

Group Interim Report  
**First Half-Year 2007**



## KBA Group in Figures

01.01. - 30.06. in €m

	2006	2007
Order intake	719.3	<b>726.3</b>
Sales	726.5	<b>794.9</b>
Order backlog at 30.06.	1,033.7	<b>880.1</b>
Export level in %	83.5	<b>87.9</b>
Operating profit	18.8	<b>27.2</b>
Earnings before taxes	18.7	<b>25.6</b>
Net profit	12.5	<b>19.1</b>
Balance sheet total at 30.06. (prior year: 31.12.)	1,394.2	<b>1,420.9</b>
Equity at 30.06. (prior year: 31.12.)	476.3	<b>485.1</b>
Investment in intangible assets, property, plant and equipment	25.3	<b>22.7</b>
Depreciation on intangible assets, property, plant and equipment	20.5	<b>19.9</b>
Payroll at 30.06.	7,936	<b>8,241*</b>
Cash flows from operating activities	52.9	<b>23.1</b>
Earnings per share in €	0.77	<b>1.17</b>

\* including the addition of 290 staff following the consolidation of KBA-MetalPrint

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Title photo: In the first six months of the year further installations of our ultra-compact newspaper press, the innovative Cortina, were sold to *Le Figaro* in Paris and the *Nordsee-Zeitung* in Bremerhaven



The Group figures for the first six months, revealing sales growth of almost 10% and a modest increase in new orders compared to the prior-year period, are more or less in line with the latest VDMA statistics for the printing press market, which in the first six months of the current year revealed a higher volume of sales but a much lower volume of domestic and foreign orders than in the corresponding period the previous year. At KBA, gains of varying degrees generated by batch-based sheetfed offset and special presses were offset by softer sales of newspaper and gravure presses. While we defended market share in both these traditionally important sectors, the total volume of orders placed for multi-unit press lines was simply much smaller than two or three years ago.

Such cyclical fluctuations in the demand for big-ticket items are not uncommon in this sector, but in view of all the positive data that have recently been published on the engineering industry, some clarification is required. In fact there are a number of reasons why, for more than a year now, web presses in the mature markets of western Europe and North America have been experiencing much slower growth than have trucks, ships' engines and wind turbines.

Foremost among these are the ongoing changes in the media marketplace, as a result of which traditional printed media such as newspapers are facing ever fiercer competition from the internet for publishers' limited investment budgets. On top of this, the transition to full-colour print production has largely been completed.

In coming months we shall address these changes by realigning the underutilised production capacities at our west German web press facilities. In the more dynamic sheetfed offset market we shall continue to focus on reducing manufacturing costs and improving profitability. Our cutting-edge product palette furnishes a sound basis for growth in both these volume markets, while our strong standing in profitable niche markets like security printing, metal decorating, industrial coding and air-cleaning technology (a high-potential field in view of current climate issues) helps to stabilise earnings.

Judging by the sales boost we have achieved in the first half-year, by the number of presses scheduled to ship and the volume of orders expected in the second half-year, I am confident that in 2007, as in 2006, we shall achieve our targets and post Group sales of around €1.7bn. In the web and special press division all incoming web press orders are already filling the production schedules for 2008 and 2009. Pre-tax earnings will be roughly the same at the end of the current year as they were in 2006.



Albrecht Bolza-Schünemann

President and CEO, Koenig & Bauer AG

## KBA Shares

KBA shares closed the second quarter at €27.69 – 6.6% down on their year-end value of €29.64 – and were thus outperformed by both the SDAX and the DAX indices, which climbed by 16.4% and 21.4% respectively. Their performance was affected by the prospect of capacity fluctuations at our web press facilities, which marred the outlook for the second half year. With global stock markets in turmoil, this volatility continued in July.

