KBA
Koenig & Bauer Group

Group Interim Report
First Half-Year 2009

KBA Group in Figures

01.01. - 30.06. in €m

	2008	**2009**
Order intake	708.8	**489.1**
Sales	656.1	**452.8**
Order backlog at 30.06.	844.6	**537.8**
Export level in %	84.6	**83.9**
Operating profit/loss	4.7	**–42.4**
Earnings before taxes	2.4	**–47.4**
Net profit/loss	6.8	**–46.8**
Balance sheet total at 30.06. (prior year: 31.12.)	1,181.4	**1,069.0**
Equity at 30.06. (prior year: 31.12.)	411.1	**363.8**
Investment in intangible assets, property, plant and equipment	25.0	**11.3**
Depreciation on intangible assets, property, plant and equipment	20.1	**14.4**
Payroll at 30.06.	8,098	**7,411**
Cash flows from operating activities	34.2	**9.0**
Earnings per share in €	0.42	**–2.86**

Title photo: The volume of incoming orders for sheetfed presses was almost twice as high in the second quarter as in the first

Global economic and financial turmoil continues to act as a brake on demand for printing presses. This has become more pronounced than ever in the market for big web presses and, with the exception of security printing, special presses for niche applications. The volume of incoming orders for sheetfed presses, on the other hand, picked up sharply in the second quarter, bucking the industry trend. The summer months will show whether this uptick will stabilise.

The Group order intake for the first half-year was more or less on target at just under €490m, and cost savings have already been made. We have also made good progress in downsizing our workforce and capacity to a smaller market volume. At the end of December there will be some 900 fewer employees on the Group payroll than at the beginning of the year, though the steady decrease will not be reflected in personnel figures and expenses until the second half-year.

Cost-cutting initiatives are already taking effect. Between the end of March and the end of June we reduced our pre-tax loss by almost two-thirds, from €35.2m to €12.2m. While we failed to move back into the black, our total pre-tax earnings (EBT) of –€47.4m for the first six months were better than expected. There is every indication that this upward trajectory will continue in the third and fourth quarters, enabling us to post a balanced result for the year.

Compared to other enterprises in our sector, Group finances and liquidity are exceptionally sound. Even after nine months or more of recession there is clear evidence of this in our positive cash flows from operating activities, a largely balanced free cash flow, liquid assets exceeding €83m, a positive net financial position of €22.2m, reduced bank debts and an equity ratio of 34%. Our restructuring costs were written off in the previous business year and we have already made significant advances in realigning our operations.

The KBA Group is holding a clear and steady course in a volatile market environment demanding continual adjustment. Should any unusual incidents occur we shall of course notify you, our shareholders, without delay.

Würzburg, 11 August 2009
Koenig & Bauer Management Board

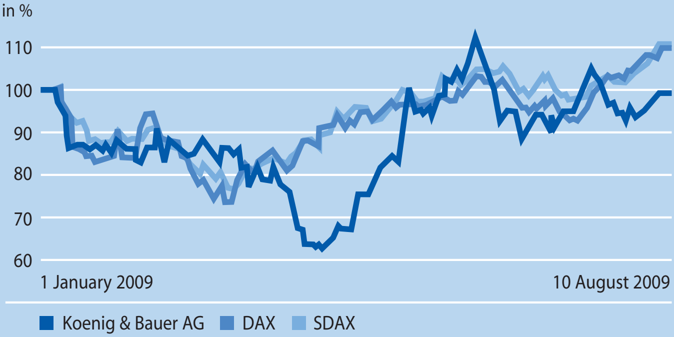
H. Hansen

Helge Hansen
President and CEO

KBA Shares

After hitting an historic low of €6.15 on 9 April, KBA shares made a strong recovery to €11.30 by the beginning of June as capital markets rewarded the swift and resolute realignment of the sheetfed division to the diminished market volume anticipated in the medium term. However, negative reports and uninspiring figures from the engineering sector and export-dependent press manufacturing industry subsequently sent our share price sliding once again. On 30 June it stood at €8.84, 10.7% down on the year-end figure of €9.90. During the same period the SDAX rose by 3.7% and the DAX almost regained the level at which it closed the previous year. In July, with sales continuing slow, KBA shares fluctuated between €9 and €11.

