Koenig & Bauer Group

Group Interim Report
First Quarter 2008

KBA Group in Figures

01.01. - 31.03. in €m

	2007	**2008**
Order intake	350.9	**370.3**
Sales	414.2	**301.7**
Order backlog at 31.03.	885.4	**860.5**
Export level in %	88.3	**84.1**
Operating profit/loss	13.5	**–5.0**
Earnings before taxes	13.0	**–6.4**
Net profit/loss	9.3	**–1.0**
Balance sheet total at 31.03. (2007: 31.12.)	1,366.6	**1,421.9**
Equity at 31.03. (2007: 31.12.)	515.1	**520.3**
Investment in intangible assets, property, plant and equipment	9.9	**14.9**
Depreciation on intangible assets, property, plant and equipment	10.2	**9.7**
Payroll at 31.03.	8,289	**8,181**
Cash flows from operating activities	41.5	**88.6**
Earnings per share in €	0.57	**–0.06**

Following the broadly positive reception accorded by analysts and market watchers to the 2007 annual financial statements we issued on 31 March, this report on the first quarter of the current year exemplifies the fluctuations that can occur in capital investment goods such as printing presses, with their relatively long production cycles. Prognoses based on a simple extrapolation of the quarterly figures would rapidly lead to the wrong conclusions and investor discontent, as we saw recently in the print media industry.

Despite a strong euro and soft demand in North America, for the first time since early 2007 the volume of incoming orders was higher than in the prior-year period, easing up 5.5% to €370.3m. While sparse shipments of multi-unit web presses caused a drop in Group sales by more than 25% to €301.7m, resulting in a pre-tax loss of €6.4m, it should be remembered that the situation was similar in 2004 to 2006, yet we turned a profit in all three of those years.

Weak first quarters are common in the engineering industry, and last year, when first-quarter sales of €414.2m represented around a quarter of the annual total and a pre-tax profit of €13m just over a fifth of the eventual total of €63.2m, was an exception for KBA rather than the rule. One reason why first-quarter sales and profits are not necessarily indicative of the entire year is that accounting schedules have no bearing on shipping schedules.

Orders for web presses are already approaching our target for the current year, and will safeguard production at the relevant plants until well into the autumn. Unfilled orders and new contracts for special presses are also on target. Our sheetfed business, with its shorter production cycles, has been more heavily exposed to the economic recession and credit crisis in the USA, and the figures for the first quarter, though on a par with the previous year, were relatively subdued. In the first three months a smaller backlog of orders even led to an occasional underutilisation of plant capacity which we accommodated via flexible working hours. However, this series-oriented business sector is expected to receive a major boost from the Drupa international trade fair that opens its doors at the end of May, and we are confident that our cutting-edge product portfolio will attract a large volume of orders, boosting plant utilisation and sales in the second half of the year and enabling us to achieve our annual targets.

There is little doubt that the biggest risks facing our export-driven business for the rest of the year derive from the continuing impact of last year's financial crisis on the global economy, currency movements, interest rates and banks' lending practices.

Even so, judging by the figures at our disposal, we stand by the Group targets we announced in late March of €1.6bn in sales and a pre-tax profit on a par with 2007. The outlook for the second half-year will be much clearer once the figures for Drupa, a key industry event, have been assessed, and we shall be informing shareholders at the AGM on 19 June.

