Koenig & Bauer Group

Group Interim Report
Third Quarter 2006

KBA Group in Figures

01.01. - 30.09. in €m	2005 adjusted[1]	2006
Order intake	1,309.9	**1,246.6**
Sales	1,107.3	**1,205.5**
Order backlog on 30.09.	1,095.6	**1,082.0**
Export level in %	80.2	**82.5**
Operating profit	16.1	**30.1**
Earnings before taxes	8.9	**30.4**
Net profit	4.0	**22.4**
Balance sheet total on 30.09. (2005: 31.12.)	1,396.2	**1,455.1**
Equity on 30.09. (2005: 31.12.)	449.4	**465.4**
Investment in intangible assets, property, plant and equipment	26.7	**34.9**
Depreciation on intangible assets, property, plant and equipment	30.2	**31.1**
Payroll on 30.09.	7,866	**8,307**[2]
Cash flows from operating activities	74.1	**93.9**
Earnings per share in €	0.25	**1.38**

[1] pursuant to IAS 8

[2] including the addition of 375 staff following the first-time consolidation of KBA (UK), KBA-France and KBA-MetalPrint

Title photo: Since it was launched on the market two years ago our new-generation Rapida 105 medium-format press has become our best-selling sheetfed model

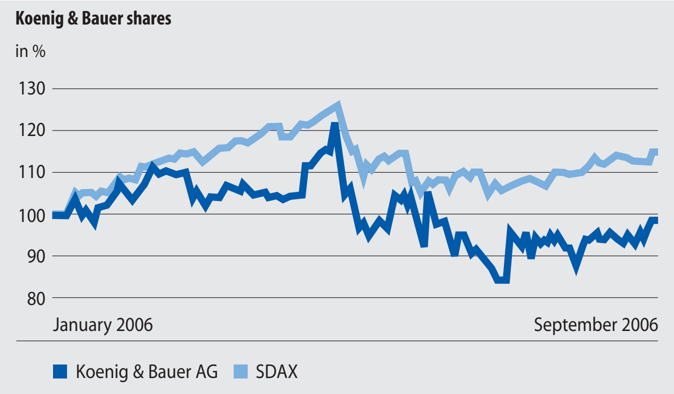
I am delighted to report that the year-on-year improvement in Group earnings we achieved in the first six months was sustained in the third quarter. Pre-tax earnings, which for the corresponding period in 2005 totalled €8.9m, more than trebled to €30.4m. Steady growth by our specialist subsidiaries in the security press and electronic data media sectors was accompanied by increased revenues in our web press division and at our Czech subsidiary, KBA-Grafitec. However, earnings by our sheetfed offset division were below target, primarily due to a lag in turnover that will be made good in the fourth quarter. We therefore anticipate a further lift in Group profit by the end of the year.

Following double-digit growth in 2005, Group sales climbed by almost 9%, mainly driven by our web and special press division and the consolidation of our new Stuttgart-based subsidiary, KBA-MetalPrint. By the end of the year we anticipate a return to double-digit growth that will boost Group sales to well over €1.7bn – a new record in our 190-year history. So we enter the fourth quarter with quiet confidence and the knowledge that we shall achieve our avowed objectives for the 2006 financial year.

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

KBA Shares

At the end of September KBA shares were valued at €25.01, marginally lower than the €25.30 at which they had started the year, but an improvement on the half-year figure of €23.80 that followed a drop in mid-May. Despite a positive response by analysts to the higher earnings disclosed in our half-year report, a rise in new orders for sheetfed presses and a more favourable stock market climate, in the third quarter KBA shares rose by less than anticipated and were outperformed by the SDAX and DAX indices, which climbed by around 15% and 10% respectively. At the beginning of October the share price topped the €26 mark for the first time since peaking in early May.



Management Report

Market Environment

The general mood in the German printing industry continued to brighten as the economy gathered momentum, boosting advertising and thus plant utilisation. According to a survey conducted in September by the BVDM (Germany's Printing and Media Industries Federation), output is climbing and the business climate is the best it has been since the turn of the millennium. The situation is similar throughout the EU. Elsewhere, however, demand has softened and there was a 2% decline in the volume of new orders for printing equipment.

