Group Interim Report
Third Quarter 2010

KBA
Koenig & Bauer Group

KBA Group in Figures

01.01. - 30.09. in €m	2009	**2010**
Order intake	682.3	**1,001.2**
Sales	737.3	**772.1**
Order backlog at 30.09.	446.5	**564.1**
Export level in %	83.4	**87.8**
Operating loss	–31.1	**–2.0**
Earnings before taxes	–37.8	**–6.7**
Net loss	–39.0	**–9.2**
Balance sheet total at 30.09. (prior year: 31.12.)	1,060.4	**1,130.0**
Equity at 30.09. (prior year: 31.12.)	419.8	**421.4**
Investment in intangible assets, property, plant and equipment	17.7	**13.2**
Depreciation on intangible assets, property, plant and equipment	22.0	**24.2**
Payroll at 30.09.	7,095	**6,437**
Cash flows from operating activities	9.5	**11.6**
Earnings per share in €	–2.38	**–0.56**

Title photo: Our new Rapida 75E is the most energy-efficient B2 press on the market, consuming up to 50 per cent less power than comparable presses

The upswing in the printing-press market documented in the half-year report carried over into the third quarter, bringing KBA almost 50% more orders than in the weak corresponding period last year, and perceptibly raising the level of plant utilisation. However, global demand is still well below pre-crisis levels, and excess capacity continues to plague press manufacturers. The result is a harsh market climate of unsatisfactory prices and delivery conditions for many projects, with no end in sight.

We may have little influence on market conditions and competitors' behaviour, but consolidating and optimising our own structures, products and costs is a different matter. Over the past nine months we have again made considerable advances, particularly in our sheetfed division which was our greatest concern in 2009. Our web and special press division, which beside big press installations also manufactures equipment for diverse niche applications, has also come a long way in adjusting to a much smaller market in the medium term.

I am delighted to inform you that our efforts are finally reflected in the bottom line: following pre-tax losses in the first and second quarters we achieved the projected turnaround in the third, when a larger volume of sales resulted in a pre-tax profit (EBT) of more than €15m, against €9.6m in 2009. And pre-tax earnings of –€6.7m for the full nine months were a huge improvement on the previous year (–€37.8m). While these figures are no cause for celebration, they are pretty impressive for an industry that has been hit hard by the economic crisis and changes in the media marketplace.

Group sales for the first three quarters came to €772.1m, 4.7% up on 2009. I am confident that the scheduled rise in fourth-quarter sales will enable us to boost the year-end total by around 7% to achieve our goal of €1.1bn-plus. On current readings, our pre-tax profit will also be appreciably higher than in 2009 (€2.7m), surpassing our expectations. If this is confirmed at the end of December, we shall consider paying a dividend again after a two-year hiatus.

The operating cash flow swelled from –€18.1m on 30 June to €11.6m on 30 September, and this upward trend looks set to continue in line with firmer sales. Funds of €67.9m and a positive net financial position of €24.7m underscore KBA's financial solidity.

At the end of September the KBA Group employed a total of 6,437 people, 658 fewer than at the same time last year. Phased retirement schemes and job cuts that have already been agreed will reduce the payroll further to around 6,100. But having to lose so many highly skilled employees has not been a pleasant experience. On the brighter side, capacity cuts and a big influx of orders have materially raised the level of plant utilisation at virtually all our factories.

We are still pursuing our goal of engaging in a new, high-potential field of operation alongside our core business of press technology. Unfortunately this is taking far longer than I originally expected and predicted. Not every project that at first glance appeared promising and relatively quick to implement could withstand closer scrutiny. This does not mean that we've been idle, but working as we do for such an old-established company, we feel a heightened obligation to exercise due diligence.

