

Group Interim Report  
**First Quarter 2005**



KBA Group

<b>01.01. - 31.03. in €m</b>	2004	<b>2005</b>
Order intake	309.6	<b>382.4</b>
Sales	257.9	<b>311.3</b>
Order level at 31.03.	908.6	<b>964.1</b>
Export level in %	87.4	<b>81.7</b>
Loss from operations	-3.6	<b>-4.2</b>
Loss before taxes (EBT)	-4.3	<b>-5.8</b>
Net loss	-3.9	<b>-4.8</b>
Balance sheet total at 31.03. (prior year: 31.12.)	1,347.9	<b>1,360.1</b>
Equity at 31.03. (prior year: 31.12.)	448.9	<b>441.7</b>
Investment in intangible assets, property, plant and equipment	12.3	<b>6.0</b>
Depreciation on intangible assets, property, plant and equipment	10.4	<b>10.4</b>
Payroll on 31.03.	7,303	<b>7,334*</b>
Cash flows from operating activities	-2.4	<b>38.2</b>
Earnings per share in €	-0.24	<b>-0.29</b>

\* including Bauer+Kunzi GmbH

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*Title photo: Orders for sheetfed presses at our Radebeul facility surged in the first quarter*



The first quarter brought a big increase in the Group order intake, with the volume of sheetfed contracts soaring by over 40%. New bookings for web and special presses were slightly higher than in the previous year, even though the strong euro continued to impair our competitiveness against non-European rivals in the USA, China and other dollar-denominated markets.

Although quarterly sales were 20.7% up on the poor prior year figure, they still fell short of our annual target, largely due to shipping schedules. As a result we posted a Group operating loss of €4.2m. But with shipments – and thus turnover – set to rise in subsequent quarters, we stand by our declared objective of posting a substantial increase in pre-tax earnings compared to 2004.

This projection is founded on wider margins associated with the products coming up for shipment and on the cost benefits gained from restructuring our web and special press division and negotiating more flexible working hours.

The sheetfed and web presses launched at Drupa last year are already generating a large proportion of incoming orders. Our continuing strategic focus on product differentiation through technological and process innovation, and on diversification into high-potential niche markets through the acquisition of smaller press manufacturers, has tapped fresh sources of income and reduced our dependency on volatile, price-driven “commodity” print markets.

The acquisition of Czech press manufacturer Grafitec in Dobruška, near Hradec Králové, also serves this medium-term goal. Renamed KBA-Grafitec, the new subsidiary will enable us to expand our market share in small-format sheetfed offset with products that are a neat fit with our existing high-end models.



*Albrecht Bolza-Schünemann*

*President and CEO of Koenig & Bauer AG*

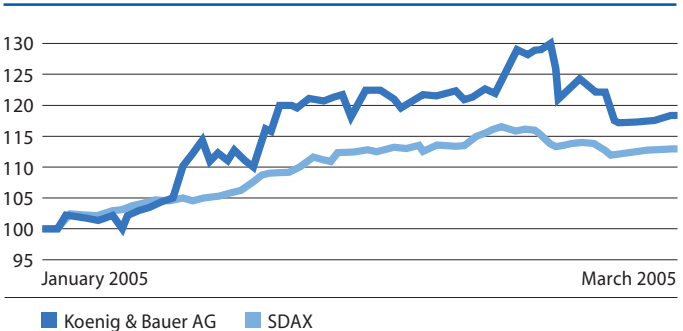
## KBA Shares

Bolstered by bullish data on Group prospects, KBA shares jumped 19.2% to €18.90 in the three months to the end of March and thus outperformed both the DAX (+1.3%) and the small-caps index, the SDAX (+13.3%). News of our agreement to buy Czech press manufacturer Grafitec drove the share price up to a temporary high of €20.64.

The figures we published in early April for 2004 exceeded the relatively cautious expectations of many observers, and the market response was correspondingly positive. A rapid return to profit from a loss in 2003, driven by sales and order levels that were well above the industry average, enabled us to propose a dividend of 25 cents per share. This, and a more optimistic outlook for 2005, buoyed up our share price in April compared to other engineering firms.

