



Koenig & Bauer
Group

Group Interim Report
Third Quarter 2005



KBA Group in Figures

01.01. - 30.09. in €m	2004	2005
Order intake	1,040.1	1,309.9
Sales	944.5	1,107.3
Order backlog at 30.09.	952.5	1,095.6
Export level in %	84.2	80.2
Operating profit/loss	-5.9	17.3
Pre-tax profit/loss (EBT)	-9.7	10.1
Net profit/loss	-9.4	5.2
Balance sheet total at 30.09. (prior year: 31.12.)	1,347.9	1,350.6
Equity at 30.09. (prior year: 31.12.)	448.9	441.9
Investment in intangible assets, property, plant and equipment	36.1	24.3
Depreciation on intangible assets, property, plant and equipment	32.0	31.4
Payroll on 30.09.	7,360	7,866*
Cash flows from operating activities	-10.3	76.5
Earnings per share in €	-0.58	0.32

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

4 Letter to Shareholders

6 KBA Shares

Management Report

7 Market prospects

8 Group performance

9 Assets, finances and earnings

10 Business operations

12 Key regions

13 Human resources

14 Research and development

14 Investment

15 Outlook

Interim Accounts for the KBA Group

16 Group balance sheet

17 Group income statement

18 Changes in shareholders' equity

20 Cash flow statement

21 Notes

25 Key financial dates



In the nine months to 1 October we booked 25.9% more orders than in the same period last year, when the Drupa trade fair had provided an additional stimulus. The level of plant utilisation rose accordingly, and was even higher in the third quarter than in the first two. This means that all our European production plants will be running at full capacity until well into 2006. Group sales topped the prior-year figure by more than 17%, and despite higher prices for raw materials and energy, and unrelenting pressure on margins, we posted a pre-tax profit, of €10.1m, for the first time since last December.

Our genius for driving technological advances and creating cutting-edge products was rewarded with the German Print Industry's Innovation Award for the new-generation Rapida 105 medium-format sheetfed press we launched last year, and with the prestigious Printing Industries of America/Graphic Arts Technical Foundation InterTech Technology Award for our Rapida 205 superlarge sheetfed press. At the Print 05 trade fair, Chicago, in September we booked a number of orders for our range of Rapida presses, and for the presses built by our

subsidiaries KBA-Grafitec and KBA-Metronic, expanding our customer base both in our established markets and in new niche markets like UV printing on plastic. This is a course we shall continue to pursue.

Advanced technology also contributed to high growth rates in three of our other major product lines: commercial web offset, newspaper and security presses. However, sales of publication rotogravure presses softened.

Based on current data we are well on the way to meeting our 2005 Group sales target of €1.5bn. While the movement of the euro against the dollar, and associated currency fluctuations, may still impact on net profits for the year, I am confident that the large volume of shipments scheduled for the fourth quarter will enable us to improve on the 2004 figure of €15.9m for pre-tax Group earnings, just as we predicted back in the spring.



Albrecht Bolza-Schünemann

President and CEO, Koenig & Bauer AG

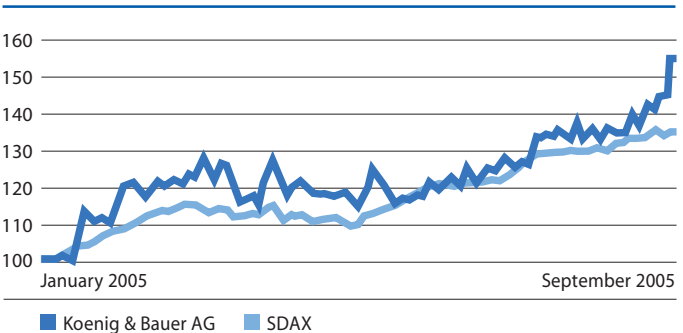
KBA Shares

After opening the year at €15.86, KBA shares increased their value by 56.1% to close the third quarter at €24.75, outperforming both the DAX (17.5%) and the small-caps index, the SDAX (36.7%). This gain, though aided by a more optimistic climate in the stock market, was largely driven by above-average growth in new orders and sales, and the disclosure of our half-year figures in August, which showed a correspondingly big improvement in earnings compared to 2004. Our award-winning product range, too, is seen by many market observers as a solid basis for sustainable growth.

