Koenig & Bauer Group

Group Interim Report
Third Quarter 2007

KBA Group in Figures

01.01. - 30.09. in €m

	2006	**2007**
Order intake	1,246.6	**1,148.2**
Sales	1,205.5	**1,208.6**
Order backlog at 30.09.	1,082.0	**888.3**
Export level in %	82.5	**86.7**
Operating profit	30.1	**41.5**
Earnings before taxes	30.4	**38.0**
Net profit	22.4	**29.8**
Balance sheet total at 30.09. (2006: 31.12.)	1,394.2	**1,420.0**
Equity at 30.09. (2006: 31.12.)	476.3	**495.2**
Investment in intangible assets, property, plant and equipment	34.9	**32.4**
Depreciation on intangible assets, property, plant and equipment	31.1	**39.9**
Payroll at 30.09.	8,307	**8,266**
Cash flows from operating activities	93.9	**15.7**
Earnings per share in €	1.38	**1.83**

Title photo: One of our popular 48-page Compacta 618 commercial web presses recently came on stream at longstanding KBA customer Frankfurter Societät in Mörfelden, Germany

According to the latest statistics issued by the VDMA (German Machinery and Plant Manufacturers' Association), in the nine months to 30 September the printing press sector failed to maintain the same brisk pace of growth as other sectors of the engineering industry, posting a nominal drop of 7% in incoming orders while sales remained virtually unchanged. This trend was mirrored in our consolidated figures, which showed that the inflow was a good 7% lower than in the prior-year period, and Group sales of €1,208.6m only marginally higher. The decline in new business was the result of soft demand for rotogravure and newspaper presses in general, and for sheetfed presses during the summer months. Buoyant sales of special presses failed to outweigh a lack of investment in volume markets.

In North America and the mature economies of Europe and Asia, which have traditionally been our prime markets, competition between print and e-media for readers and advertising revenue is rapidly intensifying, driving a realignment in the publishing and printing industry. With the transition to full-colour print production now largely completed, this has resulted in a widespread moratorium on purchases of big-ticket items. The strength of the euro, and the import restrictions imposed by vibrant threshold economies such as China and India, are also making life harder for German pressmakers.

Following a slump in the demand for publication rotogravure presses, prospects for growth in this sector are poor. In September, with the approval of the supervisory board, this niche segment was sold off to our Italian competitor, Cerutti. In return Cerutti has contracted to procure all the folders for its gravure presses from KBA. The sale of our gravure activities and the adjustment of our newspaper press production capacities to a smaller market volume will inevitably lead to staff reductions at our Frankenthal operation and other web press facilities. More precise figures will be available when negotiations with worker representatives have been concluded. Technologically, KBA is well positioned to address the evolving needs of the newspaper industry.

In sheetfed offset, where our cutting-edge product portfolio furnishes a sound basis for growth, we shall continue to focus on trimming manufacturing costs and enhancing performance. Our strategic expansion into high-potential niche applications such as security printing, metal decorating, industrial coding and air-cleaning technology helps to counteract volatility in our core markets. We do not exclude the possibility of further such acquisitions in the future.

Judging by the sales volumes posted in the first nine months and the shipments scheduled for the fourth quarter, I am confident that in 2007, as in 2006, we shall achieve our targets and post Group sales of around €1.7bn. With provision already made for the additional costs associated with capacity adjustments at our web press plants, we predict that pre-tax earnings (EBT), which at the end of September were up by some 25% at €38m (2006: €30.4m), will be on a par with the previous year.

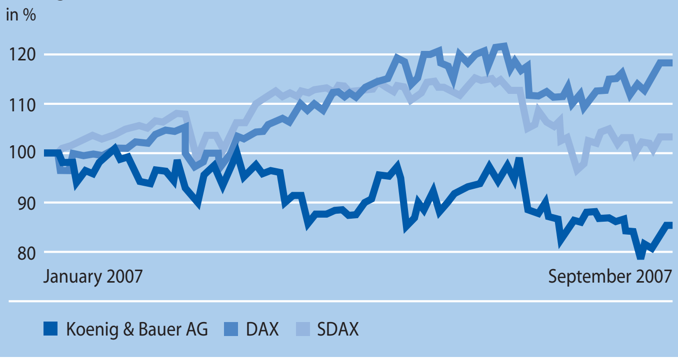
A. Bolza-Schünemann

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

KBA Shares

On XETRA, the electronic trading floor, KBA shares closed the third quarter at €25.25, down from €29.64 at the end of 2006. They therefore lagged both the SDAX and the DAX indices, which climbed by 3% and 19.2% respectively. Developments in the media market, the euro's relentless ascent and financial figures issued by the printing press sector have prompted a more critical appraisal by analysts and investors than in other branches of the booming engineering industry, and nothing had changed by the time this quarterly report went to print. With stock markets edgy, KBA shares and those of other press manufacturers continued to suffer losses well into November.