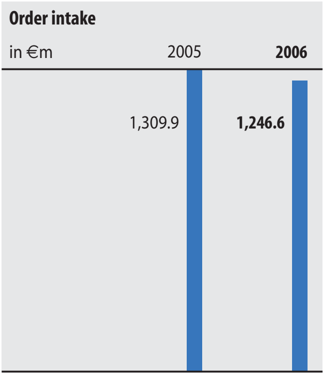
Profit margins in mature print markets are being squeezed by a combination of rising costs for paper, inks and plates, and predatory pricing stoked in part by excess capacity. Suppliers are feeling the pinch as printers ratchet up their demands with respect to the technical specifications, pricing and after-sales service for new kit. While customers in emerging markets like China, India and Brazil have always focused strongly on price, protectionist legislation in the form of higher customs duty and/or tougher specifications for imported equipment makes it difficult for the export-driven German press manufacturing industry to compete on equal terms and thus defend its pole position in the global marketplace. The upturn in the print media sector notwithstanding, defending margins remains an ongoing challenge, especially in the face of spiralling prices for energy and raw materials and competition from quick-witted rivals in markets where labour is cheap.

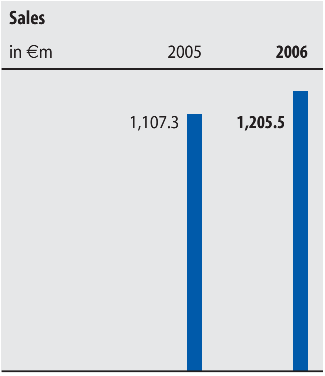
Group Performance

A shortfall in the first half-year due to softer demand was almost completely outweighed by a record **order intake** of over half a billion euros in the summer. As a result bookings received in the nine months to 30 September totalled €1,246.6m, just 4.8% below the prior-year figure of €1,309.9m, which had been driven up by a number of big contracts.

Group **sales** climbed 8.9% to €1,205.5m (2005: €1,107.3m).

Even so, the **order backlog**, at €1,082m was roughly on a par with the prior-year figure of €1,095.6m.





Business Operations

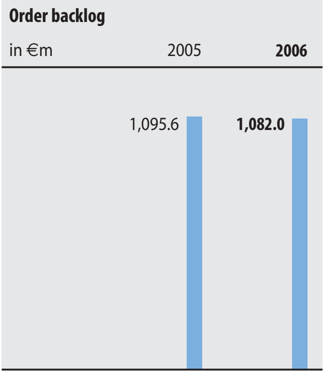
Sheetfed offset presses

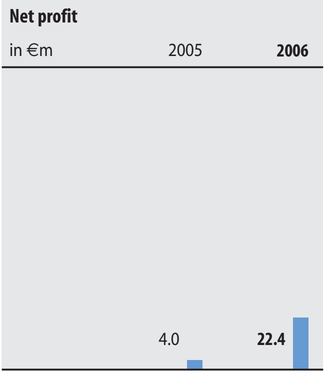
Following a slow half-year the sheetfed division picked up speed in the third quarter, bringing in new orders worth €299.7m. This figure includes the contribution made by our new subsidiary, KBA-MetalPrint, a specialist manufacturer of metal-decorating presses that was consolidated for the first time. The €664.4m **order intake** for the nine months to 30 September was a modest improvement on the high prior-year figure of €661.8m.

The new high-performance Rapida 105 medium-format press we launched two years ago has become our best-selling model, followed by our universally popular large-format Rapidas. The small-format Performa presses built by our Czech subsidiary KBA-Grafitec are also making inroads into new markets.

Sheetfed **sales**, at €563m, were roughly on a par with the previous year (€561.4m), and in view of the scheduled increase in shipments are on course to meet our annual target.