An upturn in the German graphic arts industry and a stronger dollar also had a beneficial impact on the export-intensive German engineering industry, lifting our share price to a temporary high of more than €25 in October.

Koenig & Bauer shares

in %



Management Report

Market Prospects

Domestic and foreign press markets continued to pick up speed in the third quarter, albeit with the usual regional fluctuations caused by the holiday season. Even the German newspaper industry, which had been hard hit by the advertising slump of recent years, is showing a greater willingness to invest in new kit. But the many challenges that leading press manufacturers face are becoming ever more sophisticated: addressing a demand for tools that enable printers to cut costs, boost productivity, enhance production flexibility and deliver added value with new inline capabilities is just one of them. Our task is made no easier by pricing pressures that are seriously eroding our ability to secure a fair price for our products, even when they incorporate new processes and technologies that deliver unique and proven competitive benefits. And despite a lift in the global demand for printing equipment, some manufacturers still have excess capacity which they are short-sightedly scrambling to fill at any price, with no regard for the bottom line. By contrast we are seeking to promote long-term customer loyalty by pursuing a policy of innovation and dependability – a policy which is paying off.

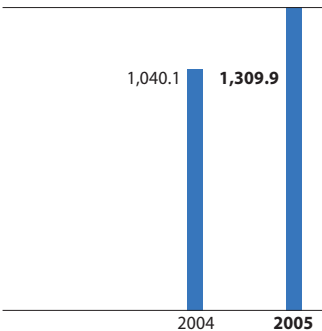
Group Performance

Orders for sheetfed and web presses even surpassed the Drupa-enhanced levels of 2004. The **order intake** for the first nine months was worth €1,309.9m, a 25.9% increase on the prior-year figure of €1,040.1m. KBA-Grafitec, the Czech subsidiary we acquired in March, contributed orders worth €18.3m.

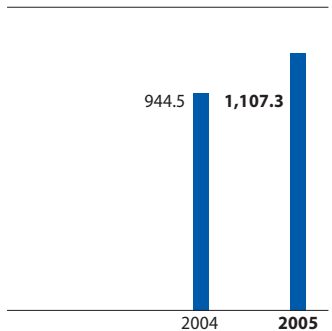
An increase in shipments of both web and sheetfed presses drove **Group sales** up by 17.2% to €1,107.3m (2004: €944.5m).

Even so, the **order backlog**, which stood at €1,095.6m on 30 September, was 15% higher than twelve months earlier (€952.5m).

Order intake
in €m



Sales
in €m



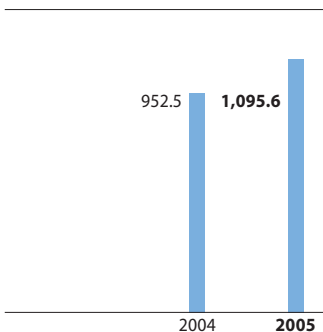
Assets, Finances and Earnings

A larger volume of shipments, and healthier profit margins on goods shipped, gave third-quarter earnings a big boost, as did the cost savings achieved, which more than balanced higher prices for steel and energy. An **operating profit** of €17.3m was a vast improvement on the €5.9m loss for the corresponding period the previous year and on the €1.2m profit for the previous quarter of the current year. Although a **financial loss** of €7.2m reduced pre-tax profit (EBT) to €10.1m, this was still almost €20m up on 2004 (€9.7m loss) and almost €15m up on the €4.5m loss posted in the first half-year. **Net profit** was €5.2m (2004: €9.4m loss), equivalent to **net earnings per share** of 32 cents (2004: net loss of 58 cents).

