KBA

Koenig & Bauer Group

# Consolidated Financial Statements **2004**

# At a Glance

**Koenig & Bauer Group**

We manufacture and sell web offset and flexo presses for printing newspapers, commercial web offset presses for printing brochures, books and telephone directories, publication rotogravure presses for printing catalogues and magazines, conventional and digital sheetfed offset presses for printing books, stamps, magazines, packaging and data storage media, security presses for printing banknotes, metal-decorating presses for printing sheet metal, flexo sheetfed presses for printing corrugated and peripheral systems for product identification, paper logistics and counterfeit protection.

## KBA Group in Figures

| Values in €m | 2000 | 2001 | 2002[1)] | 2003[1)] | 2004[1)] |
|---|---|---|---|---|---|
| Order intake | 1,375.7 | 1,197.9 | 1,084.5 | 1,255.8 | 1,459.1 |
| Sales | 1,087.4 | 1,304.0 | 1,353.8 | 1,231.8 | 1,423.0 |
| Order level at 31.12. | 1,252.2 | 1,102.2 | 832.9 | 856.9 | 893.0 |
| Loss/profit from operations[2)] | – | 58.6 | 46.6 | – 1.9 | 20.3 |
| Restructuring expenses | – | – | – | – 45.1 | – |
| Earnings before interest and taxes (EBT) | 51.3 | 58.8 | 46.3 | – 46.1 | 20.3 |
| Profit from ordinary activities | 59.0 | 62.3 | 43.2 | – 49.6 | 15.9 |
| Net loss/profit | 52.6 | 40.0 | 28.1 | – 30.0 | 11.9 |
| Balance sheet total | 751.2 | 1,334.1 | 1,240.6 | 1,299.4 | 1,347.9 |
| Intangible assets, property, plant and equipment | 159.8 | 257.5 | 283.0 | 260.2 | 281.6 |
| Equity (without proposed dividend payment) | 322.4 | 437.1 | 467.6 | 443.7 | 444.9 |
| Investment in intangible assets, property, plant and equipment | 57.1 | 81.4 | 51.7 | 45.3 | 57.0 |
| Depreciation on intangible assets, property, plant and equipment | 33.7 | 38.5 | 45.0 | 57.2 | 46.3 |
| Personnel: annual average | 6,729 | 7,424 | 7,539 | 7,266 | 7,370 |
| Cash flows from operating activities | 62.7 | – 39.8 | 11.9 | 61.6 | 39.0 |
| Dividend and bonus paid per ordinary/scrip share in € | 0.62+0.13 | 0.67+0.33 | 0.50 | – | 0.25 |
| Dividend and bonus paid per preference/scrip share in € | 0.67+0.13 | – | – | – | – |

1) under International Financial Reporting Standards

2) in 2003 prior to restructuring expenses

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In 2004 the global economy expanded by just under 5%. But high growth rates in the USA, China and other Asian countries contrasted sharply with a much weaker economic performance in Germany and other members of the European Union. For the Koenig & Bauer Group, 2004 was a satisfactory year. Despite poor market prices, higher costs for steel and energy and the negative impact of currency exchange rates, we were able to achieve most of our targets.

Following a prior year loss exacerbated by substantial restructuring expenses, in 2004 we moved back into the black, posting a pre-tax Group profit of €15.9m. The restructuring measures initiated at our web press facilities, the associated staff reductions at our main plants Würzburg and Frankenthal and the closure of our smaller assembly plants in Berlin and Kusel made a material contribution towards reducing costs. As a result KBA posted Group sales of €1.42bn, the highest in our 188-year history.

In the run-up to Drupa, the definitive trade fair for the graphic arts industry, which took place in May, we launched a raft of new presses and systems for our key market sectors – sheetfed offset, web offset, newspaper and publication rotogravure – plus high-end niche applications such as security printing. No other press manufacturer can compare with KBA on product diversity, innovation and performance.

2004 saw the consolidation of two new German subsidiaries, Bauer+Kunzi in Ditzingen, near Stuttgart, and Metronic in Veitshöchheim, near Würzburg, which have expanded both our product spectrum and our customer base.

In acquiring these two subsidiaries we remained true to our core competence: press engineering. Instead of shedding business divisions during the recent industry recession, as some of our rivals have been forced to do, we expanded into new, high-potential applications with presses for printing metal packaging, data storage media and smart cards.

Although earnings were still not satisfactory, the Group balance sheet was well able to stand comparison with that of other industry players, revealing a 15.5% jump in sales – well above the average – and an equity ratio of 33.3%. Sad to say, this was not reflected in the performance of Koenig & Bauer shares at year's end.

Which is why we are making every effort to enhance our profitability on an ongoing basis. Following protracted negotiations with employee representatives, agreements were reached in August 2004 and February 2005 on longer and more flexible working hours at our German production plants. This was a major step in

controlling overheads and will make us more competitive. We shall continue to rationalise our workflows and structures, implement new technologies and processes to cut costs and reduce emissions, and drive expansion in growth markets such as China.

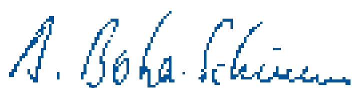
KBA has experienced exceptionally vigorous growth during the past decade. However, in the current buyers' market we calculate that the risks associated with expanding market share at any price far outweigh the rewards. We believe that the interests of our shareholders, customers and employees are best served in the long term by prudence and consistency, and in 2005 our objective is to achieve moderate yet profitable growth in our diverse business divisions.

All things considered, we are confident that in the financial statements for 2005 we shall post higher earnings than in the two previous years. We are targeting a return to profitability commensurate with our standing as an innovative press manufacturer, and have made this one of our top priorities.

I would like to thank all our executives, employees and staff representatives for their dedication and support in helping us to achieve our goals and to implement the measures we agreed during the past year, which were a challenge for all concerned.

I also wish to express my thanks to you, our shareholders and customers, for the confidence and trust you have placed in us, our business philosophy and our products.

Würzburg, 9 March 2005
Koenig & Bauer AG
Management Board



Albrecht Bolza-Schünemann
President and CEO

In the 2004 fiscal year the supervisory board and its committees closely and continuously monitored the activities of the Koenig & Bauer management board, duly fulfilling the obligations and functions assigned to us by law and the statutes. Maintaining and co-ordinating our monitory and advisory functions between our plenary sessions is part of my job as chairman, with the support of the committees. Five meetings were held at which KBA management gave the supervisory board a thorough briefing on the economic situation at Koenig & Bauer and within the Group, and also on fundamental matters of corporate management, policy and strategy. Alongside rationalisation and cost-cutting initiatives our deliberations focused on investment, the product range, risk management, market developments and personnel policy.

2004 saw an upturn in virtually every line of business, following a period of below-capacity plant utilisation at our web press operations. Nonetheless, external factors continued to influence the market climate, and the impact on individual business activities was explained to the supervisory board in detail.

In addition Albrecht Bolza-Schünemann and I regularly discussed key executive decisions and specific business issues along with emerging trends.

The supervisory board devoted particular attention to the acquisition of Metronic AG, a manufacturer of small-format UV offset printing presses and product identification systems.

The Corporate Governance Code was re-appraised, the declaration of compliance amended in response to the latest update, and deviations duly disclosed.

Dr Hans-Bernhard Bolza-Schünemann resigned from his position as chairman of the audit committee. Reinhart Siewert was elected onto the committee by the supervisory board and subsequently assumed the chair.

At the beginning of May, by mutual agreement, Peter Marr resigned from the management board. We would like to thank Mr Marr for all he accomplished during the five years of his tenure. Dr Frank Junker took charge of web press production and materials management in addition to his existing brief, and the management board was reduced to five members.

The financial statements, management reports and method of accounting for the Parent and the Group to 31 December 2004 were examined by Bayerische Treuhandgesellschaft AG – the auditors appointed at the AGM – and awarded the auditor's certificate unreservedly. In my capacity as chairman of the supervisory board I attended the audit meeting between management and the auditor. The financial statements, management reports and auditors' reports for Koenig & Bauer and for the KBA Group were subsequently discussed in detail by the supervisory board's audit committee, with the auditors furnishing the results of their audit and detailing the main points. All the relevant statements and reports were distributed to the members of the supervisory board well in advance of the audit meeting. The audit committee's findings were then submitted to and approved by the supervisory board.

After conducting its own examination the supervisory board raised no objections to the financial statements and management report for the Parent Company, and at its meeting on 6 April 2005 officially approved the year-end financial statements submitted by the management board. The financial statements and management report for the Group were also examined and approved.

The supervisory board wishes to thank all KBA management and staff for their unflagging commitment to the success of the Company and the Group.

Würzburg, 6 April 2005
Koenig & Bauer AG
Supervisory Board

Peter Reimpell
Chairman

## Declaration of Compliance

Koenig & Bauer accepts the recommendations and proposals set out in the Corporate Governance Code and, with very few exceptions, has implemented these proposals for many years even though they were not documented in detail. The rules of procedure for the supervisory and management boards were revised in 2003 in order to comply as fully as possible, and were updated in 2004.

The only point of deviation concerns the disclosure of individual board members' remuneration (provisions 4.2.4 and 5.4.5). Since share options and other derivatives form no part of board members' remuneration, and there are no plans for them to do so in the future, we are of the opinion that a breakdown into fixed and variable elements for each of the two boards provides adequate information for our shareholders. The same applies to total shareholdings (provision 6.6), which in the Notes are disclosed separately for the management and supervisory boards, but not for the individual members.

Although our intention is to publish our Group financial statements within the recommended 90 days (provision 7.1.2), for administrative reasons the statements for 2004 were published a few days later.

The revised declaration of compliance issued by the management and supervisory boards was published on the KBA website.

*Happy with KBA's performance at Drupa 2004: president and CEO Albrecht Bolza-Schünemann (l) and his brother Claus, who is deputy president*

## Lack of confidence impacts on shares

In February 2004 Koenig & Bauer shares reached their highest level for the year of €20.95, boosted by a rally in international stock markets that first became perceptible in mid-2003, and by more optimistic statistics from graphic arts suppliers. For the rest of the year KBA shares, like many others, became more volatile, fluctuating between €15 and €19.

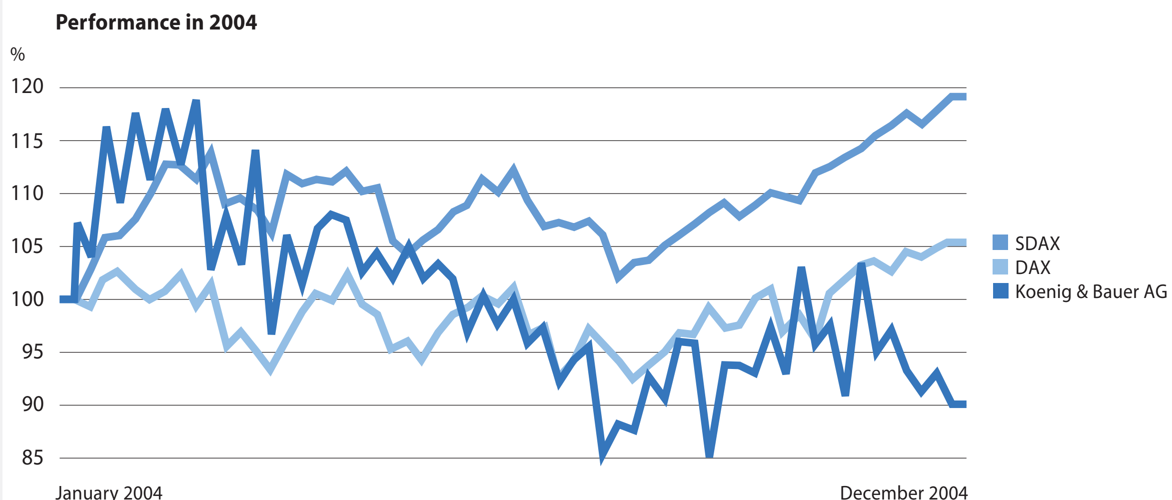
The optimism inspired by buoyant sales at the Drupa trade fair in the first six months faded in the summer as doubts resurfaced among members of the international print industry as to the sustainability of the recovery. In addition the high-flying euro squeezed margins in the export-driven German engineering industry, damping expectations, and this had a negative impact on Koenig & Bauer shares. On 31 December they stood at €15.92, or around 10% below their level on 1 January (€17.70).

### Undervalued

Our shares thus lagged the small-caps index (SDAX), which closed 2004 at a new high of 3,144. Their performance in the first six months was slightly better against the DAX, but failed to keep pace with the upward trend in the final weeks. Measured by the company's book value, technological standing and its market position in recent years, Koenig & Bauer shares are a solid yet undervalued investment. In March the price topped €20 for the first time since February 2004.

In the course of the year financial analysts' assessment of the KBA Group moved into line with that of the print sector, which was initially more cautious. Many analysts' recommendations moved from "buy" or "outperform" to "hold" or even "neutral".

**Performance in 2004**



### Back into small caps, but on Prime Standard

Following an index review by Deutsche Börse, on 20 September Koenig & Bauer shares were relisted in the SDAX after just over three years in the mid-caps index (MDAX). But they remain a Prime Standard, one condition for which is compliance with international standards of transparency and the basic recommendations laid down by the German Corporate Governance Code.

### Employee share scheme upheld

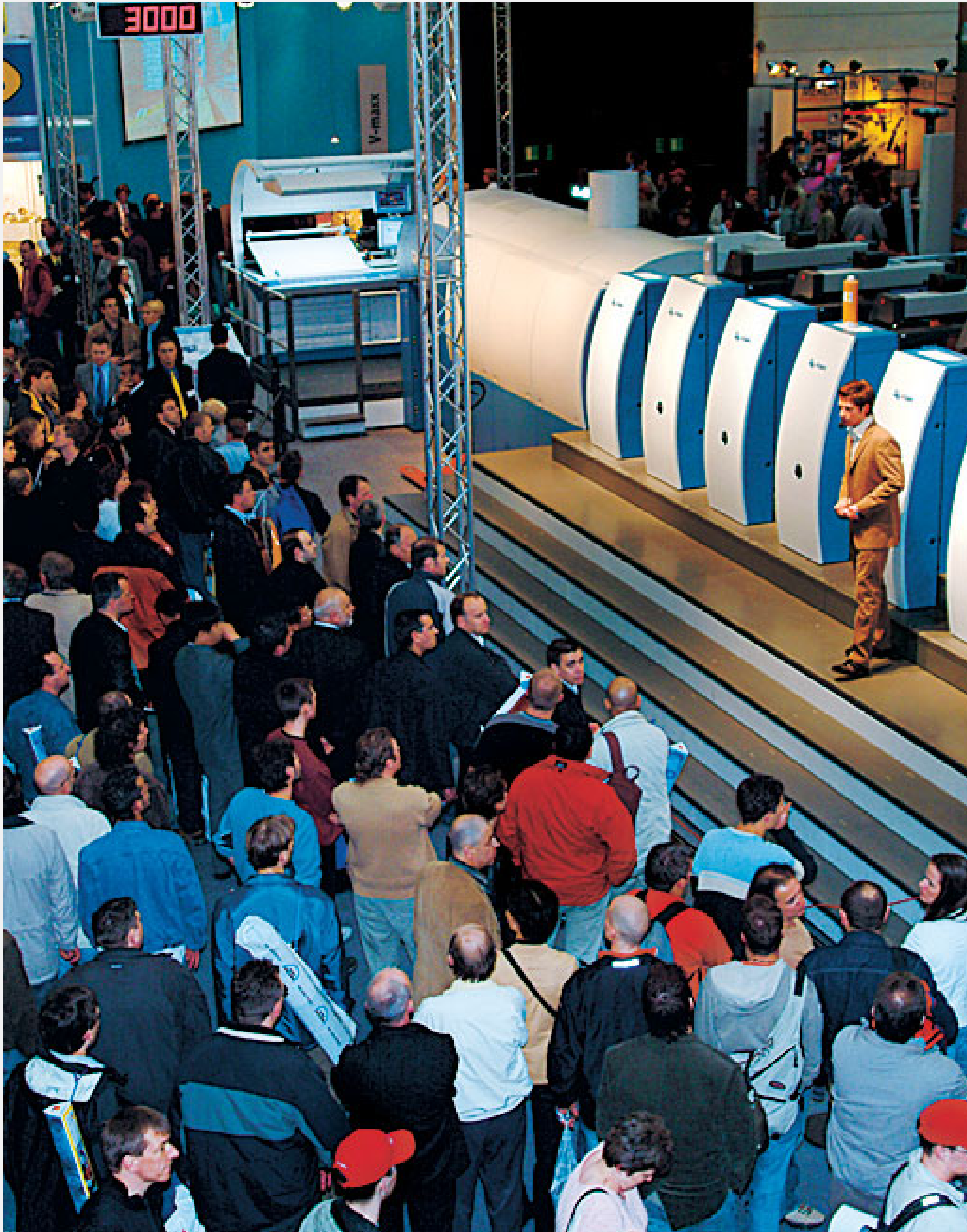
For the third year in succession, roughly half of Koenig & Bauer employees acquired company shares, with the option of taking 15 or 20 at a preference price of €13.50. The workforce now owns around 1.3% of our subscribed capital. The scheme will be repeated in 2005.

