Group Interim Report
First Half-Year 2010

KBA
Koenig & Bauer Group

KBA Group in Figures

01.01. - 30.06. in €m	2009	**2010**
Order intake	489.1	**679.3**
Sales	452.8	**473.2**
Order backlog at 30.06.	537.8	**541.1**
Export level in %	83.9	**86.2**
Operating loss	–42.4	**–18.9**
Earnings before taxes	–47.4	**–22.0**
Net loss	–46.8	**–20.3**
Balance sheet total at 30.06. (prior year: 31.12.)	1,060.4	**1,086.1**
Equity at 30.06. (prior year: 31.12.)	419.8	**406.9**
Investment in intangible assets, property, plant and equipment	11.3	**5.8**
Depreciation on intangible assets, property, plant and equipment	14.4	**16.1**
Payroll at 30.06.	7,411	**6,445**
Cash flows from operating activities	9.0	**–18.1**
Earnings per share in €	–2.86	**–1.23**

Title photo: Demand for newspaper web presses picked up again perceptibly in June

Following a prolonged period of stagnation, March this year saw a perceptible upswing in the market for printing presses, starting with the sheetfed sector and later embracing the web sector too. While customer demand in many parts of the world is still well below earlier levels, in the first six months KBA booked almost 40% more orders than in the same period the previous year. The economic slump triggered in 2008 has finally bottomed out, but whether the upswing will prove sustainable remains to be seen.

In June, bulging order books meant that our sheetfed factories could return to full-time work – at least for the present – after more than eighteen months of short time. Capacity utilisation in our web and special press division profited from the higher proportion of production brought in-house since early last year, the distribution of work among our various operations to maintain employment, and major web press contracts awarded by printers in Europe and the Middle East. This, and a higher volume of orders, should allow us to end short time at our web and special press factories in the second half-year.

The volume of incoming orders improved more than the market prices for printing presses. Not all players reacted as fast as we did in making the necessary capacity adjustments. So with capacity overhang continuing to plague the sector, it remains a buyers' market. The cost savings delivered by implementing severe cuts are negated by unhealthy price constraints. Boosting productivity and trimming costs remain ongoing issues in the press engineering sector, along with the willingness to innovate on a continuous basis.

Current figures show that our intensive efforts to improve earnings are bearing fruit. In the second quarter the KBA Group very nearly achieved a balanced pre-tax result: the €21.3m pre-tax loss for the weak first quarter was followed by EBT of just –€0.7m, bringing the half-year total to –€22m. We expect this upward trajectory to continue for the rest of the year and therefore anticipate a higher pre-tax profit for 2010 than in 2009.

I am well aware that, under normal circumstances, a return on sales of around 1% is anything but satisfactory for a globally active press manufacturer. However, considering the severity of the market slump over the past two years and the figures for the rest of the sector, it would be quite an achievement. An achievement in which we shall continue to invest all our energies.

From being 4.7% below the prior-year figure at the end of March, Group sales revenues at the end of June were 4.5% above, at €473.2m. We have thus drawn that much closer to our objective of a 7.5% lift in sales to €1.13bn. While this will remain a sporting challenge over the next few months, most of the orders required have already been booked.

The operative cash flow, which in the heavy engineering sector is prone to periodic fluctuation, improved in the second quarter, rising from –€41.3m at the end of March to –€18.1m at the end of June. With sales set to climb, we calculate that the operative cash flow will turn positive. The half-year figures also reveal funds totalling some €46m, a positive net financial position and ample credit lines.

On 30 June the Group payroll stood at 6,445, or 524 fewer than at the end of last year and around 1,700 fewer than in summer 2008 before the financial crisis and industry upheaval came to a head. The reduction in the Group workforce to 6,100, which was a painful process for all concerned, had already been initiated by the same time last year and will continue as around 300 existing redundancy and phased-retirement schemes take their course.