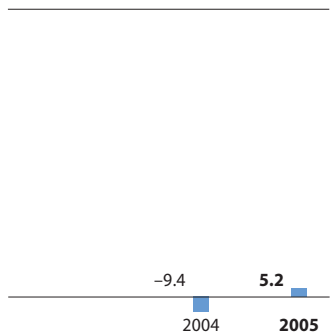
Assets

At the end of September we posted a Group **balance sheet total** of €1,350.6m, just €2.7m higher than at the end of December last year (€1,347.9m). A build-up of inventories and an increase in deferred tax assets were partially offset by a €66.1m reduction in trade receivables. Changes in **equity and liabilities** took the form of higher deferred tax liabilities and a €39.5m drop in bank borrowings. A surge in orders for web presses caused a €23m jump in payments received. At the end of September equity stood at €441.9m, or 32.7% of the balance sheet total.

Order backlog
in €m



Net profit or loss
in €m



Finances

Cash flows from operating activities to 30 September amounted to €76.5m, well up on the previous corresponding period (–€10.3m). This was mainly due to higher earnings, a smaller volume of accounts receivable and higher advance payments. Factoring in expenditure on investment swelled the free cash flow to €58.2m (2004: –€45.9m). Funds rose by €12.1m to €58.2m.

Business Operations

Sheetfed offset presses

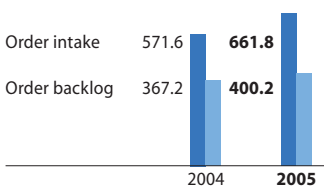
The popularity of our new high-performance Rapida 105 medium-format and Rapida 205 superlarge-format presses pushed sheetfed sales well above the industry average. Demand was also brisk for our new, smaller presses.

The **order intake** increased 15.8% to €661.8m (2004: €571.6m) as we expanded market share in virtually every region.

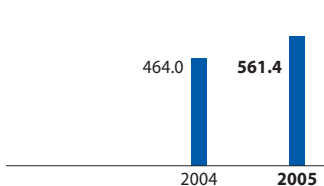
Sales surged 21% to €561.4m (2004: €464m). Shipments included the longest-ever configuration of a Rapida 105, for Tonic Emballage in Algeria.

Nonetheless the **order backlog**, at €400.2m, was 9% higher than at the same time last year (€367.2m) and will keep our production plants busy for the next six months.

Order intake/backlog
Sheetfed offset presses
in €m



Sales
Sheetfed offset presses
in €m



Earnings were hit by the cost of establishing a broad range of new products on the market, by higher material and energy costs, and by continuing downward pressure on the prices of new presses, which also affected sales of second-hand machinery.

Web and special presses

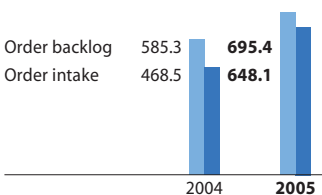
The **order intake** for web and special presses jumped 38.3% to €648.1m, compared to €468.5m in 2004. West Australian Newspapers and the Zaman publishing group in Turkey both signed up for big new press lines, while German and other European newspaper publishers booked extensions to their existing presses. Orders for commercial web offset and security presses also improved, and a contract was signed for two major rotogravure press lines.

A high volume of shipments pushed **sales** up 13.6% to €545.9m (2004: €480.5m).

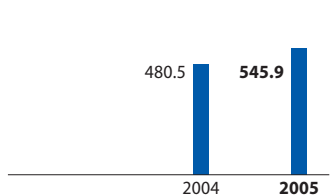
The **order backlog** was worth €695.4m, 18.8% above last year's figure of €585.3m.

The cost savings delivered by restructuring our web press plants and negotiating more flexible working hours all contributed to a gain in earnings, despite fierce competition on pricing for major press installations.

