



Group Interim Report First Quarter 2011

KBA Group in Figures

01.01. - 31.03.

in €m	2010	2011
Order intake	314.4	432.1
Sales	209.8	253.3
Order backlog at 31.03.	439.6	619.6
Export level in %	86.5	86.5
Operating loss	-19.4	-1.8
Earnings before taxes	-21.3	-3.9
Net loss	-20.2	-5.8
Balance sheet total at 31.03. (prior year: 31.12.)	1,164.4	1,182.5
Equity at 31.03. (prior year: 31.12.)	461.3	452.0
Investment in intangible assets, property, plant and equipment	2.2	6.2
Depreciation on intangible assets, property, plant and equipment	7.9	8.3
Payroll at 31.03.	6,559	6,404
Cash flows from operating activities	-41.3	40.1
Earnings per share in €	-1.23	-0.35

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Group figures for the first quarter in 2011 vindicated the consolidation measures adopted in early 2009 following the financial and economic crisis. The volume of incoming orders at 31 March was up by more than 37%, sales were over 20% higher and the backlog of new orders was a good 40% larger. We cut our operating loss from €19.4m in 2010 to €1.8m and our pre-tax loss from €21.3m to €3.9m. Since the first quarter is historically a weak one, we are confident of moving back into the black by the end of the year. Our operating cash flow was an impressive €40.1m (2010: -€41.3m).

Following a drop of more than 60% triggered by the recent recession, these positive changes and figures are the outcome of a mild revival in demand for printing presses and the far-reaching cost-cutting measures we have implemented over the past two years, which have not yet been concluded. However, the upturn in our export-oriented industry is much weaker than in other engineering sectors owing to fundamental shifts in the media market and among printers.

According to the business bulletin issued in May this year by the VDMA (German Machinery and Plant Manufacturers' Association), machine tool manufacturers topped the league tables in the first quarter with a 120% leap in incoming orders compared to the previous year. Of the 21 engineering sectors listed, printing and papermaking equipment came fifth from last with an increase of around 14%. Although sales of printing presses have firmed, we are still a long way from the order volumes of earlier years. So we must adjust to the fact that demand will never again attain the pre-crisis levels to which we had become accustomed. Hence the importance of consolidating our activities and realigning our entire organisation, product range and cost base to a much-diminished market.

As well as adjusting our offset production capacity, in the first quarter we made a decision that will help to shape our Group's realignment. On 1 March this year, following an agreement negotiated with Chicago-based RR Donnelley, the world's biggest print group, we announced our entry into the digital print market and the proposed launch of the first KBA digital press at the Drupa trade fair in 2012. We believe this expansion into a new line of business with multiple applications offers great potential.

The benefits of the restructuring measures initiated in spring 2009 at our sheetfed offset division are now evident in the figures. Of our special presses, security printing equipment is doing very well, there is room for growth with industrial coding machines, and UV presses for electronic data media are still suffering the aftermath of the market recession.

Weak demand for the big web presses that print newspapers, magazines, catalogues and telephone directories has long been a cause for concern. These classic core markets have been battered by the widespread shift to online media. Despite payroll cuts at our web press factories, current and anticipated medium-term levels of plant utilisation indicate that there is still a sizeable capacity overhang. Continued underemployment and intermittent periods of short-time work for large sections of the labour force due to lack of orders are not a durable solution.

Negotiations with employee representatives on further essential personnel cutbacks have so far failed to deliver an agreement. Following a ballot, the workforce at our Frankenthal plant has been on strike since 5 May. A protracted industrial dispute would be a burdensome addition to the market challenges already facing us. The management board is making every effort to resume the constructive dialogue initiated at the end of last year with employee representatives, and we are hopeful that we shall soon be able to reach a compromise that is acceptable to both sides.

We wish to thank you, our shareholders, for the confidence and trust you have placed in KBA, and we shall continue to keep you posted on all major decisions and developments.

