KBA
Koenig & Bauer Group

Consolidated Financial Statements 2007

At a Glance

KBA Group in Figures

€m

	2003	2004	2005	2006	**2007**
Order intake	1,255.8	1,459.1	1,768.9	1,649.7	1,546.9
Sales	1,231.8	1,423.0	1,621.0	1,741.9	1,703.7
Order backlog at 31.12.	856.9	893.0	1,040.9	948.7	791.9
Operating profit/loss	–47.0*	20.4	33.3	46.2	65.7
Earnings before taxes	–49.6	16.0	25.8	47.4	63.2
Net profit/loss	–30.0	11.8	18.5	34.3	49.0
Balance sheet total	1,299.4	1,344.4	1,395.1	1,394.2	1,366.6
Intangible assets, property, plant and equipment	260.2	275.5	270.3	293.1	290.3
Equity (without proposed dividend payment)	443.7	441.2	441.5	468.1	505.3
Investment in intangible assets, property, plant and equipment	45.3	57.6	39.5	54.3	50.7
Depreciation on intangible assets, property, plant and equipment	57.2	45.5	40.5	41.9	50.2
Payroll: annual average	7,266	7,370	7,882	8,269	8,250
Cash flows from operating activities	61.6	38.1	174.6	90.0	21.3
Dividend paid per share in €	–	0.25	0.40	0.50	0.60

* including €45.1m restructuring expenses

KBA COMMANDER CT

GENIUS52UV

Contents

Introduction 6-13
Foreword 6
Supervisory Board's Report 10

Management Report 16-51
Share Capital, Executive Bodies and Approved Capital Initiatives 16
Business Environment and Activities 18
International Group Organisation and Financial Controls 20
Global Operations 21
Purchasing, Production and Organisation 22
Research and Development 25
Market and Industry Environment 2007 26
Earnings, Finances and Assets 28
Earnings 28
Finances 33
Assets 34
Summary of Earnings, Finances and Assets 35
Supplementary Statement 36
Risk Management 38
Outlook and Opportunities 42
Human Resources and Welfare 46
Sustainability Report 50

Other Reports 52-55
KBA Shares 52
Corporate Governance Report 54

Financial Statements for the KBA Group 57-91
Balance Sheet 58
Income Statement 59
Statement of Changes in Shareholders' Equity 60
Cash Flow Statement 61
Notes 62-91
Supervisory Board 90
Management Board 90
Proposal for the Utilisation of Retained Earnings 91
Events after the Balance Sheet Date 91

Responsibility Statement 92

Auditor's Opinion 93

Additional Information 94-96
Balance Sheet and Income Statement for Koenig & Bauer AG under German Commercial Code (HGB) 94
Key Financial Dates/Contacts 96

Major Events in 2007

January: Following the successful completion of a major project comprising eleven KBA web presses, prominent Italian media enterprise Rizzoli Corriere della Sera (RCS) orders four Commander 4/1 presses for operations in Milan, Padua and Rome

February: At the Graphispag trade fair in Barcelona KBA's focus on its pioneering role in environmentally friendly print production results in a string of sales, including coater versions of our giant Rapida 205

March: The first KBA Cortina with a heatset capability rolls into action at media enterprise De Persgroep's new Eco Print Center in Belgium. Both waterless and keyless, the heatset Cortina can print high-quality newspapers and semi-commercial supplements with no time-consuming changes of ink

April: A KBA employee, Eva Barthelme, is crowned Franconia's new Wine Queen.

At the Print China trade fair in Dongguan KBA exhibits an upgrade of the proven Rapida 105 universal medium-format press

May: As the test phase draws to a successful conclusion at the *Main-Post* in Würzburg, longstanding Spanish customer Heraldo de Aragón in Saragossa becomes the first foreign newspaper publishing house to award a contract for a new compact conventional press, the KBA Commander CT

June: Kassel-based German newspaper publishing house Dierichs inaugurates four KBA presses at a new plant in Waldau. One, a Commander, prints a national tabloid, the *Bild-Zeitung*, while the other three, all KBA Colora presses, print the *HNA*, a regional broadsheet

Prominent French newspaper *Le Figaro* signs up for a KBA Cortina multi-unit waterless press line

L-r:

Eva Barthelme, the 2007 Franconian Wine Queen, is a KBA employee

Christoph Müller, KBA executive vice-president for web press sales, with Axel Springer board members Rudolf Knepper and Dr Mathias Döpfner

Premiere in Belgium: waterless heatset offset production with the KBA Cortina at De Persgroep's Eco Print Center

July: An order from Dansk AvisTryk in Glostrup, near Copenhagen, for a KBA Commander 6/2 press line underscores KBA's prowess in providing highly sophisticated press lines

KBA wins the prestigious PIA/GATF InterTech Technology Award for the third time in succession. Following the world's biggest sheetfed offset press, the Rapida 205, in 2005 and the ultra-compact Genius 52UV in 2006, KBA carries off the 2007 award with a no-sidelay infeed for the 18,000sph Rapida 105 medium-format press

August: On 9 August Koenig & Bauer commemorates the 190th anniversary of its foundation by Friedrich Koenig and Andreas Bauer in a secularised monastery in Oberzell, near Würzburg – the origin of all German press manufacturers

September: Around 500 trade professionals attend a demonstration at KBA Radebeul on a high-performance Rapida 105 of new DriveTronic SPC dedicated plate-cylinder drives, which boost productivity by allowing simultaneous plate changes

Just one week later the compact conventional Commander CT newspaper press developed in close collaboration with the *Main-Post* is officially unveiled in Würzburg under the banner "The Future is Compact"

October: A contract for a Cortina press line continues an association with M. DuMont Schauberg in Cologne that dates back some 175 years

Veteran KBA user Frankfurter Societät in Mörfelden pushes the button on a new KBA Compacta 618 commercial web offset press

November: At West Australian Newspapers in Perth the world's biggest hybrid press line, comprising a Colora and a Comet, starts printing coldset newspapers with heatset covers, sections and supplements in one pass

Glama Pak in Melbourne orders its third large-format Rapida press line from KBA Australasia

December: The newspaper division books its biggest single order of the year, for seven Prisma presses totalling 25 towers, from India's Diligent Media Corporation and DB Corporation, both owned by the Dainik Bhaskar Group (DB Group) in Mumbai

Asia's first superlarge-format Rapida is shipped to Shanghai, China

L-r:

Partners in the development of the ultra-compact Commander CT: Andreas Kunzemann and David Brandstätter of Mediengruppe Main-Post with Claus Bolza-Schünemann of KBA

The DriveTronic SPC direct plate-cylinder drives on the Rapida 105 represent a milestone in sheetfed offset technology

Cologne publishing house M. DuMont Schauberg continued a 175-year association with an order for a waterless KBA Cortina

Foreword

In 2007 the subprime mortgage crisis sent the US economy into a tailspin, pushing the euro to an unexpected record high. But despite the challenges this posed for an export-driven enterprise such as ours, I am happy to report that we achieved the targets we had disclosed in the spring. At €1,703.7 million, KBA Group sales were more or less on a par with the previous year (€1,741.9m), while pre-tax earnings climbed from €47.4m to €63.2m. In view of the steeper costs incurred for wages and raw materials, the impact of currency movements and the extraordinary expenses associated with trimming capacity at our web press production plants, this was no mean feat. Even so, with growth slowing in the printing-press industry and our export markets, we must now redouble our efforts.

The economic downturn in the USA and the ensuing credit crunch, which rapidly spread to many other markets, naturally left their mark. At KBA, the volume of new contracts awarded in the second half of the year, particularly for sheetfed presses, fell short of expectations, being 6% lower than twelve months earlier. German competitors were also adversely affected. While demand in domestic and European markets remained firm, the German press manufacturing sector was unable to keep pace with other branches of the engineering industry. In September 2007 a sustained lack of demand for rotogravure presses prompted the divestment of this business unit to an Italian competitor, Cerutti. Although demand for newspaper presses, which had softened perceptibly in recent years, failed to pick up speed, we posted a moderate rise in order bookings compared to 2006 and increased our market share. Contracts for security presses failed to match the previous year's high level, and growth in other niche markets did not fully compensate for this.

**KBA management board (l-r):
Ralf Sammeck,
Dr Frank Junker,
Albrecht Bolza-Schünemann
(president and CEO),
Claus Bolza-Schünemann
(deputy president),
Christoph Müller**

Current developments nonetheless confirm the wisdom of our systematic expansion into profitable niche markets such as security printing, metal decorating, UV printing, inkjet and laser coding.

In mature markets, fierce competition between print and e-media has caused printers and publishers alike to realign their activities, scaling back investment in multi-unit press lines. Furthermore, the expansion of colour capabilities which fuelled sales of newspaper presses in 2004 and 2005 has largely been completed, at least in Europe, so it is no coincidence that the two biggest single orders we received in the past fifteen months were placed by publishers in two dynamic emerging markets, India and Turkey.

The management board's decision last autumn to downsize capacity at our web press factories was thus a logical move in the Group's development. Technologically, KBA is well equipped to address the needs of the newspaper industry.

This applies equally to sheetfed, where our cutting-edge technology has enabled us to carve out a sizeable share of the market, particularly for medium- and large-format presses and in the packaging sector, which is less media-dependent and therefore less volatile. With currency movements continuing to impact on our export prospects, cost cutting remains a primary focus. The advances made over the past twelve months were not enough to offset price pressures. If the Drupa international trade fair in late May and early June does not provide the stimulus we anticipate, then we do not exclude the possibility of a capacity adjustment in the sheetfed division following two-and-a-half decades of exceptional growth.

A number of major contracts booked in the past three months have given a modest boost to the volume of unfilled orders for web presses. Provided the global economy remains on a relatively steady footing, we anticipate Group sales for 2008 of around €1.6 billion and Group earnings before taxes (EBT) on a par with 2007. But in view of the current scenario and the associated risks, we are unable to make more precise projections at this point in time. When Drupa closes its doors in June we shall have a clearer idea of developments in key overseas markets, the investment climate in our industry and our prospects for the rest of the year and beyond.

Würzburg, 4 March 2008
Koenig & Bauer Management Board

Albrecht Bolza-Schünemann
President and CEO

Dieter Rampl,
Chairman,
Koenig & Bauer AG

Supervisory Board's Report

In the fiscal year under review 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 it by law and the statutes. The members of the supervisory board were closely involved in all corporate decision-making processes of any import, passing the pertinent resolutions only after rigorous scrutiny.

A total of four 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, on Group performance and individual business operations, and on fundamental matters of corporate policy, management and strategy. Alongside market developments and the potential these offered, the emphasis was on investment, personnel policy, risk, compliance and developments at major subsidiaries.

The March meeting was largely devoted to scrutinising, discussing and approving the financial statements. Current financial data, Group competitiveness and prospects in core markets were reviewed at the meeting on 18 June. In September, Group performance in the first half-year and management projections for 2006 were on the agenda, as were strategic considerations relating to the web press division. The sale of Group rotogravure activities to Cerutti of Italy was approved unanimously. The November session focused on investment plans for 2008 and on sheetfed strategy.

Between the plenary sessions I fulfilled and co-ordinated the monitory and advisory functions pertaining to my position as chairman, both in meetings with the management board and in various committees. Albrecht Bolza-Schünemann provided regular updates on all significant procedures and developments within Koenig & Bauer and the Group. In addition routine transactions and emerging trends were discussed in detail.

To enhance its efficiency the Koenig & Bauer supervisory board has appointed three committees whose task is to formulate supervisory board resolutions and any issues that are to be raised in plenary meetings. The human resources (executive) and audit committees convened a number of times in 2007. The mediation committee stipulated in section 27 (3) of the Law on Codetermination did not convene in 2007.

The audit committee reviewed the financial statements, management reports and auditors' reports for Koenig & Bauer and for the KBA Group, with the auditors summarising the results of their audit. In my capacity as chairman of the supervisory board I attended the audit meeting between management and the auditors on 4 March 2008. Other topics on the agenda were the quarterly reports and the monitoring of auditor independence and efficiency. The audit committee also examined the Group's risk management system, internal audit and compliance. The executive committee deliberated on issues relating to personnel, for example the renewal of executive contracts, and corporate governance.

The supervisory board routinely monitors changes to the German Corporate Governance Code. The update issued on 14 June 2007 was appraised and recommendations relating to its implementation discussed. The declaration of compliance was amended accordingly and in February 2008 duly disclosed. With a few minor exceptions, KBA is in full compliance with the Code.

The financial statements, management reports and method of accounting for Koenig & Bauer and for the KBA Group to 31 December 2007 were examined by PricewaterhouseCoopers and awarded the auditor's certificate unreservedly (*see page 93*). The statements and reports for the Parent and the Group, the auditors' reports and the proposal for the utilisation of retained earnings 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 the supervisory board. After conducting its own review the supervisory board raised no objections to the financial statements and management report for the Parent, and at its meeting on 27 March 2008 officially approved the year-end financial statements submitted by the management board. The financial statements and management report for the Group were also reviewed and approved, as was the management board's proposal for the utilisation of retained earnings.

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, 27 March 2008
Koenig & Bauer AG
Supervisory Board

Dieter Rampl
Chairman

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Management Report

Share Capital, Executive Bodies and Approved Capital Initiatives

The Parent Company's share capital on 31 December 2007 was valued at €42,486,054, divided among 16,340,790 bearer shares with a nominal value of €2.60 apiece. Every no-par share conveys a voting right in accordance with section 12 (7) of the articles of association, and a share of profits. There are no restrictions on voting rights, the transfer of shares or special powers, though all employee shares are subject to a three-year disposal ban. 10.3% of all voting rights are retained by K&B-Holding GmbH in Würzburg, no other capital shareholding exceeds 10%.

Members of the management board are appointed and dismissed, and amendments made to the articles of association, in accordance with statutory regulations (sections 84, 85 and 179 AktG). Under section 17 the supervisory board is authorised to update the articles of association subsequent to resolutions passed by the AGM relating specifically to the utilisation of the approved capital.

In accordance with the compensation system currently in force, all the members of the Koenig & Bauer management board draw a basic salary plus a bonus calculated solely on annual profit. Supervisory board remuneration is laid down in section 11 of the articles of association, which specifies a fixed lump-sum payment of €100,000 per year. Following the conclusion of the AGM, which controls the utilisation of retained earnings, the supervisory board receives a variable component comprising 5% of the dividend sum less 4% of equity capital. Share options and other share-based benefits form no part of board remuneration.

Approved capital utilised once again for employee shares

Of the increased share capital approved by the shareholders' meeting on 22 June 2006, €15,496,936 was available at the beginning 2007 and, as specified in section 4 (3) of the articles of association, may be drawn on until 21 June 2011. The management board was authorised to offer employees 15 or 20 new, no-par bearer shares at a preferential price of €23.40. Just under one-third of the workforce took advantage of this offer and on 9 October 36,390 employee shares were issued, with pre-emption rights cancelled in accordance with section 4 (3) of the articles of association. At the end of the year approved capital amounted to €15,402,322 or 5,923,970 no-par shares. A total of 548,970 shares are still available for issue to employees, who since 2002 have purchased 340,790 company shares, or 2.1% of our subscribed capital.

Authority to buy back shares

The AGM on 19 June 2007 also authorised the management board to buy and sell company shares, disbarring all pre-emption rights. The company can buy a maximum of 10% of the equity capital of €42,391,440, with repurchasing to be completed by no later than 18 December 2008, but preferably by the end of the next AGM. This authorisation is purely a contingency resolution authorising Koenig & Bauer to repurchase shares at short notice and use them as a negotiating tool for acquisitions of other companies or shareholdings. No shares had been repurchased by 31 December 2007.

The launch of direct plate-cylinder drives underscored once again the technological superiority of our high-performance Rapida 105 in the B1 format

Disclosures pursuant to section 315 (4) 8 and 9 HGB

No fundamental agreements were made containing special clauses concerning the possibility of a change in control or the acquisition of control following a takeover bid. No compensation agreements exist for this eventuality with either the members of the management board or the workforce.

Business Environment and Activities

Proven competence in multi-unit press lines, batch-based and niche products

Our Würzburg-based Parent, Koenig & Bauer AG (KBA), dates back to 1817 and is thus the original and oldest press manufacturer on the planet. Since going public in 1985 it has evolved into one of the leading press manufacturers worldwide, with the broadest product offering in the industry. In addition to its outstanding position in volume markets such as newspapers and litho, KBA is also an extremely successful niche placer, systematically pursuing a policy of expansion through strategic acquisitions in less competitive, potentially more profitable markets.

Our factories in Würzburg, Frankenthal and Trennfeld primarily build customised, multi-unit web presses for newspaper and commercial printers. Our production plants in Radebeul and Dobruška (Czech Republic) manufacture batch-based small- to superlarge-format sheetfed offset presses for printing books, packaging and commercials. Special presses for banknotes and securities, metal decorating, plastic cards, data storage media and industrial coding are built by our subsidiaries in Germany, Austria and Switzerland. This blend of volume and niche products helps counteract volatility in major sectors, reduces economic risks and gives KBA a unique level of competence in a wide range of processes and applications.