Although we have no new acquisition or collaborative alliance to report, we remain committed to diversifying from our traditional business of press technology into new fields offering good prospects for growth and employment. However, over the past few months the work-intensive but successful consolidation and realignment of the KBA Group to a smaller core market has had absolute priority. Protracted negotiations on a potential acquisition with a business volume of well over €100m recently fell through when the risks to which KBA would be exposed proved to be too high. Further options are being pursued with the due diligence and patience essential in the current business climate. While KBA has ample reserves to finance any promising project, we are in no hurry and have no desire to enter a venture with an uncertain outcome.

Despite two years of economic and industry turbulence Koenig & Bauer remains on a stable course. We shall continue to keep you informed of key developments via our regular financial reports, and wish to thank you for your continued loyalty and interest.

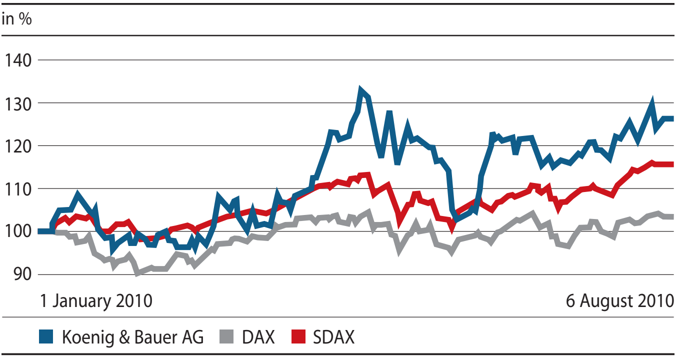
Würzburg, 10 August 2010
Management Board
Koenig & Bauer AG

Helge Hansen
President and CEO

KBA Shares

A volatile first quarter, during which our share price fluctuated between €11 and €13, was followed by strong gains as capital markets acknowledged the Group's successful consolidation, strong financial profile and the disclosure of a profit in our financial statements for 2009. On 23 April Koenig & Bauer shares were trading at €15.98. However, the price dropped to just over €12 in subsequent weeks as investors responded negatively to reports from the print media industry. At the end of June our shares were trading at €13.81, 21.1% above their closing price of €11.40 at the end of 2009. By comparison, over the same period the SDAX rose by 10% but the DAX barely lifted. In July KBA shares continued to rally, topping the €15 mark once again.

Koenig & Bauer shares



Management Report

Market and Industry Environment

Following last year's dramatic slump Germany's export-driven engineering industry experienced an upsurge in foreign demand this spring that came much sooner and was much stronger than many had expected. In the second quarter the industry booked a double-digit jump in new orders compared to the previous year, and higher production after fifteen consecutive months of decline. Although demand and capacity utilisation are nowhere near their pre-crisis levels, in July the VDMA (German Machinery and Plant Manufacturers' Association) raised its growth forecast for 2010 from zero to 3%.

German press manufacturers also benefited from a perceptible upturn fuelled by booming demand in China and strong growth in other parts of Asia, the Middle East, Latin America and some European countries, albeit with substantial regional variations. While the volume of orders was much higher than in 2009, weak prior-year figures make the gain seem greater than it actually is: global demand is still some way below the level of earlier years. And the gap is unlikely to close completely even in the event of a sustained economic recovery. This is because it is largely due to structural changes within the print media industry, and to a huge increase in press productivity. The financial meltdown merely exacerbated the situation.

The Group **order intake** in the first six months came to €679.3m, 38.9% up on the 2009 figure of €489.1m. After slowing for almost two years, sheetfed orders picked up pace as the economy revived, growing by 36.6% to €303.6m, from €222.3m twelve months earlier. Alongside our popular medium-format Rapidas we booked a substantial increase in orders for large-format presses, particularly in China. The volume of new orders for web and special presses jumped 40.8% from €266.8m to €375.7m, remaining high in both divisions throughout July.

In the course of the second quarter the Group **order backlog** swelled by more than €100m, from €439.6m at the end of March to €541.1m at the end of June – a modest improvement on the prior-year figure of €537.8m even though all the pre-crisis web press contracts had been fulfilled and no longer featured in the figures. The volume of unfilled orders for web and special presses was worth €344.6m (2009: €398.5m), and for sheetfed presses €196.5m (2009: €139.3m). So the prospects for maintaining production at our sheetfed factories on a sustainable basis have improved enormously.