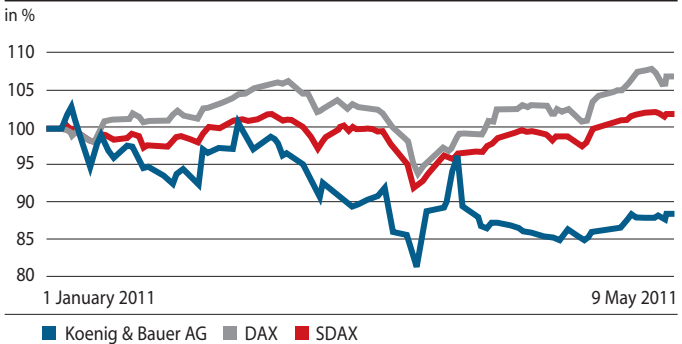


Helge Hansen
President and CEO of Koenig & Bauer AG

KBA Shares

Following a temporary high of €19.30 at the beginning of January, the price of Koenig & Bauer shares fluctuated between €16.50 and €18.75 before sliding to €15.10 in mid-March as the concatenation of disasters in Japan sent shockwaves through international stockmarkets. Subdued growth in the engineering industry, and the mounting risks to which the global economy is exposed, caused us to temper the sales and profit projections for 2011 that we announced with the publication of the annual Group financial statements on 25 March, and this, too, affected our share price. On 31 March it stood at €16.13, 7.8% below its closing price of €17.50 on 31 December 2010. In the same quarter the DAX rose by 1.8% and the SDAX fell by 0.6%. In April KBA shares hovered around the €16 mark.

Koenig & Bauer shares



Management Report

Market and Industry Environment

Disparities in regional and sectoral growth rates within the international printing press environment are becoming ever more apparent. The booming markets of China and Brazil contrast sharply with regions such as southern Europe and North America, which have yet to recover from the economic crisis and its consequences. Natural disasters and political unrest in recent months have caused regional upheavals in Japan, North Africa and the Middle East, and these may also constrain global economic growth. Media-independent sectors such as label, packaging and security printing have been largely untouched by the migration of advertisers and data providers to the internet, but traditional print media – newspapers, magazines and catalogues – have been dealt a body blow. These differences have an enormous impact on our two business divisions, in terms both of the products made and the markets that they address. As a result the drop in demand for web presses engendered by technological advances and the World Wide Web, and exacerbated by the economic crisis, has been much sharper and more sustained than for sheetfed presses, which have a broader range of applications and benefit to a much greater extent from growth in emerging markets.

A few problem markets notwithstanding, our diverse product portfolio enabled us to post a sizeable increase in first-quarter sales compared to the previous year, and the Group **order intake** climbed by 37.4% to €432.1m (2010: €314.4m).

Flourishing business in niche markets helped boost the volume of new orders for web and special presses by 42.8% to €290.6m (2010: €203.5m). However, global demand for new newspaper and commercial web presses remained obstinately soft, and well below the levels seen prior to the financial meltdown. Most of the big contracts were placed by German and Scandinavian printers. Incoming orders for sheetfed offset presses were worth €141.5m, 27.6% up on the prior year's €110.9m. Once again, brisk sales to China, Asia and Latin America made a major contribution. While demand picked up in Germany, parts of western and eastern Europe and in North America, it failed to attain its pre-crisis level. However, investment in our medium- and large-format Rapidas is rising among packaging printers. Our secondhand press business also revived.

The Group **order backlog** in the first quarter came to €619.6m, more than 40% higher than twelve months earlier (€439.6m) and the end of last year (€440.8m). The volume of unfilled orders for web and special presses stood at €441.4m (2010: €322.3m), the corresponding figure for sheetfed presses was €178.2m (€117.3m).

Earnings, Finances and Assets

Earnings

Group sales of €253.3m were 20.7% higher than at the same time last year (€209.8m), and this double-digit increase in sales, together with the cost savings delivered by consolidation measures, had a positive impact on **earnings**. As a result we reduced a pre-tax loss of €21.3m at the end of March 2010 to €3.9m.

Sales of web and special presses improved by just 2.7% to €127.3m (2010: €124m), a sharp contrast with the 46.9% increase in sheetfed offset sales from €85.8m to €126m.

Domestic sales climbed from €28.4m to €34.2m, but the export level remained unchanged at 86.5% because sales to the rest of Europe soared by 73.8% to €101.5m (2010: €58.4m), swelling the volume of Group sales generated in this region from 27.9% to 40.1%. However, with the US newspaper industry showing no sign of recovery, North American sales accounted for just 7.6%, down from 15%. While sales to Asia and the Pacific were higher (€61.6m compared to €58.1m), the regional contribution of 24.3% was lower than the previous year (27.7%). Sales to Africa and Latin America came to €36.7m (2010: €33.4m) or 14.5%.