Group statements and reports differentiate between our batch-based sheetfed division and our web and special press division, which builds big mainstream and small niche presses. In 2007 both business divisions contributed more or less equally to a Group total of €1.7 billion, roughly the same as the previous year.

For KBA as an export-driven enterprise, high-growth economies in the Middle and Far East have rapidly gained in significance alongside North America, a more established market. Nonetheless, Europe (with Germany) is still our largest market, taking more than 60% of sales. Sales in North America, Asia and the Pacific were below the average level of recent years.

In 2007 we booked a big increase in orders for Compacta commercial web offset presses

ERFOLGE

International Group Organisation and Financial Controls

Long-term, sustainable corporate strategy

Koenig & Bauer went public more than twenty years ago, and remains committed to shareholder value and compliance with compulsory disclosure as specified in the Prime Standard and the Corporate Governance Code. Nonetheless, our corporate culture and philosophy are in many ways more similar to the hundreds of family-run businesses that have helped make the German engineering industry such a global success. KBA is still headed by descendants of the founders who, in 1817, established one of the first machine manufacturing plants in Germany. Now in the sixth generation, the family remains a defining power even after transforming the company into an international player. Its influence is evident in our long-term strategic focus, which is based on reliability and sustainable growth rather than short-term returns. This engenders the customer loyalty so crucial to success in the capital goods sector, and also the trust of our suppliers, staff and risk-averse investors.

Alongside organic growth in what are traditionally our prime markets, over the past few years we have pursued strategic acquisitions to boost earnings and reduce our dependence on print sectors exposed to volatile advertising cycles and competition from new media. The acid test for all acquisitions is that they must be compatible with and signally enhance our core competence, printing technology. With the industry experiencing wrenching change, the management board does not exclude the possibility of expansion into further new business fields in the medium term as a means of diversifying risk.

Changes in the media arena and the prospect of a medium-term volume reduction in the newspaper sector were also the reasons for the additional adjustment announced in September 2007 in our web press production capacity. Pursuing long-term strategies can occasionally entail disinvestments as well as acquisitions. In either case, market forces prevail. Even so, the decision to sell our rotogravure business to our Italian competitor Cerutti was not made lightly after such a long and successful engagement.

We deploy financial control mechanisms at Group level to monitor the gross profit margin, the net operating margin, the order intake and the cash flow. A performance-related graduated bonus system based on individual targets for all executives and many workers ensures that management and staff are fully committed to achieving Group objectives.

Last year the soaring cost of raw materials and energy, upward pressure on wages and relentless downward pressure on the prices of our products were exacerbated in dollar-denominated markets by the sustained strength of the euro. An internal and external organisational realignment, and product enhancement to address more sophisticated demands, thus remained an ongoing priority. Collaboration among sales, project management, development and production staff was intensified still further to enhance cost efficiency (target costing).

Investment activities in 2007 focused on expanding distributed manufacturing. In view of the inherent volatility of the printing press sector we have sought to reduce costs and improve plant utilisation by concentrating on the production of core components. Other parts are routinely outsourced.

The KBA Group's corporate culture and image are summarised in guiding principles formulated in 1994 and founded on customer satisfaction, staff skills, innovation, product quality and an enduring commitment to social responsibility and the environment. In keeping with this philosophy we offer a range of staff incentives that include basic and

further training, employee shares and a company suggestion scheme, and are actively engaged in quality management, in-house environmental stewardship and work safety. In addition our various facilities have a long tradition of promoting regional culture and economies.

Below-average levels of sickness and staff churn, and an unusually large number of long-service employees, are evidence of staff loyalty and motivation (*see Human Resources and Welfare on page 46*). On 1 January 2008 a new collective wage agreement was adopted at our plants in Frankenthal and Radebeul. Conservation has historically ranked high in our corporate policy and internal processes. One example of our engagement is waterless offset technology, which we have actively advanced for many years now.

Global Operations

US stalls while Europe gathers speed

Koenig & Bauer has been an international player ever since it was founded in 1817. At present KBA has foreign subsidiaries in nineteen countries (*see Notes, page 73*). In conjunction with a network of sales and service subsidiaries and our authorised agencies – many of which would also be eligible for long-service medals – they ensure a presence in virtually every major printing press market the world over.

KBA has eight factories in Europe: six in Germany and one each in Austria and the Czech Republic. Most components are sourced in Europe, though the proportion of non-European suppliers is steadily increasing.

Last summer, as announced, our web press manufacturing and assembly plant in York, Pennsylvania, was closed down and the premises sold. Some of the staff relocated to what is now our main subsidiary in the US, KBA North America Inc. in Williston, Vermont. Others joined a new spare-parts and service centre near the airport at Dallas/Fort Worth. By the end of the year KBA (NA) had around 180 employees. With demand slack in the North American newspaper industry, the weak dollar inflating the price of German presses and the mortgage and credit crises impacting on growth, KBA North America experienced a challenging year. The volume of new business shrank by one-third while sales, most of which are generated by sheetfed presses, slid by more than one quarter to $150m. As a result KBA (NA) finished the year with an operating loss.

A large backlog of orders for security presses and work for our sheetfed facility in Radebeul pushed up sales at our Austrian subsidiary, KBA-Mödling, by more than 5%. The payroll swelled by 13 to 819.

In the second full year since its acquisition by Koenig & Bauer our Czech subsidiary, KBA-Grafitec in Dobruška, posted a healthy profit on a 17.4% jump in sales of small-format Performa presses to €43.1m, and increased the payroll by 24 to 500.

New orders, sales and earnings also improved at KBA-Metronic, one of the subsidiaries integrated in our web and special press division. Based in Veitshöchheim, not far from our Würzburg headquarters, KBA-Metronic is a niche manufacturer of UV offset presses and industrial coding systems. After successfully implementing a rationalisation programme a few years ago it has maintained strong growth, raising the number of employees by 45 to 336. In 2007 the company boosted sales by almost 7% to €46.6m, and posted a profit.

Our Dutch subsidiary Holland Graphic Occasions (HGO) in Wieringerwerf, which serves the market for second-hand printing equipment, posted a profit on sales of €15.5m with 19 employees.

KBA-GIORI repeated its outstanding performance of 2006 with brisk sales of banknote and security presses, and once again made a signal contribution to Group earnings.

KBA-MetalPrint, which was created in 2006 through the acquisition by our subsidiary Bauer+Kunzi of Stuttgart-based LTG Print Systems Holding, is the global market leader in metal-decorating presses. In the first full year following its consolidation in our sheetfed division, the new subsidiary posted an operating profit on sales of €86.5m. At the end of the year the payroll stood at 339. Bauer+Kunzi continues to function as a holding company for KBA-MetalPrint.

Purchasing, Production and Organisation

Focus on boosting efficiency and cutting costs

In a fiercely competitive market where success is determined by price, technology, quality and – even for multi-unit presses – faster delivery, our primary objective in 2007 was to hone our production efficiency and safeguard the timely delivery of materials. State-of-the-art equipment and ongoing optimisation of all workstations and production sequences were a basic essential.

Securing supplies in tight markets

With global demand causing shortages that prolonged procurement times and drove up the prices of certain vital materials and components, 2007 brought many challenges for our purchasing department. Here we benefited once again from KBA's close association with longstanding suppliers. We also located alternative sources in the Far East. To improve efficiency KBA Radebeul joined forces with one of its suppliers to automate the provision of finished steel components and pipes, while the web press division implemented a system for triggering advance procurement requests. This enables production to be started on time even if there are bottlenecks in the supply chain.

Investing in productivity enhancements

In 2007 we continued to expand the distributed manufacturing system we introduced some years ago for core components. This has created location-specific expertise and allowed us to enhance both quality and cost efficiency by operating capital-intensive machining centres in multiple shifts. At our Würzburg plant the large-component manufacturing unit will soon gain reinforcements in the form of two heavy-duty milling centres, while Frankenthal expanded roller manufacture for KBA presses. The addition of cutting-edge machining centres in Radebeul also boosted productivity. One example is a new line for one-stop machining of ink ducts in all formats. A new small-component packing centre was built to accommodate an increase in the volume of items packed and dispatched.

Optimising processes with communications technology

To simplify and accelerate the provision of spare parts, our sheetfed division is in the process of installing an electronic catalogue that will be available both on CD and via an internet portal. This will enable customers to locate parts more easily and place orders online, while a new service portal supports more efficient remote maintenance. Both options enhance service quality and press reliability. A pilot project to test the use of radio-frequency identification (RFID) for tracking materials was also successfully concluded.

As printing presses become more automated, electronics plays an increasing major role

PIDA
105 SPC

Research and Development

New launches a year before Drupa

R&D activities, particularly at our sheetfed factories, focused on new products and upgrades for launching at the Drupa international trade fair in May/June 2008. However, with innovation cycles rapidly shrinking and the internet providing a ready-made global platform, big fairs are no longer the only showcase for innovations, which tend to be unveiled at dedicated events when they attain market maturity.

In September some 500 print professionals from all over Europe attended the official premiere in Radebeul of DriveTronic SPC dedicated plate-cylinder drives for our high-performance Rapida 105 sheetfed offset press. This new system, which had been put through its paces at a number of users, allows the plates to be changed simultaneously on all the printing towers, slashing job change times – a big advantage in view of diminishing production runs. KBA assumed a pioneering role in the mid-1990s with the introduction of electronically controlled individual drives for printing presses, and continues to lead in this field.

Dedicated cylinder drives – a feature unique to KBA in newspaper technology – are also fitted in our new high-automation conventional newspaper web offset press, the KBA Commander CT, which was demonstrated for the benefit of German and foreign newspaper professionals at pioneer user the *Main-Post* in Würzburg. Although the Commander CT is a conventional wet offset press, it is based on the same revolutionary concept as our ultra-compact Cortina, with environmentally friendly waterless inking units. In 2007 KBA booked further orders for Cortina presses following an open house in Belgium, where a Cortina press line demonstrated its ability to deliver cost-effectively high-quality coldset newspapers alongside heatset commercial products, with no time-consuming change of inks – something that would be extremely difficult on a conventional press.

These are just a few of the new products KBA will be exhibiting at Drupa to address such industry issues as makeready minimisation, productivity enhancement, inline finishing, brand protection, printshop networking, press ecology and web-to-print. Our aim at the show is to demonstrate our standing as a driver of innovation in many sectors, among them commercial, book, display, UV, packaging, newspaper and environmentally friendly printing. Large-format sheetfed offset, for example, has been one of our specialities for the past forty years.

Continuous innovation has been our watchword throughout our 190-year history. Products are already in the pipeline that will not be unveiled for two or more years. R&D activity at KBA in 2007 was as vigorous as ever, and with new customer-specific developments consumed around 6% of turnover. More than 800 of the Group's 8,200 employees are engaged in research and development work of some kind.

Hundreds of print professionals attended an open house on DriveTronic SPC direct plate-cylinder drives at our Radebeul plant

Market and Industry Environment 2007

Press technology outshone by a booming engineering industry

For the fourth year in succession the export-focused German engineering industry flourished on the back of a global economy that grew by almost 4%. Production rose by 11%, the real order intake by around 16% and the number of employees by almost 50,000.

But once again the printing press industry, experiencing the seasonal and regional fluctuations in demand that are symptomatic of its exposure to volatile media, advertising and export markets, could not keep pace. Prospects for continued growth in the industry were tempered by a number of factors: the high price of oil, the relentless climb of the euro, pessimistic projections by certain market players and, in the second half of the year, the turbulence in international financial markets triggered by the subprime crisis in the USA.

Major regional differences

Investment activity in the USA slowed dramatically as a result of knock-on effects from the mortgage meltdown and structural changes in the US newspaper sector following a spate of mergers and acquisitions. On top of this, the strength of the euro seriously impaired the competitiveness of German press manufacturers against their US or Japanese rivals. In South America, funding risks put paid to a number of contracts, while in Asia and Australia fewer contracts were put out to tender. Sales of sheetfed presses to China were hit by high import tariffs. But demand was brisk in India, the Middle East and parts of Africa, while Europe – still a key market for KBA and the printing press industry – was also in good shape. In Germany, sheetfed sales remained steady and demand in the newspaper sector picked up in the second six months.

Withdrawal from publication rotogravure

In recent years sales of publication rotogravure presses, with their time-consuming cylinder engraving, have fallen as magazine and catalogue publishers have moved away from multi-million print runs and high-pagination copies to thinner, more specialised products. With prospects unlikely to improve, in September 2007 KBA sold its entire rotogravure business unit to an Italian competitor, Cerutti. Subsequent reports of plant closures and capacity adjustments in the gravure sector confirmed the wisdom of this move.

Subdued demand in second half-year

The inflow of new orders for web and sheetfed presses fluctuated considerably in 2007. Towards the middle of the year the Group order intake was marginally higher than at the same period in 2006, but this was followed by a relative decline, resulting in a 6.2% drop to €1,546.9m at year's end (2006: €1,649.7m). However, business remained brisk in our niche markets.

Our web and special press division won new contracts worth €773.4m, not far off the figure for 2006 of €785.4m. While orders for commercial and newspaper presses were higher than in the previous year, demand for gravure presses was almost non-existent, and for security presses well below the record figure for 2006. Shortly before Christmas the division booked the biggest single order of the year for newspaper presses when two subsidiaries of the Dainik Bhaskar Group (DB Group) in Mumbai, India, signed up for seven KBA Prisma presses with a grand total of 25 four-high towers.

The sheetfed division posted a 10.5% drop in new orders to €773.5m (2006: €864.3m), largely as a result of slacker business in North America, smaller contracts in Latin America and Australia, and weak demand in China following the imposition of high import tariffs. Closer to home, domestic demand remained buoyant but in the rest of Europe slower growth in some economies led to regional differences in order intake.

Smaller backlog than in 2006

With sales roughly on a par with the year before but a smaller volume of new bookings, the order backlog at year's end shrank to €791.9m (2006: €948.7m), with €569.9m (2006: €643.3m) attributable to web and special presses, €222m (2006: €305.4m) to sheetfed presses.

Group business operations: order intake / sales / order backlog

in €m	2006	**2007**
Order intake	1,649.7	1,546.9
sheetfed offset presses	864.3	773.5
web and special presses	785.4	773.4
Sales	1,741.9	1,703.7
sheetfed offset presses	870.6	856.9
web and special presses	871.3	846.8
Order backlog	948.7	791.9
sheetfed offset presses	305.4	222.0
web and special presses	643.3	569.9

Earnings, Finances and Assets

Earnings

Big improvement on 2006

Earnings were affected not only by the strong euro, which caused price erosion in our core markets, but also by a hike in the cost of raw materials and wages, fluctuations in utilisation levels at our web press production plants and provision for capacity reductions. Even so, cost-cutting initiatives and a more profitable product mix enabled us to boost pre-tax earnings by 33% to €63.2m, from €47.4m in 2006.

Sales approach prior-year record

In 2007 Group sales totalled €1,703.7m – not far off the prior-year figure of €1,741.9m, which was the highest in our history. The decline in sales at KBA was thus very much smaller than that posted by other market players.

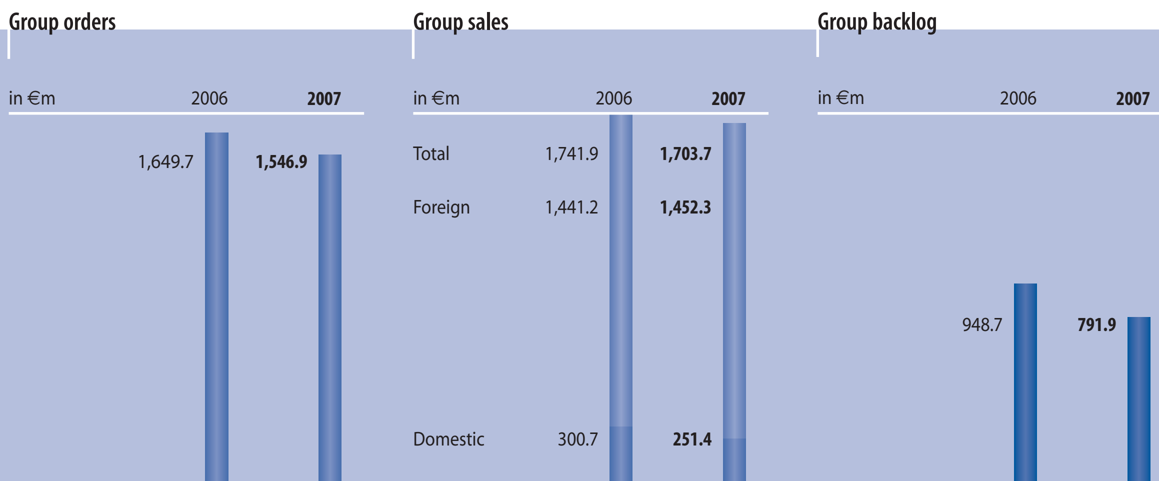
Lull in sheetfed growth

Our sheetfed division posted sales worth €856.9m, 1.6% down on the 2006 figure of €870.6m and just over half (50.3%) of the Group total. However, with growth also slowing at major competitors, our share of the world market remained steady at 15%.

