KBA

Koenig & Bauer
Group

Group Interim Report
First Half-Year 2005

KBA Group in Figures

01.01. - 30.06. *in €m*	2004	**2005**
Order intake	731.6	**860.9**
Sales	534.9	**691.0**
Order backlog at 30.06.	1,053.6	**1,062.9**
Export level in %	85.7	**80.2**
Operating profit/loss	–17.4	**1.2**
Pre-tax loss (EBT)	–18.5	**–4.5**
Net loss	–16.5	**–5.0**
Balance sheet total at 30.06. (prior year: 31.12.)	1,347.9	**1,353.0**
Equity at 30.06. (prior year: 31.12.)	448.9	**432.6**
Investment in intangible assets, property, plant and equipment	24.4	**12.5**
Depreciation on intangible assets, property, plant and equipment	20.9	**20.6**
Payroll on 30.06.	7,287	**7,776***
Cash flows from operating activities	–8.1	**66.6**
Earnings per share in €	–1.02	**–0.31**

* including 471 following the consolidation of Bauer+Kunzi and KBA-Grafitec

Title page: Our new Cortina mini newspaper press demonstrated its capabilities at an open house in the Netherlands in early June

The first six months of the current year went well for some Group units and less well for others, which must now make an extra effort to meet their targets. The volume of new orders swelled by 17.7% compared to the same period the previous year. This was well above the industry average, despite the absence of any exceptional stimulus like last year's Drupa which generated orders worth more than €140m for sheetfed offset presses alone. Sales to 30 June totalled €691m, a year-on-year increase of 29.2%.

Both our sheetfed offset and our web and special press divisions achieved strong growth in new orders and sales. The €1,062.9m order backlog was also up on the figure for mid-2004 and will keep our production plants busy for the rest of the year and beyond. So we are well on the way to posting annual Group sales of €1.5bn, the highest in our 188-year history.

However, the news is not all good, as I pointed out at the AGM on 23 June. A modest operating profit of €1.2m did not translate into profit further down the line.

As a result KBA posted a pre-tax loss (EBT) of €4.5m for the first half-year, and while this was noticeably smaller than in 2004 (–€18.5m), we are well behind our Group target of beating the €15.9m pre-tax profit we posted in 2004. The main reasons for this were shipping schedules (income for some goods produced in the second quarter was not realised until the third), higher prices for commodities and energy, a less profitable product mix, currency losses and the additional cost of getting a new generation of sheetfed presses up and running – though these are now selling well.

Nonetheless, looking at our schedules for the coming months and the measures we have initiated, I am confident that we shall meet our earnings target for 2005.

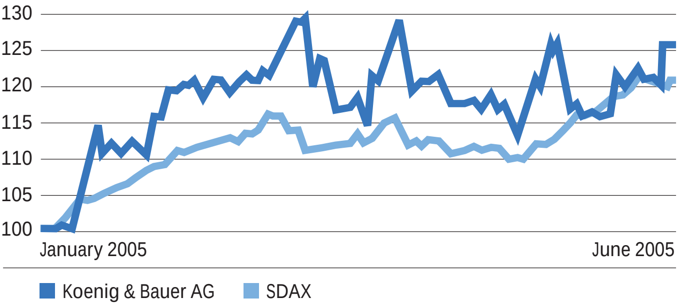
Albrecht Bolza-Schünemann
President and CEO of Koenig & Bauer AG

KBA Shares

At the end of June KBA shares were priced at €19.95 – an improvement of 25.8% from the beginning of the year (€15.86) – and thus outperformed both the DAX (6.9%) and the small-caps index, the SDAX (21.3%).

This bullish performance continued into the third quarter, and at the end of July our shares even topped €21. We attribute this to a more optimistic climate in the German stock market and to a more accurate assessment of the print media industry in financial circles. The gain in the value of the dollar impacted positively on the shares of export-driven German press manufacturers, while strong growth in Group order bookings and sales, and reaffirmation at the AGM on 23 June of our earnings forecast for 2005, gave our share price an added boost.