### Koenig & Bauer Shares

in %



## Management Report

### **Market Prospects**

The modest recovery in the international printing industry, perceptible since summer 2003, is still fragile and subject to seasonal, geographical and segmental fluctuations. Although domestic demand for KBA newspaper presses improved in the first quarter of the current year, investment activity in the German market remains a cause for concern. There is also evidence that economic growth is slowing in the USA. However, demand in pre-accession EU markets has picked up at a moderate pace and there are good growth prospects in the accession states, parts of Asia (especially China), in the oil-producing countries of the Middle East and in North Africa. In recent months we received one of the biggest sheetfed contracts in our history from a major printing house in Algeria.

### Group Performance

The first quarter saw a big leap in sales of sheetfed and commercial web offset presses compared to the same period in 2004. New orders for rotogravure presses remained buoyant, but the volume of contracts for newspaper and security presses was slightly below the prior year level.

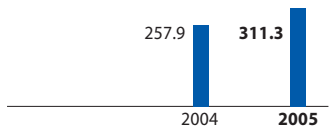
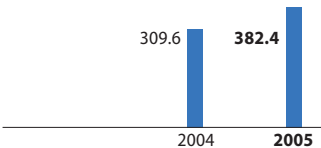
The Group **order intake** in the first quarter jumped by an impressive 23.5% to €382.4m (2004: €309.6m).

**Group sales** totalled €311.3m, 20.7% up on the same period last year (€257.9m). This was largely due to higher sales of newspaper, publication rotogravure and sheetfed offset presses. Since a large proportion of web and special presses are scheduled to ship in the second half of the year, the quarterly figures fell short of our annual target.

The **order backlog** swelled to €964.1m at the end of the quarter, 6.1% above the corresponding figure for 2004 of €908.6m.

**Order Intake**  
*in €m*

**Sales**  
*in €m*





## Assets, Finances and Earnings

Earnings in the first quarter were affected by the higher cost of raw materials and by the knock-on effects of weak demand in the past, when some contracts were secured at unsatisfactory prices to maintain production. At €4.2m the Group **operating loss** was higher than in the first three months of 2004 (–€3.6m). A financial loss of €1.6m pushed up the **loss from ordinary activities** to €5.8m (2004: –€4.3m). Including deferred taxes, the **net loss** was €4.8m, following a loss of €3.9m in 2004. The proportionate **net loss per share** at the end of the quarter was 29 cents, compared to a net loss of 24 cents a year before.

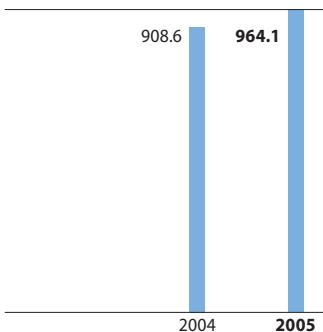
### Assets

The **balance sheet** total at the end of the quarter rose to €1,360.1m from €1,347.9m at the end of 2004. This was partly due to a €51.5m build-up of inventories for processing contracts in subsequent quarters. Trade receivables were €30m down on the year-end figure.

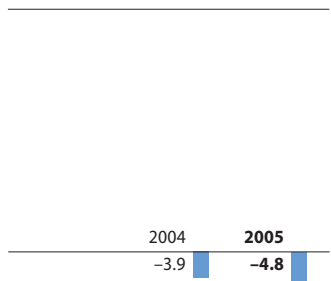
An increase in provisions and deferred tax liabilities also pushed up the balance sheet total, while a €59.5m increase in payments received on account reduced bank borrowings by some €50m.

**Equity** represented 32.5% of the balance sheet total at the end of the quarter.

### Order Backlog in €m



### Net Loss (less minority interests) in €m



## Finances

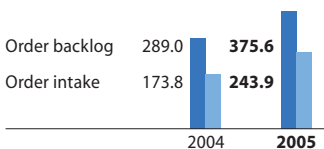
Although bigger inventories temporarily tied up liquidity, this was more than outweighed by a drop in accounts receivable and a rise in customer down payments. The cash flow from operating activities swelled to €38.2m at the end of the first quarter, from –€2.4m twelve months previously. Factoring in expenditure on investment, the free cash flow stood at €32.2m (2004: –€14.7m). Funds shrank to €26.7m, €19.4m less than at year's end 2004.

## Business Operations

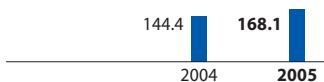
### Sheetfed Offset Presses

Once again our sheetfed division, which has achieved vigorous growth for twelve years in succession, outperformed the sector to post a 40.3% leap in the **inflow of orders** to €243.9m (1st quarter 2004: €173.8m). The popularity of our large- and superlarge-format presses, the rapid transition to serial production of a new Rapida 105 version launched in March 2004, the raft of unique features we have introduced and market recognition of our initiatives in advancing process technology all contributed to this impressive performance.