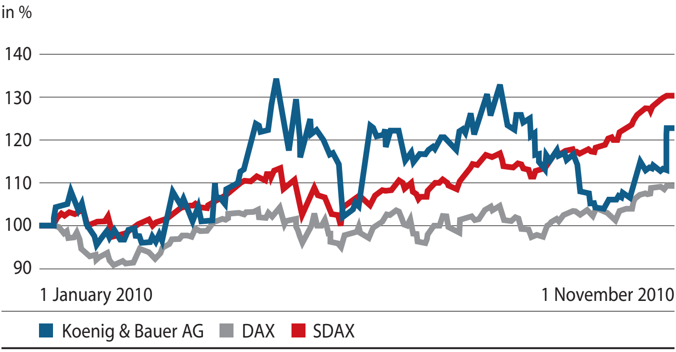
On behalf of the entire management board I would like to thank you, our shareholders, for your confidence and your loyalty in turbulent times. As ever, we shall notify you without delay of all major developments and decisions relating to KBA.

Helge Hansen
President and CEO

KBA Shares

After fluctuating strongly for the entire nine months, Koenig & Bauer shares closed on 30 September at €12.71, 11.5% above the figure of €11.40 at the end of the previous year. During that same period the SDAX and DAX climbed by 23.1% and 4.6% respectively. In April and August our 2009 financial statements and the announcement in the half-year report of a substantial leap in new orders drove our share price up to almost €16. However, stock markets remained unsettled, and these temporary highs were followed by a slide towards €12 at the end of May and in September. KBA shares subsequently rallied again, passing the €15 mark.

Koenig & Bauer shares



Management Report

Market and Industry Environment

The summer months brought a welcome continuation of the second-quarter surge in foreign contracts that saw Germany's export-driven engineering industry finally emerge from last year's dramatic slump. Demand was particularly brisk in the flourishing markets of Asia and Latin America. While there were considerable regional differences, investment activity in the EU and North America was generally much more subdued. On balance, order bookings by the member companies of the VDMA (German Machinery and Plant Manufacturers' Association) to the end of September were a good one-third up on the corresponding figure for 2009, prompting the VDMA to raise its growth forecast for 2010 a second time, from 3% to 6%. Press manufacturers however, who are heavily exposed not only to the broader economy but also, in some sectors, to media shifts and advertising cycles, profited far less from this recovery than other branches. The upturn in the engineering industry was primarily fuelled by booming markets in Asia and Latin America. However, the global market is still nowhere near its pre-crisis level. The VDMA predicts moderate growth in demand for presses and papermaking machinery in 2011, but sees no prospect of a return to earlier volumes.

Between 1 January and 1 October the Group **order intake** jumped by 46.7% to €1,001.2m (2009: €682.3m), well above the growth rate calculated by the VDMA for the sector. As a result we strengthened our market position still further.

Maintaining the momentum of the second quarter, our sheetfed offset division won contracts worth €158.4m in the third, thanks in no small part to the rapid expansion of our business activities in Asia. The total for the nine months thus increased by 24.3% to €462m (2009: €371.7m). Our web and special press division did even better: major contracts for newspaper presses and buoyant demand for niche products sent the volume of new orders soaring by 73.6% to €539.2m (2009: €310.6m).

The Group **order backlog** of €564.1m on 30 September represented a 26.3% gain on the same period twelve months earlier (€446.5m). At €208.2m (2009: €159.2m), the volume of unfilled orders for sheetfed presses gave production a material boost, particularly at our Radebeul factory. The order level for web and special presses climbed from €287.3m in 2009 to €355.9m, raising capacity utilisation at our web press plants.

Earnings, Finances and Assets

Earnings

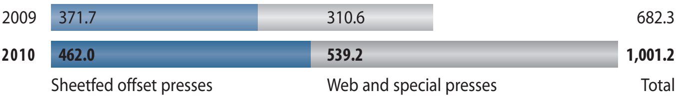
After a slow first quarter the pace of shipments quickened. **Group sales** of €772.1m to 30 September were 4.7% up on the prior year (€737.3m), and in conjunction with the cost savings delivered by our realignment had a positive impact on **earnings**. A pre-tax loss of €21.3m in the first quarter and €0.7m in the second was thus converted into a pre-tax profit of €15.3m (2009: €9.6m) in the third. The shortfall shrank from €22m at the end of June to just €6.7m at the end of September (2009: –€37.8m).