### Investor relations activities in 2004

We promoted our shares among analysts and investors with a series of events, one at Drupa in May 2004, and individual interviews.

**Key Data on Koenig & Bauer Ordinary Shares**

| | 2003 | **2004** |
|---|---|---|
| Earnings per share | € –1.86 | € 0.74 |
| Price-earnings ratio | – | 21.5 |
| Highest price | € 18.85 | € 20.95 |
| Lowest price | € 10.00 | € 15.00 |
| Closing price | € 17.70 | € 15.92 |
| Market capitalisation in m | € 286.0 | € 258.1 |
| Cash flow per share | € 3.81 | € 2.41 |
| Dividende + bonus | – | € 0.25 |
| Free float | 58.4 % | 58.4 % |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## Upturn with highlights and shadows

Plant utilisation in the graphic arts industry, both at home and abroad, improved significantly thanks to an upturn in the economy in general and advertising in particular. Nonetheless, downward pressure on prices and earnings was unrelenting. Capital investment varied substantially both geographically and seasonally, with the Drupa trade fair generating an order boom for many suppliers in the first six months, demand falling off in the third quarter and a recovery towards the end of the year.

In Germany and most European countries the increase in advertising spend was no more than moderate, largely due to the fact that many newspaper publishers were still in the process of consolidating and re-aligning their activities, and therefore put all investment on hold for the duration. As a result the majority of contracts for big newspaper press lines were booked overseas. A welcome development from our point of view was a revival in demand for publication rotogravure, which brought a stream of orders for super-wide press lines. Bookings for sheetfed presses profited in no small way from the new press models unveiled at Drupa.

Although the level of plant utilisation rose at all the prominent press manufacturers, competition remained intense and in a buyers' market such as this there was little scope for translating technological superiority and unique features into higher product prices, despite the considerable benefits they bring. Rigorous cost reduction is consequently an ongoing task throughout the industry.

The cost savings we achieved with a raft of initiatives were partially outweighed by the strong euro and higher prices for raw materials. The unabated strength of the European currency acted as a brake on exports, particularly in competition with Japanese press manufacturers. In view of the huge budget deficit in the US and the impact of rising consumption in China on the cost of raw materials, neither the exchange rate nor steel prices are likely to ease significantly in the short term. Nonetheless, moderate growth in the coming year will probably enable the German engineering industry to defend its prominent position in the international market.

*Our new-generation Rapida 105 medium-format sheetfed offset press was one of the many attractions at Drupa 2004*

## Busier plants, record sales

In 2004 the KBA Group performed well in a challenging climate to post sales of €1,423m – the highest in its history. The level of plant utilisation was well up on the previous year, during the first half of which the web division had still been on short time. In some areas, tight delivery deadlines even resulted in overtime and temporary hirings.

However, relentless market-driven constraints, the shipping and invoicing of web presses previously acquired on less favourable conditions and unexpected expenses arising from higher prices for raw materials meant that profitability, both of the KBA Group and of the print industry in general, was still far from satisfactory.

### Further jump in order intake

Against intense competition in all our markets we were able to increase our Group order intake by 16.2% to €1,459.1m (2003: €1,255.8m). A slight drop in new bookings for newspaper and security presses was more than balanced by a brisker demand for our sheetfed presses, a big leap in new contracts for publication rotogravure presses, firmer sales of commercial web presses and the contributions made by subsidiaries Metronic and Bauer+Kunzi.

The web press division won some major gravure contracts in Germany, the UK, France, Poland and the USA. Within twelve months of its market launch our innovative waterless newspaper offset press, the Cortina, has become a major source of income. The Drupa debut of our new-generation medium-format press, the Rapida 105, and an upgrade of our large-format presses, the Rapidas 130 to 162a, were reflected in a higher intake of new orders for sheetfed offset presses, while bookings for our new superlarge Rapida 205 exceeded all expectations.

**Group Orders**

| in €m | 2003 | **2004** |
|---|---|---|
| | 1,255.8 | **1,459.1** |

**Group Sales**

| in €m | 2003 | **2004** |
|---|---|---|
| Total | 1,231.8 | **1,423.0** |
| Foreign | 1,076.1 | **1,222.2** |
| Domestic | 155.7 | **200.8** |

**Group Backlog**

| in €m | 2003 | **2004** |
|---|---|---|
| | 856.9 | **893.0** |

*In 2004 maul-belser Medienverbund in Nuremberg, Germany, entered a new dimension with the inauguration of a TR 12B, the world's first publication gravure press for a web width of 4.32m*

### Sales hit all-time high of €1.4bn

Group sales totalled €1,423m (2003: €1,231.8m), topping the prior year figure by 15.5% and easily surpassing the previous record level of €1,353.8m in 2002. Sales of sheetfed presses, which are now our biggest line of business, accounted for 50.3% of the Group total, up from 50.1% in 2003.

### 2005 opens with bigger backlog

An order backlog of €893m (2003: €856.9m) at the end of 2004 will keep all our production plants running at full capacity until the end of June. Further contracts are needed to meet our target for the second half-year.

*Within twelve months of its commercial launch our waterless mini tower press, the Cortina, became a major source of income in the newspaper press market*

# Return to profit

The Koenig & Bauer Group moved back into the black in the third quarter with pre-tax earnings (EBT) of €8.8m. Increased deliveries in the last three months gave profits and earnings a welcome boost. Other factors contributing to the turnaround were the favourable combination of products shipped and the accumulated cost savings achieved in the course of the year, for example from the realignment of our web press activities.

Although earnings were affected by persistent pricing pressures in key markets, due in part to the gain in the euro against the US dollar and a big leap in the cost of certain raw materials, our return to profit, following a substantial pre-tax loss in 2003, was relatively rapid.

## Initial cost benefits accrue from restructuring

An unusually large volume of shipments and a moderate reduction in production costs pushed gross profit up by 17.3% to €333.8m (2003: €284.4m). Despite a heavy one-off expense for the Drupa trade fair and the new products exhibited there, earnings before interest and taxes (EBIT) improved to €20.3m (2003: –€46.1m with restructuring, –€1.9m without).

Even after factoring in an interest loss of €4.4m (2003: –€3.5m), earnings before taxes (EBT) soared to €15.9m, from –€49.6m the previous year. Post-tax earnings in 2004 stood at €11.9m (2003: –€30m), earnings per share were thus €0.74 (2003: –€1.86).

**Group Assets and Capital Structure**

| **Assets** in % | 2003 | **2004** |
|---|---|---|
| Non-current assets | 21.7 | **22.1** |
| Current assets ./. funds | 67.2 | **69.9** |
| Funds | 6.5 | **3.4** |
| Deferred tax assets | 4.6 | **4.6** |

| **Equity and Liabilities** in % | 2003 | **2004** |
|---|---|---|
| Equity | 34.1 | **33.3** |
| Provisions | 23.8 | **22.3** |
| Liabilities | 38.0 | **40.4** |
| Deferred tax liabilities | 4.1 | **4.0** |

*Today's high-performance presses are controlled with the aid of computers. The photo shows the high-tech gravure console exhibited at Drupa 2004*

**Strong balance sheet**

The Group balance sheet compares favourably with the industry average and reflects our solid financial status. The balance sheet total of €1,347.9m at the end of December was €48.5m higher than twelve months earlier (€1,299.4m).

Investment in new property, plant and equipment, and the consolidation of Metronic and Bauer+Kunzi, enhanced the value of non-current assets by €16.3m to €298.6m, with a capital-to-assets ratio of 150%. Current assets climbed by €30.8m to €987.7m (2003: €956.9m).

Inventories swelled from €371.1m in 2003 to €392.4m. The expansion of our business activities through new acquisitions and growth in our sheetfed offset division resulted in a €68m jump in trade receivables to €442.1m, with customer financing featuring strongly.

The working capital ratio eased up from 1.9 in 2003 to 2.0. Funds fell to €46.1m from €84.8m at the end of 2003.

Shareholders' equity rose by €5.2m to €448.9m (2003: €443.7m), but because the balance sheet total had seen a bigger increase, the equity ratio was slightly lower than a year earlier (33.3% compared to 34.1%). Other major changes related to provisions and liabilities. A €10.6m reduction in other provisions to €211.3m was chiefly attributable to the restructuring measures implemented.

Higher shipments in the final weeks pushed up trade liabilities by €40.1m to €109.9m (2003: €69.8m), while a larger volume of customer deposits reduced bank borrowings by €10.9m to €137.1m (2003: €148m). A boost in new orders for web presses led to a €31.6m increase in liabilities from payments received on account.

**Income Statement**

| as % of sales | 2003 | **2004** |
|---|---|---|
| Net loss/profit | −2.4 | +0.8 |
| Income taxes | +1.6 | −0.3 |
| Financial result | −0.2 | −0.3 |
| Other income ./. expenses | −5.2 | −2.1 |
| Administrative expenses | −7.7 | −6.2 |
| Distribution costs | −9.3 | −9.9 |
| Research and development costs | −4.7 | −3.9 |
| Costs of conversion | −76.9 | −76.5 |

*A five-high Colora tower press for a customer in the US was much admired at the open day organised by our Trennfeld assembly plant in 2004 to celebrate its 40th jubilee*

**Financial status much improved**

The cash flow from operating activities shrank by €22.6m to €39m (2003: €61.6m), primarily due to inventory building, trade receivables, the retransfer of provisions and a reduction in other liabilities, which combined to offset a return to net profit and the rise in customer advance payments. Investment activities were stepped up, swelling the outflow of funds by €8.6m to €48.8m, from €40.2m in 2003. In consequence the free cash flow turned negative once again, totalling –€9.8m versus €21.4m a year earlier. Financing activities included repayment of a short-term loan, resulting in a cash outflow of €26.3m.

*Systems for printing digital data storage media are a core business of our new subsidiary, Metronic*

## Growth in all sectors

In 2004 we posted a profit not only in every one of the market sectors we serve but also in the new ones we have entered with our subsidiary Metronic, and this contributed to the highest volume of Group sales in our history. Our two core business divisions both achieved double-digit growth. On the whole our sheetfed division turned in a more dynamic performance than the web and special press division, which is heavily exposed to markets with long-term investment cycles.

### Sheetfed offset continues to expand

The sheetfed division maintained the vigorous growth course it has pursued since 1993, boosting the volume of new orders by 14.7% to €756.4m (2003: €659.7m) and sales by 16% to €716.2m (2003: €617.5m). These figures, which include our newly consolidated subsidiary, Bauer+Kunzi, reflect the rapid acceptance of the presses we launched in the first six months for formats ranging from small to superlarge.

KBA has the broadest and most technologically advanced range of sheetfed presses in the industry, and this competitive advantage has enabled us to expand our position in medium- and large-format markets. Our new-generation Rapida 105, a high-automation medium-format press whose rated output of 18,000 sheets per hour is a full 20% higher than that of its predecessor, signally expands the range of options possible in commercial and packaging production, and is now in operation at a succession of printing plants across Europe. An extensive upgrade of our large-format presses enabled us to extend our lead in this key market by winning new accounts among leading printers both in Europe and overseas. Contracts included the longest Rapida 142 press line to date – a 40m, 13-unit configuration complete with inline coaters and dryers, a perfector and delivery extension – which went to a packaging printer in Australia.

**Group Business Operations: Order intake/Order backlog**

| in €m | 2003 | **2004** |
|---|---|---|
| Order intake | 1,255.8 | 1,459.1 |
| sheetfed offset presses | 659.7 | 756.4 |
| web and special presses | 596.1 | 702.7 |
| Sales | 1,231.8 | 1,423.0 |
| sheetfed offset presses | 617.5 | 716.2 |
| web and special presses | 614.3 | 706.8 |
| Order backlog | 856.9 | 893.0 |
| sheetfed offset presses | 259.6 | 299.8 |
| web and special presses | 597.3 | 593.2 |

*Demand for our new Rapida 205 – the biggest sheetfed offset press on the market – exceeded all expectations*

Our new Rapida 205 superlarge press is selling strongly among European and American printers of posters and displays. The presses shipped in 2004 reflect the high expectations of first-time users. We have also expanded our customer base in smaller formats with a visually and technologically enhanced model of our conventional Rapida 74, a new waterless version, the Rapida 74 G (= Gravuflow) and our Genius 52, which is also waterless. However, new applications for our 74 Karat and 46 Karat digital offset presses failed to lift sales in the market for short-run colour, which was adversely affected by weak growth in the advertising industry.

The backlog of orders for sheetfed offset presses at the end of December was worth €299.8m, a 15.5% improvement on 2003 (€259.6m).

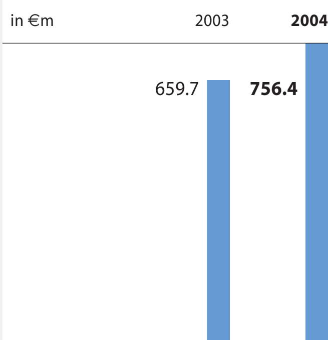
**Patchy performance by web and special press division**

The web and special press division, which now includes Metronic, also posted a substantial rise in order intake for the second year in succession, climbing by 17.9% to €702.7m. A smaller volume of contracts for newspaper presses was balanced by exceptionally strong demand for publication rotogravure presses and a boost in bookings for commercial web offset and security presses.

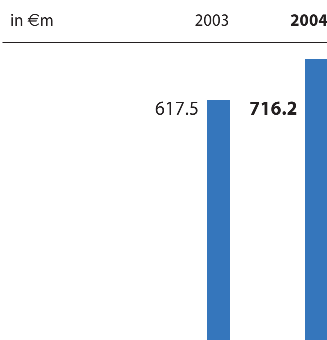
Demand for newspaper presses varied from region to region. Orders for our Cortina waterless mini tower press were placed by newspaper publishers and contract printers in Germany, Belgium and the Netherlands. We also received the first bookings for the Prisma, our new 4/1 newspaper press, from Thailand and the USA, along with a further order for a multi-unit Commander 6/2 press line, this time from Belgium. There are indications that investment activities in the German market are finally starting to pick up again. New contracts included one Commander and eight Colora presses for a regional newspaper publishing group, Dr Ippen. Single-width newspaper presses were mostly booked by customers in Italy, Spain and China.

Our Frankenthal facility experienced an unexpected boom in superwide publication rotogravure presses for web widths of 3.6 to 4.3 metres. A string of orders from leading European gravure publishers, among them arvato, which placed the biggest single contract in our history for its Liverpool printing plant, reflects our technological pole position in this key market. A higher volume of new bookings for commercial web presses included further contracts for our new 16-page Compacta 217 and a succession of orders from Europe, the USA and China for our popular Compacta 215. Customers in the EU, Turkey, Colombia and Australia opted for double-width presses for 32 to 64 pages A4.

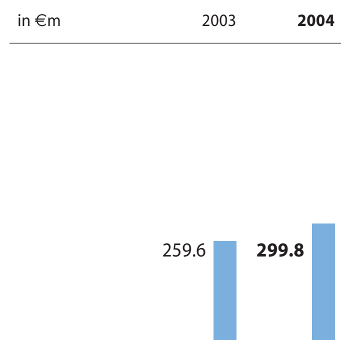
**Order intake**
**Sheetfed Offset Presses**
in €m 2003 **2004**



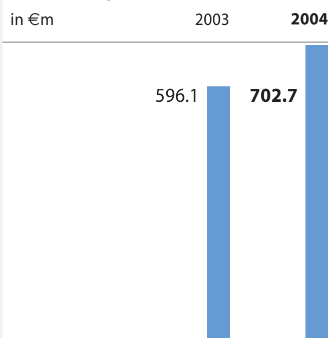

**Sales**
**Sheetfed Offset Presses**
in €m 2003 **2004**



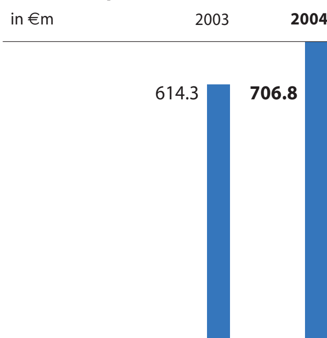

**Order Backlog**
**Sheetfed Offset Presses**
in €m 2003 **2004**



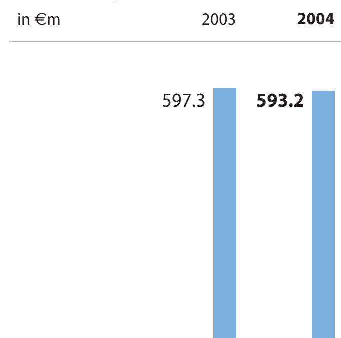

**Order Intake**
**Web and Special Presses**
in €m 2003 **2004**




**Sales**
**Web and Special Presses**
in €m 2003 **2004**




**Order Backlog**
**Web and Special Presses**
in €m 2003 **2004**



*High-speed web presses like our new 16-page Compacta 217 were a major draw at the Drupa international trade fair*

Sales of web and special presses totalled €706.8m, 15.1% up on the prior year figure of €614.3m. Along with numerous installations these included deliveries of eleven big press lines to the RCS Group (Rizzoli Corriere della Sera) for five different locations in Italy, the continuing extension (largely completed in 2004) to the world's biggest flexo press line, a Flexo-Courier at Harmsworth Quays Printing (*Daily Mail*) in London, a big Commander 6/2 press line for the Berner Zeitung in Switzerland and the inauguration of the first 4.32m-wide TR 12B rotogravure press at maul-belser Medienverbund in Nuremberg, Germany. The order backlog of €593.2m on 31 December was slightly smaller than in 2003 (€597.3m), due to higher shipments.