Yours,

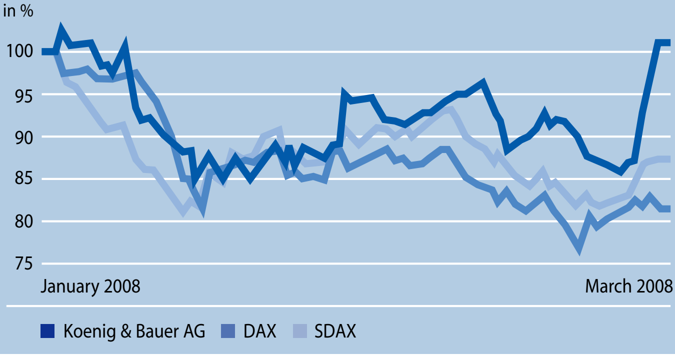
A. Bolza-Schün

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

KBA Shares

The decline in stockmarket values in the second half of 2007 continued apace in the new year, with fallout from external phenomena – the financial crisis, the strong euro and foundering economies in key export markets like the USA – taking their toll on KBA shares and those of other export-intensive press manufacturers. However, the Group figures for 2007 released on 31 March were rewarded by capital markets with a moderate jump in the share price to €19.90, 3.1% higher than at the end of last year (€19.30), whereas the SDAX fell by 13.5% and the DAX by 19%. In April KBA shares remained stable above the €20 mark and thus outperformed those of our competitors.

Koenig & Bauer shares



Management Report

Market Environment

Demand for batch-produced sheetfed presses, already soft in the run-up to the Drupa international trade fair in May/June, was hit further by subdued investment in North America that was only partially made good in other markets. However, KBA bucked the industry trend with a brisk run of contracts for web presses, as a result of which the total volume of incoming orders was higher than in the prior-year period. The three-pronged business strategy we have pursued for many years, embracing batch-produced sheetfed presses, special presses and big web presses, provided a certain degree of stability.

The Group **order intake** climbed by 5.5% to €370.3m (2007: €350.9m), with our web and special press division posting a 10.6% leap to €199.3m (2007: €180.2m) following a string of new contracts for smaller projects and some big newspaper press lines: in January and February, for example, newspaper printers in Turkey and New York signed up for a total of eight presses. However, new orders for security presses failed to equal the record level of the previous year. While the inflow of sheetfed orders remained stable at €171m (2007: €170.7m) despite continuing glacial demand in the USA, it was not high enough to ensure a satisfactory utilisation of our considerable production capacities. Alongside our large-format presses the most popular model was our Rapida 105 high-tech medium-format press. The value of contracts booked by KBA-Grafitec and KBA-MetalPrint, two subsidiaries specialising in small-format and metal-decorating presses respectively, was roughly the same as last year.

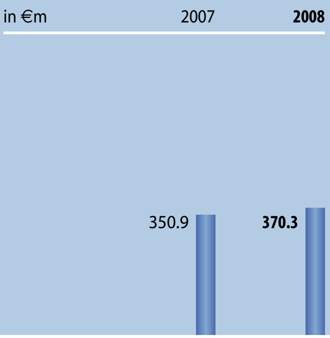
The Group **order backlog** diminished to €860.5m (2007: €885.4m), but was slightly larger than at the end of last year (€791.9m). While the volume of unfilled orders for web and special presses rose from €565.9m to €611.5m, ensuring that the level of plant utilisation into the autumn will be higher than last year and, indeed, the first three months of this year, the backlog of orders for sheetfed presses fell from €319.5m to €249m. So a big increase is needed to maintain production at our plants in Radebeul, Dobruška (Czech Republic) and Austria for the rest of the year. Fluctuations in capacity utilisation at our Radebeul plant have been absorbed via flexible working hours. In the second quarter we anticipate a big boost in demand from the Drupa trade fair.

Earnings, Finances and Assets

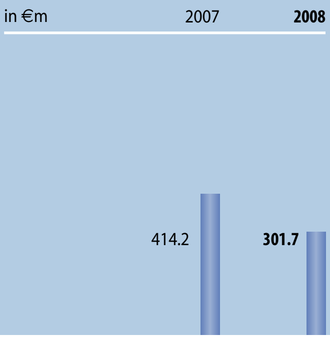
Earnings were hit both by the soaring cost of materials and energy and by a delivery-related lag in sales, which were well below target. However, poor first-quarter sales are common in the printing press industry: 2005 and 2006 started similarly slowly, while the high volume of sales posted in the first quarter of 2007 was the exception rather than the rule.