Koenig & Bauer shares
in %



Management Report

Market Prospects

Renewed investment activity that first became apparent in 2004 was maintained in virtually all key sectors and regions. The domestic market also picked up following years of stagnation, and KBA was one of the main beneficiaries. Orders for sheetfed offset presses, in particular, enabled us to grow strongly and expand our share of the market, moving up to second place among German press manufacturers in sales of new machinery.

Although the advertising and print media industries in western Europe experienced a gradual recovery, and the level of plant utilisation rose at many printing plants and suppliers, weak demand and fierce competition continued to squeeze margins, making it almost impossible to pass on to the consumer the higher cost of raw materials and energy, or indeed of technological advances and new, unique features in our products. We therefore focused on bolstering profitability rather than seeking to win contracts at any price.

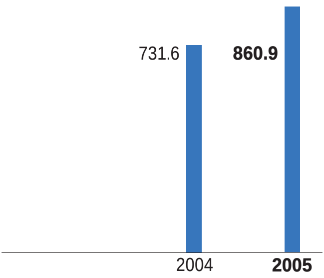
Group Performance

Even though the Group **order intake** in the first six months of 2004 had been exceptionally high (€731.6m), over the same period this year we achieved an increase of 17.7%, to €860.9m. Grafitec, a Czech press manufacturer acquired in March and renamed KBA-Grafitec, contributed sheetfed orders worth €15.4m.

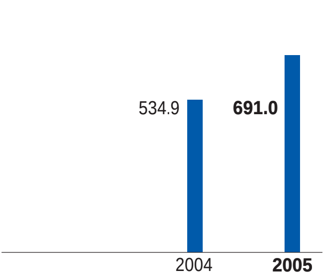
Group sales surpassed the weak prior-year figure by 29.2% to total €691m (2004: €534.9m). Alongside higher sales in key sheetfed offset, newspaper and commercial web offset markets, a big increase in sales of publication rotogravure and security presses contributed to the impressive gain.

An **order backlog** of €1,062.9m (2004: €1,053.6m) at the end of the second quarter will keep our production facilities running at full capacity well into next year.

Order intake
in €m



Sales
in €m



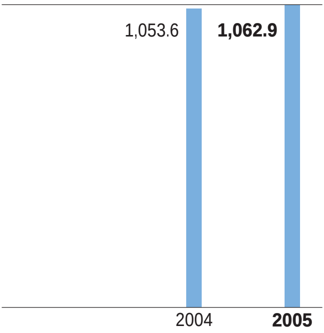
Assets, Finances and Earnings

Earnings were poor in the first six months, though the €1.2m **operating profit** (EBIT) was a big improvement on the €17.4m loss for the corresponding period the previous year and on the €4.2m loss for the first quarter of the current year. A drop in customer financing, and thus in interest income, contributed to a **financial loss** of €5.7m despite a reduction in debt. Even so, the loss before taxes (EBT) shrank to €4.5m, €1.3m less than in the first quarter and substantially lower than a year earlier (–€18.5m). The **net loss** including deferred taxes was €5m (2004: –€16.5m), which corresponds to a proportionate **net loss per share** of 31 cents (2004: –€1.02).

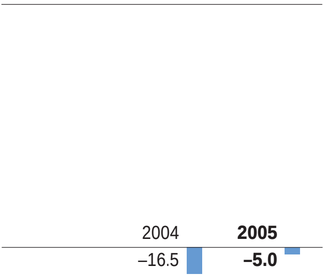
Assets

The consolidation of KBA-Grafitec raised the Group **balance sheet total** to €1,353m, from €1,347.9m at the end of last year. A €77.1m build-up of inventories and an increase in deferred tax assets were partially offset by a €49.8m reduction in trade receivables.
Equity and liabilities showed higher deferred tax liabilities and a €60.5m jump in payments received. Bank borrowings fell by €53.8m. At the end of the first half-year the capital-to-assets ratio stood at 32% of the balance sheet total.

