Koenig & Bauer Group

Group Interim Report
First Half-Year 2006

KBA Group in Figures

01.01. - 30.06. in €m	2005 adjusted[1]	**2006**
Order intake	860.9	**719.3**
Sales	691.0	**726.5**
Order backlog on 30.06.	1,062.9	**1,033.7**
Export level in %	80.2	**83.5**
Operating profit/loss	–0.4	**18.8**
Earnings before taxes	–6.1	**18.7**
Net profit/loss	–6.6	**12.5**
Balance sheet total on 30.06. (2005: 31.12.)	1,396.2	**1,434.6**
Equity on 30.06. (2005: 31.12.)	449.4	**456.2**
Investment in intangible assets, property, plant and equipment	12.5	**25.3**
Depreciation on intangible assets, property, plant and equipment	19.8	**20.5**
Payroll on 30.06.	7,776	**7,936**[2)]
Cash flows from operating activities	64.2	**52.9**
Earnings per share in €	–0.41	**0.77**

[1] pursuant to IAS 8
[2] including the addition of 73 staff following the first-time consolidation of KBA (UK) and KBA-France

Title photo: Our ultra-compact newspaper press, the Cortina (pictured at *Badische Zeitung* in Freiburg), is just one manifestation of our highly successful innovation strategy that focuses on developing products with unique features

We closed our half-year accounts during the World Cup football championship in Germany and, as with the semi-finals, we were happy with some results but not with others.

The good news is that we bucked our historic trend, common in the industry, of slower growth in the first half-year than in the second, to post a significant increase in pre-tax earnings compared to 2005 and transform a first-quarter pre-tax loss of €6.5m (and prior-year loss of €6.1m) into a pre-tax profit of €18.7m. This is our best half-yearly result since 2001, before the print media industry was hit by the recession.

Although Group sales lagged well behind our annual target, we did achieve a modest 5.1% year-on-year improvement to €726.5m. And while the volume of new orders, at €719.3m, fell short of the previous year's exceptionally high figure of €860.9m following sluggish sales of sheetfed, webfed gravure and security presses, an order backlog exceeding one billion euros will keep our production plants busy for the rest of the year.

Over the past three years our web and special press division has made considerable headway at honing profitability in a challenging market environment. Now the focus is on achieving long-term cost savings at our sheetfed division, where efforts to secure an innovation premium, commensurate with the competitive edge our products deliver over the less advanced technology of our rivals, are frustrated by market pressures.

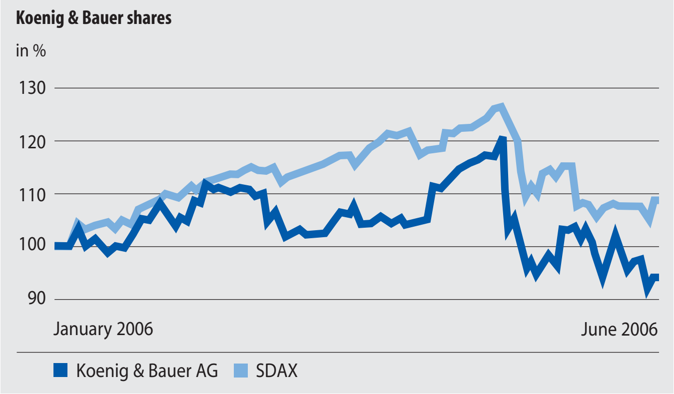
In keeping with our longstanding Group strategy of fuelling growth by expanding beyond our core markets into high-potential niche applications, in May our subsidiary Bauer+Kunzi made an offer for Stuttgart-based LTG Mailänder, a fellow manufacturer of metal-decorating presses. The Federal Cartel Office has since authorised the takeover and in the third quarter the two companies will merge to form KBA-MetalPrint, the leading systems supplier to the metal-decorating industry, with annual sales of €80 - 90m and a payroll of 350.

With the volume of orders on hand boosting turnover in the second half-year, we are set to meet the Group targets for 2006 that we announced in the spring.