**Persistent pricing pressures squeeze margins**

Market conditions continued to drive up costs and push down prices, impacting on profitability in both our business divisions. The situation in the web press market, where demand has declined dramatically in recent years, remained much more challenging than in the sheetfed sector.

The outlay associated with upgrading and expanding our sheetfed product portfolio was reflected in operating income, which at €9.8m was well below the prior year's high figure of €19.9m. The web and special press division moved back into the black with an operating profit of €10.5m, following a €66.9m loss in 2003 due in part to an extraordinary restructuring expense.

*Superlarge sheetfed offset presses for a sheet size of 1510mm x 2050mm are a KBA world exclusive*

## Strong exports, emerging recovery in domestic demand

In 2004, after hitting an all-time low of 12.6% in 2003, the proportion of domestic sales to total Group sales improved along with the German economy. Even so, buoyant foreign demand meant that exports accounted for 85.9% of Group output.

Printers in **Germany** took presses and services to the value of €200.8m (2003: €155.7m), with deliveries of big gravure press lines and brisk sales of sheetfed offset presses accounting for the lion's share. So the expansion of our domestic sheetfed sales network is beginning to bear fruit.

Our sheetfed subsidiary Bauer+Kunzi in Ditzingen near Stuttgart, a specialist manufacturer of large-format metal-decorating presses and peripherals, also turned in a good performance, particularly in Asia, to close the year with a profit.

At the end of September we stepped up our engagement in high-potential niche markets with the 100 per cent acquisition of Metronic AG in Veitshöchheim near Würzburg. In 2004 Metronic's 290 employees generated sales totalling €36.7m, which contributed to the improved earnings posted by our web and special press division. Alongside industrial ID systems (inkjet, laser, thermal transfer) and UV offset presses for printing digital data storage media (CDs, CDRs, DVDs), Metronic's new UV version of our Genius 52 small-format sheetfed offset press has proved popular among printers of smart cards and other plastic products.

Once again the **rest of Europe** was the biggest market for KBA presses, accounting for 45.7% (2003: 46.7%) of exports, with sales totalling €650.3m (2003: €575.1m). The high inflow of orders for sheetfed presses at the Drupa trade fair was chiefly driven by demand in western and southern Europe. Their proximity to our manufacturing plants, and the willingness of printers in these markets to support innovation, mean that they have always played a key role in the launch of new products. The EU accession states, too, offer a lot of potential.

The proportion of total sales in the **USA and Canada**, another major market, was slightly lower, at 15.4%, than the previous year's high level of 16.4%. A more energetic market presence enabled us to ramp up the order intake and sales of sheetfed presses despite the strong euro, but did not lead to the same degree of

**Geographical Breakdown of Sales**

| in % | 2003 | **2004** |
|---|---|---|
| Africa/Latin America | 5.3 | **7.0** |
| Asia/Australia | 19.0 | **17.8** |
| USA/Canada | 16.4 | **15.4** |
| Europe | 46.7 | **45.7** |
| Germany | 12.6 | **14.1** |

*Korea is a major market for KBA presses in the Far East, along with China, Singapore and Thailand. The photo was taken at the inauguration of a new Commander press line at Dong-A Ilbo Daily in Seoul*

success in the market for multi-unit web newspaper presses. Judging by the volume of new contracts, sales in North America will climb further in 2005.

Although **Latin America** is still experiencing economic problems, sales in the region lifted by approximately 14%. This figure is roughly the same as in 2003 and was primarily generated by shipments of newspaper and commercial web presses to Costa Rica, Chile and Mexico. Sheetfed offset sales were relatively slow.

Considering the limited potential, business in **Africa** evolved well, with sales more than doubling. South Africa is already a well-established market for our innovative press technology, and in 2004 sales of our sheetfed presses picked up strongly in the Maghreb (Algeria, Tunesia and Morocco), with Libya offering further potential in the near term. Together, Latin America and Africa accounted for 7% of total Group sales, up from 5.3% twelve months earlier.

With sales worth €240.6m (2003: €221.2m), **Asia** once again took second place behind Europe and ahead of North America, though a jump in deliveries within Germany and the rest of Europe meant that Asia accounted for 16.9% of the Group total, compared to 18% in 2003. China has become the biggest market for medium- and large-format sheetfed presses and single-width newspaper presses outside Europe and the United States. Despite the strong euro we are confident that our upgraded press range and our rapidly expanding customer base, backed by an efficient sales and service network, will enable us to stabilise our sales volume at a high level.

Shipments to **Australia and New Zealand,** a market we re-entered in 2002 with the creation of KBA Australasia in Sydney, were roughly on a par with the year before, so there is still plenty of room for improvement. Our best-selling products were medium- and large-format sheetfed presses and commercial web offset presses.

*People & Print in practice: the information desk on our exhibition stand at Drupa 2004*

## Shift in staff structure

Staff redundancies arising from capacity adjustments at our web press production plants in Würzburg and Frankenthal, and from the closure of our Berlin assembly plant at the end of the year, were more or less balanced by new hirings at our sheetfed offset production plant in Radebeul. However, the total Group payroll was enlarged by the addition of new subsidiaries.

The Koenig & Bauer payroll at the end of December 2004 totalled 5,830, roughly the same as in 2003 (5,832). A reduction of 91 at our web press facilities was offset by an extra 89 employees – most of them in production – in Radebeul.

The first-time consolidation of subsidiaries Metronic AG (290 employees) and Bauer+Kunzi (50 employees) at the end of the year added 340 to the Group payroll, while in the companies already consolidated just four additional staff were taken on, bringing the total to 7,398 (2003: 7,054).

### Cost savings from more flexible working hours

In August 2004 management and staff representatives at our sheetfed offset plant in Radebeul negotiated a change in working hours that will enable the company to maintain its global competitiveness in an increasingly predatory market environment. A similar agreement signed in November 2004 with staff representatives at our web press facilities gave us greater flexibility in adjusting labour input to fluctuations in plant utilisation, without incurring excessive costs. More far-reaching changes in working hours, aimed at reducing overhead expenses in the long term, were negotiated in February 2005.

**Group Payroll on 31 December**

| | 2003 | **2004** |
|---|---|---|
| Total | 7,054 | **7,398*** |
| Salaried office staff | 2,669 | **2,828** |
| Wage-earning industrial staff | 3,892 | **4,061** |
| Apprentices/ students | 493 | **509** |

* including 290 Metronic, 50 Bauer+Kunzi

*Even today's high-tech printing presses need well-trained operators to bring out their full potential*

**Extensive staff training programme**

Technical seminars and specialised courses to enhance our customer focus formed the backbone of our training programme in 2004, along with management training for young executives to ensure continuation in the specific competencies of our various production plants. The latter included external seminars on topics such as staff management, motivation and communication. Members of management and the training review committee met several times in the course of the year to discuss specific issues. In March 2004 twelve young industrial and metal-cutting mechanics at our Würzburg facility started training to qualify as electromechanics, a specialisation which offers much better career prospects.

**Suggestion scheme mobilises savings potential**

Promotional campaigns boosted the number of suggestions submitted at our German facilities by 28% to 1,723 (2003: 1,350). Radebeul achieved a massive leap of 74%. Improvements implemented by the employees or workgroups submitting them proved to be the most effective. As a result the scheme generated sizeable savings.

*The fascination of technology: KBA staff and visitors to Drupa talking shop at the new P3 pin folder on a Compacta 217*

**Company pension scheme and performance-related pay**

In 2004, alongside the established company pension scheme which covers all employees, the Parent Company introduced a second option in the form of a state-organised voluntary personal scheme attracting tax relief and funded directly from employees' pre-tax pay, with KBA making a parallel contribution.

Individual performance-related remuneration agreements for executives were re-aligned with Group objectives for 2005, as were the targets for all employees engaged in group work. The level of income is thus determined by the achievement of clearly defined individual, divisional and corporate goals.

### KBA stands by training pact

In 2004 there was little change in the number of apprentices and student trainees within the Group, who totalled 509 or 6.9% of the workforce. Training is a crucial factor in safeguarding our future success, and our curriculum ranges from industrial mechanics, metalworking mechanics and electromechanics (which is in great demand) to press operation, media design and industrial administration.
192 external trainees and 237 secondary school pupils gained initial working experience through job placements and trial training courses at the Parent Company, while KBA was the preferred sponsor for dissertations by 18 university students.

As in previous years, several of our apprentices were among the local and regional prize winners at the final examination set by the Chambers of Industry and Commerce. 113 of the 115 apprentices who passed their final examinations were offered employment contracts in 2004.

Membership of the Betriebskrankenkasse (BKK KBA), the company health insurance scheme, increased to 12,826 (2003: 12,626). Activities during 2004 focused on preventive health care and training courses explaining the health implications of everyday working practices. Previously run as a department of the Parent Company, BKK KBA was spun off on 01.01.2005 as an independent enterprise.

Long-service bonuses were awarded to 175 members of KBA staff: 115 for 25 years of service, 59 for 40 years and one for 50 years of service.

### A thank-you to all our employees

The market environment in 2004 posed some exceptional challenges for our executives, employees and their elected representatives. Nonetheless, we achieved strong growth in both our business divisions, launched a succession of new products and raised the level of plant utilisation at our various facilities. The management board would like to thank all Group employees and staff representatives for their unflagging commitment and constructive support in achieving our objectives.

*ISO 9001 quality inspection at a cylinder using a high-tech measuring machine*

## Streamlined workflows and structures

To reduce costs on a permanent basis we rationalised organisational structures at every level of the corporate hierarchy, reduced the number of production sites, streamlined workflows and focused our manufacturing processes on our core capabilities.

### Distributed manufacturing of core products

The transition to distributed manufacturing at our Würzburg, Trennfeld, Frankenthal, Radebeul and Mödling production plants continued apace, reducing production costs, inventories and throughput times. Following the closure of KBA-Berlin at the end of the year reelstand assembly was transferred to our main plant in Würzburg. Focusing production on core press parts enabled us to simplify our manufacturing structures and make them more flexible.

### Procedural reorganisation in full swing

In addition to adopting distributed manufacturing and new manufacturing techniques we achieved a sustained reduction in our cost base by optimising workstations, production sequences and the assembly workflow. This entailed expanding the use of multiple machine operation. We changed the shift system for the three largely identical cylinder machining centres at our Würzburg plant so that there are now just two employees per shift. In Radebeul, multiple machine operation was introduced in several areas, including all ten CNC machining centres for small prismatic parts. Networking the machines with production computers and the tool-management system brought a big reduction in idle cycle times.

A new software program, Assist, was installed to create an IT-based workflow embedding all the upstream and downstream departments involved in the shipment of web presses and the associated spare parts. Customs authorities and key third parties were also integrated in the shipping process via online links. Here, too, efficiency gains were achieved.

### Ongoing IT upgrade

In 2004 we continued to standardise and upgrade our IT equipment with a view to reducing operating expenses and tightening data security while ensuring uninterrupted access to all applications. At the beginning of the year we outsourced all central Group applications relating to production planning and control (PPC), finances and controlling. All PPC applications were subsequently transferred from a BS2000 proprietary mainframe to a standard Unix platform so as to guarantee future availability of the relevant applications.

*Cylinder manufacture at our Radebeul sheetfed offset plant*

Ageing server systems were replaced by BladeServer and virtualisation systems. The central data storage system in Radebeul made way for a SAN system, also to preserve future availability, and the local area network (LAN) in Würzburg was totally upgraded to enhance reliability. We shall continue to integrate and expand the 3-D CAD systems at our major facilities.

**Focus on trimming quality costs**

Quality management in accordance with a new international norm, ISO 9001-2000, spans the entire production process, from the initial inspection of manufactured and bought-in parts and assemblies using function-testing software to the final quality check of each complete press line at customer premises. Quality costs were trimmed in the long term by stepping up pre-shipment checks and by systematically vetting suppliers to improve the quality of bought-in parts. A new test module was added to the folder assembly line in Frankenthal to enable folders to be tested with a running web prior to shipment. This speeds up folder commissioning, particularly of new designs.

# Efficient procurement enhances productivity

A substantial increase in sales presented our purchasing department with the challenge of securing a much larger volume of materials in a volatile market environment. A dramatic rise in the global demand for steel led to shortages and massive price hikes. With throughput times shrinking in line with tighter delivery deadlines, maintaining a reliable supply of materials was a top priority. Here we profited from longstanding links to our suppliers.

A number of measures were initiated to guarantee an uninterrupted supply of resources. These included securing alternative sources that complied with the specified quality standards. With market forces impacting heavily on product prices, the emphasis was on cutting production costs and minimising inventories. Savings in the price of bought-in materials were achieved by negotiating Group-wide contracts. One of the fundamental tasks of a successful procurement system is to monitor suppliers on an ongoing basis in order to preclude the risk of bottlenecks caused by economic cycles. Even so, we were unable to offset the full impact of higher costs for raw materials and energy.

**Stepping up the adoption of electronic order processing**

Although most of the materials for our Würzburg, Frankenthal and Radebeul plants are already ordered electronically, our ultimate goal is to digitise the entire procurement process for greater efficiency. However, to achieve this we must first make sure that the relevant legal and security framework is in place, along with the necessary documentation.

**Optimising materials flows**

2004 saw the progressive implementation of a "marketplace" model for logistics and resource management at our Würzburg and Frankenthal production plants. With this model, the internal flow of materials is directed via central distribution hubs. When completed in the course of the current year this will ensure the timely, job-specific collation and supply of parts and materials to the assembly line. Along with the expansion of its lift and warehousing system our Radebeul facility also expanded the kanban system it has adopted for the automatic replenishment of indirect materials.

*Efficient logistics: assembly-friendly parts retrieval and sequencing in our Radebeul logistics centre*

Megalift
galift

*Welding robot in action in the sheet metal production line at our Würzburg facility*

## Enhancing productivity and sustainability

Investment activities focused on achieving productivity gains and permanent cost savings. In Radebeul the focus was on rationalising core manufacturing sequences, upgrading equipment and expanding capacity to accommodate a big increase in orders and improve customer services. Investment in intangible assets, property, plant and equipment totalled €57m, well above depreciation of €46.3m. In accordance with our corporate philosophy we are constantly seeking to enhance the environmental sustainability of our manufacturing processes.

### Fewer emissions in the press room

In anticipation of imminent, more rigorous, legislation on emissions in the graphic arts industry we stepped up our activities as a driver of innovation in environmentally friendly technologies and processes for sheetfed and web offset. At Drupa 2004 our new Rapida 74 G was awarded a certificate of compliance by Germany's Berufsgenossenschaft (the equivalent of the H&SE in the UK and OSHA in the US) and an "Emission Reduced Waterless Offset" certificate by the European Waterless Printing Association (EWPA). The Rapida 74 G, like our Cortina newspaper press, 74 Karat digital offset press and compact Genius 52 small-format sheetfed press, is both waterless and keyless. The elimination of fount solution and cleaning agents dramatically reduces press emissions and paper consumption. On top of this the imaging process for waterless plates is virtually chemistry-free.

### Conserving resources during manufacture

A number of measures were implemented to cut production emissions. These included preparations for compliance with a new directive on VOCs (volatile organic compounds) and tougher regulations concerning drinking water. The VOC directive, which targets a reduction in solvent emissions, primarily affects our paintshop. In order to comply with the drinking water regulations precautionary measures were taken to protect our water supply. Preventive inspections and regular laboratory analyses were carried out and staff training provided in environmental protection. Further steps were taken to reduce the volume of waste generated and to sort waste more efficiently. Waste-prevention guidelines were introduced and plans drawn up for a special washing bay for press parts.

### Investing to strengthen core competence

Efficiency gains in the core competence of our Würzburg facility were achieved by installing an additional one-stop cylinder machining centre combining three processes: turning, drilling and milling. This reduced throughput times and costs while at the same time improving quality. A measuring device was put into

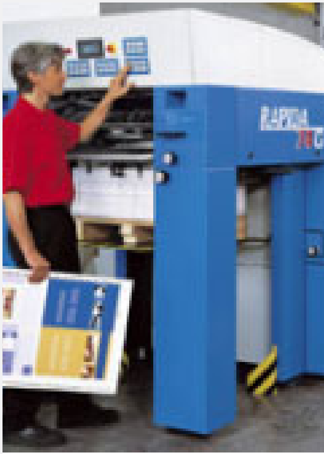
*An apt setting for innovative printing technology: one of the two new demonstration halls in our Radebeul customer centre*

operation to provide a quality control system for high-precision cylinders that is independent of the machine tools. A new laser-operated CNC cutting machine and a welding robot enhanced the efficiency of our sheet metal production line and the quality consistency of the subassemblies produced.