**Order Intake/Order Backlog**  
Sheetfed offset presses  
in €m



**Sales**  
Sheetfed offset presses  
in €m



**Sales** climbed to €168.1m, 16.4% up on the figure for last year (€144.4m). Installations included three Rapida presses at MOHN Media in Gütersloh, Germany.

The **backlog** of unfilled orders at the end of the quarter totalled €375.6m, 30% higher than twelve months earlier (€289m), and will keep our production plants busy until well into the second half of the year.

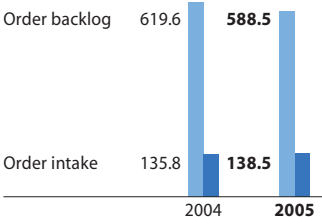
### Web and Special Presses

The **order intake** improved by 2% to €138.5m (2004: €135.8m). We were pleased to book major contracts from two German publishing houses, Dr Ippen and Leipziger Verlags- und Druckereigesellschaft.

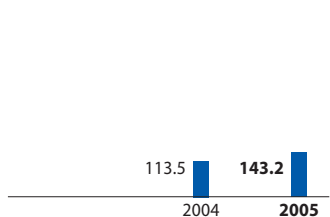
**Sales** climbed by 26.2% to €143.2m, from €113.5m in 2004. A key event in the quarter was the inauguration of the world's first waterless offset newspaper press, a KBA Cortina, near Amsterdam. Orders from prominent European newspaper printers for a total of seven Cortina press lines reflect the mounting popularity of this innovative press.

An increase in shipments relative to the prior year quarter shrank the **order backlog** from €619.6m to €588.5m.

**Order Intake/Order Backlog**  
Web and special presses  
in €m



**Sales**  
Web and special presses  
in €m



## Key Regions

Brisk demand for sheetfed offset presses and the delivery of commercial and publication gravure presses boosted **domestic** sales to €57.1m, an increase of €24.7m over the previous year (€32.4m). Even so, our export level remained high at 81.7% (2004: 87.4%).

Once again the **rest of Europe** was the biggest market for our goods, accounting for €164.2m or 52.8% of the Group total, a big increase on the prior year figure of €128.9m. This was largely due to a boom in sheetfed sales and the installation of some big newspaper press lines in Italy and Switzerland.

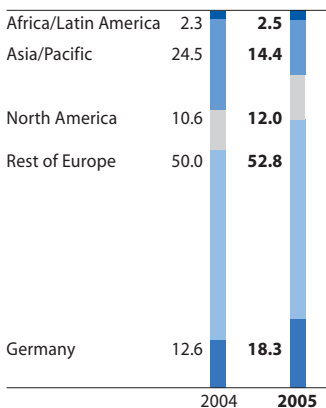
Sales to the **USA** and **Canada** climbed from €27.6m to €37.4m following a lift in shipments of newspaper press lines.

Sales in **Asia-Pacific** markets dropped from €63.2m the previous year to €44.8m, largely because no big web presses were shipped. A larger volume of deliveries within Europe meant that this region accounted for just 14.4% of Group sales, compared to 24.5% in 2004.

**Latin America** and **Africa** generated sales worth €7.8m, or 2.5% of the Group total.

### Geographical Breakdown of Sales

*in %*

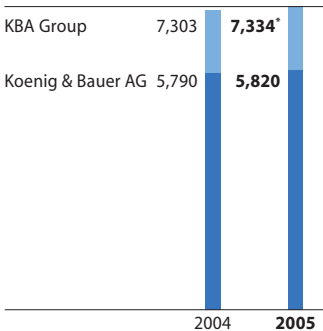


## Human Resources

At the end of the quarter there were 7,334 employees on the Group payroll, an increase of 31 on the previous year. The figures include the addition of 50 staff following the consolidation of Bauer+Kunzi.

The reorganisation of our web press production plants in Würzburg and Frankenthal, which led to the closure of two assembly plants, is now more or less completed and reduced the payroll by 162 in the first quarter. This contrasts with an increase of 131 at our Radebeul facility to support dynamic growth.