Earnings, Finances and Assets

Earnings

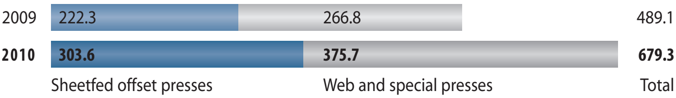
At €473.2m **Group sales** were 4.5% up on the prior-year figure of €452.8m. A €50m-plus increase in revenue compared to the previous quarter, and cost savings delivered by our realignment, reduced the pre-tax loss to just €0.7m in the second quarter. The pre-tax loss for the six months to July was thus attributable almost entirely to weak first-quarter demand. A bigger volume of shipments for the rest of the year will improve **earnings** and result in a profit for the year.

Both divisions posted higher sales than in the same period last year. The revenue generated by sheetfed sales increased by 5.3% to €199.3m (2009: €189.3m). Sales of web and special presses were up 3.9% at €273.9m (2009: €263.5m).

Domestic sales totalled €65.2m, a drop of approximately 10% on twelve months earlier (€72.9m), and pushed the export level up to 86.2%. Shipments to the rest of Europe fell from €176.7m to €139.7m as the recession impacted on sales in key print markets. So after exceeding 50% on a regular basis, the proportion of Group sales generated in Europe almost halved to 29.5%. The proportion booked in North America sank to 11.6% or €54.8m (2009: 13.4% and €60.5m). Unabated brisk demand in China and a revival in investment elsewhere in the region boosted earnings in Asia and the Pacific from €101.2m to €127.6m. As a result the proportion of Group sales attributable to this region jumped from 22.3% to 27%. The volume of sales to Africa and Latin America more than doubled, from €41.5m the previous year to €85.9m. The regional contribution was thus 18.1% – well above the historic average.

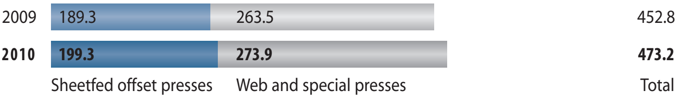
Group order intake

in €m



Group sales

in €m



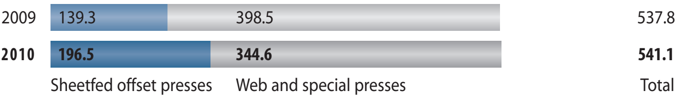
Following our Group realignment the **gross profit margin** swelled from 15.3% twelve months earlier to 25.6%. Shipping and exhibiting costs pushed distribution costs up from €61.3m to €71.4m, while administrative expenses fell from €45.1m to €40.6m. Even though other operating expenses outweighed other operating income by €27.9m (2009: €5.5m), we cut our **operating loss** from €42.4m twelve months earlier to €18.9m. The financial result was –€3.1m. **EBT** improved from –€47.4m to –€22m. After taxes we disclosed a **Group net result** of –€20.3m, again a big advance on the prior-year figure of –€46.8m. **Earnings per share** came to –€1.23 (2009: –€2.86).

Finances

Despite higher earnings and a €44.6m increase in customer prepayments, **cash flows from operating activities** fell to –€18.1m, well below the corresponding figure in 2009 of €9m. This was primarily due to a €29.7m increase in inventories to €349.2m in preparation for a higher volume of sales in the second half-year. After deducting cash flows for investing activities the **free cash flow** fell to –€23.5m, compared to –€1.1m twelve months earlier. **Funds** came to €45.8m at the end of June (end of December 2009: €76.1m). Bank loans were trimmed from €48.3m at the end of last year to €45.7m. This resulted in a net financial position of €0.1m. We also have ample credit lines at our disposal. The equity level remained well above the industry average. On 30 June it represented 37.5% of the balance sheet total, down from 39.6% at the end of last year. Higher customer prepayments resulted in a €38.6m increase in total liabilities to €679.2m.