Order intake/backlog
Web and special presses
in €m



Sales
Web and special presses
in €m



Key Regions

Deliveries of sheetfed offset presses and the shipment of several newspaper, commercial and publication rotogravure presses drove **domestic** sales up to €219.4m – 46.9% higher than the prior-year figure of €149.4m. As a result the export level eased back to 80.2% (2004: 84.2%).

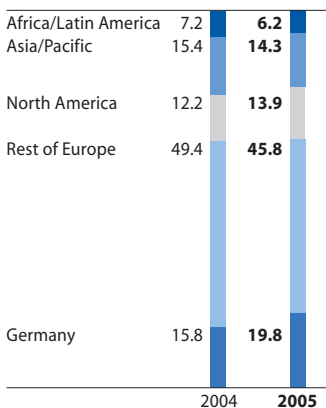
Sales to the **rest of Europe**, which remains our biggest market, climbed to €507.6m (2004: €466.6m) or 45.8% of total Group sales, with demand picking up most strongly in eastern Europe. A higher volume of sheetfed shipments was accompanied by shipments of web presses to printers in Belgium, the Czech Republic, Denmark, Italy, the Netherlands, Poland, Spain and the UK.

€154.4m, or 13.9% of total Group sales (2004: €115.1m or 12.2%), was generated in **North America**, largely by brisker sales of sheetfed presses and the delivery of big web presses, which resulted in an above-average increase in the third quarter.

Shipments of sheetfed, web and security presses to the growth markets of **Asia** and the **Pacific** (including Australia and New Zealand) rose to €158m, from €145.4m twelve months earlier. However, the higher volume of sales in Europe meant that this represented a lower proportion of total Group sales (14.3%, against 15.4% in 2004).

Geographical breakdown of sales

in %

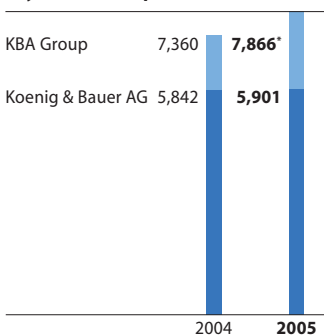


In **Latin America** and **Africa** we posted combined sales of €67.9m, roughly the same as in the previous year (€68m). While financing issues impacted on business in Latin America, this was balanced by buoyant sales of sheetfed presses in North Africa and extensions to newspaper press lines in South Africa and Kenya.

Human Resources

At the end of the third quarter there were 7,866 employees on the Group payroll, 506 more than at the same time the previous year (7,360). The consolidation of Bauer+Kunzi and KBA-Grafitec increased the payroll by 55 and 429 respectively. Excluding these additions the total staff count rose by 22. While the number of employees at our web press facilities in Germany fell by 132, our sheetfed facility took on an extra 122 to support organic growth.

Payroll on 30 September



* 55 Bauer+Kunzi, 429 KBA-Grafitec

Research and Development

Along with the new products we are planning to unveil in the first half of 2006, the work of our web press development engineers focused on a new bearing unit which, for the first time in the history of offset printing, allows the pressure between the plate and the blanket cylinder to be set with absolute precision from the console. This major advance reduces maintenance work while offering enormous benefits to printers whose production routine entails frequent changes of stock type and weight. Developed by KBA in association with hydraulics specialist Bosch Rexroth and bearing manufacturer Ina, and now in the process of being patented, the bearing unit was unveiled in October at the IfraExpo international newspaper trade fair in Leipzig, along with our new Commander 4/1 and other innovations.

R&D activities in our sheetfed division culminated in a number of new and enhanced inline systems and consumables. These included a recently launched dryer for coatings and a video-based sheet-inspection system. As an addition to existing equipment in the customer showroom and training centre our Radebeul facility kitted out an experimental press room to improve the infrastructure for testing new technologies and processes.