Our **gross profit margin** increased from 21.7% twelve months before to 23.8%. Distribution costs and administrative expenses eased down to €32.1m and €21.8m respectively (2010: €33m and €22.3m). There was a small reduction in the negative balance between other operating expenses and income, from -€9.7m to -€8.1m. Cost savings and higher profit contributions enabled us to slash our first-quarter **operating loss** from €19.4m in 2010 to €1.8m.

Group order intake

in €m

Year	Sheetfed offset presses	Web and special presses	Total
2010	110.9	203.5	314.4
2011	141.5	290.6	432.1

Group sales

in €m

Year	Sheetfed offset presses	Web and special presses	Total
2010	85.8	124.0	209.8
2011	126.0	127.3	253.3

Our web and special press division posted a profit to which niche and service activities made a sizeable contribution. However, its performance was impaired by persistent sluggish demand for big newspaper and commercial web presses, and the negative impact this had both on market prices and capacity utilisation at our web press plants. A combination of fierce competition and below-target sales resulted in a small operating loss by our sheetfed offset division.

Following a modest financial loss of €2.1m we made a **pre-tax loss** (EBT) of €3.9m, which was a huge improvement on the prior-year loss of €21.3m. A **Group net loss** of €5.8m was also much better than the €20.2m loss incurred twelve months earlier and corresponds to **earnings per share** of –€0.35 (2010: –€1.23).

Finances

Higher earnings, a €25.1m rise in customer prepayments and a €57.9m drop in trade receivables turned **cash flows from operating activities** positive (€40.1m compared to –€41.3m twelve months earlier) even though inventories swelled by €36.2m in preparation for scheduled shipments. After deducting cash flows for investing activities the **free cash flow** was also positive at €36.3m (2010: –€43.4m). **Funds** totalling €127.5m at the end of March (up from €91m at the end of December 2010) underscore our strong financial position. After deducting bank loans of €43.9m this resulted in a comfortable net liquidity of €83.6m. At the end of the quarter equity was worth an above-average 38.2% of a higher balance sheet total.

Group order backlog

in €m

Year	Sheetfed offset presses	Web and special presses	Total
2010	117.3	322.3	439.6
2011	178.2	441.4	619.6

Group net loss

in €m

2010	–20.2
2011	–5.8

Assets

The Group **balance sheet total** of €1,182.5m was €18.1m higher than the year-end figure of €1,164.4m. A €23.5m rise in current assets to €854.1m was due more to the increase in funds and inventories than to the drop in trade receivables. Investment in intangible assets, property, plant and equipment totalled €6.2m (2010: €2.2m), depreciation €8.3m (2010: €7.9m). On balance, non-current assets fell from €333.8m at the end of last year to €328.4m.

Research and Development

With less than a year to go until Drupa, the international print-media industry's definitive trade fair, in Düsseldorf next May, R&D activities were dominated by the new products and technological innovations that we are planning to launch at the show for virtually every sector we serve. Some of these are already undergoing field tests, other are still in the final stages of development and optimisation.

International markets welcomed our announcement on 1 March this year that we are expanding into the high-potential digital print business under a licensing and development agreement with the world's biggest print group, RR Donnelley in Chicago, USA. Uniquely among traditional press vendors we are planning to offer our own brand of digital systems. We shall modify and develop the digital technology that RR Donnelley already successfully deploys in multi-shift operation at its diverse production plants. The presses will be built in Germany and distributed exclusively via our own network. The first model to leave the production line will be launched at Drupa 2012. The development work involved will promote close collaboration between our engineers and those at RR Donnelley, and will doubtless lead to further joint projects.

Geographical breakdown of sales

in %	2010	2011
Germany	13.5	13.5
Rest of Europe	27.9	40.1
North America	15.0	7.6
Asia/Pacific	27.7	24.3
Africa/Latin America	15.9	14.5

Human Resources

At the end of March the Group workforce totalled 6,404, or 155 fewer than twelve months earlier. Excluding the employees at KBA-Italia S.p.A., KBA (HK) Company Ltd. and KBA Printing Machinery (Shanghai) Co., Ltd., three sales and service subsidiaries which were not consolidated in the 2010 Group accounts, the figure would have been 214. The adjustment of our web and special press capacity to diminished market volumes and prospects has not yet been completed.

Risk Management

The Parent's early warning system is described on pages 39 to 40 of the Group financial statements for 2010, and there have since been no significant changes in the risk profile detailed on pages 43 to 46. At present we can discern no risks that could pose an existential threat to Group activities.