Our best-selling models were the medium-format Rapida 105 and – particularly in emerging markets – the Rapida 105 universal. The most advanced press of its kind, the Rapida 105 incorporates some unique features such as no-sidelay infeed, a shaftless feeder and dedicated plate-cylinder drives. With average run lengths steadily diminishing, these deliver enormous productivity gains and thus a crucial competitive edge. By the end of the year almost 20 presses with our new DriveTronic SPC dedicated cylinder drives were in operation.

Large-format presses have been the speciality of our Radebeul plant, the acknowledged technology and market leader, for more than forty years. They are mainly used to print packaging, displays, posters and books, but their high level of productivity is also winning

The official inauguration of the compact Commander CT at the *Main-Post* in Würzburg, where it was developed to market maturity, was followed by a contract from the *New York Daily News* for a multi-unit press line



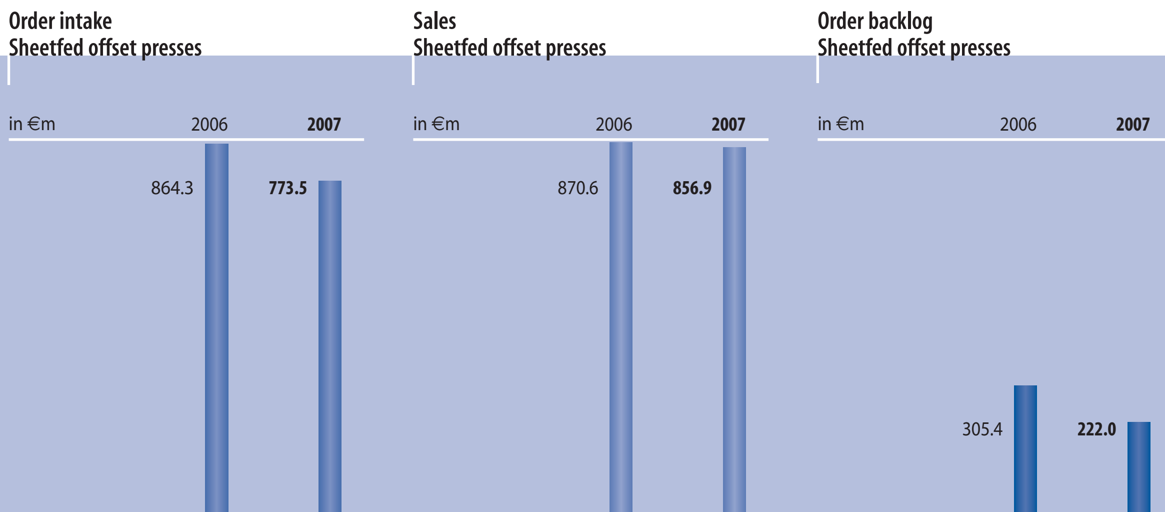
KBA COMMANDER
KBA

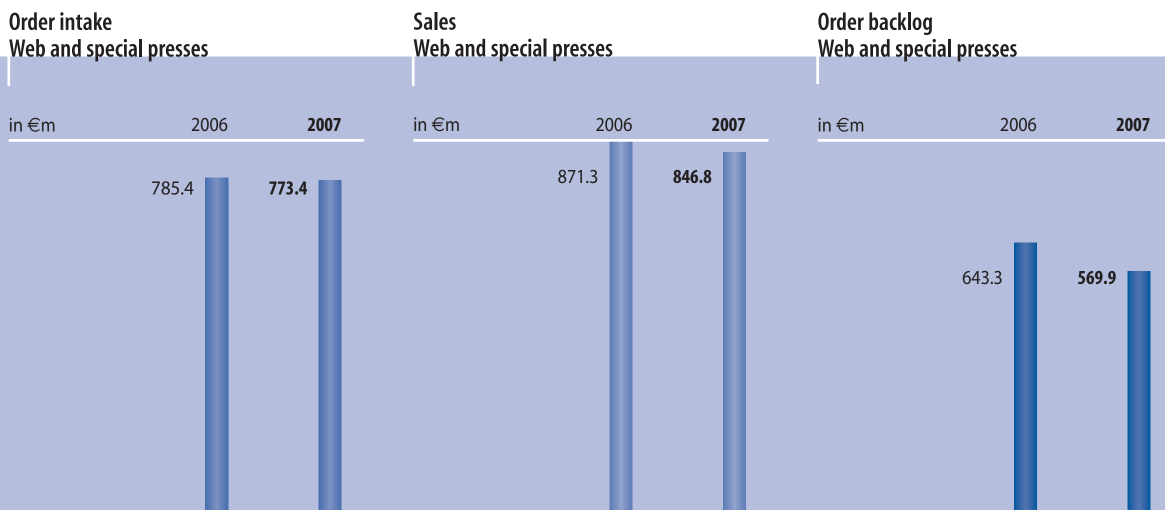
converts among big commercial printers. While Europe and North America have historically accounted for the bulk of all large-format sheetfed shipments, demand is steadily mounting in other parts of the world, most notably in China. December saw the installation in Shanghai of the first superlarge-format press in Asia.

Once again our Czech subsidiary KBA-Grafitec ramped up sales of its small-format Performa presses. Since KBA has a relatively modest share of this market there is still plenty of potential for growth. Sales of metal-decorating presses also picked up as expected.

Slide in sales of web and special presses

Sales by our web and special press division slowed to €846.8m, 2.8% down on 2006 (€871.3m) and 49.7% of the Group total (2006: 50%). As before, newspaper presses represented the lion's share, with Cortina press lines coming on stream in Germany, Belgium and Denmark. This highly automated, environmentally friendly compact press sports a slew of unique features that allow newspaper publishes to enhance production flexibility and increase press utilisation.





Other KBA newspaper presses – the Continent, Comet, Colora and our flagship, the Commander – went live on every continent. With around 30% of all internationally tendered contracts, KBA moved up to the pole position in the newspaper sector. But disappointing sales of web presses in general were only partially balanced by a rise in sales of special presses and customer services. Shipments of commercial web presses were dominated by our high-pagination Compacta 618 and 818. Destinations included longstanding customers in Germany, Italy, North America and Portugal.

Europe remains our biggest market

Sales in Germany, at €251.4m, were 16.4% lower than the previous year's €300.7m. As a result the export level climbed from 82.7% to 85.2%. Sales to the rest of Europe were up 3.7% at €890.5m (2006: €858.4m) on the back of widespread economic stability in the euro zone and growth in eastern Europe. So for the first time in many years this region accounted for more than half (52.2%) of Group sales, compared to 49.3% twelve months earlier.

Asia and the Pacific in third place

Import tariffs in China put a brake on sales of sheetfed presses, while demand for newspaper presses softened. Sales in Asia and the Pacific slipped accordingly from €286.2m, or 16.4% of the Group total, to €249.8m and 14.7%. However, we anticipate an increase in shipments to Asia in coming years.

Financial crisis impacts on North American market

In North America, where investment in newspaper presses has been sluggish in recent years, the credit crunch and the strong euro also took their toll on our sheetfed business. The ensuing slide in sales from €209.9m to €178.8m meant that this region generated just 10.5% (2006: 12.0%) of the Group total – a historic low. We foresee no immediate end to the adverse conditions in what has traditionally been one of our prime markets.

Geographical breakdown of sales

in %	2006	**2007**
Africa/Latin America	5.0	7.8
Asia/Pacific	16.4	14.7
North America	12.0	10.5
Rest of Europe	49.3	52.2
Germany	17.3	14.8

Strong growth in Africa and Latin America

Shipments of web presses to Kenya, La Réunion, Colombia and Brazil, and of sheetfed presses to a number of countries, pushed up sales to Africa and Latin America by more than 50%, from €86.7m to €133.2m. This represents 7.8% of total Group sales (2006: 5%) and is well above the historic average.

Improvement in gross profit margin

The cost of sales was trimmed to €1,249.6m (2006: €1,324.7m), or 73.3% of total sales (2006: 76%). Higher prices for steel and other raw materials were partially offset by cost reductions, which are an ongoing focus of our purchasing strategy and in 2007 encompassed Group-wide procurement, global sourcing, electronic order handling and tracking, and the expansion of our distributed purchasing systems. Leaner workflows and more flexible working hours were also instrumental in trimming manufacturing costs. However, labour costs were inflated by a pay deal negotiated in spring last year for employees in the metalworking and electrical industries, as a result of which wages and salaries for a large proportion of Group employees in Germany rose by 4.1% on 1 June 2007, following a lump-sum payment for April to May.

A more profitable product mix enabled us to increase gross profit from €417.2m to €454.1m, and the gross profit margin from 24% to 26.7%.

Lower administrative expenses

Research and development costs, excluding new customer-specific products and advances, came to €61.7m (2006: €63.6m). Distribution costs, at €170.5m, were virtually unchanged (2006: €170m). However, general administrative expenses fell by €6.4m to €89.3m (2006: €95.7m). The costs associated with capacity adjustments at our web press production plants caused a leap in other operating expenses to €99.8m (2006: €78.2m).

Group income statement

as % of sales	2006	**2007**
Cost of sales	–76.0	–73.3
Research and development costs	–3.7	–3.6
Distribution costs	–9.7	–10.1
Administrative expenses	–5.5	–5.2
Other income/expenses	–2.4	–4.0
Financial result	0.1	–0.1
Income taxes	–0.8	–0.8
Net profit	2.0	2.9

Big improvement in operating profit

Depreciation stood at €50.2m, or 3% of sales (2006: €41.9m and 2.4%). Earnings before interest, tax, depreciation and amortisation (EBITDA) climbed to €115.4m and 6.8%, from €88.4m and 5.1% the year before. Operating profit jumped from €46.2m in 2006 to €65.7m.

Sheetfed earnings, at €1.6m, were lower than twelve months earlier (€5m) and fell short of management objectives. This was because the cost savings and productivity enhancements we achieved were largely outweighed by price erosion in dollar-denominated markets and a slide in sales. As in previous years, web and special presses made the bigger contribution to Group profit, with earnings of €64.1m (2006: €41.2m).

Pre-tax profit margin swells to 3.7%

A modest financial profit of €1.2m in 2006 was followed by a modest loss of €2.5m. While interest income fell to €10.9m from €13.3m due to a drop in customer prepayments, interest expense eased up from €12.4m to €12.9m. Pre-tax earnings (EBT) soared to €63.2m and 3.7% of sales (2006: €47.4m and 2.7%).

Benefits of corporation tax reform

Taxes on income and earnings, including deferred taxes, rose from €13.1m to €14.2m. This is equivalent to an effective tax rate of 22.5%, compared to 27.6% in 2006. The effective Group tax rate was influenced by the sizeable contribution made by our subsidiaries abroad, where tax rates are generally lower, and by a corporation tax reform passed in July 2007, which cut the domestic tax rate from 39% to 30%.

Net profit climbs to €49m

We posted a net Group profit after tax of €49m (2006: €34.3m). Earnings per share improved by over 40% to €3 (2006: €2.11).

Finances

Sound financial position

Safeguarding our corporate independence and financial flexibility by maintaining a solid capital base is one of our primary objectives. Bolstering internal finances by externalising customer financing, reducing the volume of tied capital and building reserves while paying a fair dividend thus rank among our top priorities. To minimise currency risks, most foreign currency transactions are hedged (*see Notes on page 80*).

Cash flow down on previous year

Cash inflows from operating activities dwindled to €21.3m (2006: €90m). While profits were higher, fewer orders were booked for multi-unit press lines, which led to a reduction in the volume of customer prepayments from €274m to €199.3m. Cash outflows from investing activities ebbed to €38.4m, from €52.2m in 2006, and the free cash flow plunged from €37.8m the year before to –€17.1m. Cash outflows from financing activities, which included the payment of dividends and the repayment of loans, came to €0.7m (2006: €12.6m). By the end of the year funds had shrunk to €134m (2006: €154m).

Strong capital structure

An annual surplus and the issue of employee shares increased shareholders' equity by €38.8m to €515.1m (2006: €476.3m). The equity ratio – measured against the marginally lower balance sheet total – eased up to 37.7% from the prior year's 34.2%. Our return on equity improved from 7.2% the preceding year to 9.5%, a figure which in more favourable circumstances might also have been bettered.

Current and non-current liabilities sank by €66.4m from €917.9m to €851.5m, largely due to the €74.7m reduction in customer prepayments and a €21.6m drop in trade payables from €104.3m to €82.7m. However, provisions jumped by €59.3m from €304.2m to €363.5m, basically arising from warranty claims, an increase in pension provisions (€102.8m compared to €99.3m in 2006) and provisions for trimming our web press production capacity.

Heading the financial payables were bank loans, up from €78.8m to €83.5m (*cf page 79*). Our net financial position – the difference between funds and bank loans – remained strong at €50.5m (2006: €75.2m) and our debt-to-equity ratio dropped once again, from 192.7% to 165.3%. Lines of credit not drawn down at the balance sheet date came to €194.5m (2006: €182.8m).

Assets

Solid substance

Non-current assets were valued at €350.2m (2006: €384.3m), with intangible assets accounting for €32.2m and tangible assets for €258.1m. The ratio of equity capital to fixed assets was thus 199.6%.

In 2007 we invested €2.3m (2006: €1.8m) in intangible assets and €48.4m (2006: €52.5m) in property, plant and equipment, with the aim of enhancing productivity and efficiency by increasing automation. This represented 3% of sales (2006: 3.1%). The biggest items are described on page 22.

Despite a decline in cash and cash equivalents to €123.2m (2006: €145.8m), current assets rose to €1,016.4m (2006: €1,007.2m), chiefly because inventories swelled from €377.6m to €402.5m in preparation for a larger volume of shipments. Trade receivables, at €395.3m, were down on the prior-year figure of €399.8m. Working capital rose from €516.7m in 2006 to €612.7m.

The Group balance sheet total of €1,366.6m on 31 December was €27.6m lower than twelve months earlier (€1,394.2m).

Summary of Earnings, Finances and Assets

Higher provisions, material costs and labour expenses notwithstanding, in 2007 a more profitable product mix and cost savings enabled us to improve pre-tax earnings from €47.4m to €63.2m and post a profit margin of 3.7% (2006: 2.7%). Once again we invested extensively in product innovation, efficiency-enhancing technology and assembly processes, and in high-potential markets. Our objective is to stabilise earnings and achieve a profit margin in the medium term of 5%. The temporary decline in the cash flow was due to an increase in working capital and a decrease in customer down payments. Even so, our net financial position is sound, and our capital structure has been further strengthened by the expansion of our corporate equity base.

Group assets and capital structure

Assets in %	2006	**2007**
Non-current assets	27.6	**25.6**
Current assets less funds (including assets held for sale)	61.4	**64.6**
Funds	11.0	**9.8**

Equity and liabilities in %	2006	**2007**
Equity	34.2	**37.7**
Non-current liabilities	18.9	**18.3**
Current liabilities	46.9	**44.0**

Supplementary Statement

No events detrimental to Group earnings, finances or assets occurred after the balance sheet date.

Green technology: the Genius 52UV small-format sheetfed press built by our subsidiary KBA-Metronic is both waterless and keyless

KBA-Metronic
GENIUS 52 UV

Risk Management

Systematic monitoring

The purpose of our early warning system is to promote transparency in detecting potential risks arising from entrepreneurial activities. The indicators specified and communication channels employed support the timely recognition of risks as they emerge.

Comparisons of target and actual figures are also used to expose potential risks. The management board and second-tier executives are kept informed of the current risk status via a fully documented management information system (MIS), and are instantly alerted to any unforeseen changes in our risk exposure. Management can thus identify incipient risks to our earnings, finances and assets, and promptly institute countermeasures determined by the board.

The internal auditing unit monitors the various checks and controls, and provides a systematic overview of the Group's risk status. The highest individual risks are classified below and reviewed on a regular basis.

Economic and industry-related risks

Demand in the printing industry is influenced not only by economic activity on a regional and global scale but also by shifts in the media market. In 2007 business in North America was hit by the strong euro, by structural changes in the media industry and by the economic downturn. We are keeping a weather eye both on the immediate customer- and industry-related risks and on the longer term impact on the global economy. Sales in the Far East have been hampered by a more restrictive import policy in China and by currency-related price hikes for German products compared to Japanese rivals. However, demand has picked up in the oil-producing countries of the Middle East and in dynamic markets such as India. Relatively robust economies in Europe also helped to counteract volatility elsewhere.