Order backlog
in €m



Net loss (less minority interests)
in €m



Finances

Cash flows from operating activities at 30 June totalled €66.6m, well up on the previous corresponding period (–€8.1m). This was largely due to a smaller volume of accounts receivable and higher advance payments. Factoring in expenditure on investment, the free cash flow swelled to €56.5m (2004: –€31m). Funds shrank by €3.9m to €42.2m.

Business Operations

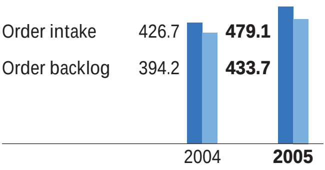
Sheetfed offset presses

Our sheetfed offset division maintained the high growth rates of the past twelve years to increase its market share still further.

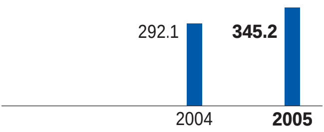
The **order intake** swelled 12.3% to €479.1m (2004: €426.7m). Demand for our new generation of medium- to superlarge-format presses was brisk, particularly in Europe and North America, while additions to our range of small-format presses enabled us to expand our customer base.

Sales surged 18.2% to €345.2m (2004: €292.1m), but still fell short of our target for 2005. Shipments included the first of eleven Rapida and two 74 Karat presses for Tonic Emballage in Algeria, which placed the order at the beginning of the year. In the second quarter Anzpac Services, a packaging printer in Sydney, Australia, inaugurated the longest large-format press worldwide: a 13-unit Rapida 142 perfector extending more than 40m.

Order intake/backlog
Sheetfed offset presses
in €m



Sales
Sheetfed offset presses
in €m



The **order backlog** rose 10% to hit a record high of €433.7m (2004: €394.2m) on 30 June. So our sheetfed offset production plant in Radebeul will be running at full capacity until the end of the year and beyond.

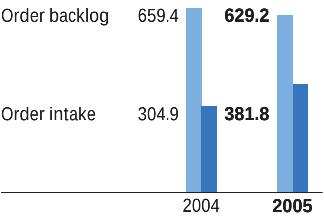
Earnings were hit not only by higher material costs, intense competition and sluggish sales of second-hand machinery, but also by the added expense of establishing a broad range of new products on the market.

Web and special presses

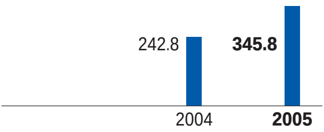
The first half-year saw a substantial increase in the volume of new orders for newspaper press lines and for the security presses marketed by our Swiss subsidiary, KBA-GIORI. Orders for commercial web offset and publication rotogravure presses failed to match the previous year's high level, which had received an added boost from Drupa. Sales by KBA-Metronic, a subsidiary consolidated in this division, were on target. The **order intake** jumped 25.2% to €381.8m (2004: €304.9m). Further contracts for our triple-width Commander 6/2 presses were awarded by newspaper publishers in Marseilles (France) and Rostock (Germany).

A high volume of newspaper, commercial and gravure shipments pushed up **sales** to €345.8m, 42.4% above last year's uninspiring figure of €242.8m.

Order intake/backlog
Web and special presses
in €m



Sales
Web and special presses
in €m



As a result the **order backlog** eased to €629.2m by the end of June, down from €659.4m twelve months earlier.

The big lift in sales, the consolidation of subsidiaries and the cost savings gained from restructuring our web press plants and negotiating more flexible working hours all contributed to a gain in earnings, though pricing for major press installations remained unsatisfactory.