Koenig & Bauer shares from 01.01. to 10.08. 2009



Management Report

Market Environment

According to the latest figures issued by the VDMA (German Machinery and Plant Manufacturers' Association), the volume of new orders booked by the engineering industry in the first six months shrank by 46% compared to the same period last year, plunging 51% in the second quarter alone. This was the biggest slump since 1958. The prediction by a number of economists and analysts of a rapid end to the global crisis seems premature, to say the least. Having said that, demand in some sectors, press engineering among them, appears to have bottomed out. But with plant utilisation averaging just 69%, short-time work in the engineering industry has been the rule rather than the exception for many months now.

Bucking the industry trend, the Group order intake improved from around €70m per month in the first quarter to €90m per month in the second. As a result the decline in new orders compared to the first half of 2008 was a welcome one-third smaller than in the engineering industry as a whole.

Thanks to vigorous demand in Asia, the Middle East and parts of western Europe, the volume of incoming orders for sheetfed presses in the second quarter was almost twice as high as in the first. But the reticence perceptible among commercial and newspaper web offset printers in 2008 became even more marked. Glacial investment and persistent financing difficulties also impacted on sales of special presses in certain niche markets.

While the Group **order intake** of €489.1m for the first six months was 31% below the prior-year figure of €708.8m (which had been boosted by the Drupa trade fair), the decline was almost 10 percentage points smaller than in the first three months (–40.7%). This was primarily due to the fact that the volume of new orders for sheetfed presses almost doubled in the second quarter compared to the first, and at €222.3m even exceeded the sales target for the period. New orders for web and special presses totalled €266.8m, 22% less than in 2008 (€342m). Orders for security presses remained brisk.

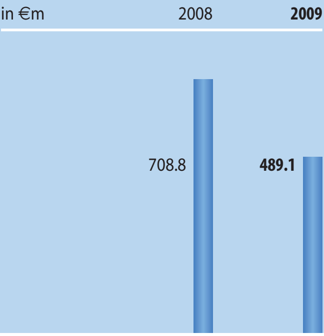
The increase in new sheetfed orders swelled the Group **order backlog** at the end of June to €537.8m, some €36m more than at the beginning of the year (€501.5m) but 36.3% below the prior-year figure. The volume of unfilled orders for web and special presses stood at €398.5m, the corresponding figure for sheetfed presses was €139.3m.

Earnings, Finances and Assets

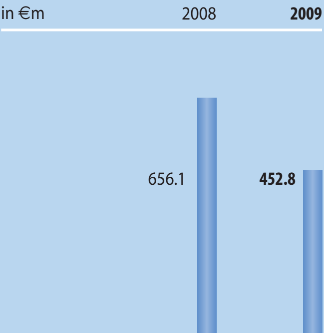
Group **sales** fell 31% to €452.8m (2008: €656.1m), and this is reflected in earnings. However, the shortfall had already been factored into our targets for the year and the figure will improve in coming months when a higher volume of shipments is scheduled. The substantial personnel adjustments initiated in May will not work through to the bottom line until the second half-year. Even so, the cost-cutting measures approved in March delivered sizeable savings in material and other costs, boosting our liquidity and income. A pre-tax loss of €12.2m in the second quarter was better than expected and a big improvement on the first quarter loss of €35.2m. **Earnings** will continue their upward climb and, in conjunction with the projected increase in sales and decline in labour costs, look set to improve further in the third quarter, moving us back into the black by the end of the year.

Sales generated by the web and special press division came to €263.5m, roughly on a par with the order intake for the first half-year and 23.8% below the previous year's €346m. Along with a drop in web press installations this was caused by softer demand in niche markets. Sales of sheetfed presses were on target at €189.3m. In this sector, which is heavily dependent on advertising, the 39% shortfall compared to the first half of 2008 (€310.1m) was attributable to a slide in demand for medium-format presses as well as large-format packaging and book presses. There was a modest lift in earnings from small-format presses.