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

KBA Shares

An upturn in the print media industry, renewed optimism in the German stock market and a positive response by investors to Group figures for 2005 and prospects for 2006 drove up the price of KBA shares on 11 May to a sixteen-year high of €30.93. But from mid-May onwards, external factors caused share prices in general to weaken, while a renewed slide in the value of the dollar impacted on export figures. KBA shares also stumbled when the financial figures for the first quarter failed to meet expectations. They closed the quarter at €23.80, marginally down on their year-end value of €24.20, and were outperformed by both the SDAX and the DAX indices, which climbed by 10.5% and 5.1% respectively. This volatility continued in July.



Management Report

Market Environment

The lift in demand for printed products and advertising in Germany and other euro-denominated markets was sustained in the second quarter. As expected, the football World Cup in June generated additional print and ad sales, predominantly in Germany, as the host country, but also in other European countries. According to statistics published by the BVDM (Germany's Printing and Media Industries Federation), goods and services provided by German print enterprises in the first quarter were worth some €4.2bn, 5.2% above last year's figure, while gross advertising revenue was up 4.2%. With excess capacity stoking competition in the industry, commercial and packaging printers in mature markets are being forced to innovate and invest on an ongoing basis, and this is a major reason for the large volume of new press orders in the EU and of KBA sheetfed presses in North America. Press exports have benefited for many years from an investment boom in growth markets like China, where per capita print consumption is comparatively low, and in the oil-producing states of the Middle East, where the recent inflow of petrodollars has fuelled spending.

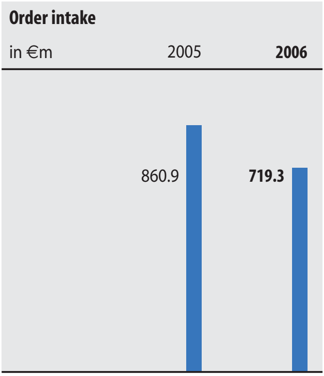
Fluctuations in the relative values of the US dollar and the euro, and the potential impact of current events in the Middle East on the cost of energy and raw materials, on exchange rates and global trade, all embody risks for the export-driven German engineering industry.

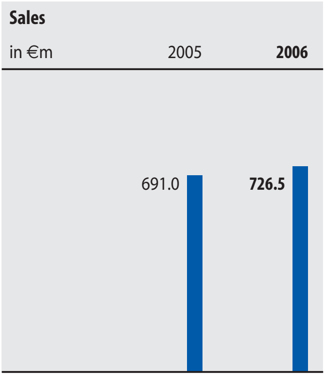
Group Performance

Compared to the corresponding figure for 2005 of €860.9m, which had been bolstered by a slew of major contracts, the **order intake** to the end of June shrank 16.4% to €719.3m, the consequence of a slow start to the year by our sheetfed division and softer sales of security and gravure presses – two important niche products – following sizeable gains in 2005. The demand for commercial and newspaper presses, on the other hand, and for the UV offset presses built by our subsidiary KBA-Metronic, was brisker than a year before.

Increased earnings from security, commercial and newspaper presses contributed to a 5.1% improvement in **sales** to €726.5m (2005: €691m). However, sales by both divisions were below our annualised target, primarily as a result of shipping schedules.

An **order backlog** of €1,033.7m (2005: €1,062.9m) safeguards a high level of plant utilisation at all our production facilities in the second half of the year.





Business Operations

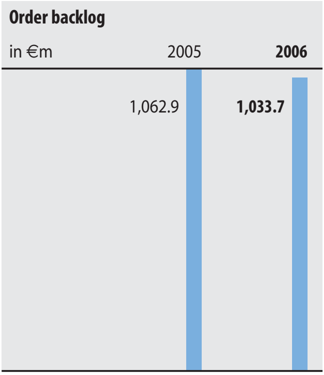
Sheetfed offset presses

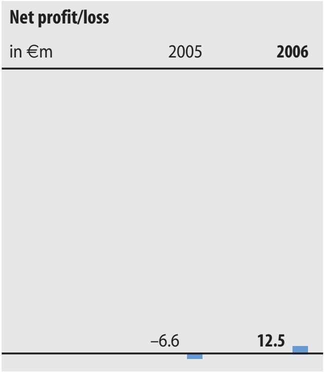
The **intake of orders** for sheetfed offset presses surged to €364.7m but failed to equal the outstanding prior-year figure of €479.1m, due in part to a poor economic climate in one of our biggest markets, Italy, and to a drop in sales of superlarge-format presses. By contrast, demand for medium- and large-format presses with as many as 15 units to support inline perfecting and coating remained buoyant as printers responded to customer demands for faster turnaround by investing heavily in equipment to raise productivity. At the other end of the scale, our Czech subsidiary KBA-Grafitec continued to ramp up sales of its small-format Performa presses and expand its customer base in western markets.