Koenig & Bauer shares



Management Report

Market Environment

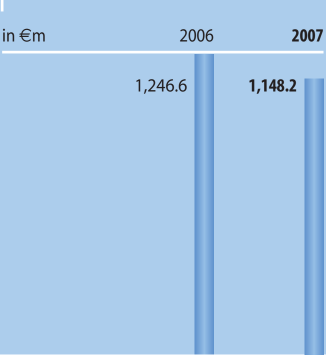
While economies in general remained relatively robust, the market for printing presses was noticeably volatile. In the USA, consolidation in the newspaper industry and the outsourcing of print production caused a slide in web press sales. In the third quarter, the mortgage crisis and the weak dollar also impacted on sales of sheetfed presses. Business was brisk in Latin America, but financing posed a risk in many cases. Printers in the Far East and Australia, like their counterparts in the USA, invested less in multi-unit press lines than they had done in previous years. In China, hefty import duties on sheetfed presses put a brake on investment, though this is likely to be temporary. However, demand was firm in India, Europe and the oil-producing countries of the Middle East, and during the third quarter also picked up in the German newspaper industry, with KBA benefiting accordingly.

Orders for publication rotogravure presses, a highly industrialised niche market in which we have been a successful player for many decades, plunged following heavy investment in recent years. This sector, which is dominated by a few major players, is battling to hold its own as the circulations of magazines and catalogues steadily diminish and wider, faster web offset presses eat away at rotogravure's competitive edge. With medium-term prospects no less challenging, we decided to sell off this entire segment to our Italian competitor, Officine Meccaniche Giovanni Cerutti S.p.A.

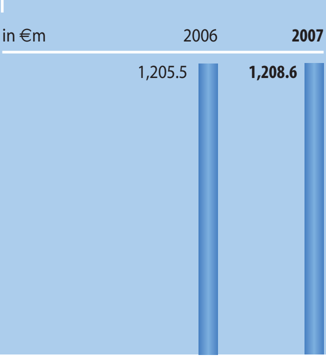
A sluggish market in the summer months was reflected in the Group **order intake**, which at €1,148.2m was 7.9% lower than twelve months earlier (€1,246.6m). In the web and special press division, a reduction in the number of major international contracts put out to tender contributed to a 2.6% drop in new business from €582.2m to €567.2m. Sales of sheetfed presses in North America, China and other key export markets were hampered by import restrictions and the strong euro, which gave Japanese pressmakers a competitive advantage. Following a weak third quarter, the inflow of sheetfed orders came to €581m, 12.6% down on the outstanding figure for 2006 of €664.4m.

With sales roughly on a par with the previous year, the Group **order backlog** shrank to €888.3m (2006: €1,082m), but was slightly larger than at the end of the second quarter. The volume of unfilled orders for web and special presses fell from €668.9m to €571.1m, and for sheetfed presses from €413.1m to €317.2m. Although this will keep our sheetfed plants in Radebeul and Dobruška (Czech Republic) busy for the next four months, and capacity utilisation at our niche subsidiaries is also high, the backlog was not big enough to maintain full employment in the third and fourth quarters at our web press operations in Würzburg, Trennfeld and Frankenthal. We have therefore expanded flexitime, terminated temporary contracts and taken further steps to address underutilisation in the relevant departments.

Order intake



Sales



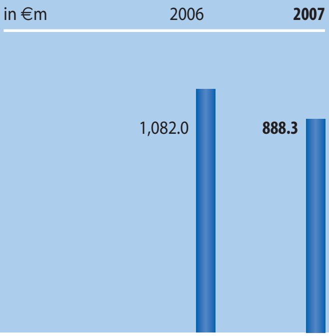
Earnings, Finances and Assets

Success in cutting the costs of conversion, coupled with a product portfolio that delivers wider profit margins, enabled us to improve pre-tax **earnings** and boost the net return on sales by 3.1%, compared to 2.5% the previous year.

