Koenig & Bauer Group

Group Interim Report
First Quarter 2006

KBA Group in Figures

01.01. - 31.03. in €m	2005 adjusted[1]	**2006**
Order intake	382.4	**340.6**
Sales	311.3	**309.4**
Order backlog at 31.03.	964.1	**1,072.1**
Export level in %	81.7	**83.7**
Operating loss	–6.2	**–6.5**
Earnings before taxes	–7.8	**–6.5**
Net loss	–6.8	**–5.3**
Balance sheet total at 31.03. (prior year: 31.12.)	1,396.2	**1,456.9**
Equity at 31.03. (prior year: 31.12.)	449.4	**444.6**
Investment in intangible assets, property, plant and equipment	6.0	**10.0**
Depreciation on intangible assets, property, plant and equipment	10.0	**9.4**
Payroll on 31.03.	7,334	**7,951**[2]
Cash flows from operating activities	35.8	**57.0**
Earnings per share in €	–0.42	**–0.33**

[1] pursuant to IAS 8
[2] including the addition of 515 staff following the first-time consolidation of KBA-Grafitec, KBA (UK) and KBA-France

Title photo: A UV version of the Genius 52 that debuted at Ipex 2002 was a focus of attention for printers of small-format film and lenticulars at this year's Ipex in Birmingham

Following robust demand in 2005, which pushed the order intake up to €382.4m, 23.5% above the equivalent figure for 2004, new bookings slowed in the first quarter of the current year for the first time since the beginning of 2003, to €340.6m. While the number of contracts for web and special presses surged by 21.2%, to €167.9m, softer demand in January and February reduced the total for sheetfed presses to €172.7m, 29.2% below the record figure for 2005. But far from presaging an economic or industry downturn, this afforded us a welcome respite in which to consolidate the dynamic growth achieved by our sheetfed division over the previous twelve months. Business recovered in March and April, thanks in part to a successful Ipex trade fair. A €321.7m backlog of orders for sheetfed presses at the end of the quarter will keep our Radebeul plant busy for most of the year, and the situation is equally satisfactory at our web press facilities.

Group sales, at €309.4m (2005: €311.3m), fell well short of our target, mainly because shipping schedules are routinely lighter in the first half-year than in the second. Pre-production costs and inventories swelled as a result. Although a pre-tax loss of €6.5m is hardly consistent with the moderate rise in sales and substantial increase in earnings we predicted compared to 2005, I remain confident that the more profitable mix of products on our books, the strong performance of our manufacturing subsidiaries in diverse niche markets and the large volume of orders received in the second quarter will enable us to achieve our objectives for the current year.

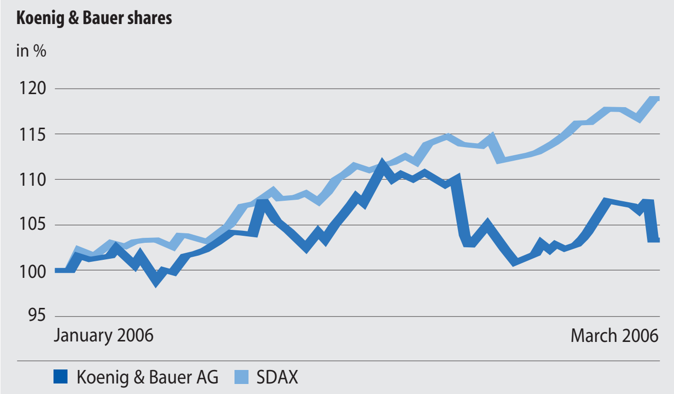
A. Bolza-Schünemann

Albrecht Bolza-Schünemann
President and CEO, Koenig & Bauer AG

KBA Shares

KBA shares closed the quarter at €26.30, an improvement of 8.7% on their year-end value of €24.20. However, they were outperformed by both the DAX and the SDAX indices, which rose by 10.4% and 20.4% respectively.