### Koenig & Bauer shares



# Management Report

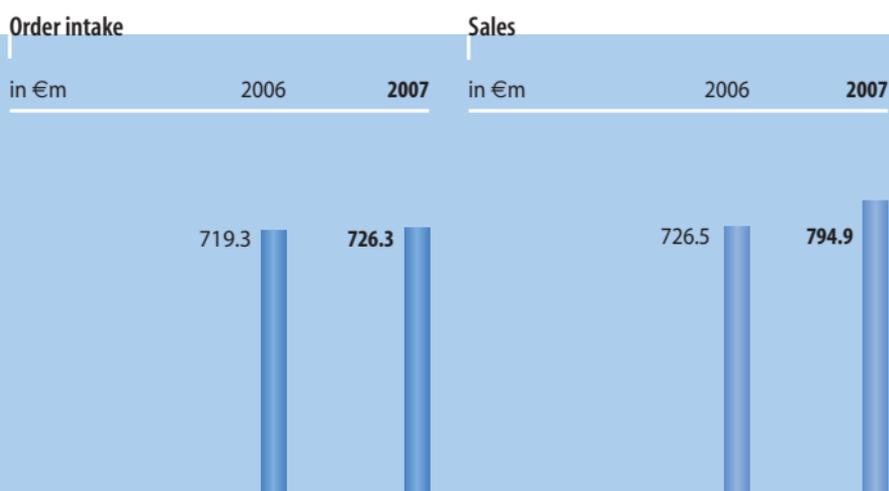
## Market Environment

Although the domestic and global economy remained buoyant, there were perceptible regional and sectoral differences in the demand for printing presses. Under the impact of demographic shifts, competition from new media and the concomitant changes in young people's media consumption, the newspaper industry is experiencing a wave of consolidation while at the same time expanding online activities and adopting new business models that tend to favour outsourcing in preference to in-house print production. As a result, demand for new press kit has been slow, particularly in mature markets like the USA. And while there is a huge pent-up demand for printed products in high-growth markets such as China and India, in some sectors selective import duties have been imposed to protect domestic players. As one of the top two international vendors of publication rotogravure presses, KBA has also felt the impact of a slump in demand in this highly industrialised sector. Business in the sheetfed and commercial web sectors was more buoyant, but even here the strong euro gave our US and Japanese rivals a vital competitive advantage. In a scenario such as this, with major volume markets relatively volatile, our strong presence in niche applications like security printing and metal decorating acts as a stabilising influence on earnings.

The Group **order intake** in the first half-year totalled €726.3m, just 1% higher than twelve months earlier (€719.3m). In the web and special press division, subdued demand for commercial, newspaper and gravure web presses was more or less balanced by brisk demand for special presses and customer services. As a result the volume of

incoming orders, at €350.6m, was not far short of the prior-year figure of €354.6m. Our sheetfed division posted a 3% lift in new orders to €375.7m (2006: €364.7m). While medium-format business remained steady, orders for large- and superlarge-format presses surged and our small-format Czech subsidiary also reported strong growth.

Sales exceeded incoming orders in both divisions, reducing the **order backlog** to €880.1m (2006: €1,033.7m). The volume of sheetfed orders on hand fell 10.7% to €306.7m and the volume of unfilled orders for web and special presses shrank 16.9% to €573.4m. Although the backlog will keep our sheetfed plants in Radebeul and Dobruška (Czech Republic) busy until well into the fourth quarter, it is not enough to safeguard full employment for the rest of the year at our web press plants in Würzburg, Trennfeld and Frankenthal. We have already terminated temporary contracts, rescheduled internal production and brought outsourced production in-house.



## Earnings, Finances and Assets

A leap in sales helped boost pre-tax **earnings** from €18.7m in the first half of 2006 to €25.6m.

Total **Group sales** of €794.9m were 9.4% up on the prior-year figure of €726.5m. Sales of web and special presses jumped 6.9% from €393.5m to €420.5m following a big increase in shipments of gravure and security presses. Sheetfed sales of €374.4m were 12.4% up on the prior-year figure of €333m (which, however, did not include sales by KBA-MetalPrint).

As a result of shipping schedules domestic sales fell to €95.8m, substantially lower than in the previous year (€120.1m), and our export level rose from 83.5% in 2006 to 87.9%. Once again the rest of Europe was our biggest market, with sales worth €427.4m contributing 53.8% of Group revenue, a 22.9% increase from €347.9m and 47.9% in 2006. Asia and the Pacific came second in the league table with €124.1m (2006: €162.2m), equivalent to 15.6% of the total (2006: 22.3%). The delivery of various web presses pushed up earnings in North America from €66.6m to €83.3m, as a result of which the proportion of Group earnings generated rose from 9.2% in 2006 to 10.5%. Sales in Latin America and Africa soared to €64.3m, or 8%, from €29.7m and 4.1%.

### Order backlog

in €m

2006

2007

1,033.7

880.1

### Net profit

in €m

2006

2007

12.5

19.1



cash flow from financing activities, which is used to pay dividends and repay loans, was –€8.4m (2006: –€17.2m). **Funds** eased up to €155.9m from €154m at the end of December.

Bank loans of €78.2m were virtually the same as at the end of 2006 (€78.8m). Our net financial position, the difference between funds and bank loans, was thus a satisfactory €77.7m (31.12.2006: €75.2m). A €30.4m increase in provisions basically resulted from the accrual of expenses and higher obligations to employees. Equity stood at €485.1m, 34.1% of the balance sheet total.

### Assets

The Group **balance sheet total** rose to €1,420.9m from €1,394.2m at the end of last year, primarily as a result of higher inventories. The level of **investment in intangible assets, property, plant and equipment** was marginally lower than in 2006 (€22.7m compared to €25.3m). The main items on the list were high-performance machining centres for our German, Czech and Austrian production plants. Depreciation came to €19.9m, down from €20.5m the previous year.