Group sales, at €301.7m, were more than a quarter below last year's satisfactory figure of €414.2m, with sales of newspaper and special

Order intake



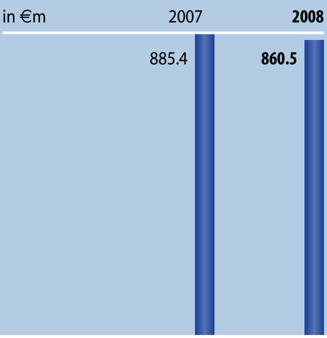
Sales



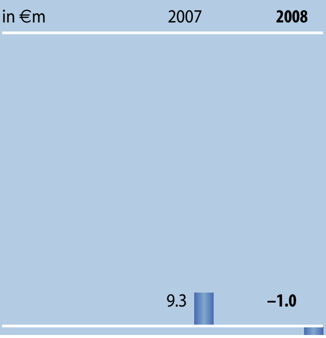
presses dropping by almost 40% from €257.6m to €157.7m. This was largely due to a concentration of shipments in the second six months of the current year and a slump in sales of rotogravure presses. Sheetfed sales of €144m (2007: €156.6m) were also well short of our target.

Although domestic sales were virtually unchanged (€48m, compared to €48.3m twelve months earlier), a substantial decline in shipments to the USA pushed the export level down from 88.3% to 84.1%. And while the proportion of Group sales generated by the rest of Europe increased from 55.3% in 2007 to 60.7%, the underlying total fell from €228.9m to €183.1m. Similarly, the percentage contributed by Asia and the Pacific was higher (15.1% compared to 14.5% in 2007) but the sum was lower (€45.5m as opposed to €60.2m), largely because there were no shipments of big web presses. In North America, which normally accounts for around 15% of Group sales, the mortgage meltdown, recessionary expectations and structural changes in the newspaper industry precipitated a slump to an historic low of €15.2m and 5% of the Group total (2007: €42.7m and 10.3%). Sales to Latin America and Africa also plummeted, to €9.9m or 3.3% (2007: €34.1m; 8.2%), again because no web presses were commissioned there.

Order backlog



Net profit/loss

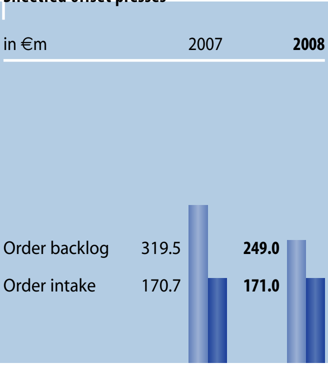


The gross profit margin eased up from 25.4% to 25.9%. However, a shortfall in sales resulted in an **operating loss** of €5m (2007: €13.5m profit), echoing the unsatisfactory first-quarter figures for 2004 to 2006. Following a financial loss of €1.4m, **earnings before taxes** (EBT) turned negative (–€6.4m, from +€13m twelve months earlier) and thus fell well short of our target. We closed the period with a **net loss** of €1m (2007: €9.3m profit) and proportional **earnings per share** of –6 cents (2007: +57 cents).

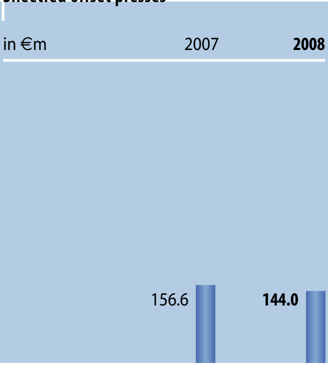
Finances

Despite a €67.9m jump in inventories, **cash flows from operating activities** more than doubled to €88.6m from €41.5m twelve months earlier following a €57.7m increase in customer down payments and an €84.1m drop in trade receivables. After deducting cash flows for investing activities we posted a **free cash flow** of €73.7m (2007: €35m). The cash outflow from financing activities, which primarily related to the repayment of loans, leaped to €24.2m from €0.5m last year. **Funds** swelled from €134m at the end of December to €183.8m at the end of March.