Year-on-year, sheetfed offset sales improved by 8.5% from €318.8m to €346m. Growth was chiefly driven by a leap in shipments of our medium-format Rapida 105 and Rapida 106. While investment in large-format presses remained sluggish in key markets such as Italy, France and the USA, sales to Asia far exceeded expectations. And although slack demand last year for big, multi-unit installations continued to weigh on sales of web and special presses, we posted a modest gain of 1.8%, from €418.5m to €426.1m. This upward trajectory will be maintained in the final three months, despite the fact that the newspaper presses ordered in this period will not ship until 2011.

A drop in the number of new web presses installed this year in Germany was reflected in domestic sales, which fell from €122.6m the year before to €94.5m and lifted the export level to an exceptionally high 87.8% (2009: 83.4%). The €233.7m (2009: €256.1m) generated in the rest of Europe was also well below the historic average, principally due to economic issues that are still constraining sales in the south and east, the UK and other major European markets. As a result the proportion of Group sales

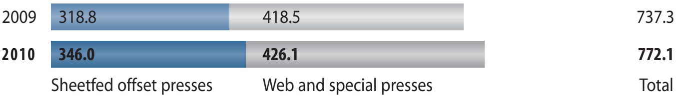
Group order intake

in €m



Group sales

in €m



attributable to this region slipped from 34.8% to 30.3%. Nor has the hope of a sustained recovery been realised in North America. The dynamic Asia and Pacific region consolidated its position as second in the rankings with sales of €206.7m (2009: €173.2m), or 26.8% (2009: 23.5%) of the Group total. The corresponding figures of €162.4m and 21% for Africa and Latin America were also higher than last year (€87.9m and 11.9%).

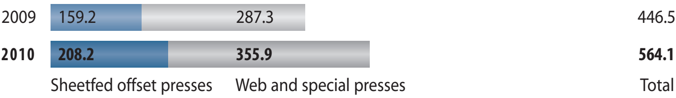
The **gross profit margin** expanded from 19.4% the previous year to 27.1%, largely thanks to the cost savings delivered by our realignment. Shipping schedules raised distribution costs from €96.1m to €107.9m, but administrative expenses were whittled down from €64.7m to €62.9m. Other operating expenses outweighed other operating income by €40.3m (2009: €13.4m). The **operating loss** for the nine months to October shrank from €31.1m to €2m, the financial loss from €6.7m to €4.7m. **Pre-tax earnings** (EBT) also improved substantially, from –€37.8m to –€6.7m. After deducting income taxes we disclosed a **Group loss** of €9.2m, again a considerable advance on the prior-year loss of €39m. **Earnings per share** were –56 cents (2009: –€2.38). This positive trend has continued in the fourth quarter.

Finances

Higher earnings and customer prepayments helped to swell **cash flows from operating activities** to €11.6m (2009: €9.5m), despite an increase in working capital to support a bigger turnover in the fourth quarter. This was much better than the half-year figure of –€18.1m and covered investment payments for the period. The **free cash flow** came to €0.4m, against –€4.6m twelve months earlier.

Group order backlog

in €m



Group net loss

in €m

In addition to ample credit lines, at the end of September the Group had **funds** amounting to €67.9m (31.12.2009: €76.1m). Our net financial position remained positive at €24.7m, partly because over the same period we trimmed bank loans by some €5m to €43.2m. Equity rose to €421.4m, or 37.3% of the balance sheet total (31.12.2009: €419.8m and 39.6%). A €77.6m jump in payments received was instrumental in pushing total liabilities up from €640.6m to €708.6m.