Group order intake



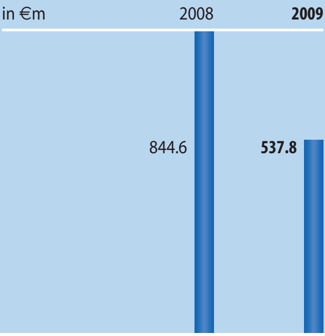
Group sales



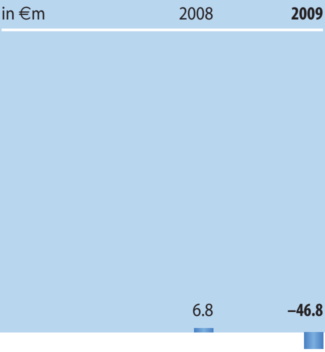
Although in absolute terms domestic sales fell by more than a quarter to €72.9m (2008: €101.2m), the export level remained relatively stable at €83.9% (2008: 84.6%). With recessions in key markets such as Italy, Spain and the UK showing no sign of ending, sales to the rest of Europe more than halved, from €352.6m to €176.7m. This cut the proportion of Group sales generated in this region to 39%, well below the historical average. The delivery of a big web press to the *Daily News* in New York stemmed the long-term decline in North American sales, lifting the relevant level from 7.6% to 13.4%. The proportion of sales generated in Asia and the Pacific fell from 17.8% – a figure swelled by the installation last year of a big newspaper press in India – to 8.9%. However, with demand in China picking up, this will be a temporary blip. The delivery of several commercial web presses to Brazil and Venezuela sent sales to Africa and Latin America rocketing from €35.8m in 2008 to €102.4m, or 22.6% of the Group total.

The unsatisfactory level of plant utilisation, and the time lag in personnel savings arising from the period of notice necessary, reduced the **gross profit margin** to just 15.3%. Distribution costs sank from €81.6m to €61.3m but administrative expenses eased up to €45.1m. The imbalance between other operating income and expenses improved from –€32.1m to –€5.5m. Despite major capacity adjustments our sheetfed division contributed more than half to an **operating loss** of €42.4m (2008: a €4.7m profit). This, however, was smaller than anticipated. Following a financial loss of €5m we made a **pre-tax loss** (EBT) of €47.4m (2008: a €2.4m profit). After deducting income taxes we disclosed a **Group loss** of €46.8m (2008: a profit of €6.8m). **Earnings per share** totalled –€2.86 (2008: 42 cents).

Group order backlog



Group net profit/loss



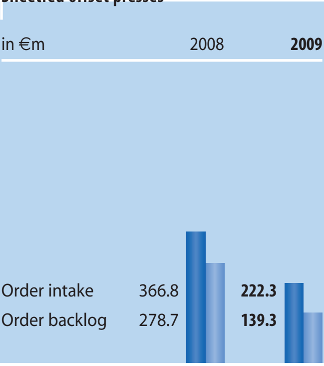
Finances

Once again, the financial figures for the KBA Group contrasted sharply with those of other players in this sector. **Cash flows from operating activities** were positive, totalling €9m (2008: €34.2m). This was largely due to a substantial drop in trade receivables and inventories. But a €10.1m outflow from investing activities turned the **free cash flow** negative (–€1.1m compared to €12.9m in 2008). Systematic savings and rigorous cash management helped keep **funds** more or less stable (€85.8m at the end of December, €83.5m at the end of June). With adequate credit readily available, we even reduced our bank loans to €61.3m, from €63.2m at the end of last year, maintaining our stable net financial position (31.12.2008: €22.6m, 30.06.2009: €22.2m). On 30 June equity constituted 34% of the balance sheet total (31.12.2008: 34.8%). This was well above the average for the sector. A €23.5m reduction in provisions for warranties and other contingencies, and a €16.3m reduction in trade payables, helped trim total liabilities by €65.1m to €705.2m (31.12.2008: €770.3m).

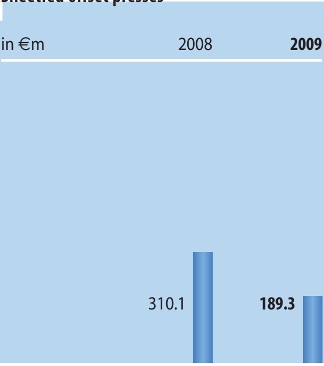
Assets

The Group **balance sheet total**, at €1,069m, was €112.4m down on the year-end figure of €1,181.4m. This was largely attributable to a €115.3m drop in current assets, arising from a reduction of €79m in trade receivables and €32.7m in inventories. Non-current assets, which include property, plant and equipment worth €230.9m (up from a year-end €227.8m), increased by just under €3m to €308.2m. In view of the current economic climate, investment in intangible and tangible assets was scaled back from €25m in 2008 to €11.3m. Depreciation was also lower, totalling €14.4m (2008: €20.1m).

Order intake/backlog
Sheetfed offset presses



Sales
Sheetfed offset presses



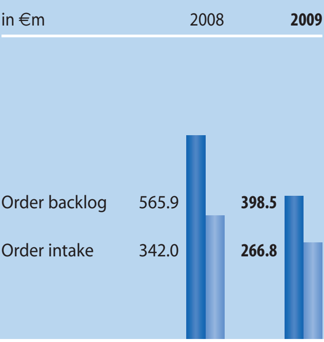
Research and Development

KBA was founded on innovation, and this continues to play a central role even in the midst of an economic recession and financial meltdown. Our research and development engineers are busy working on new advances throughout our extensive portfolio, while optimising existing technology in order to enhance energy efficiency, or expanding automation to reduce job changeover times, to name but two examples. They also utilise new materials and consumables to create novel finishing processes for printed products.