Order intake/backlog
Sheetfed offset presses



Sales
Sheetfed offset presses

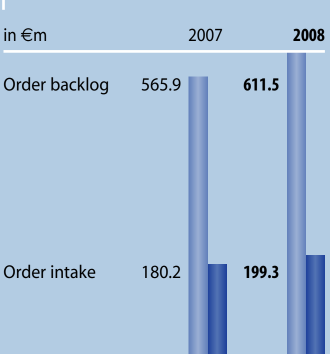


Equity stood at €520.3m, or 36.6% of the balance sheet total. Bank loans were trimmed to €59m, from €83.5m at the end of 2007. Our net financial position, the difference between funds and bank loans, thus improved from €50.5m to €124.8m.

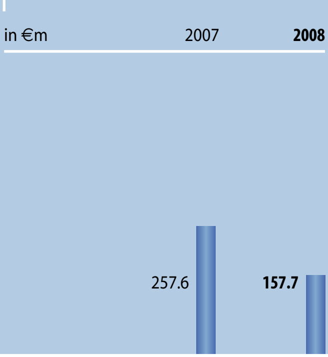
Assets

The Group **balance sheet total** climbed to €1,421.9m from €1,366.6m at the end of last year, primarily as a result of a €50.2m jump in liquid assets and a build-up of inventories from €402.5m to €470.4m. Trade receivables sank to €311.2m (31.12.2007: €395.3m). The value of property, plant and equipment rose to €264.4m from €258.1m, and we invested a further €14.9m in both tangible and intangible assets (2007: €9.9m) with a view to enhancing productivity in our manufacturing and assembly workflows.

Order intake/backlog
Web and special presses



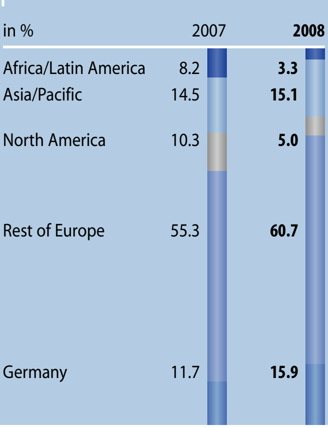
Sales
Web and special presses



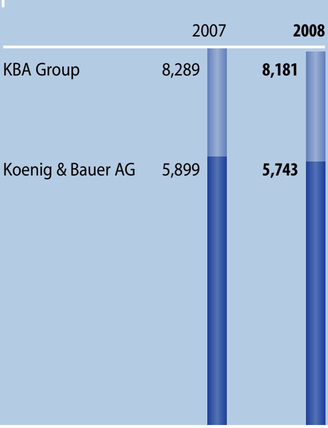
Research and Development

R&D activities at our Radebeul plant focused on optimising existing models and developing new ones in preparation for a pre-Drupa open house in early April that attracted some 1,600 print professionals from more than 50 countries. At the Drupa trade fair in Düsseldorf at the end of May our 3,400m² exhibition stand will feature nine sheetfed presses boasting a raft of new features for enhancing automation, quality management and integrated logistics. We shall also be addressing current issues by demonstrating green printing, web-to-print capabilities, inline finishing and printshop networking. Some of the technologies we offer are unique in the global marketplace. They include large-format perfectors and ultra-compact newspaper presses, both of which will be on show in Düsseldorf.

Geographical breakdown of sales



Payroll at 31 March



Human Resources

At the end of March the Group payroll stood at 8,181, or 108 fewer than at the same time last year. While some subsidiaries took on additional staff, our web press factories in Frankenthal and Würzburg, and our sheetfed press factory in Radebeul, all trimmed their ranks.