A 3.2% increase to €413.1m in the **backlog of orders** for sheetfed presses (2005: €400.2m) will keep production humming at our plant in Radebeul until well into the spring.



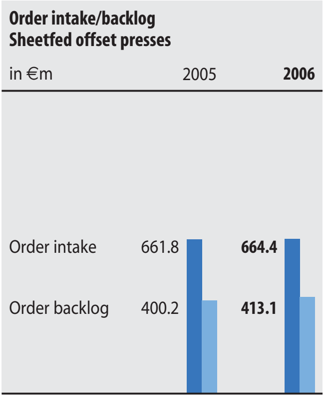


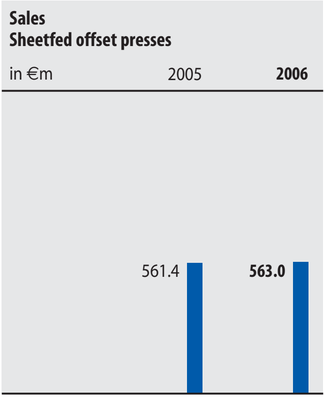
Web and special presses

The web and special press division secured major contracts in Europe, the Middle East and Asia for newspaper and security presses. While the volume of orders for the security presses and systems built by our Swiss subsidiary, KBA-GIORI, even surpassed last year's high level, new bookings for newspaper, commercial and publication rotogravure presses in the nine months to 30 September were down compared to 2005. Following the intensive investment of recent years there has been a substantial decline in the number of major newspaper projects in Europe, while consolidation has slowed investment in the North American newspaper industry. However, rapid growth in the Far East, and the inflow of petrodollars in the Middle East, have fuelled spending in these markets.

Although the **order intake** of €582.2m for web and special presses was 10.2% below the prior-year figure of €648.1m, web and special press **sales** were 17.7% up at €642.5m (2005: €545.9m). This was largely thanks to a double-digit leap in sales of commercial web presses and security presses.

A substantial rise in shipments meant that the **backlog of orders** for web and special presses, at €668.9m, was lower than in 2005 (€695.4m).





Key Regions

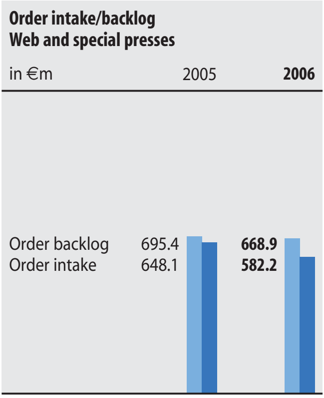
While sheetfed sales firmed, there were fewer installations of web presses. As a result **domestic sales** slipped 3.7% to €211.2m (2005: €219.4m) and the export level climbed to 82.5% (2005: 80.2%).

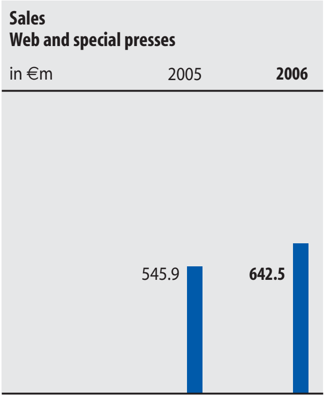
47.3% of Group sales (2005: 45.9%) were generated in the **rest of Europe**, with both divisions contributing equally to the 12.3% increase from last year's €507.6m to €569.8m.

North America accounted for 11.1% of total sales, or €134.1m (2005: 14% and €154.4m), with sheetfed presses contributing the lion's share. Sales of web and special presses were down on previous years, but will improve in the next few quarters.

Asia and the Pacific overtook Germany and North America to become our second-biggest market after Europe, generating 18.5% (2005: 14.2%) of the Group total. Driven by demand from China, sales rocketed by 41% to €222.8m, from €158m the year before.

At €67.6m, sales to **Latin America** and **Africa** were roughly the same as in 2005 (€67.9m).