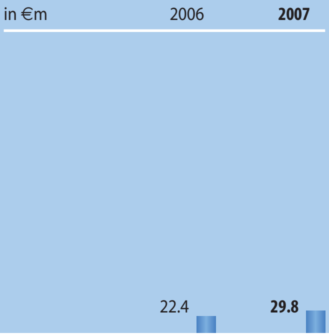
Group sales lifted to €1,208.6m from €1,205.5m twelve months earlier. Softer sales of newspaper and rotogravure presses were balanced by increased shipments of security presses. As a result total sales of web and special presses, at €639.4m, approached the prior-year level of €642.5m. Sheetfed sales of €569.2m were up 1.1% (2006: €563m), with higher volumes posted by KBA-Grafitec, our Czech subsidiary specialising in small-format presses.

A dip in deliveries of web presses to printers in **Germany** trimmed domestic sales to €161.1m from €211.2m in 2006, pushing up the export level from 82.5% to 86.7%. Sales to the **rest of Europe** lifted 14.2% to €650.8m, or 53.8% of Group revenue, compared to €569.8m and 47.3% in 2006. **Asia and the Pacific** came second in the rankings ahead of Germany, with €170.1m, or 14.1% of the total (2006: €222.8m and 18.5%). Sales in **North America** slipped from €134.1m in 2006 to €116m, a historically low 9.6% of the total, reflecting an ongoing reluctance among North American newspaper and gravure printers to invest in new kit, and the impact on our sheetfed business of the strong euro. A string of web press shipments

Order backlog



Net profit



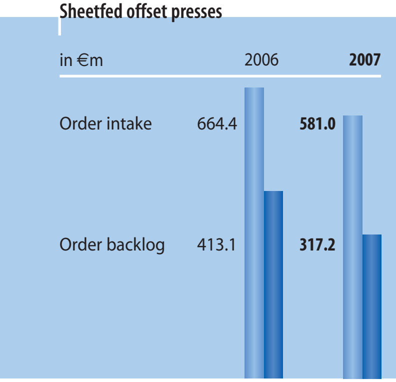
boosted earnings in **Latin America** and **Africa** from €67.6m to €110.6m, as a result of which the proportion of Group income generated climbed from 5.6% to 9.2%.

Notwithstanding union-negotiated pay rises and surging costs for raw materials, in the first nine months the **gross profit margin** improved from 24% to 28% on the back of cost-cutting initiatives and the shipment of more profitable products. Higher development costs in preparation for the Drupa trade fair in 2008, and provisions for scaling back capacity at our web press facilities, caused other operating expenses to outstrip income by €92.9m (2006: €70.5m). The **operating profit** leaped from €30.1m to €41.5m, most of it generated by web and special presses. Following a financial loss of €3.5m, **earnings before taxes** (EBT) swelled to €38m (2006: €30.4m). After deducting income tax we closed the period with a **net profit** of €29.8m (2006: €22.4m) and proportional **earnings per share** of €1.83 (2006: €1.38).

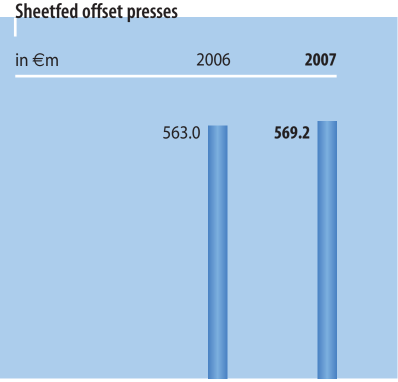
Finances

Despite higher profits and a €37.5m drop in trade receivables, **cash flows from operating activities** ebbed to €15.7m from €93.9m twelve months earlier, due to a €20m reduction in customer down payments (chiefly as a consequence of weaker demand for web presses) and a €90.6m jump in inventories in preparation for firmer sales. After

Order intake/backlog
Sheetfed offset presses



Sales
Sheetfed offset presses



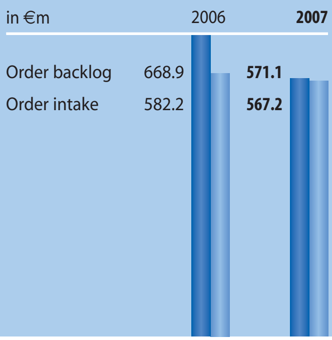
deducting cash flows for investing activities we posted a **free cash flow** of –€6.3m (2006: €66m). The cash outflow from financing activities, which was primarily used to pay dividends, rose to €5.9m from €2.8m last year. **Funds** shrank to €140.5m from €154m at the end of December.