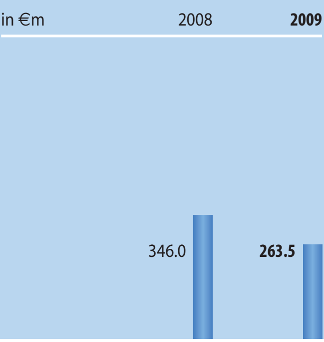
One example of KBA's innovative vigour is a new flying job change capability for sheetfed presses – a world first recently demonstrated on a medium-format Rapida 106 at AZ Druck in Kempten, Germany. Called Flying JobChange, it allows the printing units not required for the current job to be made ready for the next one 'on the run' and re-engaged in a fraction of second, virtually eliminating changeover times. So offset, which already has the edge on digital print in terms of productivity and image quality, can now be made price-competitive even for ultra-short print runs.

This unique new feature for sheetfed presses follows a similar advance in commercial and newspaper web press technology, where KBA was among the first to introduce flying plate changes.

Order intake/backlog
Web and special presses



Sales
Web and special presses



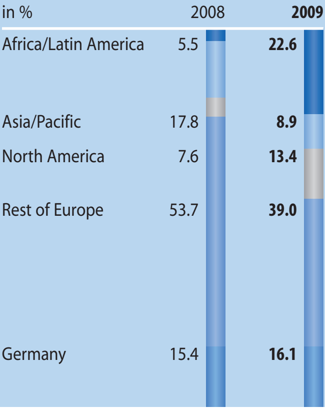
Human Resources

On 30 June there were 7,411 employees on the Group payroll, a reduction of 687 in twelve months. The number will drop to around 7,000 by the end of the year following the implementation of the negotiated redundancies and phased retirement schemes in Radebeul and adjustments at our domestic and foreign subsidiaries. With demand for big web presses showing no sign of revival, in July the management board decided to trim the workforce at our web press production plants by 400. Negotiations are currently being conducted with worker representatives and the trade union to reduce the Group payroll to around 6,500 by spring next year.

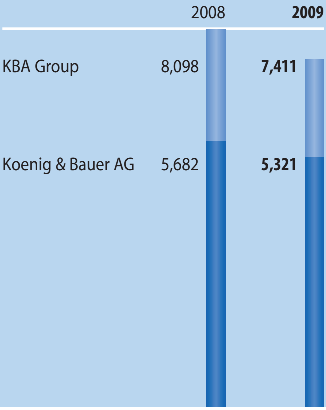
Risk Management

The Parent's early warning system is described on pages 39 to 42 of the Group financial statements for 2008. With the exception of the personnel cuts necessary in the web press division 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.

Geographical breakdown of sales



Payroll at 30 June



Outlook

Government-sponsored stimulus packages on an unprecedented scale have thus far failed to ameliorate the harsh economic realities, indicating that there is little prospect of a global revival in the near term. The consequences are apparent in exporters' shrinking order books, in the swelling numbers of workers on short time and in the rising unemployment figures issued by the vast majority of industrialised countries. According to the VDMA (German Machinery and Plant Manufacturers' Association), this year alone the German engineering industry with its 930,000-plus workers will experience a decline in output of 20% or more and the loss of up to 60,000 jobs. In the first five months, flagging orders caused a year-on-year drop of 23.2% in output.

At KBA, the volume of new orders in the second quarter was 20.4% below the Drupa-boosted figure for the previous year, but compared well with an average decline in the engineering industry of 51%. However, while our high-tech products and vigorous sales activities have resulted in a brisk upturn in sheetfed orders since April, this is no early indicator of a worldwide recovery. At the same time the volume gain in a sector which was badly hit by a global slump in demand does mean that our targets for 2009 remain within reach.

Sales of security presses and systems continued to flourish, contrasting starkly with slack demand in the second quarter for web presses and some niche products. Prior recessions have shown that there is typically a time lag in sales of newspaper presses because the project times are relatively long. Customers in other advertising- and consumer-dependent markets are still experiencing liquidity issues and low levels of plant utilisation. Higher interest rates and tighter controls for loans and lease financing are acting as an additional brake on demand.