Assets

At the end of the third quarter non-current assets were worth €314.8m, not far off the figure of €315.9m nine months earlier. Replacement kit and rationalisation projects in the foundry, assembly halls and mechanical production lines accounted for most of the €13.2m (2009: €17.7m) invested in intangible assets, property, plant and equipment. This compared with depreciation of €24.2m (2009: €22m). Current assets soared by €70.7m to €815.2m (31.12.2009: €744.5m) following a rise in trade receivables and inventories in preparation for a larger volume of shipments, and the higher prepayments to suppliers that these entailed. The **Group balance sheet total** of €1,130m was €69.6m above the prior year-end figure of €1,060.4m.

Research and Development

R&D activities relating to sheetfed, web and special presses already focus on Drupa, the definitive trade fair for the international print media, which is scheduled to run from 3 to 16 May 2012 in Düsseldorf. KBA will be exhibiting a raft of new products which must first pass stringent field tests. The primary development objective in both our divisions is to enhance press productivity, cost efficiency, sustainability and value added.

Geographical breakdown of sales

in %	2009	**2010**
Africa/Latin America	11.9	21.0
Asia/Pacific	23.5	26.8
North America	13.2	9.7
Rest of Europe	34.8	30.3
Germany	16.6	12.2

At the end of the third quarter our Radebeul facility booked its 100th contract for a new-generation medium-format Rapida 106 with dedicated plate-cylinder drives. This cutting-edge technology, which accelerates job changes and eases operation by allowing simultaneous plate changes, is also incorporated in our web presses. For example our compact Cortina and Commander CT, which have dedicated AC motors for the cylinders, are the only newspaper presses worldwide with no gears or oil in the printing units. Notwithstanding the market-induced need to economise, the success of this new press generation illustrates the importance of ground-breaking innovation in preserving German press manufacturers' competitive edge over emerging Asian rivals.

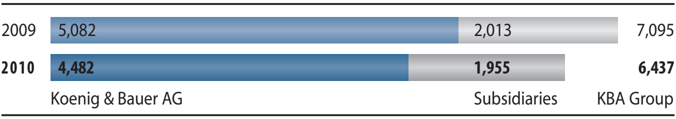
Human Resources

At the end of September there were 6,437 employees in the Group – 658 fewer than at the same time last year (7,095) and approximately 1,700 fewer than in summer 2008 when the financial crisis broke. Some 200 staff have signed up for phased retirement and voluntary redundancy schemes. Once the Group consolidation programme has been completed the workforce will have been cut by around 25%. However, to maintain the necessary standard of staff qualifications we took on 419 apprentices and interns at the beginning of the new academic year, five more than twelve months earlier. Our training level rose from 5.8% to 6.5%.

Risk Management

Our risk-management 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 September



Outlook

By the time this report was being finalised we had already secured enough orders to achieve our Group targets for 2010. But short-time work and lagging sales in the first half-year mean that we are having to make a concerted effort to complete the contracts scheduled for shipping in the fourth quarter. Our sales force is now concentrating on landing further projects that will take us into the new year with a bigger backlog than twelve months earlier and keep our production plants running continuously.

One consequence of the lengthy production cycles for web presses is that the third-quarter surge in business already accounts for a large proportion of the sales volume we are targeting in 2011. Other projects we have a good chance of winning are due to be decided before the end of the year. In the sheetfed sector, with its batch-based production and shorter lead times, we are banking on unabated vigorous demand in emerging economies and a revival in our traditional markets, Europe and North America.

Our tentative plans for coming years are founded on the assumption that investment in the international print media industry will be fuelled by a visible need for upgrades and replacement kit in many industrialised countries, and steadily swelling print volumes in densely populated growth centres. However, the market for new presses in 2011 will still be significantly smaller than in 2006 or 2007. Burgeoning sectors such as packaging will contrast sharply with declining markets for books, catalogues and newspapers. Demand for traditional offset technology is being inhibited by a number of factors: the high productivity of modern printing presses, competition in some fields from digital printing devices and, more crucially, mobile communications services, the increasing popularity of electronic media among broad sections of society and, especially among younger people, new output media like the iPad and e-books. In this scenario KBA's strong position in niche markets that are less exposed to media transitions plays a key role.