The spread of e-media will continue to impact on those sectors of the print market that are heavily exposed to advertising cycles. Reading the signs, in 2007 we divested our rotogravure business and announced capacity adjustments at our web press factories. In recent years, acquisitions in less volatile niche markets and expansion in media-neutral sectors such as packaging have materially reduced our dependence on the newspaper industry, which now accounts for just 20% of Group sales. This strategic combination of growth and diversification will remain a major instrument of risk management.

The impact of e-media on ad-oriented print providers is transforming the industry, driving a demand for greater automation and standardisation

Over the past few years the engineering industry has had to contend with a massive rise in global demand for – and speculation in – raw materials and energy, coupled with fierce competition in the marketplace. Margins have suffered as a result. We seek to contain such risks through strategic, Group-wide purchasing, changes in product design to reduce material and energy consumption, and sundry cost-cutting initiatives.

Market and business risks

Drupa is expected to deliver a substantial boost to our series-based products, particularly sheetfed. We are confident that a highly professional exhibition presence and technological innovations will enable us to avoid demand-related risks.

We devote a considerable amount of energy to defending our technology lead in core product segments and to detecting and addressing incipient trends in the market and customer demands. The technological and quality risks deriving from the development of new products are contained by rigorous project and quality management in conjunction with pre-launch trials at customers' premises. With innovation cycles steadily diminishing, an ability to trim production and quality costs can deliver enormous bottom-line benefits. Systematic feedback from the individual projects helps us to attain this goal.

For some parts of the printing industry, the financial repercussions of the credit crisis in the USA have been compounded by ferocious competition, with all the concomitant risks to sales and earnings. In such an environment, vigilance in monitoring customer financing is crucial to minimising on an ongoing basis the risks associated with, say, financing transactions such as repurchase obligations and agreements relating to secondhand equipment.

In the volume markets dominated by a small number of suppliers, there is fierce competition on a global scale, exacerbated by excess capacity in certain sectors, the impact of currency movements and persistent price pressures. Hitherto there has been no hedging of the resultant indirect currency risks. To defend our profit margins we observe clearly defined pricing guidelines for the acceptance of contracts, pursue cost savings through value analyses and impose innovation premiums commensurate with the unique features incorporated in our products. Adequate provision is made for anticipated losses from existing contracts.

The risks inherent in tight margins are addressed by seeking cost savings, adopting more flexible working hours, outsourcing non-core components and activities, and promoting customer loyalty through efficient after-sales services.

Financial risks

Financial risks predominantly comprise pricing risks, bad debt risks, liquidity risks and risks relating to cashflow movements. The type, scope and market value of the mechanisms used to contain financial risks are detailed in the Notes (*page 80*).

Foreign currency risks primarily relate to balance sheet items and pending transactions, in our case dollar-denominated transactions and the resultant receivables. Such risks are actively managed by our treasury unit in close collaboration with our sales teams. In addition to hedging major contracts we also hedge a fixed proportion of foreign-currency contracts for series-based machinery, using derivatives such as currency options and future exchange transactions. Speculative dealing is not a routine instrument at KBA.

Framework agreements negotiated by our purchasing department form the basis for calculating profit margins on major fixed-price contracts. Fluctuations in the cost of raw materials are factored into the running calculations and, if appropriate, disclosed in the accounts on the balance sheet date.

As is customary in the market, we offer prospective customers diverse financing options and furnish security if required. Bad-debt risks are contained by monitoring customer accounts down to individual project level. Where credit risks are perceived in specific cases, collateral is called in prior to shipment and ownership transferred only after full payment. New customers are subjected to a credit check, and customers with a poor credit history must pay in advance when ordering spare parts. Provision is made for potential bad debts. There are no discernible customer-specific or geographical concentrations of credit risks.

The liquidity of the Parent and its subsidiaries is managed and secured as part of our financial-planning procedure. Financial reports on cash management are submitted on a daily basis. Liquidity movements and credit lines are monitored throughout the year by the Parent, incoming payments by the competent departments. Fluctuations in cash flows are balanced with existing credit lines.

Other risks

At present we see no incalculable risks relating to IT systems, personnel planning, pensions, interest management or the environment (including natural catastrophes). Individual risks that are hard to quantify are managed using the standard instruments available. The Group is not engaged in any litigation that would materially impair its financial position. However, unforeseeable changes in import and export regulations, foreign currency restrictions or other trade barriers may impact on sales and profitability. No commodity derivatives were held on the balance sheet date. Adequate provision has been made in the accounts for all other risks.

Thanks to strong Group assets, finances and earnings, our total risk exposure is moderate. There are no excessive customer-, supplier- or country-related concentrations of risks, nor have we detected any risks that could pose an existential threat.

CORTINA
22
KBA
23
KBA

Outlook and Opportunities

Sluggish growth in the print industry

Following four years of growth in the global economy and the German engineering industry, projections for 2008 are much more cautious. While there will be regional differences, all the signs indicate a decline in economic activity. According to recent statistics, in the USA there is a very real risk of recession.

The knock-on effects of the mortgage and credit meltdown on economic performance have yet to be revealed in full. The growing influence of speculative trading on the real-world economy, the divergent monetary policies pursued in the USA and Europe, the enormous US budget deficit and its impact on the dollar, the high price of oil and the unresolved conflicts in the Middle East all serve to exacerbate economic risks. Most professional market observers believe there will be a slowdown, but not a recession.

First signs of braking in a booming industry

The export-dependent engineering industry, one of the engines driving the economic upturn in Germany, has not escaped unscathed. Growth is threatened not only by the sustained strength of the euro but also by spiralling prices for energy and raw materials, the negative impact of the American downturn on other parts of the world and possible consequences from the financial crisis for international stock markets and banks' lending practices. In the fourth quarter of 2007 growth had already slowed perceptibly in the engineering sector. The German Institute for Economic Research (DIW) almost halved its forecast for the manufacturing industry from 6% in 2007 to just 3.2% in 2008. The VDMA calculates an average real growth rate of 5%, following 11% in 2007.

Print markets changing

It has long since become apparent that the internet will have an enduring impact on certain sectors of the print media industry, more specifically on publications printing (ie newspapers, magazines and catalogues). In the medium term, the demand for printing technology will be dampened by the spread of online activities, changes in young people's reading habits and declining populations in many industrialised countries. Today, newspaper presses account for barely 20% of total Group sales, down from over 50% twenty years ago.

The waterless KBA Cortina is steadily gaining acceptance in the newspaper sector, attracting orders both in Germany and abroad

While the print media can continue to tap enormous growth potential in threshold economies, particularly those with large populations such as China, India, Brazil, Russia, Ukraine, Turkey and Indonesia, rising prosperity will see e-media competing ever more strongly with print as a vehicle for advertising and a source of information. But the prospects for consumer products such as direct mail and packaging are excellent, since rising prosperity fuels consumption. Point-of-sale displays and packaging are becoming more complex, with brand protection playing an ever greater role.

KBA well positioned for projected scenario

As the market leader in large-format technology and sheetfed offset packaging presses, KBA is well positioned to make the most of such a scenario. The same applies to metal decorating, a niche market which is also benefiting from the increase in packaging. And contrary to all expectations, the number of banknotes being put into circulation is rising, as is the demand for ever more sophisticated security documents such as passports. In this highly sensitive sector, too, KBA leads the field. Other niche products in our portfolio offering good prospects for growth are UV offset presses for printing smart cards, electronic data media and other specialised applications, and industrial coding devices employing inkjet, laser and other processes.

Market changes will continue to inform our product development, the expansion of our sales and service network and any future acquisitions we may make. Over and above our longstanding activities in less media-dependent print sectors we do not exclude the possibility of powering growth in the medium term through acquisitions outside the print media industry. We already have the basic know-how to expand into such high-potential technologies as air filtration.

Major contracts booked at the turn of the year

The Group sales figures for 2007 were roughly in line with our projections and market performance, while the operating result was substantially higher. However, KBA started the new year with an order backlog that was 16.5% smaller than twelve months earlier. The slide in orders for sheetfed presses was more pronounced than for web presses.

Month-to-month fluctuations in new sheetfed orders in the second half of 2007 and the first two months of 2008 may merely reflect a pre-Drupa lull. Judging by past experience, this definitive trade show for the print media industry, which takes place at the end of May and beginning of June, should provide a sizeable boost in orders, which will help to stabilise our sheetfed production capacities in the third and fourth quarters. In the first six months the smaller backlog may lead to fluctuations in capacity at our Radebeul plant, but these can be absorbed temporarily via flexible working hours. If the economic climate cools in the USA and, as a consequence, in other key markets, we cannot rule out the need for capacity adjustments.

Plant utilisation at our web press factories, which fell below target from time to time last year, has been much improved by contracts booked in December 2007 and early 2008 from India, Turkey and the USA for a total of fifteen newspaper presses. These, together with some smaller orders, will keep our plants busy until late summer. Based on the current data available, our web and special press division is set to meet its sales target for 2008.

With the global market volume of newspaper press sales steadily shrinking, and following the sale of our rotogravure business, we shall continue to implement the capacity adjustments announced in autumn 2007 at our Frankenthal, Trennfeld and Würzburg facilities. Natural wastage has already trimmed the payroll by around 150 and we are seeking a rapid conclusion to negotiations with employee representatives on additional reductions.

2008: no big drop in sales and profit

Notwithstanding the downturn in regional economies and a smaller backlog of orders than in the previous two years, we anticipate a comparatively moderate reduction in Group sales in 2008 to around €1.6bn. With our subsidiaries poised for further growth and adequate provision made for perceived risks, from today's perspective a pre-tax profit similar to that of 2007 is within our reach.

In view of higher economic and currency risks and the euro's unabated climb – at the end of February it passed the $1.50 mark – in 2009 we are targeting modest growth, with sales and earnings roughly on a par with the current year. We have already booked orders for a number of multi-unit press lines with delivery scheduled in 2009, the domestic market for newspaper presses is showing signs of recovery and we are hopeful that Drupa will stimulate business in the third and fourth quarters, with a corresponding rise in the backlog for 2009.

However, this is assuming that there will be no plunge in global growth rates and no additional barriers in export markets. Given the current political and economic volatility, we are not issuing a more detailed prognosis until the AGM shortly after Drupa.

Human Resources and Welfare

Employees a prime asset in global arena

With press technology becoming ever more sophisticated, high levels of staff skill, dedication and creativity are crucial in maintaining German manufacturers' competitive edge in the global marketplace. Vocational training – where we score highly in international comparisons – and further training for our specialist and executive staff therefore remain a core focus of personnel management.

At the end of the year there were 8,236 staff on the Group payroll, 60 fewer than in 2006. While the number of employees fell by around 200 at our web press production plants in Germany and North America, following capacity adjustments and the closure of our York (Pennsylvania) facility, the workforce in our sheetfed division increased.

The number of apprentices and student trainees in the KBA Group was roughly the same as in 2006 (459 compared to 461) and once again this represented a respectable 5.6% of the workforce. The curriculum ranges from electromechanics, industrial and metalworking mechanics to printing and business administration. In addition we provide training for aspiring electrical and mechanical engineers as part of a sandwich course. Apprentice training in foundry and model-making mechanics also commenced in September 2007 at our Würzburg factory. Our Radebeul plant made a contribution towards reducing youth unemployment by providing a two-year training course in parts finishing for socially deprived teenagers with educational deficits.

IHK best in class and a regional champion

93 trainees from the Parent qualified in 2007, most of them with outstanding results. As usual, KBA apprentices were among the local and regional best of class in the qualifying examinations set by the Chambers of Industry and Commerce. One, an industrial mechanic, was the regional champion in Saxony. We seek to attract young people to careers in industry with diverse activities that include open days at our training centres and technology camps for girls.

More than 400 pupils, trainees, students and external apprentices gained work experience at the Parent through trial training courses and industrial placements. We also maintained close contacts with universities by providing support for 23 students writing industry-related theses. Every year, our Benno Bolza Foundation sponsors scholarship and fellowship awards for dissertations of outstanding merit relating to mechanical, electrical and press engineering. We also awarded undergraduate and postgraduate grants as a means of promoting the engineering professions essential to our long-term survival.

With customer services accounting for a growing proportion of our global sales, highly qualified service technicians with linguistic skills are in constant demand at KBA

Ongoing personnel development

Our Radebeul facility continued the training programme initiated the year before to enhance staff proficiency in the commissioning and servicing of our new-generation presses. At our web press factories the focus was on advanced training in press technology along with product training for both German and foreign staff. We also provided courses on foreign languages, information technology and team building. Support committees at our various facilities continued their task of promoting the development of young department managers, junior executives and trainees.

Process of continual improvement

While the 752 suggestions submitted by employees at our Parent was well below the figure of 1,097 for the previous year, over 50% attracted bonuses and enabled us to streamline the production workflow still further and achieve substantial savings.

Active assistance in combining a family with a career

Following the example set by our Würzburg facility the previous summer, in 2007 our Frankenthal facility joined a regional initiative aimed at helping new parents combine a family with a career. A primary objective, in addition to expanding existing family-friendly options such as part-time work, is to establish day-care centres in the immediate vicinity, in alliance with other employers. The kindergarten set up in October 2006 next door to our Radebeul plant has been warmly welcomed by our employees.

Health care

The KBA health-insurance scheme, an independent enterprise operating solely in Germany, increased membership to 12,927 (2006: 12,833). Successful initiatives promoting preventive care included a “People and Bikes” campaign encouraging staff to cycle to work on at least 30 days between June and August. The 309 who participated clocked up 181,500km.

Group payroll on 31 December

	2006	**2007**
Total	8,296	8,236
Salaried office staff	3,222	3,236
Wage-earning industrial staff	4,613	4,541
Apprentices/students	461	459

Vocational skills have always played a crucial role at KBA, with some 400 apprentices undergoing technical or administrative training at any given time

High level of staff loyalty

190 members of KBA staff celebrated works jubilees. 123 were awarded bonuses for 25 years of service, 59 for 40 years and eight for 50 years of service. We wish to express our thanks and appreciation for their loyalty and tireless dedication.

Sustainability Report

Spotlight on quality and the environment

As a technological leader in our field we promote customer satisfaction on an ongoing basis by focusing on product innovation, quality and reliability. From product design to process technology and manufacture, sustainability has been our watchword for many years. The current debate on global warming has moved environmental issues to centre stage within the print media industry, where KBA is considered by many to be a leading light.

Conservation begins in production

In 2007 we implemented a raft of initiatives aimed at diminishing our ecological footprint. These included new regulations relating to hazardous substances and waste disposal, and additional washing bays for machine parts. As part of an energy efficiency drive launched by a local environmental body, external assessors analysed the energy consumption at our Würzburg factory, and we are now in the process of implementing their recommendations. Intensive training, company directives and briefing at individual workplaces have also improved workflow ergonomics and work safety.

Enhancing ecology

KBA is the only manufacturer worldwide offering both sheetfed (Genius 52UV, Rapida 74G, 74 Karat) and web presses (Cortina) with eco-friendly keyless inking and waterless offset technology. Their improved environmental performance is achieved by eliminating harmful fount solution and washes, and reducing paper consumption. Even our conventional Rapida sheetfed presses boast "emission-tested" certificates issued by the BG, the German equivalent of the UK's Health and Safety Executive. These are recognised in many countries, even for sophisticated UV applications. Improving energy efficiency remains a prime focus.

Reading campaign in Germany

The concept of sustainability that underpins our corporate philosophy encompasses a commitment to social responsibility that is expressed in the promotion of cultural development both regionally and beyond. One example is a national reading campaign based on a similar initiative, Bookstart, in the UK. KBA has joined forces with other companies and associations to support this programme, whose aim is to promote a lifelong love of reading among young children, irrespective of their social background. Over a period of two years, free sets of books will be distributed to 500,000 families in the whole of Germany through their paediatricians.

Quality management a top priority

Compliance with ISO 9001-2000 quality norms has been an integral part of our production scenario for many years now. To maintain the quality of parts manufactured in-house we have introduced a dynamic, self-teaching testing program which factors in previous faults and their consequences. Production staff receive detailed quality logs on all completed orders. We also regularly audit suppliers of bought-in parts and carry out goods despatch controls at key suppliers. In our web press division, all assemblies and software are subjected to exhaustive function tests prior to shipment. The pre-delivery inspections in our sheetfed division are equally rigorous.

Cutting-edge manufacturing technology helps guarantee quality excellence

Other Reports

KBA Shares

Pressure on press manufacturers' shares

In 2007 financial investors viewed the shares of export-driven press manufacturers more critically, citing less optimistic company reports, the sustained strength of the euro, the downturn in the US economy, import barriers in growth markets such as China and changes in the media marketplace.