### Order intake/backlog Web and special presses

in €m

2006

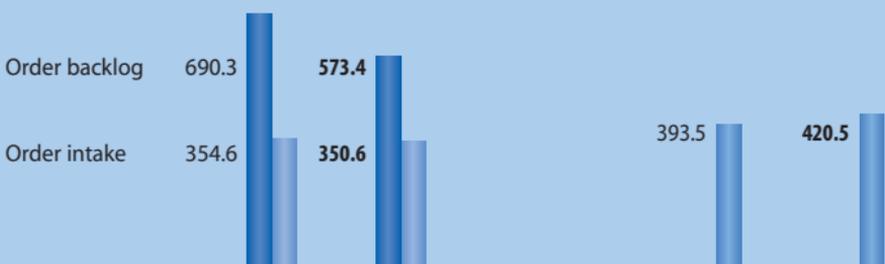
2007

### Sales Web and special presses

in €m

2006

2007



393.5

420.5

## Research and Development

In just over nine months Drupa, the world’s biggest print media trade fair, will open its doors in Düsseldorf. Group R&D activities therefore focused on product and process innovation in preparation for this showcase event.

Over the past two years KBA Radebeul has conducted exhaustive tests in a pressroom environment on a new dedicated drive, DriveTronic SPC, for the plate cylinders on our high-performance Rapida 105 sheetfed presses. Dedicated plate-cylinder drives allow the plates on all the printing towers to be changed simultaneously, which can deliver dramatic time gains where short-run work dominates the production routine. The market launch is scheduled for September this year. Shortly before this interim report went to press, our no-sidelay SIS infeed – another of the Rapida 105’s unique features – won the coveted PIA/GATF InterTech Technology Award sponsored by the Printing Industries of America/Graphic Arts Technical Foundation.

During the first half of the year our web and special press division continued beta testing an ultra-compact conventional newspaper press, the Commander CT, at the Main-Post media group in Würzburg. Double- and triple-width models of this highly automated wet offset press were launched on the market following the completion of the

### Geographical breakdown of sales

in %	2006	2007
Africa/Latin America	4.1	8.0
Asia/Pacific	22.3	15.6
North America	9.2	10.5
Rest of Europe	47.9	53.8
Germany	16.5	12.1

### Payroll at 30 June

	2006	2007
KBA Group	7,936	8,241
Koenig & Bauer AG	5,875	5,869

tests. The Commander CT will be put through its paces for the trade public at an open house in late September. Another major innovation that came to fruition in the third quarter was the adoption for double-width commercial web presses of the RollerTronic roller locks that have proven so effective on newspaper presses.

### **Human Resources**

At the end of June the Group payroll totalled 8,241 (2006: 7,936), with all but 15 of the additional staff resulting from the consolidation in mid-2006 of KBA-MetalPrint. New hirings by KBA-Grafitec in the Czech Republic, KBA-Mödling in Austria and KBA-Metronic in Germany were offset by redundancies associated with the closure in June of our US production plant in York, Pennsylvania.

### **Risk Management**

We have detected no risks that could pose an existential threat to the Group. Our risk documentation and monitoring system 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.

## **Outlook**

The heavily publicised boom in new orders booked by the German engineering industry, which in the first six months of the current year were 19% up on the previous year, cannot be translated 1:1 to the printing and paper industries. According to the latest figures issued by the VDMA, the German Machinery and Plant Manufacturers' Association, a 2% lift in sales of printing presses in the first six months of the current year contrasted with a 13% drop in new orders compared to the same period last year. The biggest slide in demand was in Germany and outside Europe. While wage negotiations and higher prices for paper have acted as a brake on investment in Germany, demand in export markets has been affected by the strength of the euro, regional differences in the investment activities of newspaper and other publishers, ongoing industry consolidation, higher consumables prices and politically motivated trade barriers (eg import duties). Despite the substantial volume of orders carried over from 2006 and the longer lead times customary in plant manufacture, the industry has an average of just 4.7 months' worth of work on hand, much less than normal. On balance, the VDMA projects moderate sales growth of 4% in printing technology in 2007.

The half-year figures for KBA reflect this industry trend. While Group sales surged, soft demand for newspaper and gravure presses meant that only a limited number of major projects were put up for tender, and as a result our web and special press division failed to equal last year's modest order intake, despite booking some spectacular contracts. However, the volume of web press orders on hand will enable us to meet our 2007 sales target and extends into 2008.

Even so, because of the long lead times associated with the manufacture of multi-unit printing presses, our present order level will not eliminate the fluctuations in plant utilisation that will occur in the second half-year at our Würzburg, Trennfeld and Frankenthal factories. We have addressed this shortfall by bringing previously outsourced production in-house, extending flexitime and terminating temporary contracts.