Investment

Investment in intangible and tangible assets amounted to €24.3m, well below the figure of €36.1m twelve months earlier. This was partly due to the fact that some acquisitions originally scheduled for this year had been moved forward to 2004. Depreciation, at €31.4m, was roughly the same as last year (€32m). Investment in new production equipment focused on enhancing productivity in key manufacturing divisions. Sections of the mechanical manufacturing department at our Würzburg facility were relocated to new premises in preparation for the refurbishment of a big production hall.

Outlook

Global demand for printing presses, while subject to the usual seasonal and regional fluctuations, has picked up strongly across the board. In dollar-denominated markets, the weakening of the euro has enhanced the competitiveness of German exporters versus non-EU rivals. However, the pricing pressures that have emerged over the past five years remain an ongoing issue in a market dominated by a few globally active suppliers. This is because demand, though strong, is still outpaced by production capacity built up during the boom at the turn of the century and enhanced by efficiency gains. On top of this, new competitors from emerging countries like China and India are using cut-throat pricing to boost domestic sales and exports of technologically less sophisticated products. It is therefore safe to assume that competition will only intensify.

We have responded over the past few years by systematically implementing a series of cost-cutting initiatives. These include labour agreements on more flexible working hours at our German production sites, the closure of our assembly plants in Berlin and Kusel, which has enhanced the efficiency of our web press division, and a growth strategy for our Radebeul plant based on continuous innovation and expansion into new market sectors. The acquisition of small-format specialists like our Czech subsidiary KBA-Grafitec, which focuses on price-sensitive markets, is another example. We shall also continue to set up new sales and service outlets in emerging markets.

We believe KBA is well equipped to maintain long-term growth in a fiercely competitive global arena, thanks to a strong presence in less volatile markets like packaging and security printing, and a press range that is the broadest and most advanced in the industry, boasting many unique features.

As for the more immediate future, we are on course to achieve our Group targets for the year of €1.5bn sales and a higher pre-tax profit than in 2004.

Group Balance Sheet

Assets <i>in €m</i>	31.12.2004	30.09.2005
Non-current assets		
Intangible assets	22.4	20.8
Property, plant and equipment	259.2	253.9
Financial assets	17.0	16.6
	298.6	291.3
Current assets		
Inventories	392.4	452.6
Trade receivables	442.1	376.0
Other receivables and assets	107.1	85.6
Securities	13.9	14.3
Cash and cash equivalents (cash, bank balances)	32.2	43.9
	987.7	972.4
Deferred tax assets	61.6	86.9
Balance sheet total	1,347.9	1,350.6

Equity and liabilities <i>in €m</i>	31.12.2004	30.09.2005
Equity		
Issued capital	42.2	42.2
Capital reserve	83.1	83.1
Revenue reserves	311.7	311.4
Net profit	11.9	5.2
	448.9	441.9
Provisions		
Pension provisions	88.4	90.1
Other provisions	212.9	223.8
	301.3	313.9
Liabilities		
Bank borrowings	137.1	97.6
Payments received	247.9	270.9
Trade payables	109.9	99.6
Other liabilities	49.4	50.7
	544.3	518.8
Deferred tax liabilities	53.4	76.0
Balance sheet total	1,347.9	1,350.6

Group Income Statement

01.01. - 30.09. in €m	2004	2005
Revenue	944.5	1,107.3
Cost of sales	-740.1	-859.2
Gross profit	204.4	248.1
Distribution costs	-99.5	-110.8
Administrative expenses	-66.0	-64.8
Other operating expenses	-44.8	-55.2
Operating profit/loss	-5.9	17.3
Financial result	-3.8	-7.2
Pre-tax profit/loss (EBT)	-9.7	10.1
Income taxes	0.3	-4.9
Net profit/loss for the period	-9.4	5.2
Profit attributable to minority interests	-	-
Net profit/loss less minority interests	-9.4	5.2