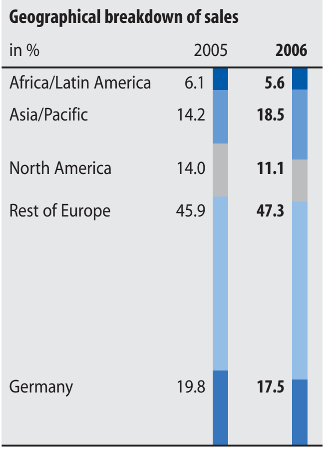


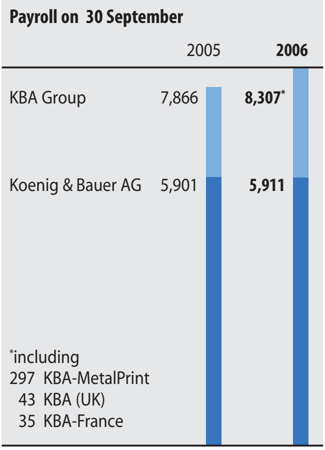
Human Resources

At the end of September the Group workforce totalled 8,307 (2005: 7,866). Excluding the addition of 375 staff following the first-time consolidation of subsidiaries KBA-MetalPrint (297), KBA (UK) (43) and KBA-France (35), the payroll increased by 66, most of them hired by our production plants in Mödling (Austria) and Radebeul (Germany), and by KBA-Grafitec in the Czech Republic. Payroll figures for the third quarter also include 114 apprentices who started training at our production plants in Würzburg, Frankenthal, Radebeul, Veitshöchheim and Mödling.

Research and Development

R&D activities focused on upgrades and new modules for existing product lines, and the optimisation of beta presses in a real-world environment. The slew of inline finishing modules for our new-generation Rapida 105, for example, was expanded to include cold-foil stamping. This capability was integrated in a press scheduled to come on stream in the fourth quarter at a printing plant in Germany.





A few years ago we launched the Cortina, a waterless newspaper offset press that is still widely regarded as revolutionary. At the IfraExpo trade fair, Amsterdam, in early October we unveiled a conventional counterpart, the Commander CT, a prototype of which has been in operation for some months now at the Main-Post newspaper publishing group in Würzburg, Germany. The market response to this new press has been extremely encouraging. Both models address an emerging demand in the newspaper industry for compact, highly automated presses with fast makereadies, a superior print quality and reduced manning requirements. The Commander CT will be launched on the market in the first quarter of 2007 after being fine-tuned to withstand the rough-and-tumble of everyday production.

Investment

Investment in the first nine months totalled €34.9m, well above depreciation of €31.1m. The prime focus was on property, plant and equipment to boost the efficiency and capacity of our manufacturing and assembly departments. These included new machining centres for our German and Czech production plants, a new production hall for large components at our main plant in Würzburg, and a security press assembly hall inaugurated at KBA-Mödling in mid-September.

Earnings, Finances and Assets

Earnings continued to improve on the back of firmer sales and better margins for the models that were shipped. Group operating profit rose accordingly to €30.1m, from €16.1m the previous year. A financial profit of €0.3m (2005: €7.2m loss) pushed up pre-tax earnings to €30.4m (2005: €8.9m). Group net profit totalled €22.4m, more than five times the figure for 2005 (€4m), resulting in earnings per share of €1.38 (2005: 25 cents).

Finances

The substantial lift in earnings, a €123.1m reduction in trade receivables and a larger volume (€32.6m) of customer down payments caused **cash flows from operating activities** to swell from €74.1m the year before to €93.9m, despite an €83.3m increase in inventories in preparation for higher turnover in the fourth quarter, and a €55.9m reduction in other current financial payables. After deducting cash outflows for investing activities the **free cash flow** rose to €66m (2005: €58.2m). From €129m at the end of 2005 **funds** jumped €63.5m to €192.5m by the end of September.