While sheetfed **sales**, at €333m, were down on the previous year (2005: €345.2m), we remain confident of meeting our annual target. Our top-selling model was the Rapida 105 medium-format press launched two years ago, followed by our large-format Rapida 142 and 162.

The **backlog of orders** for sheetfed presses at the end of the quarter was worth €343.4m (2005: €433.7m), and in conjunction with above-average bookings in July will keep production humming at our plant in Radebeul (near Dresden) for the rest of the year.

Earnings by our sheetfed division were hit by off-target sales, higher input costs and severe pricing constraints in the markets for new and second-hand machinery. However, cost-cutting initiatives are already gaining traction and will boost profitability in the second half-year.





Web and special presses

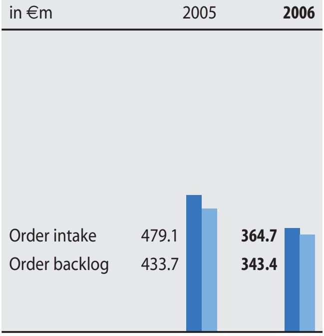
The **order intake** of €354.6m for web and special presses was 7.1% below the 2005 figure of €381.8m (which included a large number of contracts for security presses), but represented a lift in orders for two of our core products, newspaper and commercial presses, following major bookings from Italy, Spain, the UK, eastern Europe, China and the USA.

Web and special press **sales**, at €393.5m, were 13.8% up on the 2005 figure of €345.8m.

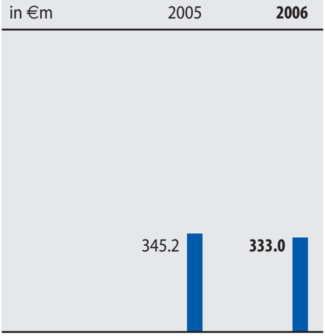
Despite a rise in shipments, the **backlog of orders** for web and special presses swelled by 9.7% to €690.3m at the end of June (2005: €629.2m) and safeguards production for the rest of the year.

Thanks to firmer sales and healthier margins for some current contracts, we achieved a dramatic improvement in earnings against a backdrop of rising commodity costs and predatory pricing in the markets for our products.

Order intake/backlog
Sheetfed offset presses



Sales
Sheetfed offset presses



Key Regions

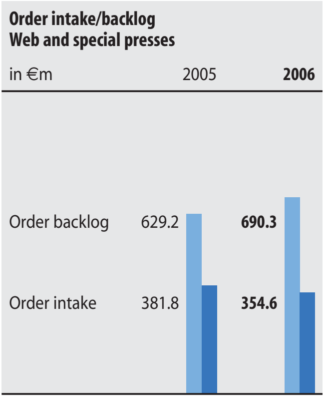
While more sheetfed presses were installed in **Germany**, there were fewer installations of newspaper, commercial and gravure presses, as a consequence of which domestic sales slipped 12% to €120.1m (2005: €136.5m) and the export level climbed to 83.5% (2005: 80.2%).

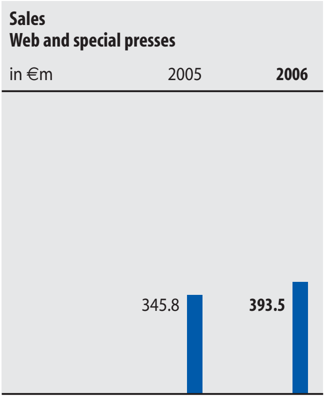
The **rest of Europe** accounted for 47.9% of Group sales (2005: 46.9%), with both divisions contributing to the 7.4% increase from last year's €323.9m to €347.9m. Web offset presses were shipped to Spain, France, Italy, Austria, Finland, Switzerland, the Czech Republic and Ukraine, a big gravure press to Poland.