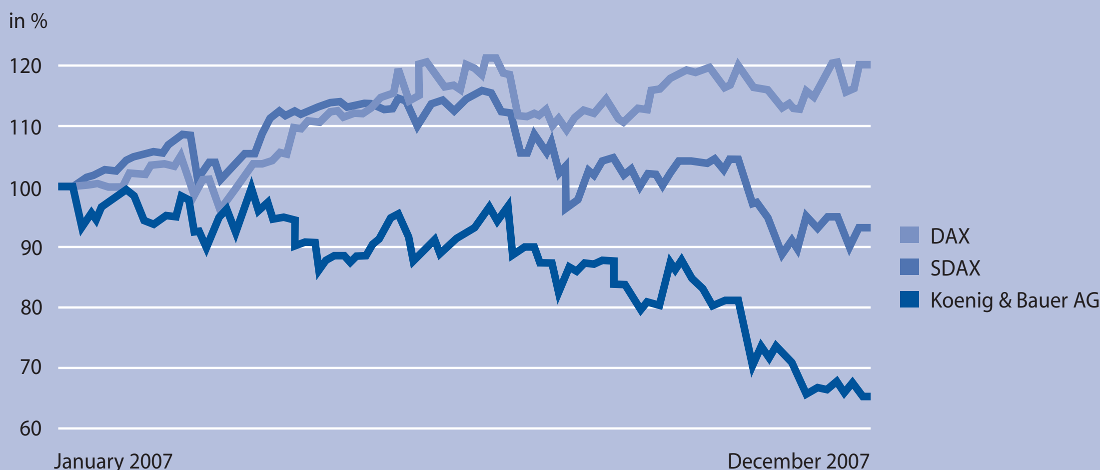
With prospects dimmed by patchy demand and intermittent below-capacity plant utilisation at our web press factories, the improved earnings disclosed in our quarterly reports failed to impress the capital markets. In the final four months of the year the slide in the value of our shares accelerated as many investors reduced the weighting of small-caps listings. By 28 December they had fallen to €19.30, 35.2% below their opening price of €29.79 on 2 January. This compared with an 8.4% drop in the SDAX and a 20.7% jump in the DAX.

The shares of other quoted companies in the printing press industry were hit even harder, which in turn put greater pressure on our own shares. In mid-January 2008, stock market turbulence caused a further slide in prices.

Proposed dividend

While Group earnings per share improved to €3, the Parent's net profit, which determines dividend payments to shareholders, fell to €21.6m (2006: €32.2m). €10.8m of this was transferred to revenue reserves to strengthen the equity base. At the annual shareholders' meeting in Würzburg on 19 June the management and supervisory boards will propose using the residual €10.8m (2006: €16.1m) to pay a higher dividend of 60 cents (2006: 50 cents). This equates to a dividend yield of 3.1% (2006: 1.7%) relative to the year-end price.

Performance in 2007



Analysts' appraisals generally positive

KBA shares are listed in the small-caps index and as a Prime Standard comply in full with international transparency requirements. Many financial institutes publish regular appraisals of KBA and the printing press industry, and in 2007 most analysts recommended buying or holding, with only a few advising investors to sell.

Intensive communication with investors

The purpose of our investor relations activities is to promote a frank, ongoing dialogue with capital markets. Investor roadshows and individual interviews throughout the year with institutional and private investors, analysts and business journalists from home and abroad provide a forum for elucidating the Group's market position, prospects and strategies, and discussing current issues relating to the industry environment in which KBA operates. Last year our annual analysts' conference was held at Stürtz, Würzburg, in late March. The venue, at a prominent user of KBA presses, was chosen because it offered participants and business journalists an insight into the production routine of an internationally active print and media service provider.

At the annual shareholders' meeting, which is still a prime platform for a direct interchange between Group executive bodies and shareholders, 59.8% of Parent equity was represented. Shareholders who were unable to attend could log onto our website for a live broadcast of the president's speech and to access the relevant documentation. Financial reports and data, the current share price and key financial dates are also available online, and an increasing number of shareholders and investors are taking advantage of this service.

Key data on Koenig & Bauer ordinary shares

	2006	**2007**
Earnings per share	€ 2.11	€ 3.00
Price-earnings ratio	14.0	6.4
Highest price	€ 30.93	€ 30.00
Lowest price	€ 21.47	€ 19.30
Closing price	€ 29.64	€ 19.30
Market capitalisation in €m	483.3	315.4
Cash flow per share	€ 5.52	€ 1.30
Dividend	€ 0.50	€ 0.60
Free float	58.4 %	58.4 %

Corporate Governance Report

Commitment to transparency and corporate responsibility

The purpose of the German Corporate Governance Code is to promote transparency and responsibility in the management and monitoring of listed companies. Koenig & Bauer is fully committed to the recommendations and principles embedded in the Code, and implements them with very few exceptions. Any amendments to the Code, which came into force in 2002 and was last amended in June 2007, are incorporated without delay in our articles of association and guiding principles.

Declaration of compliance

In February 2008 the Koenig & Bauer supervisory and management boards issued a current declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG), and this is permanently accessible on the Group website under Investor Relations/ Corporate Governance. The recommendations of the Government Commission on the German Corporate Governance Code, as revised on 14 June 2007, were and will be observed with the following justifiable exceptions.

Disclosure of board compensation

According to the law on the disclosure of board compensation and section 286 (5) of the German Commercial Code (HGB), the annual shareholders' meeting may resolve, by a three-quarter majority of the voting capital, to forego the disclosure of individual board members' compensation and the details required in section 314 (1) 6a articles 5 to 9 of the HGB. At the Koenig & Bauer AGM on 22 June 2006 a resolution was passed, with 86.1% of the votes cast, to the effect that the specified particulars need not be disclosed for a period of five years.

Similarly, there is no disclosure of individual board members' remuneration (provision 5.4.7). Since share options and other derivatives form no part of such remuneration, and there are no plans for them to do so in the future, we believe that the customary breakdown into fixed and variable elements for each of the two boards is perfectly adequate and furnishes our shareholders with sufficient information for assessing the propriety of the remuneration given.

The compensation system is detailed on page 17. Management board remuneration in 2007 is disclosed in the Notes on page 89, together with pension provisions for active and retired members of the board. Compensation for the supervisory board totalled €0.5m (2006: €0.4m), of which €0.4m was variable (2006: €0.3m).

Nomination committee
In addition to existing committees, under provision 5.3.3 of the Code the supervisory board must establish a nomination committee solely comprising shareholder representatives whose brief is to recommend suitable candidates for nomination by the supervisory board at the shareholders' meeting. This committee has not yet been established.

Management and supervisory board shareholdings
At the end of December 2007 members of the management board owned 5.4% of equity capital, members of the supervisory board 2.3%. The figures for individual board members (provision 6.6) were not disclosed.

Non-minor shareholdings
Provision 7.1.4 of the Code states that the company shall publish a list of third party companies in which it has a shareholding that is not of minor importance for the enterprise. The information provided must include the operating result of the past financial year. For competitive reasons the overview provided in the Notes on page 73 states only the name and headquarters of the company, the amount of the shareholding and the amount of equity.

Audit agreement
In accordance with provision 7.2.3 of the Code it was agreed that the auditors, PricewaterhouseCoopers, should inform the supervisory board or make a note in the audit if they detected any deviations from the declaration of compliance issued by the supervisory and management boards. The auditors discovered no errors or misrepresentations.

Würzburg, 4 March 2008

For the supervisory board:
Dieter Rampl

For the management board:
Albrecht Bolza-Schünemann

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Financial Statements for the KBA Group

Balance Sheet 58

Income Statement 59

Statement of Changes in Shareholders' Equity 60

Cash Flow Statement 61

Notes 62-91

(A) Preliminary Remarks **62**

(B) New and Amended Standards and Interpretations **62**

(C) Accounting Policies **64**

(D) Consolidated Companies and Consolidation Principles **68**

(E) Foreign Currency Translation **69**

(F) Changes in Intangible Assets, Property, Plant and Equipment **70**

(G) Explanatory Notes to the Balance Sheet **72**
- (1) Intangible assets, property, plant and equipment **72**
- (2) Financial and other assets **73**
- (3) Inventories **75**
- (4) Securities **75**
- (5) Cash and cash equivalents **75**
- (6) Deferred taxes **76**
- (7) Equity **76**
- (8) Pension provisions **77**
- (9) Other provisions **79**
- (10) Financial and other liabilities **79**
- (11) Derivatives **80**
- (12) Further disclosures on financial instruments **81**
- (13) Other financial commitments and contingent liabilities **84**

(H) Explanatory Notes to the Income Statement **84**
- (14) Revenue **84**
- (15) Expenses by function **85**
- (16) Expenses by nature **85**
- (17) Other operating income and expenses **86**
- (18) Financial result **86**
- (19) Income taxes **87**
- (20) Earnings per share **87**

(I) Explanatory Notes to the Cash Flow Statement **87**

(J) Segment Information **88**

(K) Notes to Section 285 no. 17 HGB **89**

(L) Related Party Disclosures **89**

(M) Proposal for the Utilisation of Retained Earnings **91**

(N) Events after the Balance Sheet Date **91**

Responsibility Statement 92

Auditor's Opinion 93

Additional Information 94-96

Balance Sheet and Income Statement for Koenig & Bauer AG under HGB **94**

Key financial dates/Contacts **96**

Balance Sheet to 31 December 2007

Assets in €m	Note	31.12.2006	**31.12.2007**
Non-current assets			
Intangible assets	**(1)**	35.1	32.2
Property, plant and equipment	**(1)**	258.0	258.1
Investments and other financial receivables	**(2)**	25.5	23.2
Other assets	**(2)**	–	2.5
Deferred tax assets	**(6)**	65.7	34.2
		384.3	**350.2**
Current assets			
Inventories	**(3)**	377.6	402.5
Trade receivables	**(2)**	399.8	395.3
Other financial receivables	**(2)**	17.8	23.1
Other assets	**(2)**	56.4	54.6
Current tax assets		1.6	6.9
Securities	**(4)**	8.2	10.8
Cash and cash equivalents	**(5)**	145.8	123.2
		1,007.2	**1,016.4**
Assets held for sale		**2.7**	**–**
		1,394.2	**1,366.6**

Equity and liabilities in €m	Note	31.12.2006	**31.12.2007**
Equity	**(7)**		
Share capital		42.4	42.5
Share premium		84.9	85.9
Reserves		349.0	386.7
Capital attributable to equity holders of the Parent		**476.3**	**515.1**
Liabilities			
Non-current liabilities			
Pension provisions	**(8)**	99.3	102.8
Other provisions	**(9)**	66.2	88.8
Bank loans and other financial payables	**(10)**	39.9	30.1
Other liabilities	**(10)**	0.6	3.2
Deferred tax liabilities	**(6)**	57.2	25.2
		263.2	**250.1**
Current liabilities			
Other provisions	**(9)**	138.7	171.9
Trade payables	**(10)**	104.3	82.7
Bank loans and other financial payables	**(10)**	108.9	124.0
Other liabilities	**(10)**	294.3	216.7
Current tax liabilities		8.5	6.1
		654.7	**601.4**
		1,394.2	**1,366.6**

Income Statement for 2007

in €m

	Note	2006	**2007**
Revenue	**(14)**	1,741.9	1,703.7
Cost of sales	**(15)**	–1,324.7	–1,249.6
Gross profit		**417.2**	**454.1**
Research and development costs	**(15)**	–63.6	–61.7
Distribution costs	**(15)**	–170.0	–170.5
Administrative expenses	**(15)**	–95.7	–89.3
Other operating income	**(17)**	36.5	32.9
Other operating expenses	**(17)**	–78.2	–99.8
Operating profit		**46.2**	**65.7**
Other financial results		0.3	–0.5
Interest income		13.3	10.9
Interest expense		–12.4	–12.9
Financial result	**(18)**	**1.2**	**–2.5**
Earnings before taxes		**47.4**	**63.2**
Income tax expense	**(19)**	–13.1	–14.2
Profit for the period attributable to equity holders of the Parent		**34.3**	**49.0**
Earnings per share (in €, basic/dilutive)	**(20)**	**2.11**	**3.00**

Statement of Changes in Shareholders' Equity

in €m	Share capital	Share premium	Reserves: Recognised in equity	Reserves: Other	**Total**
1 January 2006	**42.3**	**84.0**	**2.6**	**319.1**	**448.0**
Total net profit					
Profit for the period	–	–	–	34.3	34.3
Primary financial instruments	–	–	–0.1	–	–0.1
Derivatives	–	–	1.0	–	1.0
Exchange differences	–	–	–1.4	–	–1.4
	–	**–**	**–0.5**	**34.3**	**33.8**
Other changes					
Capital increase from approved capital	0.1	0.9	–	–	1.0
Dividend	–	–	–	–6.5	–6.5
31 December 2006	**42.4**	**84.9**	**2.1**	**346.9**	**476.3**
1 January 2007	**42.4**	**84.9**	**2.1**	**346.9**	**476.3**
Total net profit					
Profit for the period	–	–	–	49.0	49.0
Primary financial instruments	–	–	–0.1	–	–0.1
Derivatives	–	–	–1.1	–	–1.1
Exchange differences	–	–	–1.3	–	–1.3
	–	**–**	**–2.5**	**49.0**	**46.5**
Other changes					
Capital increase from approved capital	0.1	1.0	–	–	1.1
Dividend	–	–	–	–8.2	–8.2
Other	–	–	–	–0.6	–0.6
31 December 2007	**42.5**	**85.9**	**–0.4**	**387.1**	**515.1**

For further information see explanatory Note (7).

Cash Flow Statement

in €m	2006	**2007**
Earnings before taxes	47.4	63.2
Depreciation on intangible assets, property, plant and equipment	41.9	50.2
Foreign exchange gain/loss	–5.3	1.4
Interest income/expense	–0.9	–0.9
Changes in non-current provisions	4.8	3.6
Other income/expenses	–1.3	–5.1
Gross cash flow	**86.6**	**112.4**
Changes in inventories	–12.5	–32.3
Changes in receivables and other assets	68.2	–6.1
Changes in current provisions	36.6	56.6
Changes in payables and other liabilities	–85.7	–85.1
Interest received	9.7	6.8
Interest paid	–9.7	–9.7
Income tax paid	–3.2	–21.3
Cash flows from operating activities	**90.0**	**21.3**
Proceeds from disposal of intangible assets, property, plant and equipment	6.5	11.2
Payments for investment in intangible assets, property, plant and equipment	–54.3	–50.7
Proceeds from disposal of investments	0.1	0.5
Payments for investments	–0.1	–0.7
Payments for acquisition of consolidated enterprises	–5.4	–
Investment subsidies received	0.9	1.2
Dividends received	0.1	0.1
Cash flows from investing activities	**–52.2**	**–38.4**
Free cash flow	**37.8**	**–17.1**
Proceeds from capital contributions	1.0	1.1
Proceeds from loans	6.9	16.5
Repayment of loans	–14.0	–10.1
Dividends paid	–6.5	–8.2
Cash flows from financing activities	**–12.6**	**–0.7**
Change in funds	**25.2**	**–17.8**
Effect of changes in exchange rates	–0.2	–2.2
Funds at beginning of period	129.0	154.0
Funds at end of period	**154.0**	**134.0**

For further information see explanatory Note (I).

(A) Preliminary Remarks

The KBA Group is a global manufacturer of sheetfed, web and special printing presses for all current processes. The Parent, Koenig & Bauer AG (KBA) based in Würzburg, Germany, is a public limited company under German law. The consolidated financial statements include the Parent and all consolidated affiliates.

Consolidated financial statements for the Parent and a Group management report to 31 December 2007 were prepared in accordance with section 315a of the HGB (German Commercial Law) and published online in the *Bundesanzeiger* (Federal Gazette).

The consolidated financial statements 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), with due regard for EU directives.

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

On 4 March 2008 the Koenig & Bauer management board authorised the submission of the Group financial statements to the supervisory board for scrutiny and approval.

(B) New and Amended Standards and Interpretations

The financial statements for 2007 were prepared in accordance with the International Financial Reporting Standards that are required to be applied for annual periods beginning on or after 1 January 2007. Of these standards, the following are pertinent to the KBA Group:

IAS 1 Presentation of Financial Statements (amendments to disclosure of capital)
IFRS 7 Financial Instruments: Disclosures
IFRIC 10 Interim Financial Reporting and Impairment (loss on goodwill and certain financial assets).

The above standards were applied in compliance with the relevant transitional provisions. Where appropriate, amendments were made retrospectively, i.e. as if the new accounting policies had always applied. The comparative prior-year figures were amended accordingly.

The effects on the periods of time specified in the consolidated financial statements are described below.

IAS 1 Presentation of Financial Statements (amendments to disclosure of capital)
The consolidated financial statements must disclose information on capital management objectives, methods and processes.