Assets

The Group **balance sheet total** of €1,455.1m exceeded the year-end level of €1,396.2m by €58.9m, largely due to the consolidation of our Stuttgart subsidiary, KBA-MetalPrint. **Assets** were also bolstered by a €65.7m jump in cash and cash equivalents. Higher profits boosted equity to €465.4m, from €449.4m at the end of last year. The higher balance sheet total meant that the capital-to-assets ratio remained roughly the same as in 2005 (32% compared to 32.5%). Other changes in current **liabilities** related to a €58.2m reduction in current bank loans and other financial payables.

Outlook

While the demand for printing equipment in Europe, the oil-rich Middle East and emerging markets such as China remained firm, elsewhere it softened and some web press projects were postponed. Even so, a large backlog of unfilled orders will enable us to achieve our 2006 Group sales target of well over €1.7bn (2005: €1.6bn) and will keep our production plants in Würzburg, Trennfeld, Radebeul near Dresden, Mödling near Vienna and Dobruška in the Czech Republic busy until next spring. A dip in capacity utilisation at our Frankenthal plant, which is heavily exposed to the volatile gravure market, will be accommodated via flexible working hours and a reduction in contract labour.

Thanks to higher shipments, the year-on-year improvement in pre-tax earnings disclosed in this report will be sustained in the fourth quarter, so we are on target to meet the profit forecast we issued in the spring for the current year. However, in view of the diverse geopolitical and domestic uncertainties – one of which is the impact on the German economy of the imminent increase in VAT – we shall not venture to make a prognosis for the 2007 business year until March.

Group Balance Sheet

Assets in €m	31.12.2005	**30.09.2006**
Non-current assets		
Intangible assets	20.0	30.5
Property, plant and equipment	250.3	242.9
Investments and other financial receivables	20.9	21.9
Deferred tax assets	76.2	72.0
	367.4	**367.3**
Current assets		
Inventories	368.5	451.8
Trade receivables	465.6	342.5
Other financial receivables	26.0	28.9
Other assets	39.7	72.1
Securities	13.0	10.8
Cash and cash equivalents	116.0	181.7
	1,028.8	**1,087.8**
Balance sheet total	**1,396.2**	**1,455.1**

Equity and liabilities in €m	31.12.2005	**30.09.2006**
Equity		
Share capital	42.3	42.3
Share premium	84.0	84.0
Reserves	323.1	339.1
	449.4	**465.4**
Liabilities		
Non-current liabilities		
Pension provisions	92.1	96.2
Other provisions	43.5	49.4
Bank loans and other financial payables	35.5	38.3
Other liabilities	18.2	–
Deferred tax liabilities	63.3	61.7
	252.6	**245.6**
Current liabilities		
Other provisions	118.8	170.0
Trade payables	95.7	110.1
Bank loans and other financial payables	181.1	122.9
Other liabilities	298.6	341.1
	694.2	**744.1**
Balance sheet total	**1,396.2**	**1,455.1**

Group Income Statement

01.01. - 30.09. in €m	2005 adjusted*	**2006**
Sales	1,107.3	1,205.5
Cost of sales	–858.2	–916.5
Gross profit	**249.1**	**289.0**
Distribution costs	–110.8	–121.2
Administrative expenses	–64.7	–67.2
Other operating income and expenses	–57.5	–70.5
Operating profit	**16.1**	**30.1**
Financial result	–7.2	0.3
Earnings before taxes	**8.9**	**30.4**
Income tax expense	–4.9	–8.0
Net profit	**4.0**	**22.4**

* pursuant to IAS 8

01.07. - 30.09. in €m	2005 adjusted*	**2006**
Sales	416.3	479.0
Cost of sales	–323.0	–365.6
Gross profit	**93.3**	**113.4**
Distribution costs	–41.6	–47.6
Administrative expenses	–21.2	–21.5
Other operating income and expenses	–14.0	–33.0
Operating profit	**16.5**	**11.3**
Financial result	–1.5	0.4
Earnings before taxes	**15.0**	**11.7**
Income tax expense	–4.4	–1.8
Net profit	**10.6**	**9.9**