However, just 9.2% of total sales, or €66.6m, were generated in **North America** (2005: 14.7% and €101.9m). This will change in the second half-year when a surge in sheetfed orders works its way through the system and a number of web presses are delivered.

Following a stream of shipments to China, sales to **Asia and the Pacific** (which includes Australia and New Zealand) soared from €97.4m in 2005 to €162.2m, or 22.3% (14.1%) of the Group total, the highest figure for some years.

Sales to **Latin America** and **Africa**, at €29.7m, were roughly on a par with the previous year's €31.3m.





Human Resources

At the end of June the Group workforce totalled 7,936. Excluding the addition of 73 staff following the first-time consolidation of subsidiaries KBA (UK) and KBA-France, the payroll increased by 87, most of them hired by our production plants in Radebeul (Germany) and Mödling (Austria), and by KBA-Grafitec in the Czech Republic.

Research and Development

R&D activities in the first six months focused on the optimisation and market-driven expansion of our existing cutting-edge portfolio, in tandem with the development of new technologies, subassemblies and processes for enhancing press flexibility, productivity and quality. We are already busy working on new products for launching at the 2008 Drupa international trade fair in Düsseldorf.

Our engineers in Frankenthal brought their considerable expertise in publication rotogravure to bear on designing a press for decorative printing, a niche market where the most stringent quality standards apply. The culmination of their endeavours, a webfed gravure press called the TR5D, went live in April at Decopress Printing in Soest, a customer that has played a central role in pioneering this new development. The speed at which the TR5B pumps out the finest decorative prints for laminated flooring and furniture puts existing presses in the shade.

Geographical breakdown of sales

in %	2005	**2006**
Africa/Latin America	4.5	**4.1**
Asia/Pacific	14.1	**22.3**
North America	14.7	**9.2**
Rest of Europe	46.9	**47.9**
Germany	19.8	**16.5**

Payroll on 30 June

	2005	**2006**
KBA Group	7,776	**7,936***
Koenig & Bauer AG	5,853	**5,875**

*including
43 KBA (UK) and
30 KBA-France

The importance of product innovation in a globalised marketplace is manifested by our new-generation Rapida 105, a highly automated press with a slew of unique features that in just over two years has become our sheetfed division’s top-selling model. Another example is our Cortina waterless newspaper press, which is ideal for printing multiple local editions because it can be made ready much faster than a conventional press and requires fewer personnel. Cortinas are now in operation at seven printing plants in Europe.

Investment

We are investing heavily in property, plant and equipment in order to boost the efficiency of the manufacturing and assembly departments at our production plants in Germany, Austria and the Czech Republic. In the first six months we invested a total of €25.3m in intangible assets, property, plant and equipment, compared to €12.5m twelve months earlier. The biggest item on the list was a new production hall for large components at our main plant in Würzburg, for which the topping-out ceremony took place at the beginning of August. Depreciation, at €20.5m, was slightly above the corresponding period the previous year (€19.8m).

Earnings, Finances and Assets

A leap in **earnings** from web and special presses in the second quarter transformed an operating loss of €6.5m from the first quarter into an €18.8m profit (2005: €0.4m loss), even though sheetfed earnings were well below target. After deducting a financial loss of €0.1m (2005: €5.7m loss) we posted a pre-tax profit of €18.7m (2005: €6.1m loss), closing the quarter with a net profit of €12.5m (2005: €6.6m loss) and a proportional profit per share of 77 cents (2005: loss per share of 41 cents).

Finances

Cash flows from operating activities eased to €52.9m, from €64.2m the year before. A larger volume of customer down payments and a reduction in trade receivables outweighed the cost of building up inventories in preparation for an increase in turnover. After deducting cash outflows for investing activities the **free cash flow** fell to €32.5m (2005: €56.5m). **Funds** at the end of June (€143.4m) were substantially higher than at the end of 2005 (€129m).

Assets

The Group **balance sheet total** of €1,434.6m surpassed the year-end level of €1,396.2m. **Assets** were bolstered by an €80.2m pre-production jump in inventories and a €16.9m climb in cash and cash equivalents that outweighed an €87.4m reduction in trade receivables. The rise in customer down payments pushed up other current **liabilities** to €66.7m, while current bank loans and other financial payables were reduced by €57m. Equity stood at €456.2m, or 31.8% of the balance sheet total.