The capacity of our roller-machining centre in Frankenthal was expanded with the commissioning of a new dynamic balancing machine complete with laser-powered concentricity measuring device. The necessary floor space was made available by transferring the frame manufacturing line to Würzburg. In Radebeul, new CNC machining centres for cylinders and small prismatic parts were brought on stream. We also anticipate significant cost savings from the installation of a plasma coating line in tandem with a new production line for anilox rollers. The production hall was extended to accommodate a logistics hub for the movement of components and parts between the production line, external processing companies (extended workbenches) and the store.

**Optimising customer care**

A new customer centre for pre-press and small-format/digital offset presses was opened in Radebeul at the beginning of 2004, after which the existing customer showroom was refurbished and kitted out with a fleet of new-generation Rapida sheetfed presses. The individual presses are networked with each other and with pre-press and printshop management in the adjacent building. The new demonstration centre now provides a dedicated environment for training customer staff from all over the world.



*Waterless, keyless offset: our new Rapida 74 G (Gravuflow™) won first prize at the German print industry's innovation awards*

## A year of product launches

In 2004 we launched new products or upgrades across our entire press range, aiming at making print production both more economic and more efficient. The culmination of many years of research and development work, these products represented a huge financial outlay, and we maintained this high level of expenditure to the tune of €54.8m in 2004, despite severe pricing constraints in virtually every print market we serve. This figure does not include the high cost of labour and materials involved in continuous improvements to individual press lines.

In the countdown to Drupa and at the show itself our sheetfed offset facility in Radebeul burnished its market image as a driver of innovation with the launch of new presses in just about every format from SRA3 to 2-metre-wide VLF. These new-generation presses, which went into serial production shortly after the fair opened, boast a raft of unique and exclusive features which include an optional sidelay-free infeed in the new Rapida 105 and keyless, waterless print production with the Genius 52 and Rapida 74 G. In the second half-year our development engineers focused on the practical implementation of these new products along with additional features and subassemblies for the configurations specified by customers.

Ongoing innovation in process technology represented a further source of consistent growth by our sheetfed press division. Alongside core issues such as print production and finishing on critical materials, these activities included brand protection for packaging.

On the web side, development activities culminated in the demonstration at Drupa of our newly launched Compacta 217, a high-performance commercial web offset press. The advanced control system and numerous automation modules incorporated in this 16-page press can be adopted for other formats. Innovative and highly sophisticated technology also features in the TR 12B, the world's first gravure press for a web width of 4.32m, which came on stream in autumn 2004 at maul-belser in Nuremberg. The staggering capacity of a press such as this, which can pump out full-colour, front- and back-printed pages at a rate of 225,000 square metres an hour – enough to cover 37 football pitches – gives some idea of the challenge it posed for our design engineers.

*KBA deputy president Claus Bolza-Schünemann (r) demonstrating the new automatic plate changer on our Cortina*

In the newspaper sector a prototype of our new 4/1 press, the KBA Prisma, was demonstrated at our Würzburg facility and the first orders were booked shortly afterwards. Another technological milestone was the inauguration in Zurich of the world's first triple-width satellite newspaper press, a high-automation Commander 6/2. This extra-wide press design, of which we are a long-time advocate, delivers substantial savings both in capital outlay and in space, energy and personnel costs. We also continued our active collaboration with manufacturers of consumables to develop waterless offset for newspaper production in the form of the Cortina mini tower press, and 2004 brought the market breakthrough. The first 48-page press was shipped in the fourth quarter to the Netherlands, where it came on stream in February this year. We anticipate further sales of this innovative press, which supports much greater standardisation of the production process.

A key issue in our R&D activities was press compatibility with digitally integrated production processes. KBA is a longstanding member of the CIP4/JDF Organisation that promotes printshop networking based on standardised interfaces. At the beginning of October we teamed up with a number of international manufacturers to set up the Print Media Network (PRIME), whose aim is to promote the rapid development of dedicated workflow models for the newspaper industry.

Prepress/JDF Center
KBA OPERA
JDF Workflow

## Controlling risk

The purpose of the Group risk management system is to maximise potential rewards while minimising risks by employing prudence and forethought.

Risks to the Group are systematically documented and assessed in accordance with uniform, Group-wide procedures. The management board is kept abreast of all developments and instantly alerted to any unforeseen changes in our risk exposure.

A management information system furnishes all the facts pertinent to decision-making. In addition all our subsidiaries submit regular progress reports, comparing their performance with the targets they have been set. This enables us to identify emerging risks to our assets, finances and earnings and to institute countermeasures.

The efficacy of our risk management systems is monitored by our internal auditing department and the supervisory board. The early warning system complies with statutory regulations for detecting risks that may threaten the existence of the Group.

**Economic and industry-related risks**

Over the long horizon we anticipate a steady substitution loss in mature print markets caused by the rapid spread of e-media and changes in the consumption habits of the younger generation. However, this will be more than outweighed by a surging demand for print in densely populated regions like China, India or eastern Europe, so print can be expected to maintain annual growth rates of 3 to 5%. We are therefore expanding our engagement in emerging markets while at the same time moving into new, high-potential sectors such as print production on digital data storage media, in which our new subsidiary, Metronic, is a specialist.

The risks associated with this shift in focus are partially contained by addressing niche markets with broader profit margins, and by shrinking our cost base, which entails restructuring and downsizing our web press division (including the closure of two assembly plants in 2003/2004 and staff reductions at our main facilities) and introducing more flexible working hours at our production plants to reduce overtime expenses. In addition we are driving innovation in sheetfed and web press technology to accrue a competitive advantage through the uniqueness of our products.

*In our JDF centre at Drupa in Düsseldorf we teamed up with allied providers to demonstrate the efficiency gains that can be achieved by embedding print production in a digital network*

### Market and business risks

With overcapacity tilting the balance of power to consumers in key press sectors, suppliers have been pressured into accepting financial and warranty arrangements that contain an inherently higher level of risk. The situation is exacerbated by banks' compliance with more restrictive lending regulations ("Basel II"). In consequence manufacturers' willingness to sell on legacy equipment following replacement, to accept contractual re-purchasing obligations and to offer customer financing has become a major selling point. We address such risks by carefully scrutinising contracts and checking customers' creditworthiness. Our inventory of second-hand equipment is sold off by an outlet created for this specific purpose, and regularly adjusted to prevailing market prices.

The technical risks associated with large-scale projects are contained by project management and project controlling. The experience gleaned from project implementation is systematically incorporated in our products and services. A combination of permanent monitoring and quality management reduces potential risks from external procurement processes. Continuous benchmarking for suppliers has been introduced in the purchasing department to guarantee a fair market price for procured goods.

### Financial risks

Financial risks primarily comprise currency risks, bad debt risks, liquidity risks and risks relating to cash-flow movements. The type, scope and market value of instruments for containing financial risks are detailed in the Notes.

Major currency and exchange rate risks relate in particular to dollar-denominated transactions. However, we regard these risks as manageable. Exchange rate risks from foreign currency transactions are actively managed through close co-operation between our sales units and treasury unit, and are substantially reduced or even eliminated using derivative financial instruments. In addition to hedging major contracts we also hedge a fixed proportion of small and medium-sized orders as part of an ongoing strategy aimed at cushioning fluctuations in exchange rates, thus making it easier to plan ahead.

Our hedging policy is regularly reviewed and management notified. Procurement prices for steel and electronic parts are also monitored on a continuous basis. Long-term price agreements with suppliers, and savings in material costs in other areas, also help to compensate for price fluctuations.

Bad-debt risks are limited by monitoring customer accounts down to individual project level. A widespread deterioration in payment records has prompted us to expand the early warning systems in our financial divisions. Receivables outstanding are regularly monitored and, depending on customer creditworthiness, covered by reinsurance.

Liquidity is managed and safeguarded at Group level by a rolling financial-analysis and planning procedure. This means that potential corporate financing risks are detected at an early stage.

Risks from changes in short-, medium- and long-term interest rates are constantly monitored and actively limited. Opportunities afforded by changes in interest rates are prudently exploited.

Movements in cash flow are balanced with existing credit lines and sureties.

### Other risks

The Group is not at present engaged in any litigation that would materially impact on our financial position. Risks relating to IT systems, capacity and personnel planning, and the market launch of new technologies and products, are covered by provisions, as are delivery commitments arising from unprofitable contracts.

### Overall risk faced by the KBA Group

An evaluation of the overall risk potential indicates that economic and competitive risks remain as challenging as in the previous year, with the strength of the euro a key issue. However, the measures described above represent a prudent and effective means of hedging such risks. No risks have been perceived that could endanger the continuing existence of the Koenig & Bauer Group.

## Moderate growth, higher earnings

After years of stagnation, 2004 finally brought a mild upturn in the German economy. With domestic demand glacial, growth was driven almost exclusively by exports, and here the export-intensive engineering industry, which posted growth of 5%-plus, was once again a major contributor. In 2005 the German Machinery and Plant Manufacturers' Association (VDMA) predicted that a perceptible slowdown in key markets, and the strength of the euro against the US dollar and Japanese yen, would push down production growth to around 3%.

Following an above-average performance in 2004, we anticipate no more than moderate growth in Group sales in 2005, despite a large initial backlog of orders at the beginning of the new business year and a gratifyingly high order intake in the first two months. The main reasons for such a sober projection are uncertainties relating to the economy, exchange rates and the cost of raw materials, volatility in key sectors of the print industry, the absence of a stimulus comparable to the Drupa trade fair, and our earnings-focused corporate policy.

Although printers and publishers worldwide have been investing more heavily in new equipment for some time, there is no cause for euphoria. Capacity overhangs, continuing price erosion and a rising number of mergers and acquisitions have wrought a perceptible change in the fundamental structural of the graphic arts industry in western Europe, North America and other highly industrialised countries over the past few years. The situation is slightly different in major and minor growth markets like eastern Europe, China, parts of Latin America, North Africa and many threshold countries in the Middle and Far East. However, buyers in these expanding markets tend to focus much more on price and frequently demand special concessions on warranty and service and/or more risky funding models which entail a certain degree of financial agility. We therefore believe it may, on occasions, be wiser to forego such contracts.

*In just one hour, our new TR 12B gravure press can print 225,000 square metres of paper with full-colour images on both sides – enough to cover 37 football pitches*

*People & Print: start 'em young*

Intense competition in the global printing press market means that the higher cost of steel and energy, and price increases due to changes in currency exchange rates, can rarely be passed on to the consumer, and then only to a limited degree. In view of this, reducing manufacturing and overhead expenses is an ongoing objective.

This year, the reduction in overhead expenses delivered by the restructuring measures implemented at our web press production plants in 2003 and 2004 will finally work their way through to the bottom line. A large volume of orders on hand for our new press models will also improve margins. We are confident that the agreements reached between the management board and staff representatives at our German production plants in August 2004 and February 2005 on more flexible working hours will not only reduce labour overheads but also allow us more leeway in shortening delivery time-frames without incurring additional costs. Streamlining our operational and organisational structures, together with a raft of other initiatives, will also lead to further savings.

The extraordinary sales and development costs incurred in preparation for Drupa 2004 will not be repeated in 2005. But the benefits they delivered, in the shape of an innovative press range for virtually all major market sectors and high-potential niche applications, remain. As a result KBA is well poised for growth. The 100% acquisition in March this year of Grafitec, spol. s r. o., a Czech press manufacturer based in Dobruška, will enable us to boost our share of the small-format sheetfed offset market. The new 400-strong subsidiary will be renamed KBA-Grafitec, spol. s r. o. We shall also continue to build up our global market presence and customer base by expanding our sales and service network, with special emphasis on remote growth markets.

On balance, prospects for 2005 are encouraging. At present we anticipate a single-figure increase in sales and a significant improvement in pre-tax earnings. Considering the many unpredictable external factors involved, we believe it would be premature to issue a detailed prognosis at this moment in time. We shall therefore postpone our assessment until a later date, when the half-year figures are available.

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# Group Balance Sheet to 31 December 2004

## Assets

| in €m | Note | 31.12.2003 | 31.12.2004 |
|---|---|---|---|
| **Non-current assets** | **(1)** | | |
| Intangible assets | | 20.9 | 22.4 |
| Property, plant and equipment | | 239.3 | 259.2 |
| Financial assets | | 22.1 | 17.0 |
| | | 282.3 | 298.6 |
| **Current assets** | | | |
| Inventories | **(2)** | 371.1 | 392.4 |
| Trade receivables | **(3)** | 374.1 | 442.1 |
| Other receivables and assets | **(3)** | 126.9 | 107.1 |
| Securities | **(4)** | 13.2 | 13.9 |
| Cash and cash equivalents | **(5)** | 71.6 | 32.2 |
| | | 956.9 | 987.7 |
| | | | |
| **Deferred tax assets** | **(6)** | 60.2 | 61.6 |
| | | 1,299.4 | 1,347.9 |

## Equity and liabilities

| in €m | Note | 31.12.2003 | 31.12.2004 |
|---|---|---|---|
| **Equity** | **(7)** | | |
| Issued capital | | 42.0 | 42.2 |
| Capital reserve | | 82.2 | 83.1 |
| Revenue reserves | | 349.5 | 311.7 |
| Net loss/profit | | – 30.0 | 11.9 |
| | | 443.7 | 448.9 |
| **Provisions** | | | |
| Pension provisions | **(8)** | 86.6 | 88.4 |
| Tax provisions | **(9)** | 0.4 | 1.6 |
| Other provisions | **(9)** | 221.9 | 211.3 |
| | | 308.9 | 301.3 |
| **Liabilities** | **(10)** | | |
| Bank borrowings | | 148.0 | 137.1 |
| Payments received on account of orders | | 216.3 | 247.9 |
| Trade payables | | 69.8 | 109.9 |
| Other liabilities | | 59.3 | 49.4 |
| | | 493.4 | 544.3 |
| | | | |
| **Deferred tax liabilities** | **(6)** | 53.4 | 53.4 |
| | | 1,299.4 | 1,347.9 |

# Group Income Statement for 2004

| in €m | Note | 2003 | 2004 |
|---|---|---|---|
| Revenue | **(13)** | 1,231.8 | 1,423.0 |
| Costs of conversion | **(14)** | – 947.4 | – 1,089.2 |
| **Gross profit** | | 284.4 | 333.8 |
| Research and development costs | **(14)** | – 57.6 | – 54.8 |
| Distribution costs | **(14)** | – 114.8 | – 140.9 |
| Administrative expenses | **(14)** | – 94.9 | – 87.7 |
| Other operating income and expenses | **(16)** | – 19.0 | – 30.1 |
| **Loss/profit from operations prior to restructuring expenses** | | – 1.9 | 20.3 |
| Restructuring expenses | **(17)** | – 45.1 | – |
| **Loss/profit from operations after restructuring expenses** | | – 47.0 | 20.3 |
| Financial result | **(18)** | – 2.6 | – 4.4 |
| **Loss/profit from ordinary activities** | | – 49.6 | 15.9 |
| Income taxes | **(19)** | 19.6 | – 4.0 |
| **Net loss/profit for the period** | | – 30.0 | 11.9 |
| | | | |
| **Loss/earnings per share** (in €) | **(20)** | – 1.85 | 0.74 |

## Statement of Changes in Shareholders' Equity

| in €m | Share capital | Capital reserve | Revenue reserves: Original financial instruments | Revenue reserves: Derivatives | Revenue reserves: Currency translation | Revenue reserves: Other | Net profit/ loss | **Total** |
|---|---|---|---|---|---|---|---|---|
| 1 January 2003 | 41.8 | 81.5 | 0.1 | 6.8 | 8.2 | 309.1 | 28.1 | 475.6 |
| Prior year dividend | – | – | – | – | – | – | – 8.0 | – 8.0 |
| Net loss | – | – | – | – | – | 20.1 | – 50.1 | – 30.0 |
| Capital increase from approved capital | 0.2 | 0.7 | – | – | – | – | – | 0.9 |
| Translation differences | – | – | – | – 0.2 | – 5.3 | – | – | – 5.5 |
| Changes in value of financial instruments | – | – | 0.2 | 10.5 | – | – | – | 10.7 |
| **31 December 2003** | 42.0 | 82.2 | 0.3 | 17.1 | 2.9 | 329.2 | – 30.0 | 443.7 |
| 1 January 2004 | 42.0 | 82.2 | 0.3 | 17.1 | 2.9 | 329.2 | – 30.0 | 443.7 |
| Net profit | – | – | – | – | – | – 30.0 | 41.9 | 11.9 |
| Capital increase from approved capital | 0.2 | 0.9 | – | – | – | – | – | 1.1 |
| Translation differences | – | – | – | – | – 4.3 | – | – | – 4.3 |
| Changes in value of financial instruments | – | – | 0.8 | – 4.5 | – | – | – | – 3.7 |
| Other changes | – | – | – | – | – | 0.2 | – | 0.2 |
| **31 December 2004** | 42.2 | 83.1 | 1.1 | 12.6 | – 1.4 | 299.4 | 11.9 | 448.9 |

# Cash Flow Statement

| in €m | 2003 | **2004** |
|---|---|---|
| Profit/loss from ordinary activities | – 49.6 | 15.9 |
| Appreciation/depreciation on non-current assets | 57.1 | 46.2 |
| Foreign exchange gain/loss | – 3.1 | 0.5 |
| Interest income/expense | 1.8 | 3.1 |
| Changes in long-term provisions | 4.1 | 1.8 |
| Profit/loss on disposal of non-current assets | – 1.8 | – 0.1 |
| Other non-cash income/expenses | – | – 3.8 |
| **Gross cash flow** | 8.5 | 63.6 |
| Changes in inventories | 5.8 | – 10.5 |
| Changes in receivables and other assets | – 29.5 | – 39.9 |
| Changes in provisions | 41.1 | – 16.0 |
| Changes in liabilities | 44.0 | 47.1 |
| Interest expense | – 2.1 | – 1.9 |
| Tax expense | – 6.2 | – 3.4 |
| **Cash flows from operating activities** | 61.6 | 39.0 |
| Proceeds from disposal of intangible assets, property, plant and equipment | 8.8 | 3.4 |
| Payments for investment in intangible assets, property, plant and equipment | – 45.3 | – 57.0 |
| Proceeds from disposal of financial assets | 0.4 | 0.8 |
| Payments for investment in financial assets | – 7.1 | – 0.1 |
| Proceeds for acquisition of consolidated enterprises | – | 1.0 |
| Investment subsidies received | 2.0 | 3.1 |
| Dividends received | 1.0 | – |
| **Cash flows from investing activities** | – 40.2 | – 48.8 |
| Proceeds from capital contributions | 0.9 | 1.0 |
| Proceeds from borrowings | 67.1 | 12.5 |
| Repayment of debt | – 47.7 | – 40.0 |
| Other changes in equity | – | 0.2 |
| Dividends paid (previous year) | – 8.0 | – |
| **Cash flows from financing activities** | 12.3 | – 26.3 |
| **Change in funds** | 33.7 | – 36.1 |
| Effect of changes in exchange rates | – 6.0 | – 2.6 |
| Funds at beginning of period | 57.1 | 84.8 |
| **Funds at end of period** | 84.8 | 46.1 |

For further information see explanatory Note (I).