Risk Management

Our risk documentation and monitoring system is described on pages 39 to 41 of the consolidated financial statements for 2007, 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

The financial contagion, weak US economy and soaring commodity prices that are reshaping the global economy have not left Germany's export-driven press manufacturers unscathed. As if that were not enough, the strong euro has eroded their competitiveness against Japanese and other rivals in non-euro markets. What is more some sectors, such as newspapers, magazines and catalogues, are heavily exposed to volatility in the media and advertising sectors. This explains why growth in recent years has lagged behind the engineering industry which, however, must also prepare itself for quieter times ahead.

The historically cyclical nature of certain press markets has technological as well as economic origins. One example from the recent past is the surging (but now ebbing) demand for newspaper presses triggered by advances in their colour capabilities.

The diversity of our product portfolio – we build batch-based and specialised sheetfed presses along with customised web presses – and our presence in multiple sectors (commercial, book, packaging and newspaper printing plus niche markets such as metal decorating and security printing) enable us to counteract volatility in individual sectors more easily than serial manufacturers. The fact that we bucked the industry trend in the first quarter by booking a higher volume of orders is a good illustration. Another vital factor for market success is product innovation. This can be seen from the fact that in February we won a major contract from the New York Daily News for a highly automated

Commander CT multi-unit press line, at a time when US newspaper publishers in general are showing a marked reluctance to invest.

The Drupa trade fair that takes place every four years in Düsseldorf offers press manufacturers a unique opportunity to showcase their innovations. KBA's innovative credentials are universally acknowledged – witness recent contracts from prominent newspaper publishers for our unique Cortina and Commander CT compact presses, and the stunning response to the pre-Drupa open house organised by our Radebeul facility to promote our latest innovations in sheetfed technology, which drew 1,600 print professionals.

Notwithstanding a few clouds on the economic horizon, the financial crisis, spiralling oil prices and the weak dollar, we are confident that the inflow of new orders in the second quarter will be stimulated by the Drupa trade fair, and that this in turn will boost plant utilisation, sales and profits at our sheetfed facilities. New contracts for web presses, some with tight delivery deadlines, will ensure that the level of utilisation at the relevant production plants is higher than it was last year. We are also hopeful of securing a number of newspaper press contracts that are currently being finalised.

Looking beyond the unsatisfactory first-quarter sales and earnings to the more favourable scenario anticipated in future months, we stand by the Group targets we stated in late March of around €1.6bn (2007: €1.7bn) in sales, and pre-tax earnings of a similar magnitude to last year (€63.2m).

Group Balance Sheet

Assets in €m	31.12.2007	**31.03.2008**
Non-current assets		
Intangible assets	32.2	31.7
Property, plant and equipment	258.1	264.4
Investments and other financial receivables	23.2	20.9
Other assets	2.5	1.5
Deferred tax assets	34.2	47.2
	350.2	**365.7**
Current assets		
Inventories	402.5	470.4
Trade receivables	395.3	311.2
Other financial receivables	23.1	35.4
Other assets	61.5	55.4
Securities	10.8	10.4
Cash and cash equivalents	123.2	173.4
	1,016.4	**1,056.2**
Balance sheet total	**1,366.6**	**1,421.9**

Equity and liabilities in €m	31.12.2007	**31.03.2008**
Equity		
Share capital	42.5	42.5
Share premium	85.9	85.9
Reserves	386.7	391.9
	515.1	**520.3**
Liabilities		
Non-current liabilities		
Pension provisions	102.8	100.8
Other provisions	88.8	89.2
Bank loans and other financial payables	30.1	30.0
Other liabilities	3.2	0.2
Deferred tax liabilities	25.2	32.3
	250.1	**252.5**
Current liabilities		
Other provisions	171.9	181.3
Trade payables	82.7	90.6
Bank loans and other financial payables	124.0	103.7
Other liabilities	222.8	273.5
	601.4	**649.1**
Balance sheet total	**1,366.6**	**1,421.9**