Bank loans amounted to €80.4m, up from €78.8m at the end of 2006. Our net financial position, the difference between funds and bank loans, was thus a still satisfactory €60.1m (31.12.2006: €75.2m). A €56.7m hike in provisions to €360.9m was attributable to the accrual of expenses, higher pension provisions and provisions for capacity adjustments at our web press operations. Equity was raised by €18.9m to €495.2m, or 34.9% of the balance sheet total (31.12.2006: 34.2%).

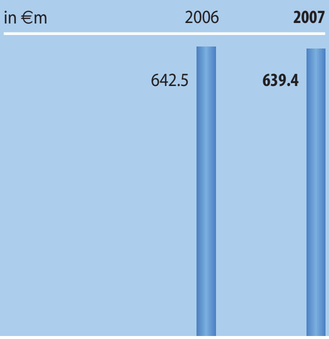
Assets

The Group **balance sheet total** increased to €1,420m from €1,394.2m at the end of last year, primarily as a result of bigger inventories. The level of **investment in intangible assets, property, plant and equipment** was marginally lower than in 2006 (€32.4m compared to €34.9m) and mainly focused on machine replacements and the rationalisation of manufacturing workflows. In the third quarter installation work began on two high-output milling centres for large components at our Würzburg factory.

Order intake/backlog
Web and special presses



Sales
Web and special presses



Research and Development

In September, some eight months prior to the 2008 Drupa trade fair in Düsseldorf, we held open houses at our facility in Radebeul and the Main-Post media group in Würzburg to promote new products for the sheetfed and newspaper markets. Both events were well attended.

Around 500 print professionals from all over Europe gathered in Radebeul for the official launching of our DriveTronic SPC dedicated plate-cylinder drives for medium-format Rapida 105 presses. These drives, which have undergone exhaustive long-term testing at ten KBA customers, allow all the plates in a press to be changed simultaneously. Since all the blankets can be washed during plate change this can deliver dramatic time gains, particularly where short-run work dominates the pressroom routine.

Another product that reduces changeover times and labour input to support shorter print runs – this time of newspapers – is our compact Commander CT, whose roll-out in late September at pioneer user Main-Post media group in Würzburg was attended by some 200 newspaper professionals from home and abroad.

Our design engineers in both divisions continued working flat out on other new products we are planning to unveil at Drupa.

Geographical breakdown of sales

in %	2006	**2007**
Africa/Latin America	5.6	**9.2**
Asia/Pacific	18.5	**14.1**
North America	11.1	**9.6**
Rest of Europe	47.3	**53.8**
Germany	17.5	**13.3**

Payroll at 30 September

	2006	**2007**
KBA Group	8,307	**8,266**
Koenig & Bauer AG	5,911	**5,858**

Human Resources

At the end of September the Group payroll stood at 8,266. This was 41 fewer than at the same time last year (8,307), and chiefly resulted from the closure of our US web press factory in York, Pennsylvania. At the beginning of September 119 apprentices started training at our facilities in Würzburg, Frankenthal, Radebeul, Veitshöchheim and Mödling (near Vienna).

Risk Management

The KBA Group operates a documentation and monitoring system for the early detection and analysis of risks and the timely implementation of remedial action. This is described on pages 42 to 45 of the consolidated financial statements for 2006, and there have been no significant changes since then to our risk exposure. We have detected no risks that could pose an existential threat to the Group.

Outlook

While the market for printing presses remained relatively stable in the nine months to 30 September, big web presses were not among the most popular models in the German engineering industry's broad portfolio. Alongside natural volatility there are indications that the internet, and the changes it has wrought in media consumption, will have a long-term impact on growth in certain sectors. This applies more specifically to in-house print production by newspaper and magazine publishers: the expansion of their online activities, and demographic trends in mature economies such as the USA, Japan and much of western Europe, will slow the demand for heavy press technology in the medium term.

Looking on the bright side, the emerging economies of China, India, Brazil, Russia, Ukraine, Turkey and Indonesia offer the print media industry enormous potential for growth. But as the standard of living improves, media consumption in these countries, too, will be influenced by competition between print and e-media. Printed products with the most promising prospects are localised or special-interest publications, direct mail and – since greater prosperity raises consumption, and the success of a product often depends on its point-of-sale impact – packaging of all kinds. As the world's leading manufacturer of large-format sheetfed offset technology for packaging printing, KBA is well positioned for future growth and we shall focus more heavily on such scenarios when developing new products, assigning capacity and expanding our global sales and service network. This includes expanding our activities in media-independent print markets.