## (A) Preliminary Remarks

The consolidated financial statements for the year to 31 December 2004 were prepared in accordance with the International Financial Reporting Standards (IFRS) valid on that date, as issued by the International Accounting Standards Board (IASB), London, and interpreted by the International Financial Reporting Interpretation Committee (IFRIC). IFRS 3 and revised versions of IAS 36 and IAS 38 were applied prospectively for business combinations.

Individual items in the balance sheet and the income statement were aggregated to clarify presentation. These items are disclosed and explained separately in the Notes below. For the income statement we used the cost of sales method. The Group currency is the euro, and all amounts disclosed in the financial statements represent million euros (€m), unless otherwise indicated.

## (B) Accounting Policies

The financial statements for Koenig & Bauer AG and its domestic and foreign subsidiaries were prepared in compliance with IAS 27 using uniform accounting policies.

### Intangible Assets

Purchased intangible assets were disclosed at their purchase price as per IAS 38 if it was likely that economic benefits attributable to the use of the assets would flow to the enterprise and their cost could be measured reliably. Each asset was amortised on a straight-line basis over its estimated useful life.

**Development costs** for new or significantly improved products were capitalised at cost if, as stipulated in IAS 38, the technical feasibility, an intention to sell and the existence of a market could be demonstrated, the attributed expenditure measured reliably, adequate development and marketing resources were available and future economic benefits probable. Compliance with the above criteria was checked by conducting product trials in the marketplace, with development costs capitalised from the date on which these trials were initiated. The straight-line method was used to allocate the depreciable amount of such products over their projected useful life, and annual impairment tests carried out. Adequate provision was made for future market trends.

### Property, Plant and Equipment

Items of property, plant and equipment were disclosed at cost less depreciation based on the straight-line method and the use to which they are put. Manufacturing costs for self-constructed plant and equipment included an appropriate proportion of production overheads, material and labour costs. Under IAS 23 borrowing costs were carried as an expense, not as part of the cost of an asset. Costs for maintenance and repairs were also recognised as an expense unless they had to be capitalised. No land or buildings were held as financial investments as defined in IAS 40.

### Grants

Since government grants are classified by IAS as a reduction in the cost of assets, they were recognised as a reduced depreciation charge over the asset life.

### Leases

Leases for which the KBA Group, as the lessee, assumed the basic risks and rewards incident to ownership were capitalised as finance leases under non-current assets. Leased property was measured at fair value or the lower present value of the minimum lease payments. Depreciation was calculated using the straight-line method for the shorter of the two periods (the term of the contract or the useful life of the leased property). Payment obligations arising from future lease payments were disclosed in other liabilities. Where the risks and rewards incident to ownership were not assumed, the lease was classified as an operating lease and payments carried as expenses.

### Depreciation

The systematic depreciation of intangible Group assets, property, plant and equipment was based on their useful lives as shown in the chart.

In addition intangible assets, property, plant and equipment were, where appropriate, tested for impairment on the balance sheet date as per IAS 36 and the recoverable amount defined as the higher of an asset's fair value less costs of disposal and its value in use. Where the recoverable amount was lower than the carrying amount the difference was disclosed as an impairment loss. If the reason for a write-down no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

| | Years |
|---|---|
| Industrial property rights and similar rights | 3 to 7 |
| Goodwill | 3 to 10* |
| Negative goodwill | 10* |
| Product development costs | 4 to 6 |
| | |
| Buildings | 5 to 40 |
| Plant and machinery | 3 to 15 |
| Other facilities, factory and office equipment | 2 to 12 |

* up to and including 31 December 2003; from 1 January 2004 systematic depreciation was discontinued in accordance with IFRS 3

### Financial Assets

These were measured at cost upon initial disclosure and subsequently classified in four categories under IAS 39: loans and receivables originated by the enterprise and not held for trading; investments held to maturity; financial assets available for sale; and financial assets held for trading. Loans originated by the enterprise and investments held to maturity were measured at their amortised cost or lower net recoverable amount. Available-for-sale financial assets were measured at fair value, with unrealised gains and losses recognised directly in equity, net of deferred taxes. Financial assets were recognised in the balance sheet on the settlement date. No financial assets were held for trading.

Investments in unconsolidated affiliates (see Note (C)) were measured at their amortised cost. If there was impartial cause for assuming impairment an impairment test was carried out and, where appropriate, the shares written down to their lower applicable value (recoverable amount).

### Inventories

Inventories were carried at the cost of purchase or conversion, with the latter including individual items, their proportionate share of total overheads and depreciation based on a normal level of plant utilisation. Borrowing costs under IAS 23 were not included. The cost of inventories that could not be measured on an item-by-item basis was calculated using the weighted average cost formula.

Inventories whose net realisable value on the balance sheet date was lower than cost, for example due to damage, impaired marketability or prolonged storage, were written down to the lower value. The net realisable value is the estimated sales revenue realisable in normal business minus the estimated cost of completion and the estimated costs that would be incurred to make the sale.

### Receivables and Other Assets

Receivables and other assets relate to loans and receivables originated by the enterprise, with the exception of derivatives. Under IAS 39 they were stated at their amortised cost or the lower recoverable amount. Value adjustments were made for all recognisable risks, based on item-by-item risk assessments and past experience. Bill holdings, non-interest-bearing debts and low-interest debts with maturities of more than one year were discounted.

### Contract Revenue and Expenses

Contract revenue and expenses were disclosed using the percentage of completion method, as per IAS 11. Under this method, contract revenue is proportionate to the contract costs incurred in reaching the stage of completion, i.e. the revenue, expenses and profit disclosed are those attributable to the proportion of work completed. Contract revenue was carried under trade receivables after deducting payments received.

**Marketable Securities, Cash and Cash Equivalents**
These refer to available-for-sale financial instruments carried at market value on the balance sheet date, as specified in IAS 39. This classification was also used for fixed-interest securities and shares, since we have no plans to hold these until final maturity. Unrealised gains or losses were recognised in equity, net of deferred taxes.

**Pension Provisions**
Pension provisions were measured using the projected unit credit method described in IAS 19, an actuarial means of valuation that recognises the present and potential benefits known on the balance sheet date and includes an estimate of anticipated increases in salaries and pensions. Actuarial gains and losses were recognised only where they exceeded a 'corridor' of plus or minus 10% of the accrued benefits, divided by employees' average remaining years of service.

As a rule, in accordance with national and regional regulations, we offer our employees defined-benefit pension plans.

**Other Provisions**
These included all other corporate risks and contingent liabilities to third parties, insofar as an outflow of resources was probable and could be reliably assessed. The amounts disclosed in other provisions represent the best estimate of the expenditure needed to settle current obligations on the balance sheet date. Long-term provisions were disclosed at their present value where the interest effect was substantial.

**Liabilities**
Financial liabilities, with the exception of liabilities arising from finance leases, were initially disclosed at cost of purchase. In future years all liabilities, with the exception of derivatives, will be measured at the amortised cost.

**Derivatives**
In accordance with IAS 39 all instruments such as swaps and future currency contracts were carried at market value. Changes in market value were reported in net profit or loss where no hedge accounting was used.

Where **hedge accounting** was used, changes in market value were reported either in equity or in the income statement. With a **fair value hedge**, changes in the market value of a hedging instrument and the underlying transaction were reported as a profit or loss. With a **cash flow hedge**, the portion of the gain or loss in the hedging relationship that was determined to be an effective hedge was recognised directly in equity and the ineffective portion reported immediately in the income statement. Gains and losses were reported in the income statement until the hedged transaction itself was recognised.

Derivatives in the form of marketable foreign exchange transactions, currency and interest swaps were used to hedge against Group currency and interest risks. Where the conditions defined in IAS 39 for an effective hedging relationship and its documentation were fulfilled, hedge accounting was used, more specifically cash-flow hedges. Futures contracts were the prime hedging instrument against foreign currency risks for projected or existing transactions.

**Deferred Taxes**
Deferred tax assets and liabilities were recognised on temporary differences between IFRS and tax bases for Group enterprises, and in consolidation measures. Differences were calculated using the liability method specified in IAS 12 (revised 2000), and only tax-relevant temporary differences were taken into account. Deferred tax assets also included claims to future tax reductions arising from the anticipated use of existing tax loss carryforwards, where this use was probable. Adequate provision was made against the likelihood that insufficient taxable income would be generated against which a deferred tax asset could be offset. The tax rates used to calculate deferred taxes were the national rates applicable or anticipated at the time of recovery. The effect of changes in tax rates on deferred taxes was reported when such changes came into force.

## (C) Consolidated Companies and Consolidation Principles

**Consolidated Companies**
In addition to Koenig & Bauer AG, Würzburg, the consolidated financial statements include 12 (previous year: 10) subsidiaries.

In 2004 Koenig & Bauer agreed to take over Metronic AG in Veitshöchheim, near Würzburg. The acquisition of Bauer+Kunzi GmbH, Ditzingen (near Stuttgart), was included in the consolidated accounts for the first time on 31 December 2004. If consolidated the previous year, these companies would have increased the Group balance sheet total by 0.9% and revenues by 0.4%. Altogether 17 (prior year: 13) subsidiaries were excluded from the consolidated financial statements since they were of minor significance to the Group's financial position and performance.

A special fund, classified under IAS 27 and SIC 12 as a special-purpose entity, was not included in the consolidated financial statements since it was also of minor significance to the Group's financial position and performance. Available-for-sale financial instruments were carried at market value as per IAS 39.

A list of Koenig & Bauer's investment holdings was filed in the Commercial Register at the Municipal Court in Würzburg under number HBR 109.

**Consolidation Principles**
The capital consolidation of affiliates and the disclosure of business combinations were reported using the book-value method, offsetting the cost of acquiring shares in subsidiaries against the Parent's share of equity at the date of initial consolidation. The difference between purchase cost and the Parent's share of equity was allocated to the subsidiary's assets and liabilities where the difference resulted from undisclosed reserves or liabilities. Any liabilities were offset against equity. Any excess of cost over the amounts allocated was recognised as goodwill. Goodwill generated prior to 1 January 1995 remained netted against reserves as permitted by IAS 22.

Following the prospective adoption of IFRS 3, systematic depreciation no longer applied to goodwill generated after 1 January 2004. Negative goodwill was immediately disclosed as an expense item under administrative expense and the residual carrying amount on 1 January 2004 netted against reserves.

Goodwill was tested for impairment as per IAS 36 and attributed to the smallest identifiable group of assets (creation of cash-generating units). The future cash flows (prior to interest and taxes) generated by such units were determined using long-term planning schedules. The free cash flows thus determined were discounted at a pre-tax interest rate of 9.1%. The discounted free cash flow is the amount recoverable for the unit and corresponds to the value in use. Where the recoverable amount exceeded the carrying amount (goodwill included) of the cash-generating unit, the unit was defined as unimpaired. Where the carrying amount exceeded the recoverable amount, the unit was written down to the lower market value by deducting the impairment loss from goodwill and distributing the difference among the unit assets.

Receivables, liabilities, income and expenses relating to transactions among consolidated companies were eliminated, as were the profits from such transactions. With the exception of goodwill, temporary tax deferrals arising from the consolidation were recognised as deferred taxes under IAS 12.

## (D) Foreign Currency Translation

The financial statements of consolidated companies prepared in a foreign currency were translated using their functional currency and the foreign entity method specified in IAS 21.

Since foreign subsidiaries are financially, economically and organisationally autonomous, their functional currency is the same as their local currency. Their assets and liabilities were therefore translated in the consolidated financial statements at the closing rate, equity items at the historic rate and income and expenses at the average exchange rate for the year. The resulting exchange differences were disclosed in equity.

Goodwill arising from the acquisition of subsidiaries, and adjustments in the carrying amounts of assets and liabilities to fair value, were translated at the closing rate on the date of acquisition.

Monetary items in foreign currency were also translated at the closing rate in the financial statements for the individual companies. The ensuing currency gains and losses were recognised directly as income or expense.

## (E) Notes to § 292a of the German Commercial Code (HGB)

The conditions laid down in the German Commercial Code (HGB), paragraph 292a, for exemption from the preparation of consolidated financial statements in accordance with German accounting and reporting law, were fulfilled as stipulated with additional explanatory notes. The consolidated financial statements and management report, which must be filed with the Commercial Register and published in the *Bundesanzeiger* (*Federal Gazette*), also comply with the European Union Directive on Consolidated Financial Statements (83/349/EEC) as interpreted by German Accounting Standard No. 1, "Exempting Consolidated Financial Statements in Accordance with §292a of the German Commercial Code", issued by the German Accounting Standards Committee.

The basic differences between IAS accounting and consolidating policies and German accounting regulations are detailed below.

**Non-current Assets**

Under IFRS, the systematic depreciation of non-current assets is calculated over their useful economic lives on a straight-line, pro-rata basis, whereas German regulations favour the declining-balance method and simplification rules, with the useful life determined by tax regulations.

The application of IAS 17 led in some cases to a reclassification of operating leases as finance leases and thus to the recognition of their current market value in property, plant and equipment.

According to German accounting regulations, investment subsidies must be disclosed as special items in equity and liabilities. Under IFRS they reduce the cost price.

IFRS stipulates that, under certain conditions, internally generated intangible assets, and more specifically development costs, must be capitalised.

### Inventories

IFRS writes down inventories to the lower net selling price. The prudence principle advocated by German accounting regulations, however, recognises a higher volume of provisions.

IFRS favours the percentage of completion method for disclosing contract revenue and expenses. This is not permitted under German accounting laws.

IFRS does not allow payments received to be deducted from inventories.

### Other Marketable Securities and Liabilities

German accounting law states that financial instruments (securities, receivables and liabilities, derivatives) are to be carried at cost (historical cost method) and at the most prudent value (imparity method in conjunction with the highest and lowest value method). Unrealised gains must not be collected, but provision must be made for anticipated losses related to incomplete contracts. IFRS, on the other hand, stipulates that financial instruments, depending on how they are classified, must be carried at market value, at amortised cost or at the recoverable amount, and derivatives marked to market. Unrealised gains and losses must be disclosed in accordance with IAS 39. With a cash flow hedge, the portion of the gain or loss in the hedging relationship that was determined to be an effective hedge was recognised directly in equity as soon as the hedged transaction itself was recognised.

### Provisions

Pension provisions were reported using the projected unit credit method as per IFRS. This differs from measurement under German accounting regulations in that it factors in projected salary, career and pension trends.

In contrast to German accounting regulations no provisions could be made for expenses.

With IFRS, provisions are measured at the current best estimate, whereas German accounting regulations specify the prudence principle, which leads to higher provisions.

### Deferred Taxes

According to IFRS all deferred tax assets and liabilities must be disclosed, and deferred tax assets created for tax loss carryforwards, if future taxable income is likely to be sufficient. Tax must be calculated according to the tax rate applicable on the balance sheet date. Deferred tax liabilities may be offset against deferred tax assets only if the conditions stipulated in IAS 12 are fulfilled.

German accounting regulations stipulate that deferred tax assets and liabilities need only be created on consolidated transactions. Disclosure of other deferred tax assets is optional, with the proviso that tax loss carryforwards must not be recognised. The current tax rate applies when calculating taxes.