The financial figures for 2005, and brighter prospects for 2006 disclosed at a press conference on 30 March at Pressehaus Stuttgart, one of our major newspaper customers, translated into more positive appraisals by investment analysts. A broadly favourable market climate pushed the price above the €30 mark in early May.



Management Report

Market Environment

In general, investment activity in the graphic arts industry remained brisk both at home and abroad, though the number of large-scale projects initiated by European newspaper publishers fell after a succession of major installations over the past few years in Italy, the UK, Belgium and Switzerland largely concluded a widespread transition to full-colour production in this sector. At present, investment in new sheetfed and web presses is primarily driven by a desire to cut costs, enhance productivity and flexibility, raise product profile and expand finishing capabilities. While there is a huge demand in high-growth economies like China or India for standard, budget-priced printing technology, in mature markets like Germany the trend is towards higher levels of automation and customisation as a means of adding value.

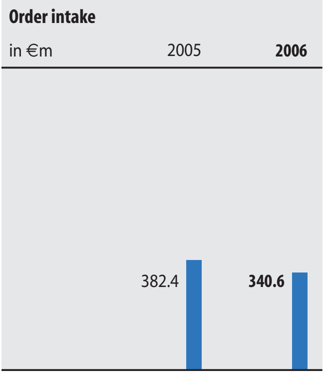
The euro's renewed gain against the US dollar, and higher payroll expenses resulting from recent tariff agreements in the metalworking and electrical industries, are impairing the competitiveness of German manufacturers against (predominantly Japanese) rivals in negotiating dollar-denominated contracts. With a sellers' market for energy and raw materials forcing up costs, and a buyers' market for our products pinning down prices, defending margins remains a major challenge.

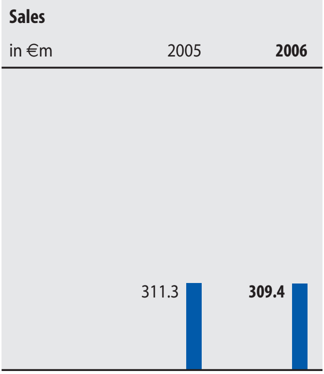
Group Performance

The **order intake** in the first quarter totalled €340.6m, 10.9% down on the corresponding figure for 2005 (€382.4m). Firm demand for security, commercial and newspaper presses contrasted with a substantial slide in new bookings for sheetfed offset presses in January and February, which were well below the high prior-year level. Although business picked up in March, and was sustained in April, it failed to compensate for the first two months.

Group sales of €309.4m were roughly on a par with the previous year's level (€311.3m) but fell well short of our target. This is not uncommon in the industry because the majority of shipments are scheduled for the second half of the year.

A higher influx of orders for web and special presses swelled the Group **order backlog** by 11.2% to €1,072.1m (2005: €964.1m).





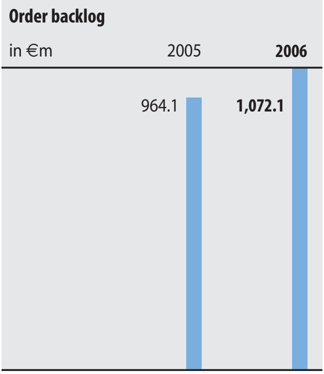
Business Operations

Sheetfed offset presses

The **inflow of orders** for sheetfed offset presses slowed to €172.7m, well below the high figure of €243.9m for the first quarter in 2005, when the positive impact of the Drupa 2004 trade fair was still being felt. A large backlog allowed us to focus on contracts offering higher revenues. Business returned to normal in March and received an added boost in April from the Ipex international print media trade fair in Birmingham, UK.

Sheetfed press **sales**, at €162.7m, were roughly on a par with last year (€168.1m). Once again we demonstrated our technological superiority in the global market with the inauguration of some unique press configurations which included the world's longest superlarge-format press, a Rapida 205, at National Posters in the USA.