The financial figures for KBA are more or less in line with the industry trend. At the end of September Group sales were roughly on a par with the previous year, though the volume of new orders for web and special presses was hit by flagging demand in the newspaper and gravure sectors. While an increase in orders for special presses and customer services more or less balanced out this shortfall, they made no appreciable contribution to capacity utilisation at our production plants in Würzburg, Trennfeld and Frankenthal.

The long lead times associated with the manufacture of multi-unit printing presses caused substantial fluctuations in capacity utilisation at these plants in the third quarter, and there will be no improvement in the fourth. We have already taken appropriate action to safeguard Group stability and profitability by selling off our publication rotogravure sector to Cerutti in September and adjusting capacity to the reduced demand for newspaper presses anticipated in the next few years.

The unsatisfactory volume of new sheetfed business in the third quarter contrasted with an exceptionally large inflow twelve months before. The number of projects negotiated indicates that the volume will stabilise again, despite the imminence of the Drupa trade fair. Production at our sheetfed offset operation is already secured until well into the first quarter of 2008, and our manufacturing subsidiaries in Germany, Austria and the Czech Republic will also be kept busy.

Our web press sales targets for 2007 are backed up by contracts and we already have sufficient orders to meet two-thirds of our sales target for 2008. A boost in shipments during the rest of the year means that our sheetfed division looks set to achieve its sales targets and post a profit.

Notwithstanding the financial burden of underutilised manufacturing facilities, unfavourable exchange rates and spiralling prices for raw materials and energy, we remain confident that we shall meet our Group sales target for 2007 of around €1.7bn and post pre-tax earnings of a similar magnitude to last year.

In view of the present volatility in the currency, energy, commodities and sales markets, we are unwilling to make any detailed projections for 2008 until our annual report is published in March. But going by past form, the Drupa international print media trade fair scheduled for late May/early June will reinvigorate demand, particularly for batch-produced presses.

Group Balance Sheet

Assets

in €m	31.12.2006	**30.09.2007**
Non-current assets		
Intangible assets	35.1	32.5
Property, plant and equipment	258.0	252.2
Investments and other financial receivables	25.5	25.0
Deferred tax assets	65.7	56.9
	384.3	**366.6**
Current assets		
Inventories	377.6	468.2
Trade receivables	399.8	362.3
Other financial receivables	17.8	26.4
Other assets	58.0	56.0
Securities	8.2	8.0
Cash and cash equivalents	145.8	132.5
	1,007.2	**1,053.4**
Assets held for sale	**2.7**	**–**
Balance sheet total	**1,394.2**	**1,420.0**

Equity and liabilities

in €m	31.12.2006	**30.09.2007**
Equity		
Share capital	42.4	42.4
Share premium	84.9	84.9
Reserves	349.0	367.9
	476.3	**495.2**
Liabilities		
Non-current liabilities		
Pension provisions	99.3	102.3
Other provisions	66.2	77.9
Bank loans and other financial payables	39.9	35.4
Other liabilities	0.6	1.2
Deferred tax liabilities	57.2	42.3
	263.2	**259.1**
Current liabilities		
Other provisions	138.7	180.7
Trade payables	104.3	91.1
Bank loans and other financial payables	108.9	117.3
Other liabilities	302.8	276.6
	654.7	**665.7**
Balance sheet total	**1,394.2**	**1,420.0**

Group Income Statement

01.01. - 30.09. in €m	2006	**2007**
Revenue	1,205.5	1,208.6
Cost of sales	–916.5	–869.6
Gross profit	**289.0**	**339.0**
Distribution costs	–121.2	–132.3
Administrative expenses	–67.2	–72.3
Other operating income and expenses	–70.5	–92.9
Operating profit	**30.1**	**41.5**
Financial result	0.3	–3.5
Earnings before taxes	**30.4**	**38.0**
Income tax expense	–8.0	–8.2
Net profit	**22.4**	**29.8**