Group Income Statement

01.01. - 31.03. in €m	2007	2008
Revenue	414.2	301.7
Cost of sales	–309.2	–223.5
Gross profit	**105.0**	**78.2**
Distribution costs	–43.6	–41.3
Administrative expenses	–25.4	–23.1
Other operating income and expenses	–22.5	–18.8
Operating profit/loss	**13.5**	**–5.0**
Financial result	–0.5	–1.4
Earnings before taxes	**13.0**	**–6.4**
Income tax	–3.7	5.4
Net profit/loss	**9.3**	**–1.0**

Statement of Changes in Shareholders' Equity

in €m	Share capital	Share premium
01.01.2007	**42.4**	**84.9**
Total net profit		
Profit for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes	–	–
31.03.2007	**42.4**	**84.9**
01.01.2008	**42.5**	**85.9**
Total net profit		
Loss for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Sundry other changes	–	–
31.03.2008	**42.5**	**85.9**

Reserves: Recognised in equity	Reserves: Other	**Total**
2.1	**346.9**	**476.3**
–	9.3	9.3
–0.5	–	–0.5
–0.3	–	–0.3
–0.8	**9.3**	**8.5**
–	–	–
1.3	**356.2**	**484.8**
–0.4	**387.1**	**515.1**
–	–1.0	–1.0
4.0	–	4.0
1.4	–	1.4
5.4	**–1.0**	**4.4**
–	0.8	0.8
5.0	**386.9**	**520.3**

Group Cash Flow Statement

01.01. - 31.03. in €m	2007	**2008**
Earnings before taxes	13.0	–6.4
Non-cash transactions	10.9	11.4
Gross cash flow	**23.9**	**5.0**
Changes in inventories, receivables and other assets	–32.0	20.8
Changes in provisions and payables	49.6	62.8
Cash flows from operating activities	**41.5**	**88.6**
Cash flows from investing activities	**–6.5**	**–14.9**
Cash flows from financing activities	**–0.5**	**–24.2**
Change in funds	**34.5**	**49.5**
Effect of changes in exchange rates	–0.2	0.3
Funds at beginning of period	154.0	134.0
Funds at end of period	**188.3**	**183.8**

Notes to the Interim Statement to 31 March 2008

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 2007 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 Segment Information

3.1 Business segments

01.01. - 31.03. in €m	Web and special presses		Sheetfed offset presses	
	2007	**2008**	2007	**2008**
External sales	257.6	**157.7**	156.6	**144.0**
Internal sales	53.9	**42.7**	63.9	**43.9**
Total sales	311.5	**200.4**	220.5	**187.9**
Investment	4.2	**8.0**	5.7	**6.9**

3.2 Geographical segments

01.01. - 31.03. in €m	2007	**2008**
Germany	48.3	**48.0**
Rest of Europe	228.9	**183.1**
North America	42.7	**15.2**
Asia / Pacific	60.2	**45.5**
Africa / Latin America	34.1	**9.9**
External sales	**414.2**	**301.7**

4 Earnings per Share

01.01. - 31.03. in €	2007	**2008**
Earnings per share	0.57	**–0.06**

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 (16,340,790 no-par shares, previous year: 16,304,400 no-par shares).

5 Balance Sheet

5.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	74.0	41.8	32.2
Property, plant and equipment	591.9	333.8	258.1
Total at 31.12.2007	**665.9**	**375.6**	**290.3**
Intangible assets	75.2	43.5	31.7
Property, plant and equipment	607.7	343.3	264.4
Total at 31.03.2008	**682.9**	**386.8**	**296.1**

Investment in property, plant and equipment totalling €14.3m (first quarter 2007: €4.7m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2007	**31.03.2008**
Raw materials, consumables and supplies	74.0	72.2
Work in progress	303.8	369.6
Finished goods and products	24.7	28.6
	402.5	**470.4**

5.3 Liabilities

The €20.4m reduction in **bank loans and other financial payables** largely resulted from the repayment of loans.

A €47.7m jump in **other liabilities** was attributable to a substantial increase in advance payments.

Key Financial Dates

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

Interim report on 2nd quarter 2008
14 August 2008

Interim report on 3rd quarter 2008
14 November 2008

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