Group order backlog

in €m



Group net loss

in €m

Assets

The **Group balance sheet total** of €1,086.1m was €25.7m higher than the year-end figure of €1,060.4m. This was due to a €24.9m increase in current assets, primarily in the form of bigger inventories and payments for these. Investment in intangible assets, property, plant and equipment worth €5.8m (2009: €11.3m) stood against depreciation of €16.1m (2009: €14.4m). In the six months to July the value of property, plant and equipment thus fell from €234.6m to €228.9m.

Research and Development

The industry crisis and Group realignment did not deter us from showcasing further innovations at the Ipex 2010 international print media trade fair in Birmingham in May. And with considerable success: under the banner "KBA: Champions in Print" we underpinned our technological lead in the sheetfed sector with new products for accelerating job changes, integrating quality control and improving energy efficiency.

These are some of the fields where we have gained an edge over our competitors. For example, the unique new Flying JobChange option we demonstrated on a Rapida 106 virtually eliminates costly makeready and down times for certain jobs, dramatically enhancing press productivity and slashing job turnaround. The new Rapida 75E exhibited at the show is the energy-saving champion in B2 format. Addressing an emerging demand in the market for greener, more cost-effective print production is one of our primary objectives when developing new products.

Geographical breakdown of sales

in %	2009	**2010**
Africa/Latin America	9.2	18.1
Asia/Pacific	22.3	27.0
North America	13.4	11.6
Rest of Europe	39.0	29.5
Germany	16.1	13.8

In the printing industry, bringing ground-shifting innovations into the mainstream often requires persistence and stamina. For example, it has taken us years to convince German newspaper printers that – even on wider webs – our compact four-high tower presses can actually outperform the satellite presses to which they are accustomed. The breakthrough came in the second quarter. Following the success of our waterless Cortina 6/2 we booked several orders in Germany for its conventional offset counterpart, the Commander CT 6/2.

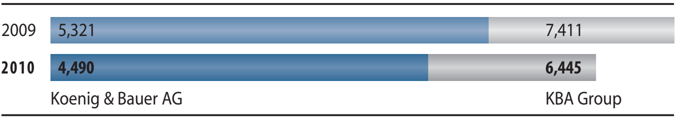
Human Resources

At the end of June the KBA Group employed a total of 6,445 people, 966 fewer than at the same time last year (7,411) and 1,700 below the pre-crisis peak in summer 2008. Existing redundancy and phased-retirement schemes will reduce the total further by approximately 300. By the end of the year the personnel cuts initiated in spring 2009 will be largely completed.

Risk Management

The Parent's early warning system is described on pages 39 to 40 of the Group financial statements for 2009. 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.

Payroll at 30 June



Outlook

The noticeable market revival and the leap of almost 40% in new orders in the first half-year have signally improved the outlook for plant utilisation and the achievement of our goals. Demand for sheetfed presses remains firm, and in July we booked some major orders for commercial and newspaper web presses.

Developments in recent months indicate stable and sustained investment in batch-produced sheetfed presses, but at a level approximately one-third lower than in 2007. At present sales are being buoyed by a demand for packaging, magazines, books and promotional literature in high-growth, densely populated threshold economies. The market for web presses is far more volatile. The impact of the internet and new mobile communications services on media consumption and on the advertising industry is undermining confidence among publishers and print providers alike, notwithstanding the economic upturn. Even long overdue replacements are being postponed or shelved completely. There is a shift towards collaborative models, while at the same time the market shake-up fuelled by bankruptcies and ever more productive presses is placing severe constraints on the sales volumes achievable. Despite recent firmer sales the demand for commercial and newspaper web presses is nowhere near the average of earlier years.

Key KBA markets like the USA and large parts of Europe continue to suffer the impact of the global economic crisis and excessive levels of sovereign debt. In western Europe and other industrialised countries investment largely focuses on replacement kit and rationalisation. In China, Southeast Asia, India, Latin America and other growth regions, insufficient capacity is fuelling demand. The debt crisis precipitated by the financial meltdown poses a serious threat to economic development and currency stability, and could endanger a sustained recovery.

While the guarantees provided by other EU members and the European Central Bank have not resolved the issues associated with excessive sovereign debt, they have served to shore up the euro. So we must accept the fact that calming the markets by strengthening the euro has reduced our competitive advantage over Japanese and US rivals.