An anticipated slowdown in China's growth rate, economic instability in the USA, shifts in euro-dollar-yuan exchange rates and unresolved sovereign debt crises in parts of Europe represent economic and political variables that will impact on our business in coming months, complicating projections for 2011 and beyond.

KBA management has quickly adapted to these fundamental shifts in the market, downsizing capacity, realigning structures and reorganising workflows throughout the Group. In view of the breadth and diversity of our product palette it has been a complex and at times painful process. While not yet completed, it is well advanced and we are making good progress. Our sheetfed factory in Radebeul and our Austrian ancillary plant in Mödling have been running more or less at full capacity for several months, and the situation at our web press operations has also improved a lot. KBA has made a signal contribution towards the press engineering industry's ongoing consolidation. While competition for the diminished market volume is unremittingly fierce, we have successfully maintained a solid financial footing through our own resources, without having to draw down fresh lines of credit or other external capital aid.

We are well on course to meet – or even surpass – the targets for 2010 that we defined in the spring, of an increase in Group sales to more than €1.1bn and a bigger pre-tax profit than in 2009 (€2.7m). Any decision concerning the payment of a dividend will depend on whether the upturn in earnings proves to be sustainable or not. At present we are unwilling to venture a more detailed prognosis for 2010.

If the industry upturn continues, as we all hope, KBA will pursue a financially healthy growth trajectory in the coming business year. But our goals will not be based solely on boosting sales and market share at the expense of the returns necessary to maintain a solid balance sheet in a buyers' market. We shall issue more precise figures for 2011 in March next year when we publish our financial statements for 2010.

Group Balance Sheet

Assets		
in €m	31.12.2009	**30.09.2010**
Non-current assets		
Intangible assets, property, plant and equipment	259.8	252.0
Investments and other financial receivables	24.4	25.5
Other assets	–	0.5
Deferred tax assets	31.7	36.8
	315.9	**314.8**
Current assets		
Inventories	319.5	345.6
Trade receivables	276.2	322.8
Other financial receivables	24.4	13.1
Other assets	32.7	50.0
Securities	15.6	15.8
Cash and cash equivalents	76.1	67.9
	744.5	**815.2**
Balance sheet total	**1,060.4**	**1,130.0**

Equity and liabilities		
in €m	31.12.2009	**30.09.2010**
Equity		
Share capital	42.7	42.8
Share premium	87.0	87.1
Reserves	290.1	291.5
	419.8	**421.4**
Liabilities		
Non-current liabilities		
Pension provisions	103.7	105.6
Other provisions	56.0	61.3
Bank loans	13.0	10.0
Other financial payables	7.6	4.1
Other liabilities	0.1	–
Deferred tax liabilities	21.0	25.5
	201.4	**206.5**
Current liabilities		
Other provisions	156.9	132.0
Trade payables	74.8	64.6
Bank loans	35.3	33.2
Other financial payables	48.3	70.4
Other liabilities	123.9	201.9
	439.2	**502.1**
Balance sheet total	**1,060.4**	**1,130.0**

Group Income Statement

01.01. - 30.09. in €m	2009	2010
Revenue	737.3	772.1
Cost of sales	–594.2	–563.0
Gross profit	**143.1**	**209.1**
Distribution costs	–96.1	–107.9
Administrative expenses	–64.7	–62.9
Other operating income and expenses	–13.4	–40.3
Operating loss	**–31.1**	**–2.0**
Financial result	–6.7	–4.7
Earnings before taxes	**–37.8**	**–6.7**
Income tax	–1.2	–2.5
Net loss	**–39.0**	**–9.2**