Outlook

Press manufacturers have benefited less than other sectors from the economic upturn in the German engineering industry. This is due in part to the tectonic shift that print media markets have experienced in recent years with the incursion of the internet and smart phones as the fast-spreading media of choice for information, entertainment and advertising. But other factors have also come into play: increased competition from digital presses for short-run work, a shrinking print industry in industrialised countries, an e-media-induced slide in per capita print consumption – even in threshold countries – and ever more productive presses. As a result growth prospects have dimmed. While recessionary markets such as southern Europe and the UK will doubtless recover in the medium term, global demand for new presses will not re-attain its earlier level of more than €9bn per year.

Payroll at 31 March

2010	4,567	1,992	6,559
2011	4,406	1,998	6,404
	Koenig & Bauer AG	Subsidiaries	KBA Group

The potential repercussions on commodity markets and global trade of recent events in North Africa, the Middle East and Japan, unresolved debt issues in parts of Europe and the USA, the high oil price and anti-inflation measures in China make it difficult to predict future developments in what is at present a relatively robust global economy. China continues to generate sales, as we saw in April this year at the Print China trade fair in Guangdong, which was a huge success for KBA. We estimate that plunging demand for our batch-produced sheetfed presses in troubled regions can be partially offset by sales elsewhere, but the same cannot be said for web presses. Some promising projects in the Middle East have already been postponed. It also remains to be seen whether, as some in the industry fear, printers will tend to put investments on hold until Drupa in May next year.

We responded promptly to market developments and were quick to make the necessary capacity adjustments at our sheetfed offset operations. Our main sheetfed factory in Radebeul has been busy for the past nine months, and the level of plant utilisation and earnings at our metal-decorating subsidiary in Stuttgart has also improved compared to the previous year. However, the situation is unsatisfactory at our Czech production plant in Dobruška. The small-format presses manufactured there often compete directly with digital machines. Financing problems and a plethora of vendors pose further obstacles to business in this format. Pricing pressures and the heavy expense associated with developing new products that will not contribute to the bottom line until a later date resulted in a first-quarter loss. However, the division is expected to post a profit for the year.

Capacity at our web press plants still exceeds market volume and underutilisation is a problem in some areas. The anticipated upswing in demand following the slump of 2009 now seems unlikely to materialise. We shall therefore be obliged to make more extensive capacity adjustments than those agreed last year, and are currently negotiating with employee representatives.

These tasks notwithstanding, KBA's performance in the first quarter was commensurate with our standing as the world's second-largest press vendor, and compared well with the rest of the sector: order volumes, sales and finances were all above the industry average. Once again our broad product base, embracing both volume and niche markets, proved to be a boon. Although our export business may be affected by current economic and political issues, and a strike at our Frankenthal factory poses further challenges, we stand by the target for 2011 we stated in March of a single-digit increase in Group sales and a modest improvement in pre-tax profits compared to 2010.

Group Balance Sheet

Assets		
in €m	31.12.2010	31.03.2011
Non-current assets		
Intangible assets, property, plant and equipment	269.4	265.7
Investments and other financial receivables	27.4	25.8
Other assets	0.2	0.1
Deferred tax assets	36.8	36.8
	333.8	328.4
Current assets		
Inventories	296.7	332.9
Trade receivables	368.6	310.7
Other financial receivables	10.0	13.8
Other assets	40.6	45.7
Securities	23.7	23.5
Cash and cash equivalents	91.0	127.5
	830.6	854.1
Balance sheet total	1,164.4	1,182.5
Equity and liabilities		
in €m	31.12.2010	31.03.2011
Equity		
Share capital	42.8	42.8
Share premium	87.1	87.1
Reserves	331.4	322.1
	461.3	452.0
Liabilities		
Non-current liabilities		
Pension provisions	104.6	105.3
Other provisions	71.7	72.4
Bank loans	8.8	8.6
Other financial payables	6.2	5.6
Other liabilities	0.5	0.1
Deferred tax liabilities	22.2	21.5
	214.0	213.5
Current liabilities		
Other provisions	162.7	163.2
Trade payables	69.4	65.3
Bank loans	34.3	35.3
Other financial payables	49.9	58.0
Other liabilities	172.8	195.2
	489.1	517.0
Balance sheet total	1,164.4	1,182.5

Group Income Statement

01.01. - 31.03.