### Payroll on 31 March



\* including 50 Bauer+Kunzi GmbH

## **Research and Development**

Ongoing innovation has culminated in the broadest and most advanced range of sheetfed offset presses on the market. We are now consolidating this advantage by expanding the choice of configurations available, designing our own range of auxiliaries, eg dryers (which were previously all outsourced), devising new technologies to reduce makeready times, refine inline quality control and boost productivity, and developing new inline finishing and coating options for product enhancement.

Engineers in our web and special press division are working to rationalise newspaper production, optimise consumables in a production environment, develop new technologies and automation features for our conventional newspaper and commercial presses, embed web presses in all-digital workflows and explore ways and means of enhancing offset quality and capabilities.

## **Investment**

Investment in intangible and tangible assets totalled €6m, well below the figure of €12.3m twelve months earlier. This was partly due to the fact that some acquisitions scheduled for this quarter had been moved forward to the previous year. Once again, investment in new production equipment largely served to upgrade capacity and cut costs. Depreciation was the same as in 2004, €10.4m.

## Outlook

In view of the high level of plant utilisation at our web press division and the huge backlog of orders for sheetfed offset presses, we anticipate an increase in Group sales to around €1.5bn. Our successful engagement in more profitable niche markets and the popularity of our new products – soon to be followed by further launches – have laid the foundations for sustained growth. This will be supported by our new Czech subsidiary KBA-Grafitec, whose entry-level presses will bolster our share of the small-format sheetfed market in the foreseeable future.

However, growth can only be sustained if there is no further adverse movement in the lacklustre German economy and other major markets, in the euro relative to the US dollar and yen, and in the global market for energy, steel and other key commodities.

We are confident that the high volume of orders on hand, improved profit margins on work in progress and the gains delivered by cost-cutting initiatives will enable us to meet our growth targets and improve pre-tax earnings against fierce competition in major markets. We shall issue a more detailed prognosis of Group performance later in the year, when we can better assess the impact of various external factors.

## Group Balance Sheet

<b>Assets</b> <i>in €m</i>	31.12.2004	31.03.2005
<b>Non-current assets</b>		
Intangible assets	22.4	22.4
Property, plant and equipment	259.2	253.3
Financial assets	17.0	21.3
	298.6	297.0
<b>Current assets</b>		
Inventories	392.4	443.9
Trade receivables	442.1	412.9
Other receivables and assets	107.1	105.5
Securities	13.9	13.9
Cash and cash equivalents (cash, bank balances)	32.2	12.8
	987.7	989.0
<b>Deferred tax assets</b>	61.6	74.1
<b>Balance sheet total</b>	1,347.9	1,360.1

<b>Equity and liabilities</b> <i>in €m</i>	31.12.2004	31.03.2005
<b>Equity</b>		
Issued capital	42.2	42.2
Capital reserve	83.1	83.1
Revenue reserves	311.7	321.2
Net loss	11.9	-4.8
	448.9	441.7
<b>Provisions</b>		
Pension provisions	88.4	88.8
Other provisions	212.9	225.8
	301.3	314.6
<b>Liabilities</b>		
Bank borrowings	137.1	86.6
Payments received	247.9	307.4
Trade payables	109.9	105.9
Other liabilities	49.4	41.1
	544.3	541.0
<b>Deferred tax liabilities</b>	53.4	62.8
<b>Balance sheet total</b>	1,347.9	1,360.1



## Group Income Statement

<b>01.01. - 31.03. in €m</b>	2004	2005
Revenue	257.9	311.3
Cost of sales	-195.7	-245.6
<b>Gross profit</b>	62.2	65.7
Distribution costs	-31.6	-34.2
Administrative expenses	-22.3	-21.4
Other operating expenses	-11.9	-14.3
<b>Loss from operations</b>	-3.6	-4.2
Financial result	-0.7	-1.6
<b>Loss before taxes (EBT)</b>	-4.3	-5.8
Taxes	0.6	1.0
<b>Net loss for the period</b>	-3.7	-4.8
Profit attributable to minority interests	-0.2	-
<b>Net loss less minority interests</b>	-3.9	-4.8

## Statement of Changes in Shareholders' Equity

in €m

	Share capital	Capital reserve	Revenue reserves
01.01.2004	42.0	82.2	349.5
Changes in revenue reserves	-	-	-30.0
Net loss	-	-	-
Other	-	-	-3.9
<b>31.03.2004</b>	<b>42.0</b>	<b>82.2</b>	<b>315.6</b>
01.01.2005	42.2	83.1	311.7
Changes in revenue reserves	-	-	11.9
Net loss	-	-	-
Other	-	-	-2.4
<b>31.03.2005</b>	<b>42.2</b>	<b>83.1</b>	<b>321.2</b>