01.07. - 30.09. in €m	2004	2005
Revenue	409.6	416.3
Cost of sales	-328.2	-323.3
Gross profit	81.4	93.0
Distribution costs	-32.5	-41.6
Administrative expenses	-23.7	-21.2
Other operating expenses	-13.7	-14.1
Operating profit	11.5	16.1
Financial result	-2.7	-1.5
Pre-tax profit (EBT)	8.8	14.6
Income taxes	-2.1	-4.4
Net profit for the period	6.7	10.2
Profit attributable to minority interests	0.4	-
Net profit less minority interests	7.1	10.2

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	-	-	-
Capital increase	0.2	0.9	-
Other	-	-	-7.4
30.09.2004	42.2	83.1	312.1
01.01.2005	42.2	83.1	311.7
Changes in revenue reserves	-	-	11.9
Prior-year dividend	-	-	-4.1
Net profit	-	-	-
Other	-	-	-8.1
30.09.2005	42.2	83.1	311.4

Net profit/ loss	Equity
-30.0	443.7
30.0	-
-9.4	-9.4
-	1.1
-	-7.4
-9.4	428.0
11.9	448.9
-11.9	-
-	-4.1
5.2	5.2
-	-8.1
5.2	441.9

Group Cash Flow Statement

01.01. - 30.09. in €m	2004	2005
Pre-tax profit/loss (EBT)	-9.7	10.1
Non-cash transactions	30.1	40.6
Gross cash flow	20.4	50.7
Changes in inventories, receivables and other assets	-106.4	17.3
Changes in provisions and liabilities	75.7	8.5
Cash flows from operating activities	-10.3	76.5
Cash flows from investing activities	-35.6	-18.3
Cash flows from financing activities	6.4	-45.7
Change in funds	-39.5	12.5
Effect of changes in exchange rates	-3.0	-0.4
Funds at beginning of period	84.8	46.1
Funds at end of period	42.3	58.2

Notes to the Interim Statement to 30 September 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. - 30.09. in €m

	Web and special presses		Sheetfed offset presses	
	2004	2005	2004	2005
External turnover	480.5	545.9	464.0	561.4
Internal turnover	50.7	53.3	149.4	145.1
Total turnover	531.2	599.2	613.4	706.5
Investment	16.9	11.3	19.2	13.0

3.2 Breakdown by Region

01.01. - 30.09. in €m

	2004	2005
Germany	149.4	219.4
Rest of Europe	466.6	507.6
North America	115.1	154.4
Latin America/Africa	68.0	67.9
Asia/Pacific	145.4	158.0
External turnover	944.5	1,107.3

4 Earnings per Share

01.01. - 30.09. in €

	2004	2005
Earnings per share	-0.58	0.32

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 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
Total at 31.12.2004	622.1	323.5	298.6
Intangible assets	73.7	52.9	20.8
Property, plant and equipment	549.7	295.8	253.9
Financial assets	18.0	1.4	16.6
Total at 30.09.2005	641.4	350.1	291.3

Investment in property, plant and equipment totalling €22.2m (3rd quarter 2004: €34.9m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m

	31.12.2004	30.09.2005
Raw materials, consumables and supplies	54.6	56.7
Work in progress	314.7	364.5
Finished goods and products	4.8	5.1
Payments on account	18.3	26.3
	392.4	452.6

5.3 Provisions

The increase of €10.9m in other provisions largely resulted from obligations to employees for holiday and Christmas bonuses, and from outstanding invoices.

5.4 Liabilities

Total payments received on account increased by €23m. Short-term loans to the value of €39.5m were repaid.

Key Financial Dates

Financial statements on 2005
30 March 2006

Interim report on 1st quarter 2006
15 May 2006

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



Published by:

Koenig & Bauer AG

Postfach 60 60

97010 Würzburg, Germany

Contact:

Investor Relations

Dr Bernd Heusinger

Tel: (+49) 931 909-4835

Fax: (+49) 931 909-6015

E-mail: bernd.heusinger@kba-print.de

www.kba-print.com