IFRS 7 Financial Instruments: Disclosures
This standard replaces and complements the disclosures regulated in IAS 30 and IAS 32, and entails additional disclosures relating to financial instruments, with the object of revealing their significance and assessing the nature and extent of risks.

IFRIC 10 Interim Financial Reporting and Impairment
This stipulates that an entity may not reverse an impairment loss recognised in a previous interim period in respect of goodwill (IAS 36) or specific financial assets carried at cost (IAS 39).

The KBA Group did not apply in advance the following IASB standards, interpretations and amendments to existing standards that are not yet mandatory:

		Date applicable
IAS 1	Presentation of Financial Statements (amendments)	1 January 2009
IAS 23	Borrowing Costs (amendments)	1 January 2009
IFRS 8	IAS 14: Segment Reporting (amendments)	1 January 2009
IFRIC 11	Group and Treasury Share Transactions (share-based payment arrangements granting rights to the equity instruments of the entity or another entity within the same group)	1 March 2007
IFRIC 12	Service Concession Arrangements (accounting by operators for public-to-private service concession arrangements)	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The standards specified in IFRIC 11, IFRIC 12 and IFRIC 13 are irrelevant to the business activities of the entities included in the statements.

IAS 1 Presentation of Financial Statements (amendments)

Amendments have been made to the disclosure of non-owner changes in equity, new terminology has been adopted and the Notes expanded.

IAS 23 Borrowing Costs

Borrowing costs directly attributable to assets on or after 1 January 2009 must be capitalised as part of the cost of the asset. The option previously exercised by the Group, of recognising borrowing costs directly as an expense, is no longer available. In rare cases this will lead to a change in the valuation of assets.

IFRS 8 Amendments to IAS 14: Segment Reporting

This replaced IAS 14 and applies to entities in capital markets. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker. For KBA, this approach results in no changes other than probable additional Notes.

IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This interpretation defines the surplus from a defined benefit plan as an asset. It also explains how a minimum funding requirement might affect the valuation of assets and provisions. This is not expected to have any impact on the Group.

(C) 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.

Measurement basis and judgements

The measurement of assets and liabilities is based on the historical or amortised cost, with the exception of available-for-sale financial assets, derivative assets and derivative liabilities, which are measured at fair value.

In the process of applying the entity's accounting policies management makes various judgements, basically on the categorisation of investments held to maturity.

Estimates and assumptions

Where no market prices are available for assessing the value of assets and liabilities, this must be estimated and may give rise to a risk necessitating an adjustment in subsequent business years to the assets and liabilities disclosed. Estimates of the value of assets and liabilities were based on experience or current knowledge. Basic assumptions are detailed under the individual items (e.g. provisions, deferred taxes and the useful life of intangible assets, property, plant and equipment).

Intangible assets

Purchased intangible assets were disclosed at their purchase price 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 with a limited useful life 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 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 allowance was made for future market trends. Research costs and non-capitalised development costs were recognised as an expense as they arose.

Property, plant and equipment

Items of property, plant and equipment were disclosed at cost less depreciation, based on the use to which they are put. Each item with a significant value relative to the total asset value was treated as a separate depreciable asset (component recognition). Manufacturing costs for self-constructed plant and equipment included an appropriate proportion of production overheads, material and labour costs. Interest on borrowings was not carried as part of the cost of an asset. Subsequent costs associated with the acquisition or replacement of an item of property, plant or equipment were capitalised and written down over the individual useful life. Replaced items were derecognised accordingly. Costs for maintenance and repairs were also recognised as an expense. No land or buildings were held as financial investments as defined in IAS 40.

Grants

Government grants are classified as a reduction in the cost of assets and were recognised as a reduced depreciation charge over the asset life.

One condition for the disbursement of research funds is that a complete record must be kept of all the costs incurred, and submitted upon completion of the relevant project.

Leases

Leases for which the KBA Group, as the lessee, assumed the basic risks and rewards were disclosed as finance leases under intangible assets or property, plant and equipment. 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 financial payables. 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 straight-line depreciation of intangible Group assets, property, plant and equipment was based on their useful lives as shown in the chart.

	Years
Industrial property rights and similar rights	3 to 7
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

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 an impairment no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

Depreciation on and impairments in intangible assets, property, plant and equipment were disclosed under the individual functions.

When goodwill was tested for impairment it was attributed to the smallest identifiable groups (legal entities) of assets (creation of cash-generating units). The future cash flows (prior to interest and taxes) generated by such units were determined using three-year planning schedules. Cash flow growth was not extrapolated beyond this time-frame. The free cash flows thus determined were discounted at pre-tax interest rates of between 10.1% and 14.3%. 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, an impairment adjustment to the lower market value was made by deducting the impairment loss from goodwill and distributing the difference among the unit assets.

Individual items, depreciation and impairments under IAS 36 were disclosed under "Changes in Intangible Assets, Property, Plant and Equipment" (F).

Financial assets

These were measured at fair value where contractual claims existed and subsequently assigned to one of four categories under IAS 39: financial assets recognised at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Held-to-maturity investments, and also loans and receivables, were stated at their amortised cost using the effective interest method, and were tested for impairment loss on the balance sheet date. 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. Value adjustments were made as appropriate for all recognisable risks.

Interests in affiliated, non-consolidated entities were reported under **investments** and classified as available for sale. Since they represent financial investments in equity instruments for which no price is quoted in an active market, and whose fair value cannot be reliably determined, they were carried at cost of purchase. Other loans were grouped under loans and receivables.

Other financial receivables included derivatives and held-to-maturity investments.

Trade receivables related to commercial loans and receivables. Non-interest-bearing claims and low-interest claims with maturities of more than one year were discounted.

Securities, cash and cash equivalents refer to available-for-sale financial assets carried at fair value on the balance sheet date. This classification was also used for fixed-interest securities and shares, since we have no plans to hold these until final maturity.

Derivatives

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

Where hedge accounting was used, changes in fair value were reported either in equity or in the income statement. With a fair value hedge, changes in the fair 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 in the income statement. Gains and losses were reported in the income statement as soon as the hedged transaction itself was recognised.

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-related cash flow risk is the risk that future cash flows will fluctuate following changes in market interest rates.

Interest rate risk is the risk that the interest on deposits or loans will fluctuate as a result of 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.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

These risks are contained by a risk management system. The principles laid down ensure that risk is assessed and documented in accordance with systematic and uniform procedures. Further information can be found on page 41. Derivatives in the form of marketable foreign exchange transactions, currency and interest swaps were used to hedge against currency and interest risks. Where the conditions defined in IAS 39 for an effective hedging relationship were fulfilled, hedge accounting was used, more specifically cash flow hedges.

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 pertinent distribution costs.

Construction contracts

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.

Equity

The issued capital was calculated from the number of no-par shares issued by Koenig & Bauer AG up to the balance sheet date.

The share premium included the extra charge from the issue of shares, and is subject to the limitations imposed by section 150 of German Company Law.

Reserves encompassed the net profits posted and retained in previous years by consolidated companies, and adjustments arising from the adoption of IFRS, more specifically IFRS 3 in 2004. They 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.

Pension provisions

Pension provisions were measured using the projected unit credit method described in IAS 19, based on actuarial reports that recognised the present and potential benefits known on the balance sheet date, and included 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 defined-benefit obligations or plan assets (whichever was greater), 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, with benefits determined by the length of service and employee compensation.

Pensions are partially financed through a funded benefit system. If fund assets exceed obligations, the excess is disclosed as a financial receivable. Obligations not covered by fund assets are carried in pension provisions at the value of the net liability.

Other provisions

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

Financial payables

A financial payable was recognised on the balance sheet as soon as contractual obligations arose from a financial instrument. Financial payables, which were initially recognised at fair value and subsequently carried at their amortised cost, were reported on the settlement date.

Of **other financial payables**, derivatives with a negative market value were carried at fair value. Payables arising on finance leases were carried at present value.

Deferred taxes

Deferred tax assets and liabilities were recognised on temporary differences between IFRS and tax bases for Group enterprises, and on consolidation measures. Differences were calculated using the liability method specified in IAS 12, 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. Where the use was improbable, an impairment was disclosed. The tax rates used to calculate deferred taxes were the national rates applicable or notified at the time of recovery, and ranged from 10% to 40%.

The effect of changes in tax rates on deferred taxes was reported when such changes came into force.

The Group tax rate was the same as the Parent tax rate. Differences arising from calculations based on national tax rates were disclosed separately under "variances due to different tax rates".

Non-current assets held for sale

A non-current asset is classified as being held for sale if management is committed to a plan to sell the asset and it is highly probable that the sale will be completed within one year from the date of classification. The asset is valued at the lower of its carrying amount and fair value less costs to sell. Such an asset will no longer be written down.

Earnings

Earnings were recognised at the fair value of the consideration received or claimed. Revenues from the sale of goods were recognised at the transfer of ownership or passage of risk. Earnings from the rendering of services were recognised on the balance sheet date either in full subsequent to being rendered or calculated using the effort-expended method, provided the amount of earnings and costs could be reliably estimated. Price reductions, rebates, bonuses and bulk discounts granted to customers were deducted from revenue.

Interest was recognised as profit if the amount could be measured reliably and there was a reasonable likelihood of future economic benefit. Dividends were balanced with the origination of a legal claim to payment.

Expenses by function

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

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.

Distribution costs included costs for open house promotions and demonstrations for customers.

Administrative expenses included the amortisation of goodwill and negative goodwill.

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.

(D) Consolidated Companies and Consolidation Principles

Consolidated companies

In addition to Koenig & Bauer AG, Würzburg, the consolidated financial statements include 12 (previous year: 14) subsidiaries.

Altogether 15 (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. It was carried at fair value as an available-for-sale financial instrument under IAS 39.

Consolidation principles
The capital consolidation of affiliates and the disclosure of business combinations entailed offsetting the cost of acquiring shares in subsidiaries against the Parent's share of equity at the date of initial consolidation. Hidden reserves or liabilities were allocated to the subsidiary's assets and liabilities. Contingent liabilities were offset against equity, and 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 amortisation no longer applied to goodwill generated after 1 January 2004. Negative goodwill was immediately disclosed as an expense item under administrative expenses.

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.

(E) 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. In the consolidated financial statements their assets and liabilities were therefore translated into the reporting currency at the closing rate, income and expenses at the average exchange rate for the year. The resulting exchange differences were disclosed in equity.

The financial statements for subsidiaries consolidated for the first time, the goodwill arising from the acquisition of such subsidiaries and adjustments in the carrying amounts of assets and liabilities to fair value were translated at the closing rate on the date of the initial consolidation.

Currency gains and losses ensuing from consolidation were recognised as income or expense.

(F) Changes in Intangible Assets, Property, Plant and Equipment

in €m	Cost						
	01.01.	Group additions	Additions	Translation differences	Reclassifi-cations[1]	Disposals	**31.12.**
2006							
Intangible assets							
Industrial property rights and similar rights	42.7	14.0	1.8	–0.2	–	2.2	56.1
Goodwill	14.2	9.2	–	–	–	3.4	20.0
Product development costs	16.4	–	–	–	–	11.0	5.4
	73.3	**23.2**	**1.8**	**–0.2**	**–**	**16.6**	**81.5**
Property, plant and equipment							
Land and buildings	206.9	0.1	12.0	–0.4	0.4	1.1	217.9
Plant and machinery	228.8	5.0	19.0	–1.4	–8.6	10.0	232.8
Other facilities, factory and office equipment	103.9	8.5	14.6	–0.3	–1.2	12.2	113.3
	539.6	**13.6**	**45.6**	**–2.1**	**–9.4**	**23.3**	**564.0**
	612.9	**36.8**	**47.4**	**–2.3**	**–9.4**	**39.9**	**645.5**
2007							
Intangible assets							
Industrial property rights and similar rights	56.1	–	2.2	–0.3	0.2	9.6	48.6
Goodwill	20.0	–	–	–	–	–	20.0
Product development costs	5.4	–	–	–	–	–	5.4
	81.5	**–**	**2.2**	**–0.3**	**0.2**	**9.6**	**74.0**
Property, plant and equipment							
Land and buildings	217.9	–	7.1	–0.4	0.3	1.1	223.8
Plant and machinery	232.8	–	13.4	–0.3	1.7	8.6	239.0
Other facilities, factory and office equipment	113.3	–	16.1	–0.2	0.3	10.9	118.6
Assets under construction	–	–	9.4	–	2.9	1.8	10.5
	564.0	**–**	**46.0**	**–0.9**	**5.2**	**22.4**	**591.9**
	645.5	**–**	**48.2**	**–1.2**	**5.4**	**32.0**	**665.9**

[1] 2006: including reclassifications of assets held for sale
[2] Impairment in sheetfed division
[3] Impairment in web and special press division

Depreciation								Carrying amount	
01.01.	Group additions	Annual depreciation	Impairments	Translation differences	Reclassifications[1]	Disposals	**31.12.**	01.01.	**31.12.**
36.8	4.7	4.3	–	–0.1	–0.1	2.1	43.5	5.9	12.6
3.4	–	–	–	–	–	3.4	–	10.8	20.0
13.1	–	0.8	–	–	–	11.0	2.9	3.3	2.5
53.3	**4.7**	**5.1**	**–**	**–0.1**	**–0.1**	**16.5**	**46.4**	**20.0**	**35.1**
65.8	0.1	5.5	–	–0.2	–1.9	1.0	68.3	141.1	149.6
159.6	4.9	13.9	–	–1.2	–8.2	7.3	161.7	69.2	71.1
63.9	8.1	17.1	0.3[2]	–0.2	–1.3	11.9	76.0	40.0	37.3
289.3	**13.1**	**36.5**	**0.3**	**–1.6**	**–11.4**	**20.2**	**306.0**	**250.3**	**258.0**
342.6	**17.8**	**41.6**	**0.3**	**–1.7**	**–11.5**	**36.7**	**352.4**	**270.3**	**293.1**
43.5	–	4.2	–	–0.2	0.1	9.5	38.1	12.6	10.5
–	–	–	–	–	–	–	–	20.0	20.0
2.9	–	0.8	–	–	–	–	3.7	2.5	1.7
46.4	**–**	**5.0**	**–**	**–0.2**	**0.1**	**9.5**	**41.8**	**35.1**	**32.2**
68.3	–	6.3	5.7[3]	–0.2	–	1.0	79.1	149.6	144.7
161.7	–	13.6	3.7[3]	–0.3	–	5.0	173.7	71.1	65.3
76.0	–	15.1	1.0[3]	–0.2	–	10.9	81.0	37.3	37.6
–	–	–0.2	–	–	0.2	–	–	–	10.5
306.0	**–**	**34.8**	**10.4**	**–0.7**	**0.2**	**16.9**	**333.8**	**258.0**	**258.1**
352.4	**–**	**39.8**	**10.4**	**–0.9**	**0.3**	**26.4**	**375.6**	**293.1**	**290.3**

(G) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

The total includes €0.1m (previous year: €0.1m) for rights arising from finance leases, €2.5m (€4.3m) for plant and machinery and €3.1m (€1.8m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €10.4m (previous year: €12.4m).

Intangible assets

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

Goodwill

in €m	31.12.2006	**31.12.2007**
Bauer+Kunzi GmbH, Ditzingen, Germany	3.4	3.4
KBA-GIORI S.A., Lausanne, Switzerland	7.3	7.3
KBA-MetalPrint GmbH, Stuttgart, Germany	9.2	9.2
Other	0.1	0.1
	20.0	**20.0**

Goodwill was tested for impairment on the balance sheet date in accordance with IAS 36. The recoverable amount exceeded the carrying amount (including goodwill) of the relevant cash-generating units.

Property, plant and equipment

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

An impairment test was carried out relating to the proposed adjustment in web press production capacity to address market changes. The value in use (future cash flows based on a five-year plan and discounted at 12.3%) of production plant was offset against the relevant carrying amounts.