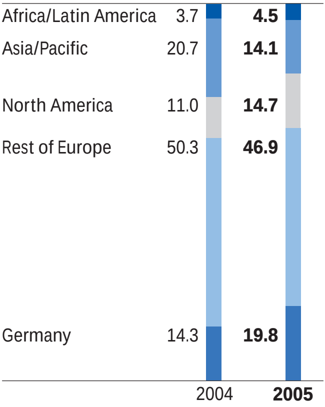
Key Regions

Numerous deliveries of sheetfed offset presses and several of commercial, newspaper and publication rotogravure presses drove **domestic** sales up to €136.5m – 78.2% higher than the prior-year figure of €76.6m. As a result the export level eased back to 80.2%.

Sales to the **rest of Europe** climbed 20.5% to €323.9m (2004: €268.8m). Demand for sheetfed offset presses was buoyant both in established west and south European markets and in eastern Europe. Shipments included a big gravure press line for a French publishing house plus commercial and newspaper presses for printers in Belgium, France, Italy, Spain, Portugal and Switzerland.

North America, a major market, generated sales worth €101.9m (2004: €58.6m), or 14.7% of the Group total (2004: 11%). This growth was generated by sales of sheetfed presses, a webfed gravure press and several newspaper presses.

Geographical breakdown of sales
in %



Asia-Pacific markets (which include Australia and New Zealand) accounted for €97.4m of total sales, compared to €110.8m twelve months earlier. An increase in shipments of sheetfed and security presses was outweighed by a decline in exports of web presses. This, and higher European sales, reduced the contribution to total Group sales to 14.1% (2004: 20.7%). However, imminent shipments of newspaper, commercial and security presses, and continuing buoyant demand for our sheetfed offset presses, particularly in China, are set to raise the percentage once again.

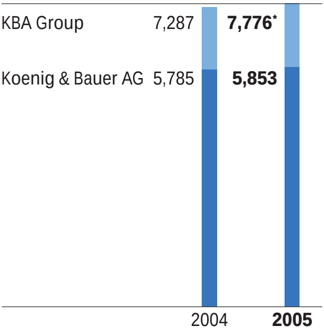
Combined sales in **Latin America** and **Africa** came to €31.3m, 4.5% of the Group total. Shipments included a big commercial press line for Mexico and the first presses of a record order for North Africa, where business is picking up.

Human Resources

At the end of June there were 7,776 employees on the Group payroll, 489 more than at the same time the previous year (7,287). The consolidation of Bauer+Kunzi and KBA-Grafitec increased the payroll by 53 and 418 respectively. Excluding these additions the total number of employees rose by 18.

The reorganisation of our web press production plants in Würzburg and Frankenthal, and the closure of two assembly plants, reduced the payrolls at these locations by 160 in the first half-year. This contrasted with an increase of 158 at our Radebeul facility to support organic growth. Staffing levels at our other operations increased by 20.

Payroll on 30 June



* 53 Bauer+Kunzi, 418 KBA-Grafitec

Research and Development

R&D activities focused on enhancing the cost-efficiency, productivity and quality of print production by streamlining the procedural workflows, integrating finishing capabilities within our presses and expanding the range of applications with the addition of hybrid processes combining new materials with technological advances. One of many examples is waterless newspaper offset, in which we are the initiator and coordinator of a broad development alliance drawn from the ink, paper and plate industries. The superior print quality, high production speeds and minimum waste levels that can be achieved were demonstrated in early June at a two-day open house in the Netherlands organised by the user of the first serial installation.

In our web and special press division, monitoring and safety features developed outside the engineering industry now generate an increasing proportion of sales and earnings. With the relevant modifications they can also be used to enhance quality assurance and brand protection for sheetfed packaging. The same applies to the specialist knowledge our subsidiary KBA-Metronic has amassed in ink-jet and laser ID systems. The definition and exploitation of market synergies among our uniquely broad platform of presses and applications thus remain a central pillar of strategic innovation management.

Investment

Investment in intangible and tangible assets totalled €12.5m, well below the figure of €24.4m twelve months earlier. This was partly due to the fact that some acquisitions originally scheduled for this year had been moved forward to 2004. Once again, investment in new production equipment largely served to upgrade capacity and reduce manufacturing costs. Depreciation was marginally lower than in 2004 (€20.6m compared to €20.9m). The marketplace system successfully introduced in Radebeul some years ago was extended to Würzburg and Frankenthal to ensure the timely supply of parts to the assembly halls. Plans to refurbish a big production hall at our Würzburg facility were concluded and work will commence soon.