In view of market developments, the Group realignment implemented over the past fifteen months and the associated personnel cuts were of existential importance and the only logical move. The high level of plant utilisation at our sheetfed factories, the improved basic level of utilisation at our web press factories and our earnings in the second quarter are evidence that we are on the right track in adjusting to a diminished market volume. In response to ongoing consolidation in the print media industry we have trimmed the Group payroll by roughly a quarter, rigorously implemented a cost-cutting programme that is scheduled to run initially until 2012 and reorganised our internal job allocation procedures. We are confident that we are now prepared for every eventuality in an open-ended scenario.

At present we expect sheetfed business to remain brisk, albeit with the usual seasonal fluctuations, so that by the beginning of October we should have sufficient orders to meet our sales target for the year. We are hopeful that alongside strong demand in Asia the incipient recovery in the key US market will gather momentum. We see little chance of growth in the troubled economies of southern Europe before the end of the year. The web and special press division will see some interesting projects decided in coming months. Having said that, the volume of orders received for web presses is already large enough to meet our turnover target for the year. Once again a niche segment, security presses, will make a significant contribution to sales and earnings. Almost all production plants will run at a high level of capacity in the final four months, enabling us to ship orders on schedule and achieve our Group sales target of €1.1bn-plus.

We are confident that the substantial improvement in performance compared to the first six months of 2009 will continue for the rest of the year, and that we shall post a single-digit rise in sales and a bigger pre-tax profit (EBT) than in 2009 (€2.7m). Precisely how high earnings are will essentially depend on our niche markets, with their shorter business cycles, on our customer services and on a sustained economic revival.

Group Balance Sheet

Assets		
in €m	31.12.2009	**30.06.2010**
Non-current assets		
Intangible assets, property, plant and equipment	259.8	253.6
Investments and other financial receivables	24.4	25.1
Deferred tax assets	31.7	38.0
	315.9	**316.7**
Current assets		
Inventories	319.5	349.2
Trade receivables	276.2	289.9
Other financial receivables	24.4	21.5
Other assets	32.7	47.1
Securities	15.6	15.9
Cash and cash equivalents	76.1	45.8
	744.5	**769.4**
Balance sheet total	**1,060.4**	**1,086.1**

Equity and liabilities		
in €m	31.12.2009	**30.06.2010**
Equity		
Share capital	42.7	42.7
Share premium	87.0	87.0
Reserves	290.1	277.2
	419.8	**406.9**
Liabilities		
Non-current liabilities		
Pension provisions	103.7	105.0
Other provisions	56.0	56.1
Bank loans	13.0	12.4
Other financial payables	7.6	5.8
Other liabilities	0.1	–
Deferred tax liabilities	21.0	24.4
	201.4	**203.7**
Current liabilities		
Other provisions	156.9	137.0
Trade payables	74.8	78.0
Bank loans	35.3	33.3
Other financial payables	48.3	59.8
Other liabilities	123.9	167.4
	439.2	**475.5**
Balance sheet total	**1,060.4**	**1,086.1**

Group Income Statement

01.01. - 30.06. in €m	2009	2010
Revenue	452.8	473.2
Cost of sales	–383.3	–352.2
Gross profit	**69.5**	**121.0**
Distribution costs	–61.3	–71.4
Administrative expenses	–45.1	–40.6
Other operating income and expenses	–5.5	–27.9
Operating loss	**–42.4**	**–18.9**
Financial result	–5.0	–3.1
Earnings before taxes	**–47.4**	**–22.0**
Income tax	0.6	1.7
Net loss	**–46.8**	**–20.3**

01.04. - 30.06. in €m	2009	2010
Revenue	232.6	263.4
Cost of sales	–193.1	–188.0
Gross profit	**39.5**	**75.4**
Distribution costs	–27.9	–38.4
Administrative expenses	–21.5	–18.3
Other operating income and expenses	0.2	–18.2
Operating profit/loss	**–9.7**	**0.5**
Financial result	–2.5	–1.2
Earnings before taxes	**–12.2**	**–0.7**
Income tax	–1.4	0.6
Net loss	**–13.6**	**–0.1**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2009	**42.6**	**86.7**
Comprehensive income	–	–
Other changes	–	–
30.06.2009	**42.6**	**86.7**
01.01.2010	**42.7**	**87.0**
Comprehensive income	–	–
Other changes	–	–
30.06.2010	**42.7**	**87.0**