Net profit/ loss	Equity
-30.0	443.7
30.0	-
-3.9	-3.9
-	-3.9
-3.9	435.9
11.9	448.9
-11.9	-
-4.8	-4.8
-	-2.4
-4.8	441.7

**Cash Flow Statement**

<b>01.01. - 31.03. in €m</b>	2004	2005
Loss before taxes (EBT)	-4.3	-5.8
Extraordinary items	-3.3	-
Non-cash transactions	8.9	11.0
<b>Gross cash flow</b>	1.3	5.2
Changes in inventories, receivables and other assets	-22.4	-24.5
Changes in provisions and liabilities	18.7	57.5
<b>Cash flows from operating activities</b>	-2.4	38.2
<b>Cash flows from investing activities</b>	-12.3	-6.0
<b>Cash flows from financing activities</b>	-4.3	-51.3
Change in funds	-19.0	-19.1
Effect of changes in exchange rates	-0.7	-0.3
Funds at beginning of period	84.8	46.1
<b>Funds at end of period</b>	65.1	26.7

## Notes to the Interim Statement to 31 March 2005

### 1 Accounting Policies

This quarterly report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The disclosures and measurements published in the group accounts to 31 December 2004 were retained. The interim accounts conform to IAS 34. Taxes on income were disclosed in accordance with the average national tax rate applicable. Individual items in the balance sheet and the income statement were aggregated to clarify presentation. Figures represent million euros (€m), unless stated otherwise.

### 2 Consolidated Companies and Consolidation Principles

In March we acquired a 100% interest in a Czech press manufacturer, Grafitec, spol. s r. o., which was consolidated on 1 April.

The financial statements of foreign entities were translated at the closing rate or at an average exchange rate for the period, as specified in IAS 21.

### 3 Segment Information

#### 3.1 Business segments

01.01. - 31.03. in €m

	Web and special presses		Sheetfed offset presses	
	2004	2005	2004	2005
External turnover	113.5	143.2	144.4	168.1
Internal turnover	14.9	8.7	32.7	39.8
Total turnover	128.4	151.9	177.1	207.9
Investment	6.5	2.9	5.8	3.1

#### 3.2 Geographical segments

01.01. - 31.03. in €m

	2004	2005
Germany	32.4	57.1
Rest of Europe	128.9	164.2
North America	27.6	37.4
Latin America/Africa	5.8	7.8
Asia/Pacific	63.2	44.8
<b>External turnover</b>	<b>257.9</b>	<b>311.3</b>

### 4 Earnings per Share

01.01. - 31.03. in €

	2004	2005
Earnings per share	-0.24	-0.29

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,214,470 no-par shares).

## 5 Explanatory Notes to the Balance Sheet

### 5.1 Non-Current Assets

*in €m*

	Purchase or manufactur- ing cost	Accumulated depreciation	Net book value
Intangible assets	68.7	46.3	22.4
Property, plant and equipment	535.0	275.8	259.2
Financial assets	18.4	1.4	17.0
<b>Total at 31.12.2004</b>	<b>622.1</b>	<b>323.5</b>	<b>298.6</b>
Intangible assets	69.9	47.5	22.4
Property, plant and equipment	537.5	284.2	253.3
Financial assets	22.8	1.5	21.3
<b>Total at 31.03.2005</b>	<b>630.2</b>	<b>333.2</b>	<b>297.0</b>

Investment in property, plant and equipment totalling €4.7m (1<sup>st</sup> quarter 2004: €12.3m) primarily refers to additions of plant and machinery, factory and office equipment.

### 5.2 Inventories

*in €m*

	31.12.2004	31.03.2005
Raw materials, consumables and supplies	54.6	57.1
Work in progress	314.7	360.0
Finished goods and products	4.8	3.9
Payments on account	18.3	22.9
	392.4	443.9

### **5.3 Provisions**

The increase of €12.9m in other provisions largely resulted from obligations to employees for holiday and Christmas bonuses, and from outstanding invoices.

### **5.4 Liabilities**

Liabilities decreased by €3.3m compared to the previous year. A €59.5m rise in payments received on account reduced bank borrowings by €50.5m.



## **Key Financial Dates**

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

Interim report on 2<sup>nd</sup> quarter 2005  
12 August 2005

Interim report on 3<sup>rd</sup> quarter 2005  
15 November 2005



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