01.07. - 30.09. in €m	2009	2010
Revenue	284.5	298.9
Cost of sales	–210.9	–210.8
Gross profit	**73.6**	**88.1**
Distribution costs	–34.8	–36.5
Administrative expenses	–19.6	–22.3
Other operating income and expenses	–7.9	–12.4
Operating profit	**11.3**	**16.9**
Financial result	–1.7	–1.6
Earnings before taxes	**9.6**	**15.3**
Income tax	–1.8	–4.2
Net profit	**7.8**	**11.1**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2009	**42.6**	**86.7**
Comprehensive income	–	–
Capital increase from approved capital	0.1	0.3
Other changes	–	–
30.09.2009	**42.7**	**87.0**
01.01.2010	**42.7**	**87.0**
Comprehensive income	–	–
Capital increase from approved capital	0.1	0.1
Other changes	–	–
30.09.2010	**42.8**	**87.1**

Statement of Comprehensive Group Income

01.01. - 30.09. in €m	2009	**2010**
Net loss	**–39.0**	**–9.2**
Foreign currency translation	–0.7	10.8
Measurement of primary financial instruments	0.4	0.2
Measurement of derivatives	1.7	1.2
Deferred taxes	–0.1	–3.5
Gains recognised directly in equity	**1.3**	**8.7**
Total comprehensive income	**–37.7**	**–0.5**

Reserves: Recognised in equity	Reserves: Other	**Total**
3.8	**278.0**	**411.1**
1.3	–39.0	–37.7
–	–	0.4
–	–0.4	–0.4
5.1	**238.6**	**373.4**
5.5	**284.6**	**419.8**
8.7	–9.2	–0.5
–	–	0.2
–	1.9	1.9
14.2	**277.3**	**421.4**

Group Cash Flow Statement

01.01. - 30.09. in €m	2009	**2010**
Earnings before taxes	–37.8	–6.7
Non-cash transactions	21.9	31.1
Gross cash flow	**–15.9**	**24.4**
Changes in inventories, receivables and other assets	87.2	–56.3
Changes in provisions and payables	–61.8	43.5
Cash flows from operating activities	**9.5**	**11.6**
Cash flows from investing activities	**–14.1**	**–11.2**
Cash flows from financing activities	**–5.3**	**–5.0**
Change in funds	**–9.9**	**–4.6**
Effect of changes in exchange rates	0.1	–3.6
Funds at beginning of period	85.8	76.1
Funds at end of period	**76.0**	**67.9**

Notes to the Interim Accounts to 30 September 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 Segment Information

3.1 Business segments

01.01. - 30.09.	Web and special presses		Sheetfed offset presses	
in €m	2009	**2010**	2009	**2010**
Revenue	418.5	426.1	318.8	346.0
Depreciation	13.4	14.8	8.6	9.4
Investment	10.4	9.2	7.3	4.0

3.2 Geographical breakdown of revenue

01.01. - 30.09. in €m	2009	**2010**
Germany	122.6	94.5
Rest of Europe	256.1	233.7
North America	97.5	74.8
Asia/Pacific	173.2	206.7
Africa/Latin America	87.9	162.4
Revenue	**737.3**	**772.1**

4 Earnings per Share

01.01. - 30.09. in €	2009	**2010**
Earnings per share	–2.38	–0.56

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 (16,426,902 no-par shares, previous year: 16,387,276 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	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	71.5	44.0	27.5
Property, plant and equipment	658.6	434.1	224.5
Total at 30.09.2010	**730.1**	**478.1**	**252.0**

Investment in property, plant and equipment totalling €8.3m (third quarter 2009: €17.4m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2009	**30.09.2010**
Raw materials, consumables and supplies	62.3	59.3
Work in progress	211.7	258.8
Finished goods and products	45.5	27.5
	319.5	**345.6**

5.3 Liabilities

Current and non-current liabilities increased by €68m compared to the end of last year following a surge in new orders that generated a €77.6m jump in payments received. **Trade payables** were reduced by €10.2m, **bank loans** by €5.1m.

Key Financial Dates

Financial statements on 2010
25 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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