Outlook

The demand for printed products soared in the second quarter as consumer confidence picked up and the World Cup generated a proliferation of publications. And although the German Printing and Media Industries Federation (BVDM) reported softer sales and severe pricing constraints in July, as the holiday season got under way, the overall situation was better than a year ago. Despite the seasonal dip in orders from southern Europe, demand from abroad for German printing presses remained firm. In July, a stream of orders for our sheetfed presses was accompanied by some major contracts for web and special presses.

The competitiveness of German exporters in major dollar-denominated markets – which include China – over the coming months will be heavily influenced by currency movements. At the beginning of August the dollar lost ground against the euro after making a brief recovery. The hostilities in Lebanon, the escalation in Iraq and (again) in Afghanistan, and the dispute over Iran's nuclear activities will have a negative impact on energy and commodity prices, currency movements and investment by the oil-producing states of the Middle East. The prospect of restrictions on the import of technical equipment into China is a further cause for concern.

These geopolitical and economic risks notwithstanding, we are targeting an increase in Group sales to €1.7bn or more and a substantial improvement in profits compared to 2005.

Group Balance Sheet

Assets in €m	31.12.2005	**30.06.2006**
Non-current assets		
Intangible assets	20.0	18.2
Property, plant and equipment	250.3	242.5
Investments and other financial receivables	20.9	24.1
Deferred tax assets	76.2	72.7
	367.4	**357.5**
Current assets		
Inventories	368.5	448.7
Trade receivables	465.6	378.2
Other financial receivables	26.0	26.3
Other assets	39.7	80.5
Securities	13.0	10.5
Cash and cash equivalents	116.0	132.9
	1,028.8	**1,077.1**
Balance sheet total	**1,396.2**	**1,434.6**

Equity and liabilities in €m	31.12.2005	**30.06.2006**
Equity		
Share capital	42.3	42.3
Share premium	84.0	84.0
Reserves	323.1	329.9
	449.4	**456.2**
Liabilities		
Non-current liabilities		
Pension provisions	92.1	93.7
Other provisions	43.5	46.5
Bank loans and other financial payables	35.5	33.2
Other liabilities	18.2	6.2
Deferred tax liabilities	63.3	64.9
	252.6	**244.5**
Current liabilities		
Other provisions	118.8	138.7
Trade payables	95.7	105.8
Bank loans and other financial payables	181.1	124.1
Other liabilities	298.6	365.3
	694.2	**733.9**
Balance sheet total	**1,396.2**	**1,434.6**

Group Income Statement

01.01. - 30.06. in €m	2005 adjusted*	**2006**
Sales	691.0	726.5
Cost of sales	–535.2	–550.9
Gross profit	**155.8**	**175.6**
Distribution costs	–69.2	–73.6
Administrative expenses	–43.5	–45.7
Other operating income and expenses	–43.5	–37.5
Operating profit/loss	**–0.4**	**18.8**
Financial result	–5.7	–0.1
Earnings before taxes	**–6.1**	**18.7**
Income tax expense	–0.5	–6.2
Net profit/loss	**–6.6**	**12.5**

* pursuant to IAS 8

01.04. - 30.06. in €m	2005 adjusted*	**2006**
Sales	379.7	417.1
Cost of sales	–289.9	–306.6
Gross profit	**89.8**	**110.5**
Distribution costs	–35.0	–39.7
Administrative expenses	–22.2	–21.8
Other operating income and expenses	–26.8	–23.7
Operating profit	**5.8**	**25.3**
Financial result	–4.1	–0.1
Earnings before taxes	**1.7**	**25.2**
Income tax expense	–1.5	–7.4
Net profit	**0.2**	**17.8**

* pursuant to IAS 8

Statement of Changes in Shareholders' Equity

in €m

	Share capital	Share premium
01.01.2005 (adjusted*)	**42.2**	**83.1**
Total net loss		
Loss for the period (adjusted*)	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Dividend	–	–
30.06.2005	**42.2**	**83.1**
01.01.2006	**42.3**	**84.0**
Total net profit		
Profit for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Dividend	–	–
30.06.2006	**42.3**	**84.0**