Financing difficulties, regional overcapacity, poor levels of plant utilisation and inadequate profit margins have severely hampered investment by commercial web offset printers heavily dependent on contract work. The lack of investment in the newspaper industry largely stems from the collapse in ad revenues, heavy expenditure in previous years and widespread uncertainty regarding developments in the media market.

We see little prospect of an upturn in the press engineering industry until some time next year. And in view of the structural changes working their way through the print and media sectors there is every indication that we shall have to live with a smaller market volume for the foreseeable future, which is why the management board was quick to initiate a capacity adjustment. In May this year the short-time model introduced in Radebeul last November was followed by an agreement with the works council and IG Metall on trimming the payroll by approximately one-third. The job cuts will be largely completed by the end of the year. Subsidiaries affected by the slide in sales have also either already reduced their personnel levels or will do so in coming months.

At the AGM on 18 June, KBA's president and CEO Helge Hansen announced that, in view of the decline in new projects up for tender, capacities at our web press production plants would also have to be re-examined. With the market showing no imminent sign of improvement, in July employees were informed that a total of 400 jobs would have to go at the Würzburg, Trennfeld and Frankenthal factories. Negotiations with worker representatives and the trade union have already been initiated.

While such consolidation is unavoidable, management deeply regrets the painful consequences of job losses for those members of staff – and their families – who have been affected. But with market prospects dim and manufacturers hampered by overcapacity, there was an urgent need for farsighted action. Taking advantage of state aid in the hope of better times, without implementing the restructuring measures demanded, would endanger the future of any company.

In March this year the KBA management and supervisory boards approved an extensive restructuring programme aimed at reducing our cost base by hundreds of millions of euros over the next three years. Savings were already evident in the second quarter in the form of lower non-personnel costs. Lower prices for raw materials and energy, and the continuing strength of the yen, are also having a beneficial impact on our international business.

Following a weak first quarter, Group sales figures were on schedule at the end of the first six months. In the second quarter we were obliged to adjust our original sales objectives for web and non-security special presses. Having said that, if the sheetfed division, one of our primary spheres of operation, maintains the upward trajectory of the past four months, we believe there is still a fair chance of meeting the sales target of €1.2bn we cited in March. And while our objective of posting a balanced Group result (EBT) by the end of the year may seem ambitious in view of the current industry scenario and market instability, with substantial progress made in restructuring operations and cutting costs we see no need at the present time to lower our sights.

Group Balance Sheet

Assets in €m	31.12.2008	**30.06.2009**
Non-current assets		
Intangible assets	26.7	25.6
Property, plant and equipment	227.8	230.9
Investments and other financial receivables	23.4	23.0
Other assets	1.2	0.3
Deferred tax assets	26.2	28.4
	305.3	**308.2**
Current assets		
Inventories	392.3	359.6
Trade receivables	325.1	246.1
Other financial receivables	26.6	29.3
Other assets	35.7	33.2
Securities	10.6	9.1
Cash and cash equivalents	85.8	83.5
	876.1	**760.8**
Balance sheet total	**1,181.4**	**1,069.0**

Equity and liabilities in €m	31.12.2008	**30.06.2009**
Equity		
Share capital	42.6	42.6
Share premium	86.7	86.7
Reserves	281.8	234.5
	411.1	**363.8**
Liabilities		
Non-current liabilities		
Pension provisions	102.3	103.0
Other provisions	89.3	95.0
Bank loans and other financial payables	28.4	25.5
Other liabilities	3.4	1.8
Deferred tax liabilities	22.9	23.3
	246.3	**248.6**
Current liabilities		
Other provisions	186.4	157.2
Trade payables	72.1	55.8
Bank loans and other financial payables	104.5	94.2
Other liabilities	161.0	149.4
	524.0	**456.6**
Balance sheet total	**1,181.4**	**1,069.0**

Group Income Statement

01.01. - 30.06. in €m	2008	**2009**
Revenue	656.1	452.8
Cost of sales	–494.1	–383.3
Gross profit	**162.0**	**69.5**
Distribution costs	–81.6	–61.3
Administrative expenses	–43.6	–45.1
Other operating income and expenses	–32.1	–5.5
Operating profit/loss	**4.7**	**–42.4**
Financial result	–2.3	–5.0
Earnings before taxes	**2.4**	**–47.4**
Income tax	4.4	0.6
Net profit/loss	**6.8**	**–46.8**