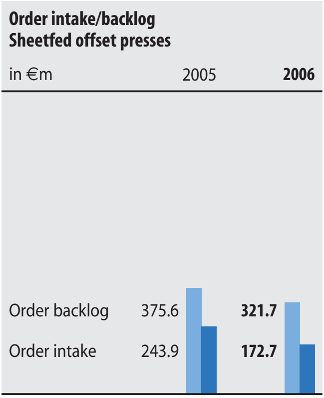
The volume of sheetfed **orders on hand** at the end of the quarter was worth €321.7m (2005: €375.6m) and will keep production humming at our plant in Radebeul, near Dresden, until well into the second half-year.

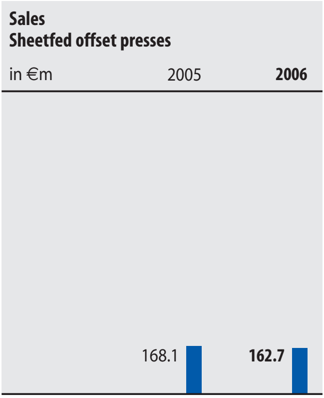


Web and special presses
Some major contracts for newspaper and commercial presses, and brisk business in security presses, increased the **inflow of orders** for web and special presses by 21.2% to €167.9m (2005: €138.5m). They included a big Commander newspaper press line for the UK, another Cortina mini tower press for a regional German newspaper, *Rheinpfalz* in Ludwigshafen, and big commercial and directory presses for North America.

Web press **sales**, at €146.7m, were up on the prior-year figure of €143.2m. New newspaper presses came on stream in Germany, Turkey, South Africa and China, while commercial and rotogravure presses went live in Italy and Poland.

The volume of web and special press **orders on hand** at 31 March swelled by 27.5% to €750.4m (2005: €588.5m).





Key Regions

Shipping schedules raised the export level in the first quarter to 83.7% (2005: 81.7%). Since fewer web presses were erected in **Germany**, domestic sales dropped to €50.4m (2005: €57.1m).

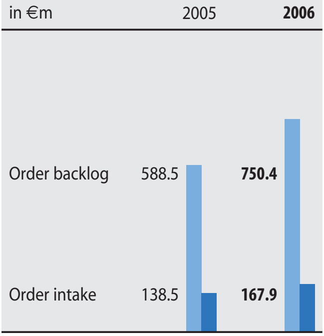
Once again, the **rest of Europe**, with sales worth €165.4m (2005: €164.2m) or 53.5% of the total, was the biggest market for our products.

Seasonal fluctuations in shipments of web presses pushed down sales in the **USA** and **Canada** to €22.9m (2005: €37.4m). However, installation schedules will boost the figure in this key market in the course of the year.

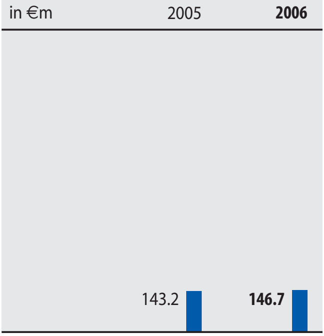
Sales to **Asia** and the **Pacific** jumped by 33.5% to €59.8m (2005: €44.8m), or 19.3% (14.4%) of the Group total. As a result the region regained its earlier higher weighting.

Sales to **Latin America** and **Africa** came to €10.9m (2005: €7.8m) and contributed 3.5% to the Group total.

Order intake/backlog
Web and special presses



Sales
Web and special presses



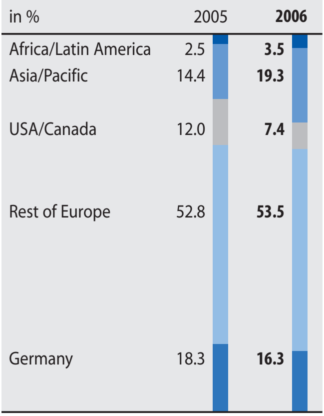
Human Resources

At the end of the first quarter the KBA Group had a total workforce of 7,951. Excluding the addition of 515 staff following the first-time consolidation of subsidiaries KBA-Grafitec, KBA (UK) and KBA-France, the payroll increased by 102, most of them hired last year at our production plants in Radebeul and Mödling (near Vienna), which builds security presses and subassemblies for sheetfed offset presses. The number of employees at our German web press plants fell by 15.