* pursuant to IAS 8

Reserves: Recognised in equity	Reserves: Other	Total
12.3	307.7	445.3
–	–6.6	–6.6
–8.8	–	–8.8
1.6	–	1.6
–7.2	–6.6	–13.8
–	–4.1	–4.1
5.1	297.0	427.4
2.6	320.5	449.4
–	12.5	12.5
1.5	–	1.5
–0.7	–	–0.7
0.8	12.5	13.3
–	–6.5	–6.5
3.4	326.5	456.2

Group Cash Flow Statement

01.01. - 30.06. in €m	2005 adjusted*	**2006**
Earnings before taxes	–6.1	18.7
Non-cash transactions	30.2	16.9
Gross cash flow	**24.1**	**35.6**
Changes in inventories, receivables and other assets	–4.1	–25.3
Changes in provisions and payables	44.2	42.6
Cash flows from operating activities	**64.2**	**52.9**
Cash flows from investing activities	**–7.7**	**–20.4**
Cash flows from financing activities	**–60.0**	**–17.2**
Change in funds	**–3.5**	**15.3**
Effect of changes in exchange rates	–0.4	–0.9
Funds at beginning of period	46.1	129.0
Funds at end of period	**42.2**	**143.4**

* pursuant to IAS 8

Notes to the Interim Statement to 30 June 2006

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

Government subsidies related to corporate assets were previously recognised as earnings. The adoption of IAS 8 resulted in an adjustment in 2005. Prior periods were adjusted retrospectively by deducting these subsidies from the additions (adjustment on 1 January 2005: property, plant and equipment –€3.8m, reserves –€3.8m). In the first six months of 2005 this reduced both Group profit and the value of property, plant and equipment by €1.6m.

2 Consolidated Companies and Consolidation Principles

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

There were no changes in the number of consolidated companies.

3 Segment Information

3.1 Business segments

01.01. - 30.06. in €m

	Web and special presses		Sheetfed offset presses	
	2005	**2006**	2005	**2006**
External sales	345.8	**393.5**	345.2	**333.0**
Internal sales	33.3	**64.6**	90.6	**121.2**
Total sales	379.1	**458.1**	435.8	**454.2**
Investment	6.8	**13.4**	5.7	**11.9**

3.2 Geographical segments

01.01. - 30.06. in €m	2005	**2006**
Germany	136.5	**120.1**
Rest of Europe	323.9	**347.9**
North America	101.9	**66.6**
Latin America / Africa	31.3	**29.7**
Asia / Pacific	97.4	**162.2**
External turnover	**691.0**	**726.5**

4 Earnings per Share

01.01. - 30.06. in €	2005 adjusted*	**2006**
Earnings per share	–0.41	**0.77**

* pursuant to IAS 8

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

5 Balance Sheet

5.1 Intangible assets, property, plant and equipment

in €m

	Purchase or manufacturing cost	Accumulated depreciation	Residual value
Intangible assets	73.3	53.3	20.0
Property, plant and equipment	539.6	289.3	250.3
Total at 31.12.2005	**612.9**	**342.6**	**270.3**
Intangible assets	73.9	55.7	18.2
Property, plant and equipment	545.1	302.6	242.5
Total at 30.06.2006	**619.0**	**358.3**	**260.7**

Investment in property, plant and equipment totalling €13.5m (second quarter 2005: €8.7m) primarily refers to new machining centres and construction work on a big production hall in Würzburg.

5.2 Inventories

in €m	31.12.2005	**30.06.2006**
Raw materials, consumables and supplies	53.4	69.6
Work in progress	307.9	372.0
Finished goods and products	7.2	7.1
	368.5	**448.7**

5.3 Liabilities

The increase of €22.9m in non-current and current **other provisions** largely resulted from the accrual of expenses.

Loan repayments totalling €12m and a reduction in dollar-related derivatives helped reduce **bank loans and other financial payables** by €59.3m.

The €54.7m increase in **other liabilities** was primarily due to a €57.2m increase in payments received.

Key Financial Dates

Interim report on 3rd quarter 2006
15 November 2006

Financial statements on 2006
29 March 2007

Interim report on 1st quarter 2007
15 May 2007

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19 June 2007
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