01.04. - 30.06. in €m	2008	**2009**
Revenue	354.4	232.6
Cost of sales	–270.6	–193.1
Gross profit	**83.8**	**39.5**
Distribution costs	–40.3	–27.9
Administrative expenses	–20.5	–21.5
Other operating income and expenses	–13.3	0.2
Operating profit/loss	**9.7**	**–9.7**
Financial result	–0.9	–2.5
Earnings before taxes	**8.8**	**–12.2**
Income tax	–1.0	–1.4
Net profit/loss	**7.8**	**–13.6**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2008	**42.5**	**85.9**
Comprehensive income	–	–
Dividend	–	–
Other changes	–	–
30.06.2008	**42.5**	**85.9**
01.01.2009	**42.6**	**86.7**
Comprehensive income	–	–
Other changes	–	–
30.06.2009	**42.6**	**86.7**

Statement of Comprehensive Group Income

01.01. - 30.06. in €m	2008	**2009**
Net profit/loss	**6.8**	**–46.8**
Foreign currency translation	1.6	–0.5
Measurement of primary financial instruments	–0.2	0.3
Measurement of derivatives	5.1	0.6
Deferred taxes	–1.5	–0.3
Gains recognised directly in equity	**5.0**	**0.1**
Total comprehensive income	**11.8**	**–46.7**

Reserves: Recognised in equity	Reserves: Other	**Total**
–0.4	**387.1**	**515.1**
5.0	6.8	11.8
–	–9.8	–9.8
–	0.4	0.4
4.6	**384.5**	**517.5**
3.8	**278.0**	**411.1**
0.1	–46.8	–46.7
–	–0.6	–0.6
3.9	**230.6**	**363.8**

Group Cash Flow Statement

01.01. - 30.06. in €m	2008	2009
Earnings before taxes	2.4	–47.4
Non-cash transactions	22.3	10.5
Gross cash flow	**24.7**	**–36.9**
Changes in inventories, receivables and other assets	–18.5	113.2
Changes in provisions and payables	28.0	–67.3
Cash flows from operating activities	**34.2**	**9.0**
Cash flows from investing activities	**–21.3**	**–10.1**
Cash flows from financing activities	**–27.6**	**–1.8**
Change in funds	**–14.7**	**–2.9**
Effect of changes in exchange rates	0.4	0.6
Funds at beginning of period	134.0	85.8
Funds at end of period	**119.7**	**83.5**

Notes to the Interim Statement to 30 June 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 Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remaining months of the financial year.

Würzburg, 11 August 2009
KBA Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy President

Dr Frank Junker

Christoph Müller

Ralf Sammeck

4 Segment Information

4.1 Business segments

01.01. - 30.06.	Web and special presses		Sheetfed offset presses	
in €m	2008	**2009**	2008	**2009**
External sales	346.0	**263.5**	310.1	**189.3**
Internal sales	90.0	**58.1**	99.9	**55.7**
Total sales	436.0	**321.6**	410.0	**245.0**
Investment	12.3	**6.9**	12.7	**4.4**

4.2 Geographical segments

01.01. - 30.06. in €m	2008	**2009**
Germany	101.2	**72.9**
Rest of Europe	352.6	**176.7**
North America	49.7	**60.5**
Asia/Pacific	116.8	**40.3**
Africa/Latin America	35.8	**102.4**
External sales	**656.1**	**452.8**

5 Earnings per Share

01.01. - 30.06. in €	2008	**2009**
Earnings per share	0.42	**–2.86**

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).

6 Balance Sheet

6.1 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	50.2	25.6
Property, plant and equipment	637.3	406.4	230.9
Total at 30.06.2009	**713.1**	**456.6**	**256.5**

Investment in property, plant and equipment totalling €10.7m (first half 2008: €22.9m) primarily refers to assets under construction, additions of plant and machinery, factory and office equipment.

6.2 Inventories

in €m	31.12.2008	**30.06.2009**
Raw materials, consumables and supplies	75.7	69.9
Work in progress	277.1	255.6
Finished goods and products	39.5	34.1
	392.3	**359.6**

6.3 Liabilities

A €65.1m reduction in total liabilities largely resulted from reductions of €25.7m in sales-related **provisions**, €16.3m in **trade payables** and €13.2m in **other liabilities**.

Key Financial Dates

Interim report on 3rd quarter 2009
13 November 2009

Financial statements on 2009
End of March 2010

Interim report on 1st quarter 2010
12 May 2010

Koenig & Bauer Annual General Meeting
17 June 2010
Vogel Convention Center, Würzburg

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