* 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 profit/loss		
Profit for the period (adjusted*)	–	–
Primary financial instruments/derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Dividend	–	–
30.09.2005	**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	–	–
30.09.2006	**42.3**	**84.0**

* pursuant to IAS 8

Reserves: Recognised in equity	Reserves: Other	**Total**
12.3	**307.7**	**445.3**
–	4.0	4.0
–9.7	–	–9.7
1.6	–	1.6
–8.1	**4.0**	**–4.1**
–	–4.1	–4.1
4.2	**307.6**	**437.1**
2.6	**320.5**	**449.4**
–	22.4	22.4
0.7	–	0.7
–0.6	–	–0.6
0.1	**22.4**	**22.5**
–	–6.5	–6.5
2.7	**336.4**	**465.4**

Group Cash Flow Statement

01.01. - 30.09. in €m	2005 adjusted*	**2006**
Earnings before taxes	8.9	30.4
Non-cash transactions	39.4	17.0
Gross cash flow	**48.3**	**47.4**
Changes in inventories, receivables and other assets	17.3	6.9
Changes in provisions and payables	8.5	39.6
Cash flows from operating activities	**74.1**	**93.9**
Cash flows from investing activities	**–15.9**	**–27.9**
Cash flows from financing activities	**–45.7**	**–2.8**
Change in funds	**12.5**	**63.2**
Effect of changes in exchange rates	–0.4	0.3
Funds at beginning of period	46.1	129.0
Funds at end of period	**58.2**	**192.5**

* pursuant to IAS 8

Notes to the Interim Statement to 30 September 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 nine months to 30 September 2005 this reduced both Group profit and the value of property, plant and equipment by €1.2m.

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.

In July 2006 KBA acquired a 100% interest in Stuttgart-based KBA-MetalPrint GmbH & Co. KG (formerly LTG Mailänder GmbH & Co. KG), and the new subsidiary was consolidated on 1 July.

3 Segment Information

3.1 Business segments

01.01. - 30.09. in €m

	Web and special presses		Sheetfed offset presses	
	2005	**2006**	2005	**2006**
External sales	545.9	**642.5**	561.4	**563.0**
Internal sales	53.3	**101.2**	145.1	**233.7**
Total sales	599.2	**743.7**	706.5	**796.7**
Investment	11.3	**17.7**	15.4	**17.2**

3.2 Geographical segments

01.01. - 30.09. in €m	2005	**2006**
Germany	219.4	**211.2**
Rest of Europe	507.6	**569.8**
North America	154.4	**134.1**
Latin America / Africa	67.9	**67.6**
Asia / Pacific	158.0	**222.8**
External sales	**1,107.3**	**1,205.5**

4 Earnings per Share

01.01. - 30.09. in €	2005 adjusted*	**2006**
Earnings per share	0.25	**1.38**

* pursuant to IAS 8

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 (16,264,760 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	94.8	64.3	30.5
Property, plant and equipment	563.1	320.2	242.9
Total at 30.09.2006	**657.9**	**384.5**	**273.4**

The increase in intangible assets primarily resulted from goodwill acquired with KBA-MetalPrint. Investment in property, plant and equipment totalling €20.9m (third quarter 2005: €15.7m) primarily refers to new machining centres and construction work on a big production hall in Würzburg.

5.2 Inventories

in €m	31.12.2005	**30.09.2006**
Raw materials, consumables and supplies	53.4	76.7
Work in progress	307.9	370.0
Finished goods and products	7.2	5.1
	368.5	**451.8**

5.3 Liabilities

The increase of €57.1m in **other provisions** largely resulted from the accrual of expenses.

Loan repayments totalling €13m and a reduction in dollar-related derivatives helped reduce **bank loans and other financial payables** by €55.4m.

The €24.3m increase in **other liabilities** was primarily due to a €32.6m increase in payments received.

Key Financial Dates

Financial statements on 2006
29 March 2007

Interim report on 1st quarter 2007
15 May 2007

Koenig & Bauer Annual General Meeting
19 June 2007
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