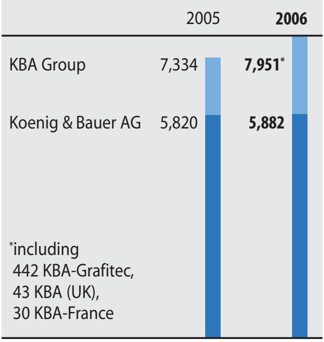
Research and Development

The successful production start-up of the first large-scale KBA Cortina press line, at Badisches Pressehaus (*Badische Zeitung*) in Freiburg at the beginning of February, symbolised a breakthrough in waterless newspaper offset following seven years of intensive development work. Two more highly automated Cortina press lines went into operation in the Netherlands and Germany. The compact Cortina, which represents a radical new departure in newspaper production, requires a much smaller press crew, can be made ready much faster and generates far less waste than a conventional newspaper press, so it is ideal for printing multiple split editions. We are currently working on further innovations, which in the first quarter included

Geographical breakdown of sales



Payroll on 31 March



a system for automatically monitoring plate positioning in automatic plate-changing systems. New automation modules for commercial web offset presses were tested on a pilot installation with a view to optimising print quality and cutting maintenance tasks.

R&D activities at our sheetfed plant in Radebeul also focused on the integration of new processes and automation modules in our new-generation presses. One of the products developed, our QualiTronic video-based sheet-inspection system, was unveiled in early April at the Ipex international trade fair in Birmingham (UK), where it featured in a Rapida 105 ten-colour perfecting press. Requiring no manual intervention whatsoever, the system automatically detects any deviations from a prespecified reference sheet, even at maximum production speed. Faulty sheets can be tagged in-line and subsequently ejected during finishing in order to guarantee the optimum print quality essential for the production of pharmaceutical packaging etc.

Investment

A total of €10m was invested in intangible assets, property, plant and equipment, compared to €6m twelve months earlier. New machining centres, and building work on a big production hall in Würzburg, were the main items on the list. Depreciation of €9.4m was slightly down on the corresponding period the previous year (€10m).

Earnings, Finances and Assets

Earnings were hit by off-target sales. An operating loss of €6.5m, to which both divisions contributed, was similar to the prior-year loss of €6.2m. A balanced financial result meant that we made a pre-tax loss of €6.5m (2005: –€7.8m). We closed the quarter with a net loss of €5.3m (2005: –€6.8m) and a proportional loss per share of 33 cents (2005: a loss of 42 cents).

Finances

Cash flows from operating activities improved to €57m (2005: €35.8m), due to a larger volume of customer down payments and a reduction in trade receivables. After deducting cash outflows for investing activities the **free cash flow** swelled to €51.6m (2005: €32.2m). **Funds** at the end of March (€170.8m) were substantially higher than at the end of 2005 (€129m).

Assets

The Group **balance sheet total** climbed to €1,456.9m (31.12.2005: €1,396.2m), primarily as a result of a €43.8m increase in cash and cash equivalents and a €73m pre-production jump in inventories. **Assets** were trimmed by a €94.4m reduction in trade receivables. A rise in other current **liabilities** was caused by a €61.5m leap in customer down payments following a surge in new bookings for web presses. Equity at 31 March stood at €444.6m, 30.5% of the balance sheet total.

Outlook

According to an economic bulletin issued by the VDMA at the beginning of May, the level of plant utilisation in the German engineering industry is exceptionally high and exports are booming. The same applies, with the customary seasonal and regional fluctuations, to the press manufacturing industry. While Europe, North America and China remain our core markets, huge oil revenues are currently promoting investment by the members of OPEC. Qatar, for example, placed an order in April for a big Continent newspaper press. Domestic sales have also picked up following years of sluggish growth. In March the BVDM (German Printing and Media Industries Federation) reported a higher level of capacity utilisation and a more optimistic mood in the print media and advertising industries, both of which will receive an added stimulus from the World Cup that Germany is hosting this summer.