01.07. - 30.09. in €m	2006	**2007**
Revenue	479.0	413.7
Cost of sales	–365.6	–271.5
Gross profit	**113.4**	**142.2**
Distribution costs	–47.6	–48.6
Administrative expenses	–21.5	–24.0
Other operating income and expenses	–33.0	–55.3
Operating profit	**11.3**	**14.3**
Financial result	0.4	–1.9
Earnings before taxes	**11.7**	**12.4**
Income tax expense	–1.8	–1.7
Net profit	**9.9**	**10.7**

Statement of Changes in Shareholders' Equity

in €m	Share capital	Share premium
01.01.2006	**42.3**	**84.0**
Total net profit		
Profit for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Dividend	–	–
30.09.2006	**42.3**	**84.0**
01.01.2007	**42.4**	**84.9**
Total net profit		
Profit for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Dividend	–	–
30.09.2007	**42.4**	**84.9**

Reserves		
Recognised in equity	Other	**Total**
2.6	**319.1**	**448.0**
–	22.4	22.4
0.7	–	0.7
–0.6	–	–0.6
0.1	**22.4**	**22.5**
–	–6.5	–6.5
2.7	**335.0**	**464.0**
2.1	**346.9**	**476.3**
–	29.8	29.8
–1.0	–	–1.0
–1.7	–	–1.7
–2.7	**29.8**	**27.1**
–	–8,2	–8.2
–0.6	**368.5**	**495.2**

Group Cash Flow Statement

01.01. - 30.09. in €m	2006	**2007**
Earnings before taxes	30.4	38.0
Non-cash transactions	17.0	42.7
Gross cash flow	**47.4**	**80.7**
Changes in inventories, receivables and other assets	6.9	–79.4
Changes in provisions and payables	39.6	14.4
Cash flows from operating activities	**93.9**	**15.7**
Cash flows from investing activities	**–27.9**	**–22.0**
Cash flows from financing activities	**–2.8**	**–5.9**
Change in funds	**63.2**	**–12.2**
Effect of changes in exchange rates	0.3	–1.3
Funds at beginning of period	129.0	154.0
Funds at end of period	**192.5**	**140.5**

Notes to the Interim Statement to 30 September 2007

1 Accounting Policies

This interim 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 2006 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

There were no changes in the number of consolidated companies or in 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.

3 Income Tax Expense

On 6 July 2007 Germany's Bundesrat (upper house in parliament) passed a law on corporate tax reform that will take effect in 2008. According to IAS 12, the tax rates that will then apply must be used to calculate taxes deferred in the third quarter of 2007. This resulted in a reduction in the Group tax rate.

4 Segment Information

4.1 Business segments

01.01. - 30.09. in €m	Web and special presses		Sheetfed offset presses	
	2006	**2007**	2006	**2007**
External sales	642.5	**639.4**	563.0	**569.2**
Internal sales	101.2	**129.3**	233.7	**192.2**
Total sales	743.7	**768.7**	796.7	**761.4**
Investment	17.7	**13.7**	17.2	**18.7**

4.2 Geographical segments

01.01. - 30.09. in €m	2006	**2007**
Germany	211.2	**161.1**
Rest of Europe	569.8	**650.8**
North America	134.1	**116.0**
Asia / Pacific	222.8	**170.1**
Africa / Latin America	67.6	**110.6**
External sales	**1,205.5**	**1,208.6**

5 Earnings per Share

01.01. - 30.09. in €	2006	**2007**
Earnings per share	1.38	**1.83**

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,304,400 no-par shares, previous year: 16,264,760 no-par shares).

6 Balance Sheet

6.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Residual book value
Intangible assets	81.5	46.4	35.1
Property, plant and equipment	564.0	306.0	258.0
Total at 31.12.2006	**645.5**	**352.4**	**293.1**
Intangible assets	74.6	42.1	32.5
Property, plant and equipment	585.0	332.8	252.2
Total at 30.09.2007	**659.6**	**374.9**	**284.7**

Investment in property, plant and equipment totalling €30.2m (third quarter 2006: €20.9m) primarily refers to additions of plant and machinery, factory and office equipment.

6.2 Inventories

in €m	31.12.2006	**30.09.2007**
Raw materials, consumables and supplies	63.1	76.3
Work in progress	288.2	366.8
Finished goods and products	26.3	25.1
	377.6	**468.2**

6.3 Liabilities

The €53.7m jump in **other provisions** largely resulted from the accrual of expenses during the year and proposed cost-cutting initiatives in our web and special press division.

Key Financial Dates

Financial statements on 2007
31 March 2008

Interim report on 1st quarter 2008
15 May 2008

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

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