(2) Financial and other assets

Investments

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, location

	Capital share in %	Equity in €m
Consolidated affiliates		
KBA-Metronic AG, Veitshöchheim, Germany	100.0	11.5
Bauer+Kunzi GmbH, Ditzingen, Germany	100.0	0.2
KBA-MetalPrint GmbH, Stuttgart, Germany[1]	100.0	8.3
KBA-France SAS, Tremblay-en-France, France	100.0	1.0
KBA (UK) Ltd., Watford, UK	100.0	0.3
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	0
KBA-Mödling AG, Mödling, Austria	>99.9	28.0
KBA-Le Mont-sur-Lausanne SA, Lausanne, Switzerland	100.0	53.1
KBA-GIORI S.A., Lausanne, Switzerland[1]	100.0	42.3
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	12.8
KBA North America Inc., Wilmington, Delaware, USA	100.0	8.8
Non-consolidated affiliates		
KBA Australasia Pty. Ltd., Lane Cove, Australia	100.0	–0.8[2]
KBA NORDIC A/S, Herlev, Denmark	100.0	–0.7[2]
KBA-Italia S.p.A., Milan, Italy	100.0	1.7
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	0.5
KBA-Polska Sp. z o.o., Warsaw, Poland	100.0	0
KBA RUS GmbH, Moscow, Russia	100.0	0.3
Print Assist AG, Höri, Switzerland[1]	100.0	2.7
KBA (HK) Company Ltd., Hong Kong, China	100.0	0.5[3]
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	0.6
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.9
KBA-GIORI India Private Ltd., New Delhi, India[1]	50.0	0.2

[1] Indirect holding
[2] Deficit not covered by equity
[3] Preliminary figures

The terms to maturity of financial and other assets are shown below:

in €m	31.12.2006	Term to maturity		**31.12.2007**	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade receivables						
- from affiliates	4.7	3.1	1.6	8.2	7.4	0.8
- from companies in which interests are held	6.5	6.5	–	–	–	–
- from third parties	388.6	321.1	67.5	387.1	333.2	53.9
	399.8	**330.7**	**69.1**	**395.3**	**340.6**	**54.7**
Investments	5.4	–	5.4	5.7	–	5.7
Other financial receivables						
- from affiliates	1.1	1.1	–	2.0	2.0	–
- derivatives	2.1	2.0	0.1	3.2	3.0	0.2
- sundry other financial receivables	34.7	14.7	20.0	35.4	18.1	17.3
	43.3	**17.8**	**25.5**	**46.3**	**23.1**	**23.2**
Other assets						
- payments for inventories	35.3	35.3	–	38.5	38.5	–
- payments for intangible assets, property, plant and equipment	5.4	5.4	–	1.0	1.0	–
- tax receivables	9.5	9.5	–	9.4	9.4	–
- prepayments	6.2	6.2	–	8.2	5.7	2.5
	56.4	**56.4**	**–**	**57.1**	**54.6**	**2.5**
	499.5	**404.9**	**94.6**	**498.7**	**418.3**	**80.4**

Adopting the percentage of completion method resulted in €23.7m (previous year: €16.3m) being carried in **trade receivables**.

Included above are **sundry other financial receivables** of €4.2m from the previous year, held under finance leases totalling €4.7m and an interest share of €0.5m, with those due in less than one year representing €0.6m of a total of €0.8m. The terms to maturity of the remainder were less than five years. Other receivables from derivatives are detailed in Note (11).

Value adjustments for financial assets were based on item-by-item risk assessments. Allowance was made for potential credit risks relating to specific loans or countries. As a result of renegotiated conditions, €1.3m (previous year: €5.3m) was no longer overdue or impaired. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2006	**31.12.2007**
Raw materials, consumables and supplies	63.1	74.0
Work in progress	288.2	303.8
Finished goods and products	26.3	24.7
	377.6	**402.5**

The carrying amount of inventories balanced at net realisable value was €157.6m (previous year: €121.4m). Impairments of –€4.7m (previous year: €0.4m) were recognised as an expense.

(4) Securities

These mainly refer to fixed-interest securities and shares in a special fund combining stocks and bonds.

Fixed-interest securities and fund shares were valued at €3.3m (previous year: €0.7m).

The balanced market value of the **special fund** was €7.5m (previous year: €7.5m). This was pledged to employees in order to hedge phased retirement credits.

(5) Cash and cash equivalents

in €m	31.12.2006	**31.12.2007**
Cheques, cash in hand	0.2	0.1
Balances with banks	145.6	123.1
	145.8	**123.2**

(6) Deferred taxes

Deferred tax assets and liabilities comprised the following:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2006	**31.12.2007**	31.12.2006	**31.12.2007**
Assets				
Intangible assets, property, plant and equipment	2.1	1.2	24.3	16.7
Inventories	20.0	2.8	3.2	0.7
Financial receivables and other assets	6.8	2.2	1.3	1.2
Securities, cash and cash equivalents	–	–	0.9	0.1
	28.9	**6.2**	**29.7**	**18.7**
Equity and liabilities				
Equity	0.2	–	–	–
Provisions	22.6	20.7	2.6	0.3
Financial payables and other liabilities	3.3	1.4	24.9	6.2
	26.1	**22.1**	**27.5**	**6.5**
Tax loss carryforwards	12.3	5.4	–	–
Other	–1.6	0.5	–	–
	65.7	**34.2**	**57.2**	**25.2**

A reduction in German corporation tax from 39% to 30% and statutory changes in Czech taxation rates were taken into account when calculating deferred taxes.

Deferred taxes disclosed under equity related to the translation differences carried in equity that arose from consolidation procedures. Deferred taxes recognised in equity totalled €0.8m (previous year: €1.7m).

Loss carryforwards for which no deferred tax assets were disclosed totalled €3.6m (previous year: €9.3m) at the end of the year.

A deferred tax liability of €1.3m (previous year: €1.5m) on temporary differences in investments was not recognised, since a sale in the foreseeable future was highly improbable.

Deferred tax assets and liabilities were balanced wherever possible, e.g. where the taxation authority and due date were the same for both.

(7) Equity

Changes in shareholders' equity are described in a separate schedule on page 60, capital management objectives and methods on page 34.

Share capital

The Parent's share capital at 31 December 2007 totalled 16,340,790 (2006: 16,304,400) no-par shares with a nominal value of €2.60. The 36,390 increase over the previous year represents the issue of employee shares, using part of the €15.6m capital approved by the shareholders' meeting on 22 June 2006. The remaining €15.4m was approved until 21 June 2011. Management was further authorised to continue buying back shares up to a maximum of one tenth of the issued capital of €42.4m, with repurchasing to be completed by no later than 18 December 2008, but preferably by the end of the next AGM.

All bearer shares issued were paid up in full and convey attendance and voting rights at shareholder meetings plus full dividend entitlement. In 2007 a dividend of 50 cents per share was paid for the previous year.

Share premium

Our share premium rose by €1m compared to the previous year, due to the issue of employee shares.

Reserves

The disclosure of original financial instruments (securities) diminished reserves by €0.3m (previous year: €0.2m decrease).

The use of hedge accounting swelled reserves by €0.3m (previous year: €5.2m). During completion of the underlying transactions €2.1m (previous year: €3.6m) was recognised as income.

Deferred taxes increased reserves by €0.7m (previous year: €0.4m), with primary financial instruments accounting for €0.2m (previous year: €0.1m), derivatives €0.7m (previous year: –€0.6m) and foreign currency translation –€0.2m (€0.9m).

(8) 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 5.4% (previous year: 4.3%) in Germany and 5.8% (5.2%) in the UK, a salary increase of 2.4% (2.3%) and a fluctuation rate of 2.6% (2.6%). Pension adjustments were calculated at 1.8% (1.6%). All figures are weighted averages of the assumptions contained in the pension plans.

The present value of obligations and the current market value of plan assets changed as follows:

in €m	Present value of obligations		Current market value of plan assets	
	31.12.2006	**31.12.2007**	31.12.2006	**31.12.2007**
Status at 01.01.	**130.2**	**127.0**	**–17.3**	**–8.8**
Current service cost	5.0	3.5	–	–
Interest cost	5.6	5.3	–	–
Recognised actuarial gain/loss	0.8	0.6	–	–
Expected return on plan assets	–	–	–1.0	–0.4
Cost (+)/return (–) for the year	**11.4**	**9.4**	**–1.0**	**–0.4**
Contributions	–	–	–0.2	–0.5
Benefits paid	–5.2	–5.4	0.6	0.1
Unrecognised actuarial gain/loss	1.3	–20.2	–0.1	–0.3
Change in scope of consolidated financial statements	2.3	–	–	–
Settlements and plan asset changes	–12.5	–	8.8	–
Foreign currency exchange rate changes/other changes	–0.5	–0.6	0.4	0.5
Status at 31.12.	**127.0**	**110.2**	**–8.8**	**–9.4**

Pension provisions constituted the following:

in €m	31.12.2006	**31.12.2007**
Present value of non-funded obligations	115.9	100.0
Present value of funded obligations	11.1	10.2
Present value of obligations	**127.0**	**110.2**
Current market value of plan assets	–8.8	–9.4
Current market value of obligations (offset)	**118.2**	**100.8**
Unrecognised actuarial gains/losses	–18.5	2.0
Other	–0.4	–
Balance sheet value at 31.12.	**99.3**	**102.8**
- pension provisions	**99.3**	**102.8**

Plan assets comprised €3.6m (previous year: €3.3m) from life insurance for pension schemes, €3.5m (previous year: €2.6m) from shares and equity securities, €1.9m (€2m) from loans and €0.4m (€0.9m) from other assets.

The actual return on plan assets was €0.7m (previous year: €1.1m). The anticipated rate of return is 7.6% (previous year: 9.3%), based on current market projections.

Net liability resulted from the present value of obligations less the current market value of plan assets, and during the past four years changed as follows:

in €m	31.12.2004	31.12.2005	31.12.2006	**31.12.2007**
Present value of obligations	104.5	130.2	127.0	110.2
Current market value of plan assets	–10.3	–17.3	–8.8	–9.4
Net liability	**94.2**	**112.9**	**118.2**	**100.8**

Expenses for defined-contribution plans totalled €37.7m (previous year: €33.3m).

Payments for pension obligations in 2008 have been estimated at €5.7m.

(9) Other provisions

in €m	Status at 01.01.2007	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Translation difference	**Status at 31.12.2007**
Other provisions							
- for employees	42.7	15.5	0.3	49.9	0.6	–0.1	77.3
- for sales	121.3	18.1	6.8	33.3	1.2	–0.2	130.7
- for sundry other purposes	40.9	27.1	0.9	40.0	–	–0.2	52.7
	204.9	**60.7**	**8.0**	**123.2**	**1.8**	**–0.5**	**260.7**
of which							
- long-term provisions	66.2						88.8
- short-term provisions	138.7						171.9
	204.9						**260.7**

Provisions for employees included expenses relating to long-service bonuses and proposed capacity reductions, credits for phased retirement plans and performance bonuses. Sales expenses covered provisions for process risks, warranty and commission obligations. Provisions for sundry other purposes primarily related to liability insurance premiums, restructuring costs and similar obligations.

(10) Financial and other liabilities

in €m	31.12.2006	Term to maturity		**31.12.2007**	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade payables						
- to affiliates	2.0	2.0	–	1.5	1.5	–
- to companies in which interests are held	–	–	–	2.2	2.2	–
- to others	102.3	102.3	–	79.0	78.9	0.1
	104.3	**104.3**	**–**	**82.7**	**82.6**	**0.1**
Bank loans	78.8	49.0	29.8	83.5	59.7	23.8
Other financial payables						
- from derivatives	0.7	0.7	–	–	–	–
- sundry other financial payables	69.3	59.2	10.1	70.6	64.3	6.3
	148.8	**108.9**	**39.9**	**154.1**	**124.0**	**30.1**
Other liabilities						
- from payments received	274.0	273.4	0.6	199.3	196.1	3.2
- from taxes	14.5	14.5	–	17.2	17.2	–
- sundry other liabilities	6.4	6.4	–	3.4	3.4	–
	294.9	**294.3**	**0.6**	**219.9**	**216.7**	**3.2**
	548.0	**507.5**	**40.5**	**456.7**	**423.3**	**33.4**

Bank loans (financial liabilities) were secured by mortgages to the value of €5.6m (previous year: €11.2m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of trade receivables totalling €12m (€12m). The carrying amounts of secured items of property, plant and equipment came to €10.3m (previous year: €10.5m), of trade receivables €12.2m (€12.4m) and of pledged securities (other financial receivables) €1.9m (€2m).

Of trade payables, €0.1m was attributable to the percentage of completion method the previous year.

Lines of credit not drawn down by the KBA Group at the balance sheet date totalled €194.5m (previous year: €182.8m).

Sundry other financial payables included finance leases to the sum of €9.9m (previous year: €10.8m). Standard market conditions apply to renewal and purchase options. 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	31.12.2006	Term to maturity		**31.12.2007**	Term to maturity	
		up to 1 year	1 to 5 years		up to 1 year	1 to 5 years
Minimum lease payments	12.1	5.0	7.1	11.1	4.4	6.7
Interest portion	–1.3	–0.4	–0.9	–1.2	–0.4	–0.8
Present value of finance lease	**10.8**	**4.6**	**6.2**	**9.9**	**4.0**	**5.9**

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

Other liabilities include total payments received of €37.5m (previous year: €53.6m) for construction contracts.

(11) Derivatives

At the end of the year short-term currency options denominated in US dollars were valued at €97.7m.

In 2007 currency options with a maturity of 3 years were concluded to hedge a foreign subsidiary's current, fixed-term business transactions denominated in euros. The nominal amount at the balance sheet date was €11.4m (previous year: €7.2m), of which €4.2m (previous year: €3.6m) had a term to maturity of more than one year.

In addition forward contracts with a maturity of up to 1 year (previous year: 2 years) were used to hedge the calculation rate of other foreign currency trade contracts. The currencies hedged were primarily US dollars.

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

in €m	Nominal amount			Nominal amount		
	Total	Term to maturity more than	Market value	Total	Term to maturity more than	Market value
	31.12.2006	1 year	31.12.2006	**31.12.2007**	1 year	**31.12.2007**
Forward contracts	76.8	1.0	1.2	15.5	–	0.6
Currency options	7.2	3.6	0.2	109.1	4.2	2.6
Currency swaps	1.5	–	–	–	–	–
	85.5	**4.6**	**1.4**	**124.6**	**4.2**	**3.2**

The **nominal amount** of derivatives signifies a calculated reference amount from which payments are deduced. The risk therefore lies not in the nominal 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.

The balance sheet included €0.3m (previous year: €0.3m) of assets and €0.7m prior-year liabilities from ineffective cash flow hedging relationships.

(12) Further disclosures on financial instruments

in €m	Carrying amount	of which not impaired, not overdue	of which not impaired, but overdue < 3 months	3-12 months	> 12 months	of which impaired
2006						
Loans and receivables	425.5	264.8	85.1	21.3	5.5	48.8
Assets held to maturity	7.9	7.9	–	–	–	–
Assets available for sale	161.6	161.6	–	–	–	–
Financial instruments recognised at fair value	2.1	2.1	–	–	–	–
	597.1	**436.4**	**85.1**	**21.3**	**5.5**	**48.8**
2007						
Loans and receivables	422.9	300.6	68.8	34.0	2.6	16.9
Assets held to maturity	7.9	7.9	–	–	–	–
Assets available for sale	141.6	141.6	–	–	–	–
Financial instruments recognised at fair value	3.2	3.2	–	–	–	–
	575.6	**453.3**	**68.8**	**34.0**	**2.6**	**16.9**

in €m	Category under IAS 39*	31.12.2006 Carrying amount	Carrying value Amortised cost	Carrying value Fair value recognised in equity	Carrying value Fair value recognised in profit or loss	31.12.2006 Fair value
Assets						
Investments and other financial receivables						
- interests in affiliates	afs	5.2	5.2	–	–	–
- loans	lar	0.2	0.2	–	–	0.2
- other financial receivables from derivatives	rafv	2.1	–	2.1	–	2.1
- sundry other financial receivables	htm	7.9	7.9	–	–	7.9
	afs	2.4	–	–	2.4	2.4
	lar	25.5	25.5	–	–	25.5
		43.3	**38.8**	**2.1**	**2.4**	**38.1**
Trade receivables	lar	399.8	399.8	–	–	399.8
Securities, cash and cash equivalents	afs	154.0	–	–	154.0	154.0
		597.1	**438.6**	**2.1**	**156.4**	**591.9**
Liabilities						
Bank loans and other financial payables						
- bank loans	ofp	78.8	78.8	–	–	78.8
- other financial payables from finance leases	ofp	10.8	10.8	–	–	11.1
- other financial payables from derivatives	rafv	0.7	–	0.7	–	0.7
- sundry other financial payables	ofp	58.5	58.5	–	–	58.5
		148.8	**148.1**	**0.7**	**–**	**149.1**
Trade payables	ofp	104.3	104.3	–	–	104.3
		253.1	**252.4**	**0.7**	**–**	**253.4**

* afs = available for sale
lar = loans and receivables
rafv = recognised at fair value
htm = held to maturity
ofp = other financial payables

The fair value of **interests in affiliates** could not be calculated since no prices were quoted in an active market.

The fair value of **other financial receivables/payables from derivatives** was the market value. The figures disclosed for **securities, cash and cash equivalents** were the quoted market prices.

Other financial payables from finance leases refer to payment obligations discounted at the market interest rate.

The fair values of **loans** and **sundry other financial receivables/payables** were basically the carrying amounts recognised at amortised cost.

