2**
Foreign currency translation	1.4	–0.4
Measurement of primary financial instruments	–0.2	–0.1
Measurement of derivatives	5.9	–2.4
Deferred taxes	–1.7	0.7
Gains/losses recognised directly in equity	**5.4**	**–2.2**
Total comprehensive income	**4.4**	**–35.4**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2008	**42.5**	**85.9**
Comprehensive income	–	–
Other changes	–	–
31.03.2008	**42.5**	**85.9**
01.01.2009	**42.6**	**86.7**
Comprehensive income	–	–
Other changes	–	–
31.03.2009	**42.6**	**86.7**

Reserves: Recognised in equity	Reserves: Other	**Total**
–0.4	**387.1**	**515.1**
5.4	–1.0	4.4
–	0.8	0.8
5.0	**386.9**	**520.3**
3.8	**278.0**	**411.1**
–2.2	–33.2	–35.4
–	–0.5	–0.5
1.6	**244.3**	**375.2**

Group Cash Flow Statement

01.01. - 31.03. in €m	2008	**2009**
Earnings before taxes	–6.4	–35.2
Non-cash transactions	11.4	8.9
Gross cash flow	**5.0**	**–26.3**
Changes in inventories, receivables and other assets	20.8	88.1
Changes in provisions and payables	62.8	–42.6
Cash flows from operating activities	**88.6**	**19.2**
Cash flows from investing activities	**–14.9**	**–5.7**
Cash flows from financing activities	**–24.2**	**–0.6**
Change in funds	**49.5**	**12.9**
Effect of changes in exchange rates	0.3	0.7
Funds at beginning of period	134.0	85.8
Funds at end of period	**183.8**	**99.4**

Notes to the Interim Statement to 31 March 2009

1 Accounting Policies

This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The consolidated financial statements were prepared in accordance with the standards valid on that date, as issued by the International Accounting Standards Board (IASB), London, and all binding interpretations by the International Financial Reporting Interpretation Committee (IFRIC), with due regard for EU directives. 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 in 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	
	2008	**2009**	2008	**2009**
External sales	157.7	**143.4**	144.0	**76.8**
Internal sales	42.7	**32.6**	43.9	**22.2**
Total sales	200.4	**176.0**	187.9	**99.0**
Investment	8.0	**2.5**	6.9	**3.8**

3.2 Geographical segments

01.01. - 31.03. in €m	2008	**2009**
Germany	48.0	**36.4**
Rest of Europe	183.1	**81.1**
North America	15.2	**30.6**
Asia/Pacific	45.5	**36.8**
Africa/Latin America	9.9	**35.3**
External sales	**301.7**	**220.2**

4 Earnings per Share

01.01. - 31.03. in €	2008	**2009**
Earnings per share	–0.06	**–2.03**

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,387,133 no-par shares, previous year: 16,340,790 no-par shares).

5 Balance Sheet

5.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	75.8	49.1	26.7
Property, plant and equipment	628.8	401.0	227.8
Total at 31.12.2008	**704.6**	**450.1**	**254.5**
Intangible assets	75.8	49.6	26.2
Property, plant and equipment	632.1	405.1	227.0
Total at 31.03.2009	**707.9**	**454.7**	**253.2**

Investment in property, plant and equipment totalling €6.3m (first quarter 2008: €14.3m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2008	**31.03.2009**
Raw materials, consumables and supplies	75.7	73.2
Work in progress	277.1	278.3
Finished goods and products	39.5	39.2
	392.3	**390.7**

5.3 Liabilities

A €39.1m reduction in total liabilities largely resulted from a €10.1m reduction in **trade payables** and a €26.1m reduction in **other liabilities** following a fall in customer prepayments.

Key Financial Dates

Koenig & Bauer Annual General Meeting
18 June 2009
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2009
14 August 2009

Interim report on 3rd quarter 2009
13 November 2009

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.com
www.kba.com