Outlook

In dollar-denominated markets the weakening of the euro against the dollar has enhanced the competitiveness of German exporters versus non-EU rivals. Within KBA, the labour agreements negotiated in summer 2004 and February 2005 on more flexible working hours have perceptibly reduced labour costs. While long-term projections risk being rendered meaningless by unforeseeable currency fluctuations, price spikes caused by volatile commodities and energy markets, the potential consequences of recent terrorist attacks, and the political hiatus in Germany prior to new elections, we are confident of maintaining our targets of continuous growth and significant improvement in earnings beyond the current year.

The substantial rise in sales and new orders in the first six months reflects the popularity of our presses in the global marketplace. The high level of plant utilisation at our factories, together with the increase in shipments scheduled for the second half, form a sound basis for achieving our Group sales target of €1.5bn. The vast majority of the contracts needed have already been booked. In view of the higher margins associated with recent orders and the larger volume of sales anticipated in the third and fourth quarters we stand by our target for 2005 of posting a higher pre-tax Group profit than in 2004.

Group Balance Sheet

Assets *in €m*	31.12.2004	**30.06.2005**
Non-current assets		
Intangible assets	22.4	**22.0**
Property, plant and equipment	259.2	**253.3**
Financial assets	17.0	**16.6**
	298.6	**291.9**
Current assets		
Inventories	392.4	**469.5**
Trade receivables	442.1	**392.3**
Other receivables and assets	107.1	**74.8**
Securities	13.9	**14.2**
Cash and cash equivalents (cash, bank balances)	32.2	**28.0**
	987.7	**978.8**
Deferred tax assets	61.6	**82.3**
Balance sheet total	1,347.9	**1,353.0**

Equity and liabilities *in €m*	31.12.2004	**30.06.2005**
Equity		
Issued capital	42.2	**42.2**
Capital reserve	83.1	**83.1**
Revenue reserves	311.7	**312.3**
Net profit/loss	11.9	**–5.0**
	448.9	**432.6**
Provisions		
Pension provisions	88.4	**89.6**
Other provisions	212.9	**214.4**
	301.3	**304.0**
Liabilities		
Bank borrowings	137.1	**83.3**
Payments received	247.9	**308.4**
Trade payables	109.9	**96.5**
Other liabilities	49.4	**60.6**
	544.3	**548.8**
Deferred tax liabilities	53.4	**67.6**
Balance sheet total	1,347.9	**1,353.0**

Group Income Statement

01.01. - 30.06. *in €m*	2004	**2005**
Revenue	534.9	**691.0**
Cost of sales	–411.9	**–535.9**
Gross profit	123.0	**155.1**
Distribution costs	–67.0	**–69.2**
Administrative expenses	–42.3	**–43.6**
Other operating expenses	–31.1	**–41.1**
Operating profit/loss	–17.4	**1.2**
Financial result	–1.1	**–5.7**
Pre-tax loss (EBT)	–18.5	**–4.5**
Income taxes	2.4	**–0.5**
Net loss for the period	–16.1	**–5.0**
Profit attributable to minority interests	–0.4	**–**
Net loss less minority interests	–16.5	**–5.0**

01.04. - 30.06. *in €m*	2004	**2005**
Revenue	277.0	**379.7**
Cost of sales	–216.2	**–290.3**
Gross profit	60.8	**89.4**
Distribution costs	–35.4	**–35.0**
Administrative expenses	–20.0	**–22.2**
Other operating expenses	–19.2	**–26.8**
Operating profit/loss	–13.8	**5.4**
Financial result	–0.4	**–4.1**
Pre-tax profit/loss (EBT)	–14.2	**1.3**
Income taxes	1.8	**–1.5**
Net loss for the period	–12.4	**–0.2**
Profit attributable to minority interests	–0.2	**–**
Net loss less minority interests	–12.6	**–0.2**