31.12.2007	Carrying value			31.12.2007
Carrying amount	Amortised cost	Fair value recognised in equity	Fair value recognised in profit or loss	Fair value
5.6	5.6	–	–	–
0.1	0.1	–	–	0.1
3.2	–	3.2	–	3.2
7.9	7.9	–	–	7.9
2.0	–	–	2.0	2.0
27.5	27.5	–	–	27.5
46.3	**41.1**	**3.2**	**2.0**	**40.7**
395.3	395.3	–	–	395.3
134.0	–	–	134.0	134.0
575.6	**436.4**	**3.2**	**136.0**	**570.0**
83.5	83.5	–	–	83.5
9.9	9.9	–	–	10.1
–	–	–	–	–
60.7	60.7	–	–	60.7
154.1	**154.1**	**–**	**–**	**154.3**
82.7	82.7	–	–	82.7
236.8	**236.8**	**–**	**–**	**237.0**

Interest, exchange and credit risks relating to financial assets and liabilities at the balance sheet date are indicated in the chart below showing the associated net gains and losses.

in €m	31.12.2006 Net gain/loss	**31.12.2007** Net gain/loss	from interest	from subsequent measurement due to impairment	currency impact	at fair value	from disposal
Loans and receivables	–20.9	–19.4	4.8	–10.0	–8.1	–	–6.1
Assets available for sale	3.5	2.4	5.2	–0.5	–2.3	–	–
Financial instruments recognised at fair value	7.2	–0.4	–	–	1.4	–1.8	–
Other financial payables	–6.9	–5.8	–6.3	–0.1	0.6	–	–
	–17.1	**–23.2**	**3.7**	**–10.6**	**–8.4**	**–1.8**	**–6.1**

Foreign currency risks were assessed using a sensitivity analysis based on the premise that all currencies fluctuate in value by +/–5% relative to the euro.

A 5% devaluation in foreign currencies would have reduced equity by €0.3m (previous year: €2.3m) and profit by €3.3m (previous year: €2.4m) on the balance sheet date, a 5% revaluation would have increased equity by €0.5m (previous year: €1.9m) and profit by €4m (previous year: €3.4m) on the balance sheet date.

(13) Other financial commitments and contingent liabilities

Other financial commitments

in €m	31.12.2006	Term to maturity			**31.12.2007**	Term to maturity		
		up to 1 year	1 to 5 years	more than 5 years		up to 1 year	1 to 5 years	more than 5 years
Commitments from:								
operating leases	10.6	5.7	4.9	–	8.5	4.3	4.2	–
leasing and service contracts	22.9	5.8	12.0	5.1	19.0	5.5	10.3	3.2
investment plans	13.7	7.3	6.4	–	13.3	12.4	0.9	–
sundry other activities	0.1	0.1	–	–	0.6	0.6	–	–
	47.3	**18.9**	**23.3**	**5.1**	**41.4**	**22.8**	**15.4**	**3.2**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €6.6m (previous year: €6.5m) 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 €0.5m (previous year: €0.8m) and in property, plant and equipment to the value of €12.8m (€12.9m).

Sundry other commitments were carried at their nominal amount and included payables for repairs.

Contingent liabilities

These comprised contingencies totalling €217.7m (previous year: €285.6m) from financial guarantees, primarily relating to repurchase obligations to lessors and banks. The guaranteed repurchase price decreased over the term of the repurchase obligation.

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

(H) Explanatory Notes to the Income Statement

(14) Revenue

Construction contract revenue totalled €219.3m (previous year: €257.4m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €541.1m (€596.3m).

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

(15) Expenses by function

Cost of sales

Cost of sales included €0.6m in subsidies (previous year: €0.3m) for apprentice training, job promotion and contract development projects. Manufacturing costs for construction contract projects still in progress on the balance sheet date amounted to €477.5m (previous year: €526.4m).

Research and development costs

Government research grants for expenses already incurred were recognised at the time of approval, reducing research and development costs by €0.5m (previous year: €0.4m).

Distribution costs and administrative expenses

Distribution costs rose by just €0.5m, while ongoing optimisation trimmed administrative expenses by €6.4m.

(16) Expenses by nature

Material costs

in €m	2006	**2007**
Cost of raw materials, consumables, supplies and purchased goods	755.3	713.3
Cost of purchased services	176.2	146.0
	931.5	**859.3**

Personnel costs

in €m	2006	**2007**
Wages and salaries	375.0	385.2
Social security and other benefits	73.7	71.0
Pensions	10.0	5.5
	458.7	**461.7**
Average payroll		
- wage-earning industrial staff	4,589	4,595
- salaried office staff	3,268	3,241
- apprentices/students	412	414
	8,269	**8,250**

(17) Other operating income and expenses

in €m	2006	2007
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	3.3	6.4
Foreign currency gains	0.3	0.9
Currency measurement	15.5	1.4
Reversal of write-downs and provisions	8.3	20.1
Sundry other operating income	9.1	4.1
	36.5	**32.9**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–1.8	–1.2
Foreign currency losses	–7.3	–7.9
Currency measurement	–10.2	–2.8
Creation of write-downs and provisions	–26.1	–60.8
Sundry other operating expenses	–32.8	–27.1
	–78.2	**–99.8**
Other operating income and expenses	**–41.7**	**–66.9**

Sundry other operating income included insurance and compensation claims and other refunds.

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

(18) Financial result

in €m	2006	2007
Other financial results		
Income from interests in affiliates	0.1	0.1
Gains/impairments in securities	0.2	–0.6
	0.3	**–0.5**
Interest income/expense		
Other interest and similar income	13.3	10.9
- from affiliates	(–)	(0.1)
Other interest and similar expense	–12.4	–12.9
- from affiliates	(–)	(–)
	0.9	**–2.0**
Financial result	**1.2**	**–2.5**

(19) Income taxes

Tax expense mainly comprised the following:

in €m	2006	2007
Actual tax expense	–8.6	–13.6
Deferred taxes from loss carryforwards	–5.8	–6.9
Deferred tax income from temporary differences	1.3	6.3
	–13.1	**–14.2**

Other tax effects included €0.4m (previous year: €0.9m) in rebates and €2.5m in payments unrelated to the accounting period, and €0.3m (previous year: €0.6m) from the utilisation of impaired loss carryforwards.

in €m	2006	2007
Earnings before taxes	**47.4**	**63.2**
Group tax rate	39.0 %	39.0 %
Expected taxes	**–18.5**	**–24.6**
Tax effects from		
- variances due to different tax rates	8.0	14.4
- tax-free earnings	–	1.6
- impairments	–4.2	–3.1
- decreases and increases	–0.1	–1.5
- other	1.7	–1.0
Income tax expense	**–13.1**	**–14.2**
Overall tax ratio in %	27.6 %	22.5 %

(20) Earnings per share

	2006	2007
Group profit for the period in €m	34.3	49.0
Weighted average of ordinary shares issued	16,273,557	16,312,675
Earnings per share in €	**2.11**	**3.00**

The total number of ordinary shares issued was 36,390 higher than in the previous year following the issue of employee shares in the fourth quarter. There was no dilution of earnings per share.

(I) Explanatory Notes to the Cash Flow Statement

The cash flow statement as per IAS 7 shows how Group funds 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. Funds totalling €134m (previous year: €154m) comprised cash and cash equivalents worth €123.2m (previous year: €145.8m) and securities worth €10.8m (previous year: €8.2m).

Prior-year acquisition costs totalling €6.6m were paid in full. They were set against cash and cash equivalents worth €1.2m. Non-current assets worth €14.8m, current assets worth €21.3m, non-current liabilities totalling €5.8m and current liabilities worth €34m were included in the consolidated financial statements.

Tax expense embraced tax payments of €22.6m (previous year: €3.2m) and refunds of €1.3m.

(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 UV 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 procedures as the consolidated financial statements. Internal Group transactions contained in the segment result (operating profit) were classed as arm's length transactions.

There were no inter-segment sales. Non-cash expenses included transfers to provisions.

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 and other assets. Segment liabilities basically included other provisions, trade payables and other liabilities.

Reconciliation related to financial assets and liabilities, and consolidation between segments.

Business segments

in €m	Web and special presses		Sheet offset presses		Consolidation/ reconciliation		Group	
	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
External turnover	**871.3**	**846.8**	**870.6**	**856.9**	**–**	**–**	**1,741.9**	**1,703.7**
Operating profit	41.2	64.1	5.0	1.6	–	–	46.2	65.7
Depreciation	24.8	21.1	16.8	18.7	–	–	41.6	39.8
Significant non-cash expenses	70.4	94.4	28.8	30.6	–	–	99.2	125.0
Capital investments	28.2	25.1	26.1	25.6	–	–	54.3	50.7
Assets	453.4	504.2	690.2	662.4	250.6	200.0	1,394.2	1,366.6
Liabilities (with payments received)	462.5	449.9	186.2	156.9	269.2	244.7	917.9	851.5

The geographical areas were defined according to their significance for Group income.

Geographical segments

in €m	External turnover		Capital investments		Assets	
	2006	**2007**	2006	**2007**	2006	**2007**
Germany	300.7	251.4	36.2	29.8	821.5	829.8
Rest of Europe	858.4	890.5	15.9	20.4	260.3	285.5
North America	209.9	178.8	2.2	0.5	61.8	51.3
Asia/Pacific	286.2	249.8	–	–	–	–
Africa/Latin America	86.7	133.2	–	–	–	–
Consolidation/reconciliation	–	–	–	–	250.6	200.0
Group	**1,741.9**	**1,703.7**	**54.3**	**50.7**	**1,394.2**	**1,366.6**

(K) Notes to Section 285 no. 17 HGB

The auditors were remunerated as follows:

in €m	**2007**
Audits	0.2

(L) Related Party Disclosures

Related parties as defined by IAS 24 are all affiliated, non-consolidated entities (*see Note G(2)*) and members of the management and supervisory boards.

Business transactions with related entities resulted essentially from deliveries to and services for our sales and service subsidiaries, which as intermediaries disclosed receivables and revenue of roughly the same amount from customers. The same conditions applied as for arm's length transactions.

in €m	2006	**2007**
Trade receivables at 31.12.	4.7	8.2
Trade payables at 31.12.	2.0	1.5
Revenue	16.7	32.2

Remuneration for members of management totalled €3.2m (previous year: €3m), with fixed remuneration representing €1.1m (previous year: €1.1m) and variable remuneration €2.1m (previous year: €1.9m). Performance-related variable remuneration was based on net profit. Pension provisions were increased by €0.2m (previous year: €0.3m) for the current service cost. Remuneration for former members and their survivors stood at €1m (€1m). Supervisory board remuneration totalled €0.5m (€0.4m), €0.4m of which was variable (previous year: €0.3m).

€12.3m (previous year: €12.6m) was set aside for pension claims by active and retired members of the management board, and their survivors.

At 31 December 2007 members of the management board held 5.4% and members of the supervisory board 2.3% of Koenig & Bauer's share capital, giving a total of 7.7%.

There were no other significant transactions with related parties.

Supervisory Board

Dieter Rampl
Chairman
Banker
Munich

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert
Deputy chairman
Business economist
Würzburg

Peter Hanzelka*
Drill operator
Coswig

Matthias Hatschek
Entrepreneur
Blindenmarkt, Austria

Günter Hoetzl*
Representative of IG Metall
Hofheim

Dr Hermann Jung
Member of the management board, Voith AG
Heidenheim

Baldwin Knauf
Managing partner, Knauf Gips KG
Iphofen

Walther Mann*
Representative of IG Metall
Würzburg

Klaus Schmidt*
Director Corporate Communications, KBA
Hettstadt

Jochen Walther*
Instructor
Grossniedesheim

Professor Horst Peter Wölfel
Department of Mechanical Engineering
Technical University Darmstadt
Höchberg

* elected by the workforce

Committees

Mediation committee as per section 27(3) of the Law on Codetermination
Dieter Rampl
Klaus Schmidt
Gottfried Weippert
Professor Horst Peter Wölfel

Human Resources Committee
Dieter Rampl
Reinhart Siewert
Gottfried Weippert

Financial Audit Committee
Reinhart Siewert
Peter Hanzelka
Dieter Rampl
Gottfried Weippert

Management Board

Albrecht Bolza-Schünemann
President and CEO
Radebeul/Würzburg

Claus Bolza-Schünemann
Deputy president
Würzburg

Dr Frank Junker
Radebeul

Andreas Mössner (until July 2007)
Radebeul

Christoph Müller
Würzburg

Ralf Sammeck (since August 2007)
Radebeul

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

	Member of the supervisory board at:
Dieter Rampl Chairman	Babcock & Brown, Sydney, Australia Bayerische Börse AG, Munich, Germany Bode Grabner Beye AG & Co. KG, Grünwald, Germany FC Bayern München AG, Munich, Germany Mediobanca, Milan, Italy UniCredit, Milan, Italy
Reinhart Siewert Deputy chairman	Winkler + Dünnebier AG, Neuwied, Germany KBA-GIORI S.A., Lausanne, Switzerland KBA-Mödling AG, Mödling, Austria KBA-Metronic AG, Veitshöchheim, Germany Bank Schilling & Co. AG, Hammelburg, Germany
Dr Hermann Jung	Putzmeister AG, Aichtal, Germany
Baldwin Knauf	Lindner AG, Arnstorf, Germany Lindner Holding KGaA, Arnstorf, Germany BauDatenbank GmbH, Celle, Germany
Klaus Schmidt	KBA-Metronic AG, Veitshöchheim, Germany

Other information

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

(M) Proposal for the Utilisation of Retained Earnings

The single-entity statements for Koenig & Bauer AG were prepared under German accounting and reporting laws.

The dividend payable to shareholders was based on retained earnings disclosed in the financial statements for Koenig & Bauer AG. With the approval of the supervisory board a proposal will be submitted to the AGM to utilise retained earnings totalling €10,800,000 as follows:

Payment of a dividend of 60 cents per ordinary share on 16,340,790 no-par shares	€9,804,474
Transfer to other revenue reserves	€995,526

(N) Events after the Balance Sheet Date

No significant events affected the Group financial statement after the balance sheet date.

Responsibility Statement

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

Würzburg, 4 March 2008
Management Board

Albrecht Bolza-Schünemann
President and CEO

Claus Bolza-Schünemann
Deputy president

Dr Frank Junker

Christoph Müller

Ralf Sammeck

Auditor's Opinion

We have audited the consolidated financial statements prepared by Koenig & Bauer Aktiengesellschaft, Würzburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB 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 misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a(1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Nuremberg, 19 March 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Thomas Hartmann
Auditor

ppa. Claus Gossmann
Auditor

Balance Sheet for Koenig & Bauer AG to 31 December 2007

under the German Commercial Code (HGB)

Assets in €m	31.12.2006	**31.12.2007**
Non-current assets		
Intangible assets	2.0	2.0
Property, plant and equipment	160.6	157.2
Financial assets	58.6	58.7
	221.2	**217.9**
Current assets		
Inventories less payments received	75.0	182.0
Trade receivables	253.5	281.3
Other receivables and assets	122.8	106.3
Securities	5.9	8.4
Cash and cash equivalents	85.7	50.7
	542.9	**628.7**
Prepayments	**4.8**	**5.1**
	768.9	**851.7**

Equity and liabilities in €m	31.12.2006	**31.12.2007**
Equity		
Share capital	42.4	42.5
Share premium	84.9	85.9
Reserves	226.6	245.4
Retained earnings	16.1	10.8
	370.0	**384.6**
Special items with equity portion	**7.7**	**6.1**
Provisions		
Pension provisions	64.7	65.7
Tax provisions	3.4	–
Other provisions	195.0	253.4
	263.1	**319.1**
Liabilities		
Bank loans	20.2	32.1
Trade payables	66.8	55.3
Sundry other liabilities	41.1	54.5
	128.1	**141.9**
	768.9	**851.7**

Income Statement for Koenig & Bauer AG for 2007

under the German Commercial Code (HGB)

in €m	2006	**2007**
Revenue	1,449.6	1,382.4
Cost of sales	–1,199.7	–1,121.4
Gross profit	**249.9**	**261.0**
Distribution costs	–106.2	–104.6
Administrative expenses	–49.1	–45.3
Other operating income	18.0	23.7
Other operating expenses	–80.7	–131.9
Profit from operations	**31.9**	**2.9**
Financial result	2.5	22.9
Profit from ordinary activities	**34.4**	**25.8**
Extraordinary profit	3.1	–
Earnings before taxes (EBT)	**37.5**	**25.8**
Income taxes	–4.1	–2.7
Other taxes	–1.2	–1.5
Net profit	**32.2**	**21.6**

Key Financial Dates

Interim report on 1st quarter 2008
15 May 2008

Koenig & Bauer Annual General Meeting
19 June 2008
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2008
14 August 2008

Interim report on 3rd quarter 2008
14 November 2008

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KBA Consolidated Financial Statements

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Printed by:
Langenstein KG
71638 Ludwigsburg
Germany

Printed on a KBA Rapida 105
five-colour sheetfed offset press

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