## (F) Non-current Asset Movement Schedule

| | Cost | | | | | | |
|---|---|---|---|---|---|---|---|
| in €m | 01.01.2004 | Group additions[1] | Additions | Translation differences | Reclassi-fications | Disposals | **31.12.2004** |
| **Intangible assets** | | | | | | | |
| Industrial property rights and similar rights | 34.8 | 1.8 | 2.3 | 0.1 | – | 0.5 | 38.5 |
| Goodwill | 21.8 | 3.7 | – | – | – | 11.0 | 14.5 |
| Negative goodwill from capital consolidation | – 0.3 | – | – | – | – | – 0.3 | – |
| Product development costs | 12.4 | – | 3.3 | – | – | – | 15.7 |
| | 68.7 | 5.5 | 5.6 | 0.1 | – | 11.2 | 68.7 |
| **Property, plant and equipment** | | | | | | | |
| Land and buildings | 187.7 | 14.0 | 5.6 | – 0.3 | 0.1 | 0.3 | 206.8 |
| Plant and machinery | 207.8 | 2.4 | 22.9 | – 0.5 | 1.6 | 8.8 | 225.4 |
| Other facilities, factory and office equipment | 94.1 | 3.5 | 17.6 | – 0.2 | 0.4 | 15.2 | 100.2 |
| Advanced payments made and assets under construction | 2.5 | – | 2.2 | – | – 2.1 | – | 2.6 |
| | 492.1 | 19.9 | 48.3 | – 1.0 | – | 24.3 | 535.0 |
| **Financial assets** | | | | | | | |
| Investments in affiliates | 11.2 | – 4.3 | – | – | – | – | 6.9 |
| Loans to affiliates | – | 0.4 | – | – | – | – | 0.4 |
| Investment securities | 2.5 | – | – | – | – | – | 2.5 |
| Other loans | 0.4 | – | – | – | – | 0.2 | 0.2 |
| Claims from life insurance | 8.9 | – | 0.1 | – | – | 0.6 | 8.4 |
| | 23.0 | – 3.9 | 0.1 | – | – | 0.8 | 18.4 |
| | 583.8 | 21.5 | 54.0 | – 0.9 | – | 36.3 | 622.1 |

[1] including reclassifications
[2] impairment in sheetfed division as per IAS 36 €3.4m

| | | | | | | Depreciation | | | Residual value |
|---|---|---|---|---|---|---|---|---|---|
| 01.01.2004 | Group additions | Annual depreciation | Impairments | Write-ups | Translation differences | Disposals | **31.12.2004** | 01.01.2004 | **31.12.2004** |
| | | | | | | | | | |
| | | | | | | | | | |
| 24.5 | 0.5 | 6.0 | – | – | – | 0.5 | 30.5 | 10.3 | 8.0 |
| 11.0 | – | – | 3.4 | – | – | 11.0 | 3.4 | 10.8 | 11.1 |
| | | | | | | | | | |
| – 0.1 | – | – | – | – | – | – 0.1 | – | – 0.2 | – |
| 12.4 | – | – | – | – | – | – | 12.4 | – | 3.3 |
| 47.8 | 0.5 | 6.0 | 3.4[2)] | – | – | 11.4 | 46.3 | 20.9 | 22.4 |
| | | | | | | | | | |
| 59.2 | 3.4 | 5.1 | – | – | – 0.2 | 0.2 | 67.3 | 128.5 | 139.5 |
| 135.1 | 1.9 | 16.3 | – | – | – 0.5 | 7.8 | 145.0 | 72.7 | 80.4 |
| 58.5 | 2.4 | 15.5 | – | – | – 0.1 | 12.8 | 63.5 | 35.6 | 36.7 |
| – | – | – | – | – | – | – | – | 2.5 | 2.6 |
| 252.8 | 7.7 | 36.9 | – | – | – 0.8 | 20.8 | 275.8 | 239.3 | 259.2 |
| | | | | | | | | | |
| 0.7 | 0.2 | – | – | – | – | – | 0.9 | 10.5 | 6.0 |
| – | 0.4 | – | – | – | – | – | 0.4 | – | – |
| 0.2 | – | – | – | 0.1 | – | – | 0.1 | 2.3 | 2.4 |
| – | – | – | – | – | – | – | – | 0.4 | 0.2 |
| – | – | – | – | – | – | – | – | 8.9 | 8.4 |
| 0.9 | 0.6 | – | – | 0.1 | – | – | 1.4 | 22.1 | 17.0 |
| 301.5 | 8.8 | 42.9 | 3.4 | 0.1 | – 0.8 | 32.2 | 323.5 | 282.3 | 298.6 |

# (G) Explanatory Notes to the Balance Sheet

## (1) Non-current Assets

Depreciation on intangible assets and on property, plant and equipment was carried in costs of conversion, selling costs, general administrative costs and other operating expenses. The amortisation of goodwill, and income from the reversal of negative goodwill in the previous year, were shown in the income statement as administrative costs.

Changes and impairments in individual items of non-current assets were disclosed in the non-current asset movement schedule on page 56. The impairment of development assets was disclosed under research and development costs, of goodwill under administrative expenses and of property, plant and equipment under the relevant functions. Impairments resulting from cost-cutting programmes were disclosed under restructuring expenses.

Non-current assets include €0.4m (previous year: €0.2m) for rights arising from finance leases, €0.1m for plant and machinery (€0m) and €0.2m (€0.4m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (10) under sundry other liabilities.

Government grants for promoting investment reduced the carrying amounts for intangible assets by €0.3m and for property, plant and equipment by €12.6m (previous year: €0.3m and €11.3m respectively).

### Intangible Assets

Additions to industrial rights and similar rights related to purchased software and licences.

Goodwill was tested for impairment on the balance sheet date in accordance with IAS 36.

The recoverable amount for KBA-GIORI S.A., Lausanne (goodwill on 31 December 2004: €7.3m), and for Bauer+Kunzi GmbH (acquired in 2003, consolidated on 31 December 2004, goodwill: €3.6m) exceeded the carrying amount (including goodwill) of the cash-generating unit. By contrast, the residual goodwill of €3.4m arising from the business combination with Karat Digital Press GmbH, Radebeul, in 2002 was amortised in full. This was largely due to sluggish growth in the advertising industry, which impacted on the market for short-run colour and thus on Karat sales, despite the launch of new applications.

Development costs are detailed in note (14).

### Property, Plant and Equipment

Additions to property, plant and equipment primarily related to new and replacement plant and machinery as well as other plant.

## Financial Assets

Major interests held by Koenig & Bauer AG are shown in the table below. Unless otherwise indicated, the figures for equity are those disclosed in the single-entity statements audited under the pertinent national accounting laws. Statements in foreign currencies show equity translated at the balance sheet date.

**Company / Seat**

| | Capital share in % | Equity in €m |
|---|---|---|
| **Consolidated affiliates** | | |
| KBA-Mödling AG, Mödling, Austria | >99.9 | 22.8 |
| KBA North America Inc., Wilmington, Delaware, USA | 100.0 | 20.4 |
| KBA-Berlin GmbH, Berlin, Germany | 100.0 | 3.1[1] |
| KBA-Le Mont-sur-Lausanne SA, Lausanne, Switzerland | 100.0 | 32.5 |
| KBA-GIORI S.A., Lausanne, Switzerland[5] | 100.0 | 13.7 |
| Holland Graphic Occasions B.V., Wieringerwerf, Netherlands | 100.0 | – 0.1[2][4] |
| Metronic AG, Veitshöchheim, Germany | 100.0 | 8.1 |
| Bauer+Kunzi GmbH, Ditzingen, Germany | 100.0 | 0.1 |
| **Non-consolidated affiliates** | | |
| KBA (UK) Ltd., Watford, UK | 100.0 | 0.7 |
| KBA-France SAS, Tremblay-en-France, France | 100.0 | 0.4 |
| KBA-Italia S.p.A., Milan, Italy | 100.0 | 1.3[3] |
| KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia | 100.0 | 0.1 |
| KBA (HK) Company Ltd., Hong Kong, China | 51.0 | 0.7 |
| KBA Australasia Pty. Ltd., Lane Cove, Australia | 100.0 | – 0.1[2] |
| KBA NORDIC A/S, Herlev, Denmark | 50.2 | – 0.1[2][4] |
| KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China | 100.0 | 0.2 |
| KBA RUS GmbH, Moscow, Russia | 100.0 | 0.0 |
| Print Assist AG, Höri, Switzerland[5] | 100.0 | 1.9 |
| **Interests** | | |
| KBA Leasing GmbH, Bad Homburg, Germany | 24.9 | – 0.1[2] |
| KBA-GIORI India Private Ltd., New Delhi, India[5] | 50.0 | 0.2 |

[1] A profit and loss transfer agreement with KBA-Berlin exists since 8.4./9.11.1971
[2] Deficit not covered by equity
[3] Figures for 2003
[4] Preliminary figures
[5] Indirect holding via KBA-Le Mont-sur-Lausanne SA

Koenig & Bauer AG took a 73.9% interest in Metronic AG in January 2004 and purchased the remaining 26.1% of the company's shares in September. Metronic, which is situated in Veitshöchheim, a few kilometres from Group headquarters, manufactures industrial ID systems and UV sheetfed presses for printing electronic data storage devices (CDs, DVDs, smart cards).

Ditzingen-based Bauer+Kunzi GmbH, acquired in 2003, was also consolidated in 2004. Bauer+Kunzi is the technology leader in the market for large-format multicolour metal-decorating presses.

Sales by both enterprises were included in full in the Group financial statements. If Koenig & Bauer had owned a 100% interest in both companies on 1 January 2004, Group profit would have been €0.1m higher.

## (2) Inventories

The carrying amount of inventories balanced at net realisable value was €106.9m (previous year: €109m).

| in €m | 31.12.2003 | **31.12.2004** |
|---|---|---|
| Raw materials, consumables and supplies | 49.9 | 54.6 |
| Work in progress | 292.3 | 314.7 |
| Finished goods and products | 2.9 | 4.8 |
| Payments on account | 26.0 | 18.3 |
| | 371.1 | 392.4 |

## (3) Receivables and Other Assets

| in €m | 31.12.2003 | Terms to maturity up to 1 year | 1 to 5 years | more than 5 years | **31.12.2004** | Terms to maturity up to 1 year | 1 to 5 years | more than 5 years |
|---|---|---|---|---|---|---|---|---|
| Trade receivables | 374.1 | 297.7 | 73.5 | 2.9 | 442.1 | 378.6 | 61.3 | 2.2 |
| Other receivables | | | | | | | | |
| - from affiliates | 34.8 | 34.7 | 0.1 | – | 39.7 | 38.6 | 1.1 | – |
| - from companies in which interests are held | 8.3 | 8.3 | – | – | 2.2 | 2.2 | – | – |
| Other assets | | | | | | | | |
| - tax receivables | 8.0 | 8.0 | – | – | 11.3 | 11.3 | – | – |
| - receivables from employees | 5.2 | 5.2 | – | – | 4.8 | 4.8 | – | – |
| - sundry other assets | 70.6 | 53.0 | 16.1 | 1.5 | 49.1 | 35.2 | 12.2 | 1.7 |
| | 126.9 | 109.2 | 16.2 | 1.5 | 107.1 | 92.1 | 13.3 | 1.7 |
| | 501.0 | 406.9 | 89.7 | 4.4 | 549.2 | 470.7 | 74.6 | 3.9 |

Receivables and other assets were measured at their amortised cost. The amounts recoverable in the normal course of business were the carrying amounts.

Adopting the percentage of completion method resulted in €58m (previous year: €17.8m) being carried in **trade receivables**.

Included above are assets of €4.8m held under finance leases totalling €5.6m, with those due in less than one year representing €0.5m of a total of €0.8m. The terms to maturity of the remainder were more than one year but less than five.

**Sundry other assets** contain prepayments of €2.8m (previous year: €3.3m) and other advance payments of €2.9m (€3.7m). Assets from derivatives are detailed in Note (11).

Interest, exchange and credit risks at the balance sheet date related to customer financing and loans to employees and agents. Interest risks are summarised in the table below. Currency risks related to the conclusion of delivery contracts in foreign currencies, usually US dollars. These were hedged using derivatives *(see Note (11))*. Credit risks were contained by creating adequate provisions. Retention of title and hedging via credit insurance were used to minimise risks pertaining to sales. Provisions made in 2004 totalled €19.3m (previous year: €13.3m).

| in €m | 31.12.2003 Carrying amount | Interest rate | Term to maturity in years | **31.12.2004** Carrying amount | Interest rate | Term to maturity in years |
|---|---|---|---|---|---|---|
| Trade receivables | 374.1 | max. 10.2% | up to 8 | 442.1 | max. 10.0% | up to 7 |
| | | | | | | |
| Receivables from affiliates | 34.8 | max. 3.7% | up to 2 | 39.7 | max. 4.5% | up to 2 |
| Receivables from employees | 5.2 | max. 6.0% | up to 5 | 4.8 | max. 6.0% | up to 1 |
| Other loans and assets | 70.6 | max. 8.0% | up to 10 | 49.1 | max. 6.0% | up to 9 |
| | 484.7 | | | 535.7 | | |

## (4) Securities

These mainly refer to fixed-interest securities owned by the Parent and shares in a special fund combining stocks and bonds classified under IAS 39 as available for sale financial instruments. €5.1m (previous year: €6.2m) of this special fund was pledged to employees in order to hedge phased retirement credits.

**Fixed-interest securities** were valued at €7m (2003: €6.7m).

The balanced market value of the **special fund** was €6.9m (previous year: €6.5m).

## (5) Cash and Cash Equivalents

| in €m | 31.12.2003 | **31.12.2004** |
|---|---|---|
| Cheques, cash in hand, balance at Bundesbank | 0.2 | 0.2 |
| Balances with banks | 71.4 | 32.0 |
| | 71.6 | 32.2 |

## (6) Deferred Taxes

Deferred tax assets and liabilities comprised the following:

| in €m | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| | 31.12.2003 | **31.12.2004** | 31.12.2003 | **31.12.2004** |
| **Assets** | | | | |
| Non-current assets | 2.4 | 1.8 | 18.0 | 20.2 |
| Inventories | 8.6 | 12.6 | 2.8 | 2.8 |
| Receivables and other assets | 3.9 | 5.6 | 17.7 | 10.3 |
| Securities, cash and cash equivalents | – | – | 0.6 | 0.8 |
| | 14.9 | 20.0 | 39.1 | 34.1 |
| **Equity and liabilities** | | | | |
| Equity | 0.1 | 0.6 | – | – |
| Provisions | 18.8 | 21.0 | 7.1 | 1.2 |
| Liabilities | 7.3 | 1.2 | 7.2 | 18.1 |
| | 26.2 | 22.8 | 14.3 | 19.3 |
| **Tax loss carryforwards** | 19.3 | 19.0 | – | – |
| **Other** | – 0.2 | – 0.2 | – | – |
| | 60.2 | 61.6 | 53.4 | 53.4 |

Deferred taxes on equity refer to deferred taxes on the translation differences arising from consolidation procedures.

Other deferred tax assets and liabilities include offsetting as per IAS 12 and provisions.

Deferred taxes totalled €8.3m (previous year: €11.2m).

## (7) Equity

Changes in shareholders' equity are described in a separate schedule on page 48.

### Issued Capital

The Parent Company's issued capital at 31 December 2004 totalled 16,214,470 (2003: 16,157,860) no-par shares with a par value of €2.60. The 56,610 increase over the previous year represents the issue of employee shares, using part of the €15.6m capital approved by the AGM on 22 November 2001. The remaining €15m was approved until 22 November 2006. Koenig & Bauer is further authorised to continue buying back shares until 23 December 2005, up to a maximum of one tenth of the issued capital of €42m.

All bearer shares issued were paid up in full.

### Capital Reserve

This included the extra charge from the issue of shares. Our capital reserve rose by €0.9m compared to the previous year, due to the issue of employee shares.

### Revenue Reserves

These encompassed the net profits posted and retained in previous years by consolidated companies, and adjustments arising from the adoption of IFRS. Goodwill and negative goodwill acquired from capital consolidation prior to 1 January 1995 increased revenue reserves by €0.4m, €0.2m of which resulted from netting negative goodwill against revenue reserves as per IFRS 3.

Revenue reserves also included translation differences relating to the financial statements of foreign entities and to changes in the market value of financial instruments after taxes, where these were not recognised as income or expense. The disclosure of original financial instruments raised revenue reserves by €1.3m (previous year: €0.3m).

The use of hedge accounting decreased revenue reserves by €7.4m (previous year: €17m increase). During completion of the underlying transactions €10.9m (previous year: €6.7m) was recognised as income.

Deferred taxes were carried in equity, increasing revenue reserves by €2.4m (previous year: €6.8m decrease).

## (8) Pension Provisions

Pension provisions related to obligations to active and retired employees of Koenig & Bauer AG, and their survivors, from accrued and current benefits. Company pensions are based on a **defined-benefit plan**, with the company meeting all commitments to active and retired employees. Pensions are largely financed through additions to provisions and through a funded benefit system. If fund assets exceed obligations from pension commitments, the excess is capitalised in other assets as per IAS 19. If fund assets do not cover obligations, net liabilities are carried in pension provisions.