But this broadly optimistic picture is marred by the potential impact on sales and earnings in the engineering industry of the substantial costs associated with recent tariff agreements, the weakening of the US dollar, China's efforts to rein in excessive growth (and the import of capital goods like printing presses), and the unresolved conflict sparked by Iran's atomic ambitions, which have pushed up the price of oil and energy. On top of this, fierce competition has led to a succession of mergers and acquisitions in media-related sectors. Competition in the market for plant and equipment is also intensifying as new entrants from emerging economies like China and India wield price as a weapon to grow market share. Our response has been to drive innovation and cost-efficiency in our core businesses while pursuing a strategy of growth through acquisition in high-potential, high-margin niche markets.

The medium-term impact of the geopolitical and economic risks detailed above cannot be quantified with any degree of accuracy. Nonetheless, judging by our current performance and the sizeable backlog of orders on hand, we are set to meet our modest sales targets and substantially increase profits in 2006.

Group Balance Sheet

Assets in €m	31.12.2005	**31.03.2006**
Non-current assets		
Intangible assets	20.0	19.2
Property, plant and equipment	250.3	244.2
Investments and other financial receivables	20.9	24.7
Deferred tax assets	76.2	87.9
	367.4	**376.0**
Current assets		
Inventories	368.5	441.5
Trade receivables	465.6	371.2
Other financial receivables	26.0	25.5
Other assets	39.7	71.9
Securities	13.0	11.0
Cash and cash equivalents	116.0	159.8
	1,028.8	**1,080.9**
Balance sheet total	**1,396.2**	**1,456.9**

Equity and liabilities in €m	31.12.2005	**31.03.2006**
Equity		
Share capital	42.3	42.3
Share premium	84.0	84.0
Reserves	323.1	318.3
	449.4	**444.6**
Liabilities		
Non-current liabilities		
Pension provisions	92.1	92.9
Other provisions	43.5	44.7
Bank loans and other financial payables	35.5	34.3
Other liabilities	18.2	11.1
Deferred tax liabilities	63.3	73.9
	252.6	**256.9**
Current liabilities		
Other provisions	118.8	129.4
Trade payables	95.7	103.8
Bank loans and other financial payables	181.1	168.4
Other liabilities	298.6	353.8
	694.2	**755.4**
Balance sheet total	**1,396.2**	**1,456.9**

Group Income Statement

01.01. - 31.03. in €m	2005 adjusted*	**2006**
Revenue	311.3	309.4
Cost of sales	–245.3	–244.3
Gross profit	**66.0**	**65.1**
Distribution costs	–34.2	–33.9
Administrative expenses	–21.3	–23.9
Other operating income and expenses	–16.7	–13.8
Operating loss	**–6.2**	**–6.5**
Financial result	–1.6	–
Earnings before taxes	**–7.8**	**–6.5**
Income tax expense	1.0	1.2
Net loss	**–6.8**	**–5.3**

* pursuant to IAS 8

Statement of Changes in Shareholders' Equity

in €m

	Share capital	Share premium
01.01.2005 (adjusted*)	**42.2**	**83.1**
Total net loss		
Loss for the period (adjusted*)	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes	–	–
31.03.2005	**42.2**	**83.1**
01.01.2006	**42.3**	**84.0**
Total net loss		
Loss for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes	–	–
31.03.2006	**42.3**	**84.0**

* pursuant to IAS 8

Reserves: Recognised in equity	Reserves: Other	Total
12.3	**307.7**	**445.3**
–	–6.8	–6.8
–3.1	–	–3.1
0.7	–	0.7
–2.4	**–6.8**	**–9.2**
–	–	–
9.9	**300.9**	**436.1**
2.6	**320.5**	**449.4**
–	–5.3	–5.3
0.7	–	0.7
–0.2	–	–0.2
0.5	**–5.3**	**–4.8**
–	–	–
3.1	**315.2**	**444.6**