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	–	–	–9.0
30.06.2004	42.0	82.2	310.5
01.01.2005	42.2	83.1	311.7
Changes in revenue reserves	–	–	11.9
Prior year dividend	–	–	–4.1
Net loss	–	–	–
Other	–	–	–7.2
30.06.2005	42.2	83.1	312.3

Net profit/ loss	Equity
–30.0	443.7
30.0	–
–16.5	–16.5
–	–9.0
–16.5	418.2
11.9	448.9
–11.9	–
–	–4.1
–5.0	–5.0
–	–7.2
–5.0	432.6

Cash Flow Statement

01.01. - 30.06. *in €m*	2004	**2005**
Pre-tax loss (EBT)	–18.5	**–4.5**
Non-cash transactions	17.3	**31.0**
Gross cash flow	–1.2	**26.5**
Changes in inventories, receivables and other assets	–64.1	**–4.1**
Changes in provisions and liabilities	57.2	**44.2**
Cash flows from operating activities	–8.1	**66.6**
Cash flows from investing activities	–22.9	**–10.1**
Cash flows from financing activities	–3.6	**–60.0**
Change in funds	–34.6	**–3.5**
Effect of changes in exchange rates	–3.1	**–0.4**
Funds at beginning of period	84.8	**46.1**
Funds at end of period	47.1	**42.2**

Notes to the Interim Statement to 30 June 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 at the average national tax rate applicable. Individual items in the balance sheet and the income statement were aggregated to clarify presentation. Figures represent million euros (€m), unless stated otherwise.

2 Consolidated Companies and Consolidation Principles

In March we acquired a 100% interest in a Czech press manufacturer, Grafitec spol. s r.o., based in Dobruška, and changed the name to KBA-Grafitec s.r.o. It 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 Breakdown by division

01.01. - 30.06. *in €m*

	Web and special presses		Sheetfed offset presses	
	2004	**2005**	2004	**2005**
External turnover	242.8	**345.8**	292.1	**345.2**
Internal turnover	27.8	**33.3**	82.3	**90.6**
Total turnover	270.6	**379.1**	374.4	**435.8**
Investment	11.6	**6.8**	12.8	**5.7**

3.2 Breakdown by region

01.01. - 30.06. *in €m*	2004	**2005**
Germany	76.6	**136.5**
Rest of Europe	268.8	**323.9**
North America	58.6	**101.9**
Latin America/Africa	20.1	**31.3**
Asia/Pacific	110.8	**97.4**
External turnover	534.9	**691.0**

4 Earnings per Share

01.01. - 30.06. *in €*	2004	**2005**
Earnings per share	–1.02	**–0.31**

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 (16,214,470 no-par shares).

5 Explanatory Notes to the Balance Sheet

5.1 Non-Current Assets

in €m

	Purchase or manufacturing 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
Total at 31.12.2004	622.1	323.5	298.6
Intangible assets	70.9	48.9	22.0
Property, plant and equipment	541.9	288.6	253.3
Financial assets	18.0	1.4	16.6
Total at 30.06.2005	630.8	338.9	291.9

Investment in property, plant and equipment totalling €10.7m (2nd quarter 2004: €23.9m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2004	**30.06.2005**
Raw materials, consumables and supplies	54.6	**56.6**
Work in progress	314.7	**379.9**
Finished goods and products	4.8	**5.1**
Payments on account	18.3	**27.9**
	392.4	**469.5**

5.3 Provisions

Provisions increased by €2.7m.

5.4 Liabilities

Total payments received on account increased by €60.5m. Short-term loans to the value of €53.8m were repaid.

Key Financial Dates

Interim report on 3rd quarter 2005
15 November 2005

Financial statements on 2005
30 March 2006

Interim report on 1st quarter 2006
15 May 2006

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

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