The extent of the pension obligation (defined-benefit obligation) was calculated using actuarial methods which necessarily entailed making estimates.

Calculations were based on a discount rate of 4.8% (previous year: 5.4%), or 5.8% (6%) in the USA, a salary increase of 2.2% (2.7%) and a median fluctuation rate of 3.2% (3.5%). Pension adjustments were calculated at 1% (2%).

Pension provisions constituted the following:

| in €m | 31.12.2003 | **31.12.2004** |
|---|---|---|
| Present value of non-funded obligations | 88.5 | 92.7 |
| Present value of funded obligations | 13.0 | 11.8 |
| Current market value of plan assets | – 10.9 | – 10.3 |
| Current market value of obligations (offset) | 90.6 | 94.2 |
| Unrecognised actuarial gains/losses | – 3.9 | – 5.8 |
| Currency gains/losses | – 0.1 | – |
| **Balance sheet value at 31.12.** | 86.6 | 88.4 |
| - pension provisions | 86.6 | 88.4 |

Net liability recognised in the balance sheet changed as follows:

| in €m | | 31.12.2003 | | **31.12.2004** |
|---|---|---|---|---|
| Net liability recognised in the balance sheet at 01.01. | | 82.0 | | 86.6 |
| Annual expense | | 9.1 | | 6.1 |
| - current service cost | (2.7) | | (2.6) | |
| - past service cost | (0.9) | | (–) | |
| - interest cost | (5.5) | | (5.4) | |
| - expected return on assets | (– 0.9) | | (– 0.9) | |
| - recognised actuarial gain/loss | (0.9) | | (–) | |
| - change due to implementation/change of plan | (–) | | (– 1.0) | |
| Benefits paid | | – 4.4 | | – 4.3 |
| Translation changes | | – 0.1 | | – |
| **Net liability recognised in the balance sheet at 31.12.** | | 86.6 | | 88.4 |

The actual return on plan assets was €0.5m (previous year €1.2m).

All pension components were disclosed in the income statement according to their function, with the exception of the interest portion, which was included in interest expense.

Expenses for **defined contribution plans** totalled €1.3m (2003: €2.5m).

## (9) Other Provisions

| in €m | Status on 01.01.2004 | Group additions | Consump-tion | Reversal of provisions | Allocation | Translation difference* | Status on **31.12.2004** |
|---|---|---|---|---|---|---|---|
| Tax provisions | 0.4 | – | 0.2 | – | 1.4 | – | 1.6 |
| | | | | | | | |
| Other provisions | | | | | | | |
| - for employees | 69.5 | 1.3 | 31.0 | 0.3 | 24.9 | – 6.9 | 57.5 |
| - for sales | 63.2 | 1.6 | 5.6 | 3.9 | 18.6 | 0.1 | 74.0 |
| - for sundry other purposes | 89.2 | 3.6 | 59.9 | 3.1 | 43.1 | 6.9 | 79.8 |
| | 221.9 | 6.5 | 96.5 | 7.3 | 86.6 | 0.1 | 211.3 |
| | 222.3 | 6.5 | 96.7 | 7.3 | 88.0 | 0.1 | 212.9 |

* including reclassifications

Tax provisions primarily related to income taxes.

Provisions for employees included holiday and flexitime credits, long-service expenses, credits for pre-retirement part-time plans and performance bonuses. Sales expenses covered provisions for process risks, warranty and commission obligations. Provisions for sundry other purposes primarily related to outstanding invoices.

Personnel expenses and other one-off expenses arising from current cost-cutting initiatives were disclosed in provisions for employees and for sundry other purposes.

The maturity schedule for provisions is given below:

| in €m | 31.12.2003 | Term to maturity up to 1 year | 1 to 5 years | more than 5 years | **31.12.2004** | Term to maturity up to 1 year | 1 to 5 years | more than 5 years |
|---|---|---|---|---|---|---|---|---|
| Tax provisions | 0.4 | 0.4 | – | – | 1.6 | 0.9 | 0.7 | – |
| | | | | | | | | |
| Other provisions | | | | | | | | |
| - for employees | 69.5 | 39.8 | 28.4 | 1.3 | 57.5 | 22.5 | 33.6 | 1.4 |
| - for sales | 63.2 | 56.0 | 7.2 | – | 74.0 | 67.8 | 6.2 | – |
| - for sundry other purposes | 89.2 | 76.4 | 12.5 | 0.3 | 79.8 | 67.5 | 12.0 | 0.3 |
| | 221.9 | 172.2 | 48.1 | 1.6 | 211.3 | 157.8 | 51.8 | 1.7 |
| | 222.3 | 172.6 | 48.1 | 1.6 | 212.9 | 158.7 | 52.5 | 1.7 |

## (10) Liabilities

| in €m | 31.12.2003 | up to 1 year | Term to maturity 1 to 5 years | more than 5 years | **31.12.2004** | up to 1 year | Term to maturity 1 to 5 years | more than 5 years |
|---|---|---|---|---|---|---|---|---|
| Bank borrowings | 148.0 | 115.9 | 19.6 | 12.5 | 137.1 | 101.7 | 22.2 | 13.2 |
| Payments received on account | 216.3 | 216.3 | – | – | 247.9 | 233.4 | 14.5 | – |
| Trade payables | 69.8 | 64.8 | 5.0 | – | 109.9 | 102.5 | 7.4 | – |
| Other liabilities | | | | | | | | |
| - from the issue of promissory notes | – | – | – | – | 5.0 | 1.5 | 3.5 | – |
| - to affiliates | 2.2 | 2.2 | – | – | 0.3 | 0.3 | – | – |
| - from taxes | 8.7 | 8.6 | 0.1 | – | 10.9 | 10.8 | 0.1 | – |
| - from social security and similar obligations | 8.3 | 8.3 | – | – | 8.3 | 8.3 | – | – |
| - from sundry other obligations | 40.1 | 39.5 | 0.6 | – | 24.9 | 23.7 | 1.2 | – |
| | 59.3 | 58.6 | 0.7 | – | 49.4 | 44.6 | 4.8 | – |
| | 493.4 | 455.6 | 25.3 | 12.5 | 544.3 | 482.2 | 48.9 | 13.2 |

The carrying amounts of liabilities largely corresponded to their market value.

Lines of credit not drawn down by the KBA Group totalled €109.7m (previous year: €106.3m). Details of **bank borrowings** relating to existing interest risks are summarised below.

| in €m | Term to maturity in years | 31.12.2003 Carrying amount | Interest rate | **31.12.2004** Carrying amount | Interest rate |
|---|---|---|---|---|---|
| Loans | up to 1 | 61.3 | max. 5.7% | 55.1 | max. 6.7% |
| | 1 to 5 | 19.6 | max. 6.2% | 22.2 | max. 6.7% |
| | 5 to 10 | 12.5 | max. 5.7% | 13.2 | max. 6.7% |
| Bank overdrafts | up to 1 | 54.6 | max. 4.0% | 46.6 | max. 9.0% |
| | | 148.0 | | 137.1 | |

Bank borrowings were secured by mortgages to the value of €18.1m (previous year: €11.1m), the pledging of securities worth €1.3m and the assignment of trade receivables totalling €13.8m (€7.9m).

**Payments received** included contract revenues of €115.1m (previous year: €126.9m).

**Sundry other liabilities** included liabilities from finance leases to the sum of €10.6m (previous year: €6.1m). Sale and leaseback transactions based on customer financing models were concluded, with liabilities offset against accounts receivable to the same amount. Turnover was carried upon delivery of the machinery.

The present value of future payments for finance leases was broken down as follows:

| in €m | 31.12.2003 | Term to maturity up to 1 year | 1 to 5 years | more than 5 years | 31.12.2004 | Term to maturity up to 1 year | 1 to 5 years | more than 5 years |
|---|---|---|---|---|---|---|---|---|
| Minimum lease payments | 7.0 | 2.2 | 4.8 | – | 12.2 | 3.8 | 8.4 | – |
| Interest portion | – 0.9 | – 0.4 | – 0.5 | – | – 1.6 | – 0.7 | – 0.9 | – |
| Present value of finance lease | 6.1 | 1.8 | 4.3 | – | 10.6 | 3.1 | 7.5 | – |

The derivative items included in liabilities for sundry other purposes are explained more fully in Note (11).

## (11) Derivatives

The KBA Group is exposed to numerous risks arising from its global activities.

**Currency risk** is the risk that the value of business transactions conducted in other currencies, particularly US dollars, will fluctuate due to changes in foreign exchange rates.

**Interest rate risk** is the risk that the value of variable-interest monetary investments or borrowings will fluctuate due to changes in market interest rates.

**Credit risk** is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

These risks are contained by a risk management system at Group level. The principles laid down for the KBA Group ensure that risk is assessed and documented in accordance with systematic and uniform procedures. Further information can be found on pages 38 to 41.

Risks were hedged using standard market instruments such as future exchange transactions in tandem with interest and currency swaps.

In 2001 a currency swap with a maturity of 5 years was concluded to hedge current, fixed-term business transactions denominated in US dollars. The notional amount at the balance sheet date 2004 was €25.2m (previous year: €28.5m), of which €12.6m (€19m) had a term to maturity of more than one year.

Forward contracts with a maturity of up to 2 years (2003: 3 years) were used to hedge the calculation rate of additional foreign currency trade contracts. The currencies hedged were primarily US dollars, Swiss francs and sterling.

For the first time, trade contracts worth $30m were hedged via short-term currency options in conjunction with call and put options which lapse if the exchange rate moves outside a specified range prior to the expiry date. An obligation to sell dollars at a pre-agreed rate of exchange is triggered if the currency falls below a specified floor.

The notional amounts underlying derivatives, and their market values, are listed below.

| in €m | Notional amount Total 31.12.2003 | Term to maturity more than 1 year | Market value 31.12.2003 | Notional amount Total **31.12.2004** | Term to maturity more than 1 year | Market value **31.12.2004** |
|---|---|---|---|---|---|---|
| Forward contracts | 153.1 | 26.4 | 22.9 | 132.4 | 6.0 | 16.6 |
| Currency options | – | – | – | 73.5 | – | 0.6 |
| Currency swaps | 33.8 | 24.3 | 8.4 | 32.0 | 17.9 | 7.4 |
| Interest swaps | 30.7 | 20.5 | – 0.7 | 2.0 | – | – |
| | 217.6 | 71.2 | 30.6 | 239.9 | 23.9 | 24.6 |

The **notional amount** of derivatives signifies a calculated reference amount from which payments are deduced. The risk therefore lies not in the notional amount but in changes in the related exchange and interest rates.

**Market value** corresponds to the gains and losses derived from a fictitious offsetting of derivatives on the balance sheet date calculated using standardised measurement procedures.

In the balance sheet the market values were carried as €26.3m (previous year: €46.5m) in other assets and €1.7m (€15.9m) in other liabilities. The effective portion of a cash flow hedging relationship was offset against equity as per IAS 39 and only carried in the income statement when the underlying transaction was completed.

## (12) Other Financial Commitments and Contingent Liabilities

**Other financial commitments**

| in €m | 31.12.2003 | Term to maturity up to 1 year | 1 to 5 years | more than 5 years | **31.12.2004** | Term to maturity up to 1 year | 1 to 5 years | more than 5 years |
|---|---|---|---|---|---|---|---|---|
| Commitments from: | | | | | | | | |
| operating leases | 9.7 | 3.7 | 5.9 | 0.1 | 14.3 | 5.2 | 9.1 | – |
| leasing and service contracts | 12.2 | 3.5 | 8.2 | 0.5 | 13.3 | 3.7 | 8.2 | 1.4 |
| delivery agreements | 23.8 | 23.8 | – | – | – | – | – | – |
| investment plans | 4.3 | 4.3 | – | – | 3.4 | 3.4 | – | – |
| sundry other activities | 1.0 | 0.2 | 0.2 | 0.6 | 0.9 | 0.2 | 0.2 | 0.5 |
| | 51.0 | 35.5 | 14.3 | 1.2 | 31.9 | 12.5 | 17.5 | 1.9 |

Operating leases were mainly negotiated for IT equipment and our vehicle fleet. Leasing payments of €4.7m (previous year: €4.5m) were carried in the income statement. Commitments from operating leases were stated at the minimum lease payments.

Investment plans included commitments to invest in intangible assets to the value of €0.8m (previous year: €0.3m) and in property, plant and equipment to the value of €2.6m (€4m).

Sundry other commitments were carried at their nominal amount and included outstanding ground rent and deposits.

### Contingent Liabilities

These comprised contingencies totalling €248m (previous year: €168.1m) from warranty agreements, and a bill commitment of €10.3m (€2.3m).

Contingencies from warranty agreements primarily related to repurchase guarantees to lessors and banks. The guaranteed repurchase price decreased over the term of the repurchase obligation.

No provisions were created for the contingent liabilities stated. Where existing risks were not classified as minor they were recognised in the balance sheet.

# (H) Explanatory Notes to the Income Statement

## (13) Revenue

Revenue was recognised in accordance with IAS 18 and comprised revenue from sales and from the rendering of services relating to web presses, special presses and sheetfed offset presses. Price reductions, rebates, bonuses and bulk discounts granted to customers were deducted from revenue.

Contract revenue and expenses for big newspaper press lines were calculated using the percentage of completion method specified in IAS 11. Contract revenue totalled €257.1m (previous year: €246.6m), accumulated revenue for contracts not completed by the balance sheet date came to €379m (€324.3m).

Further details can be found in Segment Information, Note (J).

## (14) Expenses by Function

### Costs of Conversion

Costs of conversion included the purchase and manufacturing costs of products sold. In addition to directly attributable material and prime costs these incorporated overheads, depreciation on production plant and inventory adjustments.

Costs of conversion also contained €0.7m in subsidies (previous year: €0.3m) for apprentice training, job promotion, research projects and EU-funded regional subsidies.

### Research and development costs

Research and development costs encompassed costs for original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and these were recognised in full in the income statement together with development costs not recognised by IAS 38. The amortisation and disposal of capitalised development projects were also recognised in R&D costs.

Government research grants for expenses already incurred were recognised at the time of approval, reducing research and development costs by €0.9m (previous year: €1.2m). One condition for the disbursement of funds is that a complete record must be kept of all the costs incurred, and this record was submitted upon completion of the relevant project.

### Distribution Costs and Administrative Expenses

Wherever possible, income and expenses were attributed to their respective functions; those that could not be attributed were disclosed under other operating income and expenses.

The €26.1m increase in distribution costs primarily relates to higher commissions arising from an increase in turnover, the Drupa trade fair and other sales events.

Administrative expenses included €3.4m for the amortisation of goodwill (previous year: €5.8m goodwill depreciation). Following the prospective adoption of IFRS 3 these will no longer feature in future statements.

Negative goodwill of €4.8m resulted from the consolidation of Metronic AG.

## (15) Expenses by Nature

In order to maintain transparency in key items during conversion to the classification of expenses by function, basic expenses are summarised below according to their nature.

**Material costs**

| in €m | 2003 | **2004** |
|---|---|---|
| Cost of raw materials, consumables, supplies and purchased goods | 543.4 | 618.5 |
| Cost of purchased services | 92.0 | 149.0 |
| | 635.4 | 767.5 |

**Personnel costs**

| in €m | 2003 | **2004** |
|---|---|---|
| Wages and salaries | 303.4 | 333.1 |
| Social security and other benefits | 61.8 | 65.0 |
| Pensions | 5.3 | 3.3 |
| | 370.5 | 401.4 |
| | | |
| Average payroll: | | |
| wage-earning industrial staff | 4,085 | 4,053 |
| salaried office staff | 2,724 | 2,847 |
| apprentices/students | 457 | 470 |
| | 7,266 | 7,370 |

## (16) Other Operating Income and Expenses

| in €m | 2003 | **2004** |
|---|---|---|
| **Other operating income** | | |
| Gains from the disposal of non-current assets | 4.1 | 1.1 |
| Foreign currency gains | 1.0 | 1.2 |
| Currency measurement | 4.4 | 9.0 |
| Reversal of write-downs and provisions | 6.6 | 6.7 |
| Sundry other operating income | 11.2 | 5.2 |
| | 27.3 | 23.2 |
| **Other operating expenses** | | |
| Losses from the disposal of non-current assets | 2.3 | 1.0 |
| Currency losses | 12.9 | 9.2 |
| Currency measurement | 1.3 | 9.5 |
| Creation of write-downs and provisions | 11.1 | 19.3 |
| Sundry other operating expenses | 18.7 | 14.3 |
| | 46.3 | 53.3 |
| **Other operating income and expenses** | – 19.0 | – 30.1 |

**Other operating income** included insurance and compensation claims and other refunds. Government subsidies provided under the German Investment Subsidy Law of 1999 amounted to €1.2m (previous year: €1.1m) and subsidies for job promotion €0.1m (€1.3m).

**Sundry other operating expenses** included the loss of receivables outstanding, customer credit notes and the payment of warranty claims.