Group Cash Flow Statement

01.01. - 31.03. in €m	2005 adjusted*	**2006**
Earnings before taxes	–7.8	–6.5
Non-cash transactions	10.6	9.5
Gross cash flow	**2.8**	**3.0**
Changes in inventories, receivables and other assets	–24.5	0.6
Changes in provisions and payables	57.5	53.4
Cash flows from operating activities	**35.8**	**57.0**
Cash flows from investing activities	**–3.6**	**–5.4**
Cash flows from financing activities	**–51.3**	**–9.8**
Change in funds	**–19.1**	**41.8**
Effect of changes in exchange rates	–0.3	–
Funds at beginning of period	46.1	129.0
Funds at end of period	**26.7**	**170.8**

* pursuant to IAS 8

Notes to the Interim Statement to 31 March 2006

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 2005 were retained. The interim accounts conform to IAS 34. Taxes on income were disclosed at the average national tax rate applicable. Individual items in the balance sheet and the income statement were aggregated to clarify presentation. Figures represent million euros (€m), unless stated otherwise.

Government subsidies related to corporate assets were previously recognised as earnings. The adoption of IAS 8 resulted in an adjustment in 2005. Prior periods were adjusted retrospectively by deducting these subsidies from the additions (adjustment on 1 January 2005: property, plant and equipment –€3.8m, reserves –€3.8m). In the first quarter of 2005 this increased the Group loss by €2m and reduced the value of property, plant and equipment by €2m.

2 Consolidated Companies and Consolidation Principles

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

There were no changes in the number of consolidated companies.

3 Segment Information

3.1 Business segments

01.01. - 31.03. in €m

	Web and special presses		Sheetfed offset presses	
	2005	**2006**	2005	**2006**
External turnover	143.2	**146.7**	168.1	**162.7**
Internal turnover	8.7	**16.1**	39.8	**54.8**
Total turnover	151.9	**162.8**	207.9	**217.5**
Investment	2.9	**6.0**	3.1	**4.0**

3.2 Geographical segments

01.01. - 31.03. in €m	2005	**2006**
Germany	57.1	**50.4**
Rest of Europe	164.2	**165.4**
USA / Canada	37.4	**22.9**
Latin America / Africa	7.8	**10.9**
Asia / Pacific	44.8	**59.8**
External turnover	**311.3**	**309.4**

4 Earnings per Share

01.01. - 31.03. in €	2005 adjusted*	**2006**
Earnings per share	–0.42	**–0.33**

* pursuant to IAS 8

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,264,760 no-par shares, previous year: 16,214,470 no-par shares).

5 Balance Sheet

5.1 Intangible assets, property, plant and equipment

in €m

	Purchase or manufacturing cost	Accumulated depreciation	Residual value
Intangible assets	73.3	53.3	20.0
Property, plant and equipment	539.6	289.3	250.3
Total at 31.12.2005	**612.9**	**342.6**	**270.3**
Intangible assets	73.6	54.4	19.2
Property, plant and equipment	537.9	293.7	244.2
Total at 31.03.2006	**611.5**	**348.1**	**263.4**

Investment in property, plant and equipment totalling €4.6m (first quarter 2005: €3.4m) primarily refers to new machining centres and construction work on a big production hall in Würzburg.

5.2 Inventories

in €m	31.12.2005	**31.03.2006**
Raw materials, consumables and supplies	53.4	66.5
Work in progress	307.9	367.1
Finished goods and products	7.2	7.9
	368.5	**441.5**

5.3 Non-current/current provisions

The increase of €11.8m in other provisions largely resulted from the accrual of expenses.

5.4 Sundry non-current/current liabilities

Loan repayments totalling €10.2m helped reduce bank loans and other financial payables by €13.9m.

The €48.1m increase in other liabilities was primarily due to a €54.9m increase in payments received.

Key Financial Dates

Koenig & Bauer Annual General Meeting
22 June 2006
Congress Centrum Würzburg

Interim report on 2nd quarter 2006
11 August 2006

Interim report on 3rd quarter 2006
15 November 2006

KBA

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