Statement of Comprehensive Group Income

01.01. - 30.06. in €m	2009	**2010**
Net loss	**–46.8**	**–20.3**
Foreign currency translation	–0.5	11.3
Measurement of primary financial instruments	0.3	0.2
Measurement of derivatives	0.6	–4.2
Deferred taxes	–0.3	–1.9
Gains recognised directly in equity	**0.1**	**5.4**
Total comprehensive income	**–46.7**	**–14.9**

Reserves		
Recognised in equity	Other	**Total**
3.8	**278.0**	**411.1**
0.1	–46.8	–46.7
–	–0.6	–0.6
3.9	**230.6**	**363.8**
5.5	**284.6**	**419.8**
5.4	–20.3	–14.9
–	2.0	2.0
10.9	**266.3**	**406.9**

Group Cash Flow Statement

01.01. - 30.06. in €m	2009	**2010**
Earnings before taxes	–47.4	–22.0
Non-cash transactions	10.5	20.1
Gross cash flow	**–36.9**	**–1.9**
Changes in inventories, receivables and other assets	113.2	–31.5
Changes in provisions and payables	–67.3	15.3
Cash flows from operating activities	**9.0**	**–18.1**
Cash flows from investing activities	**–10.1**	**–5.4**
Cash flows from financing activities	**–1.8**	**–2.6**
Change in funds	**–2.9**	**–26.1**
Effect of changes in exchange rates	0.6	–4.2
Funds at beginning of period	85.8	76.1
Funds at end of period	**83.5**	**45.8**

Notes to the Interim Statement to 30 June 2010

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, 10 August 2010
KBA Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy President

Christoph Müller

Ralf Sammeck

4 Segment Information

4.1 Business segments

01.01. - 30.06.	Web and special presses		Sheetfed offset presses	
in €m	2009	**2010**	2009	**2010**
External sales	263.5	273.9	189.3	199.3
Internal sales	58.1	78.6	55.7	61.1
Total sales	321.6	352.5	245.0	260.4
Investment	6.9	3.6	4.4	2.2

4.2 Geographical breakdown of sales

01.01. - 30.06.		
in €m	2009	**2010**
Germany	72.9	65.2
Rest of Europe	176.7	139.7
North America	60.5	54.8
Asia/Pacific	101.2	127.6
Africa/Latin America	41.5	85.9
External sales	**452.8**	**473.2**

5 Earnings per Share

01.01. - 30.06.		
in €	2009	**2010**
Earnings per share	–2.86	–1.23

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 (16,426,053 no-par shares, previous year: 16,387,133 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	77.0	51.8	25.2
Property, plant and equipment	646.5	411.9	234.6
Total at 31.12.2009	**723.5**	**463.7**	**259.8**
Intangible assets	67.7	43.0	24.7
Property, plant and equipment	658.1	429.2	228.9
Total at 30.06.2010	**725.8**	**472.2**	**253.6**

Investment in property, plant and equipment totalling €5.2m (first half-year 2009: €10.7m) primarily refers to additions of plant and machinery, factory and office equipment.

6.2 Inventories

in €m	31.12.2009	**30.06.2010**
Raw materials, consumables and supplies	62.3	58.7
Work in progress	211.7	239.5
Finished goods and products	45.5	51.0
	319.5	**349.2**

6.3 Liabilities

Current and non-current liabilities increased by €38.6m in the six months to July. Following a surge in orders, customer prepayments rose by €44.6m, while **bank loans** were reduced by €2.6m.

Key Financial Dates

Interim report on 3rd quarter 2010
15 November 2010

Financial statements on 2010
End of March 2011

Interim report on 1st quarter 2011
13 May 2011

Koenig & Bauer Annual General Meeting
16 June 2011
Vogel Convention Center, Würzburg

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