## (17) Restructuring Expenses

Asset impairments totalling €6.3m in the previous year arose from the closure of our Kusel assembly works and KBA-Berlin GmbH and from the relocation of web press production activities from Mödling to Würzburg. Restructuring expenses also included personnel expenses and other one-off expenses. Expenses incurred in 2004 were covered in full by prior year provisions.

## (18) Financial Result

| in €m | 2003 | **2004** |
|---|---|---|
| **Investment income** | | |
| Income from investments in affiliates | 0.9 | – |
| | 0.9 | – |
| **Interest income/expense** | | |
| Income from other securities and non-current loans | 0.6 | 0.6 |
| Other interest and similar income | 10.9 | 9.6 |
| - from affiliated companies | (0.1) | (0.2) |
| Other interest and similar expense | – 15.0 | – 14.6 |
| | – 3.5 | – 4.4 |
| **Financial result** | – 2.6 | – 4.4 |

### (19) Income Taxes

Tax expense mainly comprised the following:

| in €m | 2003 | 2004 |
|---|---|---|
| Actual tax expense | – 1.6 | – 1.2 |
| Deferred taxes from loss carryforwards | 15.1 | – 0.3 |
| Deferred tax income/expense from temporary differences | 6.1 | – 2.5 |
| | 19.6 | – 4.0 |

| in €m | 2003 | 2004 |
|---|---|---|
| **Pre-tax loss/profit** | – 49.6 | 15.9 |
| Group tax rate | 39.0% | 39.0% |
| **Expected taxes** | 19.3 | – 6.2 |
| Tax effects from | | |
| - variances due to different tax rates | 8.4 | 5.5 |
| - tax-free income | 1.1 | 3.8 |
| - amortisation of goodwill | – 2.2 | – 1.3 |
| - tax decreases and increases | –7.0 | –7.5 |
| - other | – | 1.7 |
| **Taxes on income** | 19.6 | – 4.0 |
| Overall tax ratio in % | 39.5% | 25.2% |

Deferred taxes resulted from temporary differences between the commercial balance sheet and the tax balance sheet, and from differences arising from standard Group measurement and consolidation. Deferred taxes on loss carryforwards were capitalised where there was a likelihood that future taxable income would be sufficient to permit it.

Deferred taxes were calculated at the relevant national tax rates, which in 2004 ranged from 11% to 40%. Reductions in Dutch and Austrian tax rates on the balance sheet date were included.

The Group tax rate was the same as the domestic tax rate, since more than 80% of Group pre-tax profit was generated in the domestic market. The difference arising from calculations based on national tax rates was disclosed separately under "variances due to different tax rates".

The impact of accumulated assets arising from the disclosure of hidden reserves during initial consolidation, adjustments following external audits and the use of loss carryforwards not previously taken into account was of minor significance. Other tax effects included €0.9m in income tax rebates unrelated to the accounting period.

### (20) Earnings per Share

The total number of ordinary shares issued was 56,610 higher than in the previous year due to the issue of employee shares in the third quarter. There was no dilution of earnings per share. In accordance with IAS 33 earnings per share for the previous year were adjusted retrospectively.

| | 2003 | 2004 |
|---|---|---|
| Net loss/profit for the year in €m | – 30.0 | 11.9 |
| Weighted average of ordinary shares issued | 16,174,101 | 16,174,101 |
| **Loss/earnings per share** | – 1.85 | 0.74 |

## (I) Explanatory Notes to the Cash Flow Statement

The cash flow statement as per IAS 7 shows how Group financial resources changed as a result of cash inflows and outflows from operating, investing and financing activities.

Cash flows from operating activities were adjusted for currency translation effects and changes in the number of consolidated companies. Financial resources comprised cash and cash equivalents and securities.

Acquisition costs totalled €4.2m (previous year: €6.8m), with €3m attributable to the issue of 3 million no-par shares in Metronic AG. Both sums were paid in full. They were set against cash and cash equivalents worth €3.3m and €1.9m from the consolidation of an additional enterprise (previous year: €4.2m).

Non-current assets worth €11.9m (previous year: €2.1m), current assets worth €18.1m (€4.4m), liabilities totalling €25.2m (€4.7m) and potential liabilities of €0.6m (€0m) were included in the consolidated financial statements.

Interest expense comprised €6.8m (previous year: €8.3m) in interest received and €8.7m (€10.4m) in interest paid. Tax expense embraced tax refunds of €1.1m (previous year: €1.7m) and payments of €4.5m (€7.9m).

## (J) Segment Information

In accordance with the rules contained in IAS 14, segment information for the KBA Group was broken down into business segments (web and special presses, sheetfed offset presses) as the primary reporting format and geographical segments as the secondary format. The distinction reflects internal reporting structures.

The business segment **web and special presses** encompasses newspaper, commercial, gravure, directory and security presses, industrial ID systems and presses for printing electronic data storage media.

The business segment **sheetfed offset presses** constitutes commercial, book, packaging, metal-decorating and digitally integrated presses.

Segment information was based on the same accounting and consolidation policies as the consolidated financial statements. Internal Group transactions contained in the segment result (operating profit) were priced to market.

There were no inter-segment sales. Non-cash expenses included changes in provisions and the impairment of current assets. Segment assets and liabilities included all assets and liabilities that had contributed to the operating profit generated in the business segment concerned. Segment assets primarily related to intangible assets, property, plant and equipment, inventories, trade receivables, receivables from affiliates and other assets. Segment liabilities basically included other provisions, payments received, trade payables and other liabilities.

Reconciliation related to assets, debts and consolidation between segments.

**Business segments**

| | Web and special presses | | Sheet offset presses | | Consolidation/ reconciliation | | Group | |
|---|---|---|---|---|---|---|---|---|
| in €m | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** |
| External turnover | 614.3 | 706.8 | 617.5 | 716.2 | – | – | 1,231.8 | 1,423.0 |
| Operating profit prior to restructuring expenses | – 21.8 | 10.5 | 19.9 | 9.8 | – | – | – 1.9 | 20.3 |
| Operating profit after restructuring expenses | – 66.9 | 10.5 | 19.9 | 9.8 | – | – | – 47.0 | 20.3 |
| Depreciation | 27.4 | 28.3 | 19.2 | 14.6 | – | – | 46.6 | 42.9 |
| Significant non-cash expenses | 102.9 | 56.4 | 32.1 | 30.2 | – | – | 135.0 | 86.6 |
| Capital expenditure | 27.5 | 21.2 | 15.8 | 32.7 | – | – | 43.3 | 53.9 |
| Assets | 508.9 | 437.5 | 615.2 | 769.5 | 175.3 | 140.9 | 1,299.4 | 1,347.9 |
| Liabilities (with payments received) | 418.4 | 436.0 | 139.5 | 159.6 | 297.8 | 303.4 | 855.7 | 899.0 |

In accordance with IAS 36 the segment result for sheetfed presses shows impairments of €3.4m (previous year: sheetfed offset presses €3.3m, web and special presses €7.3m).

The geographical areas were defined according to their significance for Group income. Other regions encompass Asia, central and south America, Africa and Australia.

**Geographical segments**

| in Mio. € | External turnover 2003 | **2004** | Capital expenditure 2003 | **2004** | Assets 2003 | **2004** |
|---|---|---|---|---|---|---|
| Germany | 155.7 | 200.8 | 29.8 | 42.0 | 892.5 | 983.7 |
| Rest of Europe | 575.1 | 650.3 | 13.2 | 11.3 | 160.1 | 170.3 |
| North America | 201.6 | 219.0 | 0.3 | 0.6 | 71.5 | 53.0 |
| Other regions | 299.4 | 352.9 | – | – | – | – |
| Consolidation/reconciliation | – | – | – | – | 175.3 | 140.9 |
| **Group** | 1,231.8 | 1,423.0 | 43.3 | 53.9 | 1,299.4 | 1,347.9 |

## (K) Proposal for the Utilisation of Net Profit

The single-entity statements for Koenig & Bauer AG were prepared under German accounting and reporting law. The dividend payable to shareholders was based on the net profit disclosed in the financial statements for Koenig & Bauer AG, in compliance with German Company Law. With the approval of the supervisory board a proposal will be submitted to the AGM to utilise net profit totalling €5,050,000 as follows:

Payment of a dividend of 25 cents per ordinary share on 16,214,470 no-par shares €4,053,617.50
Balance carried forward €996,382.50

## (L) Supervisory and Management Boards

Related party relationships as defined by IAS 24 exist between the members of the supervisory board and management board.

Remuneration for active members of management totalled €2.5m (previous year: €1.3m), with fixed remuneration representing €1.2m (previous year: €1.3m) and variable remuneration €1.3m. Performance-related variable remuneration was based on net profit. Remuneration for retired members and their survivors stood at €2.2m (€0.9m). Supervisory board remuneration totalled €0.2m (€0.1m), €0.1m of which was variable.
No performance-related pay was awarded members of the supervisory or management boards for the 2003 business year.

€13.1m (previous year: €13.4m) was set aside for pension claims by active and retired members of the management board, and their survivors.

At 31 December 2004 members of the management board held 3.3% and members of the supervisory board 6.5% of Koenig & Bauer share capital, giving a total of 9.8%.

There were no other transactions with related parties.

### Other information

A declaration of compliance was issued in accordance with §161 of German Company Law and made permanently accessible under www.kba-print.de/en/investor/corporate_governance.html.

## Supervisory Board

**Peter Reimpell**
Chairman
Banker
Munich

**Dr Hans-Bernhard Bolza-Schünemann**
Deputy chairman
Engineer and physicist
Würzburg

**Gottfried Weippert***
Deputy chairman
Technician
Eibelstadt

**Beate Grabmair****
Translator
Frankenthal

**Peter Hanzelka***
Milling machine operator
Coswig

**Rupert Hatschek**
Investment manager
Vienna, Austria

**Alfred Kuffler***
Representative of IG Metall
Frankenthal

**Dieter Rampl**
Spokesman for the management board
Bayerische Hypo- und Vereinsbank AG
Munich

**Werner Ring***
Representative of IG Metall
Würzburg

**Klaus Schmidt***
Director Marketing/Corporate Communications
Hettstadt

**Reinhart Siewert**
Industrial economist
Würzburg

**Prof Horst Peter Wölfel**
Professor of engineering dynamics
Technical University Darmstadt
Höchberg

* elected by the workforce
** appointed on 26 June 2003 by the municipal court

## Committees

**Mediation committee as per § 27 (3) of the Law on Codetermination**
Peter Reimpell
Rupert Hatschek
Klaus Schmidt
Gottfried Weippert

**Human Resources Committee**
Peter Reimpell
Rupert Hatschek
Dr Hans-Bernhard Bolza-Schünemann
Gottfried Weippert

**Financial Audit Committee**
Dr Hans-Bernhard Bolza-Schünemann (until 15.09.2004)
Peter Reimpell
Reinhart Siewert (from 15.09.2004)
Peter Hanzelka
Gottfried Weippert

## Management Board

**Albrecht Bolza-Schünemann**
President and CEO
Radebeul/Würzburg

**Claus Bolza-Schünemann**
Deputy president
Würzburg

**Dr Frank Junker**
Radebeul

**Peter Marr** (until 29.04.2004)
Waldbüttelbrunn

**Andreas Mössner**
Radebeul

**Walter Schumacher**
Gerbrunn

## Other positions held by members of the Koenig & Bauer AG supervisory board

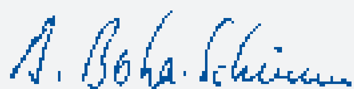
| | Member of the supervisory board at: |
|---|---|
| Dr Hans-Bernhard Bolza-Schünemann<br>Deputy chairman | Körber AG, Hamburg |
| Rupert Hatschek | Wienerberger AG, Vienna<br>KBA-Mödling AG, Mödling |
| Dieter Rampl | Bayerische Börse AG, Munich<br>Bavaria Film GmbH, Munich<br>Bavaria Filmkunst GmbH, Munich<br>Bode Grabner Beye AG & Co. KG, Grünwald<br>FC Bayern München AG, Munich |
| Reinhart Siewert | KBA-GIORI S.A., Lausanne<br>KBA-Mödling AG, Mödling<br>Metronic AG, Veitshöchheim |

## (M) Events after the Balance Sheet Date

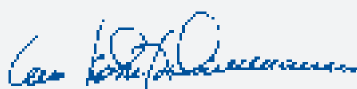
At the beginning of March 2005 Koenig & Bauer announced the acquisition of Czech press manufacturer Grafitec, spol. s r.o. in Dobruška near Hradec Králové. The new subsidiary, which employs approximately 400 people, has been renamed KBA-Grafitec. The acquisition is a strategic move to expand market share in small-format sheetfed offset.

Consolidation is scheduled for 1 April 2005 following the adoption of Group accounting policies. Further information relating to IFRS 3 will not be available until Group accounting policies have been adopted.

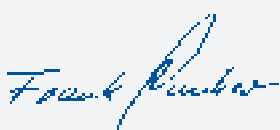
Würzburg, 9 March 2005
Management Board



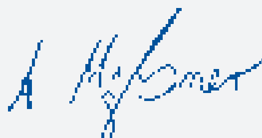
Albrecht Bolza-Schünemann
President and CEO



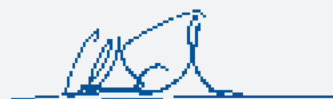
Claus Bolza-Schünemann
Deputy president



Dr Frank Junker



Andreas Mössner



Walter Schumacher

# Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Koenig & Bauer Aktiengesellschaft, Würzburg, for the business year from 1 January to 31 December 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

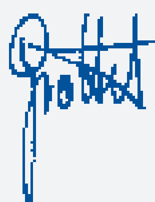
We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the Group management report prepared by the Company's management for the business year from 1 January to 31 December 2004, has not led to any reservations. In our opinion, on the whole the Group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the business year from 1 January to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the Group management report in accordance with German law.

Munich, 9 March 2005

Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Auditors and Tax Consultants



Dr Grottel
Auditor

Mühlhuber
Auditor

# Balance Sheet for Koenig & Bauer AG to 31 December 2004

under German Commercial Code (HGB)

## Assets

| in €m | 31.12.2003 | **31.12.2004** |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 6.9 | 3.9 |
| Property, plant and equipment | 156.7 | 165.1 |
| Financial assets | 50.2 | 53.6 |
| | 213.8 | 222.6 |
| **Current assets** | | |
| Inventories less payments received | 110.7 | 61.1 |
| Trade receivables | 326.0 | 370.9 |
| Other receivables and assets | 116.9 | 114.7 |
| Securities | 11.7 | 11.9 |
| Cash and cash equivalents | 29.5 | 15.7 |
| | 594.8 | 574.3 |
| | | |
| **Prepayments** | 1.2 | 1.4 |
| | 809.8 | 798.3 |

## Equity and liabilities

| in €m | 31.12.2003 | **31.12.2004** |
|---|---|---|
| **Equity** | | |
| Issued capital | 42.0 | 42.2 |
| Capital reserve | 82.2 | 83.1 |
| Revenue reserves | 247.9 | 209.2 |
| Net loss/profit | – 38.7 | 5.1 |
| | 333.4 | 339.6 |
| | | |
| **Special items with equity portion** | 10.9 | 11.5 |
| | | |
| **Provisions** | | |
| Pension provisions | 59.9 | 61.6 |
| Tax provisions | 0.2 | 0.2 |
| Other provisions | 190.4 | 163.2 |
| | 250.5 | 225.0 |
| **Liabilities** | | |
| Bank borrowings | 105.3 | 91.6 |
| Trade payables | 52.9 | 84.8 |
| Other liabilities | 56.8 | 45.8 |
| | 215.0 | 222.2 |
| | 809.8 | 798.3 |

# Income Statement for Koenig & Bauer AG for 2004

under German Commercial Code (HGB)

| in €m | 2003 | **2004** |
|---|---|---|
| Revenue | 1,104.6 | 1,230.3 |
| Costs of conversion | – 901.0 | – 1,006.2 |
| **Gross profit** | 203.6 | 224.1 |
| Distribution costs | – 88.8 | – 106.9 |
| Administrative expenses | – 47.6 | – 48.9 |
| Other operating income | 16.4 | 12.7 |
| Other operating expenses | – 78.2 | – 73.8 |
| **Profit from operations prior to restructuring expenses** | 5.4 | 7.2 |
| Restructuring expenses | – 32.1 | – |
| **Profit/loss from operations less restructuring expenses** | – 26.7 | 7.2 |
| Financial result | – 12.0 | – 1.1 |
| **Profit/loss from ordinary activities** | – 38.7 | 6.1 |
| Income taxes | – | 0.2 |
| Other taxes | – 0.9 | – 1.2 |
| | | |
| **Net profit/loss for the period** | – 39.6 | 5.1 |

The basic differences between HGB and IFRS are elucidated in (E) Notes to §292a of the German Commercial Code.

## Key Financial Dates

Interim report on 1st quarter 2005
13 May 2005

Koenig & Bauer Annual General Meeting
23 June 2005
Congress Centrum Würzburg

Interim report on 2nd quarter 2005
12 August 2005

Interim report on 3rd quarter 2005
15 November 2005

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**KBA Consolidated Financial Statements**

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