in €m	2010	2011
Revenue	209.8	253.3
Cost of sales	-164.2	-193.1
Gross profit	45.6	60.2
Distribution costs	-33.0	-32.1
Administrative expenses	-22.3	-21.8
Other operating income and expenses	-9.7	-8.1
Operating loss	-19.4	-1.8
Financial result	-1.9	-2.1
Earnings before taxes	-21.3	-3.9
Income tax	1.1	-1.9
Net loss	-20.2	-5.8

Statement of Comprehensive Group Income

01.01. - 31.03.

in €m	2010	2011
Net loss	-20.2	-5.8
Foreign currency translation	3.6	-5.9
Measurement of primary financial instruments	0.2	-0.2
Measurement of derivatives	-1.0	0.4
Deferred taxes	-0.6	0.1
Gains/losses recognised directly in equity	2.2	-5.6
Total comprehensive income	-18.0	-11.4

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2010	42.7	87.0
Total net loss	-	-
Gains recognised directly in equity	-	-
Profit/loss for the period	-	-
Other changes	-	-
31.03.2010	42.7	87.0
01.01.2011	42.8	87.1
Total net loss	-	-
Losses recognised directly in equity	-	-
Loss for the period	-	-
Other changes	-	-
31.03.2011	42.8	87.1

Reserves		Total
Recognised in equity	Other	
5.5	284.6	419.8
-	-20.2	-20.2
2.2	-	2.2
2.2	-20.2	-18.0
-	0.6	0.6
7.7	265.0	402.4
34.3	297.1	461.3
-	-5.8	-5.8
-5.6	-	-5.6
-5.6	-5.8	-11.4
-	2.1	2.1
28.7	293.4	452.0

Group Cash Flow Statement

01.01. - 31.03.

in €m	2010	2011
Earnings before taxes	-21.3	-3.9
Non-cash transactions	6.9	10.9
Gross cash flow	-14.4	7.0
Changes in inventories, receivables and other assets	-24.3	20.1
Changes in provisions and payables	-2.6	13.0
Cash flows from operating activities	-41.3	40.1
Cash flows from investing activities	-2.1	-3.8
Cash flows from financing activities	7.0	0.8
Change in funds	-36.4	37.1
Effect of changes in exchange rates	-0.9	-0.6
Funds at beginning of period	76.1	91.0
Funds at end of period	38.8	127.5

Notes to the Interim Accounts to 31 March 2011

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

Three subsidiaries – KBA-Italia S.p.A. in Milan/Italy, KBA (HK) Company Ltd. in Hong Kong/China, and KBA Printing Machinery (Shanghai) Co., Ltd. in Shanghai/China – were consolidated in the Group accounts for the first time on 31 March.

There were no changes in our 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	
	2010	2011	2010	2011
Revenue	124.0	127.3	85.8	126.0
Depreciation	4.8	4.4	3.1	3.9
Capital investments	1.3	4.1	0.9	2.1

3.2 Geographical breakdown of revenue

01.01. - 31.03. in €m	2010	2011
Germany	28.4	34.2
Rest of Europe	58.4	101.5
North America	31.5	19.3
Asia/Pacific	58.1	61.6
Africa/Latin America	33.4	36.7
Revenue	209.8	253.3

4 Earnings per Share

01.01. - 31.03. in €	2010	2011
Earnings per share	-1.23	-0.35

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 (16,464,693 no-par shares, previous year: 16,426,053 no-par shares).

5 Balance Sheet

5.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufactur- ing cost	Accumulated depreciation	Carrying amount
Intangible assets	69.6	43.2	26.4
Property, plant and equipment	645.8	402.8	243.0
Total at 31.12.2010	715.4	446.0	269.4
Intangible assets	69.7	43.9	25.8
Property, plant and equipment	649.1	409.2	239.9
Total at 31.03.2011	718.8	453.1	265.7

Investment in property, plant and equipment totalling €5.8m (first quarter 2010: €1.9m) primarily refers to assets under construction and additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2010	31.03.2011
Raw materials, consumables and supplies	56.1	61.1
Work in progress	198.0	221.8
Finished goods and products	42.6	50.0
	296.7	332.9

5.3 Liabilities

Current and non-current liabilities were €27.4m higher than at 31 December 2010. This was largely due to a €25.1m increase in customer prepayments.

Key Financial Dates

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

Interim report on 2nd quarter 2011
12 August 2011

Interim report on 3rd quarter 2011
15 November 2011

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