The backlog will keep our sheetfed factories in Radebeul and the Czech Republic busy until well into the fourth quarter, and plant utilisation is also high at the Group's niche-focused subsidiaries.

We are therefore 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.

## Group Balance Sheet

<b>Assets</b>		
in €m	31.12.2006	30.06.2007
<b>Non-current assets</b>		
Intangible assets	35.1	33.5
Property, plant and equipment	258.0	262.8
Investments and other financial receivables	25.5	25.1
Deferred tax assets	65.7	68.4
	<b>384.3</b>	<b>389.8</b>
<b>Current assets</b>		
Inventories	377.6	448.1
Trade receivables	399.8	335.6
Other financial receivables	17.8	21.3
Other assets	58.0	70.2
Securities	8.2	7.9
Cash and cash equivalents	145.8	148.0
	<b>1,007.2</b>	<b>1,031.1</b>
<b>Assets held for sale</b>	<b>2.7</b>	<b>–</b>
<b>Balance sheet total</b>	<b>1,394.2</b>	<b>1,420.9</b>
<b>Equity and liabilities</b>		
in €m	31.12.2006	30.06.2007
<b>Equity</b>		
Share capital	42.4	42.4
Share premium	84.9	84.9
Reserves	349.0	357.8
	<b>476.3</b>	<b>485.1</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Pension provisions	99.3	101.2
Other provisions	66.2	74.2
Bank loans and other financial payables	39.9	37.7
Other liabilities	0.6	1.2
Deferred tax liabilities	57.2	54.7
	<b>263.2</b>	<b>269.0</b>
<b>Current liabilities</b>		
Other provisions	138.7	159.2
Trade payables	104.3	100.5
Bank loans and other financial payables	108.9	106.5
Other liabilities	302.8	300.6
	<b>654.7</b>	<b>666.8</b>
<b>Balance sheet total</b>	<b>1,394.2</b>	<b>1,420.9</b>

## Group Income Statement

01.01. - 30.06.

in €m	2006	2007
Revenue	726.5	794.9
Cost of sales	-550.9	-598.1
<b>Gross profit</b>	<b>175.6</b>	<b>196.8</b>
Distribution costs	-73.6	-83.7
Administrative expenses	-45.7	-48.3
Other operating income and expenses	-37.5	-37.6
<b>Operating profit</b>	<b>18.8</b>	<b>27.2</b>
Financial result	-0.1	-1.6
<b>Earnings before taxes</b>	<b>18.7</b>	<b>25.6</b>
Income tax expense	-6.2	-6.5
<b>Net profit</b>	<b>12.5</b>	<b>19.1</b>

01.04. - 30.06.

in €m	2006	2007
Revenue	417.1	380.7
Cost of sales	-306.6	-288.9
<b>Gross profit</b>	<b>110.5</b>	<b>91.8</b>
Distribution costs	-39.7	-40.1
Administrative expenses	-21.8	-22.9
Other operating income and expenses	-23.7	-15.1
<b>Operating profit</b>	<b>25.3</b>	<b>13.7</b>
Financial result	-0.1	-1.1
<b>Earnings before taxes</b>	<b>25.2</b>	<b>12.6</b>
Income tax expense	-7.4	-2.8
<b>Net profit</b>	<b>17.8</b>	<b>9.8</b>

## Statement of Changes in Shareholders' Equity

in €m	Share capital	Share premium
01.01.2006	<b>42.3</b>	<b>84.0</b>
<b>Total net profit</b>		
Profit for the period	-	-
Primary financial instruments / derivatives	-	-
Exchange differences	-	-
<b>Other changes</b>		
Dividend	-	-
<b>30.06.2006</b>	<b>42.3</b>	<b>84.0</b>
01.01.2007	<b>42.4</b>	<b>84.9</b>
<b>Total net profit</b>		
Profit for the period	-	-
Primary financial instruments / derivatives	-	-
Exchange differences	-	-
<b>Other changes</b>		
Dividend	-	-
<b>30.06.2007</b>	<b>42.4</b>	<b>84.9</b>

Reserves		Total
Recognised in equity	Other	
<b>2.6</b>	<b>319.1</b>	<b>448.0</b>
–	12.5	12.5
1.5	–	1.5
–0.7	–	–0.7
<b>0.8</b>	<b>12.5</b>	<b>13.3</b>
–	–6.5	–6.5
<b>3.4</b>	<b>325.1</b>	<b>454.8</b>
<b>2.1</b>	<b>346.9</b>	<b>476.3</b>
–	19.1	19.1
–1.4	–	–1.4
–0.7	–	–0.7
<b>–2.1</b>	<b>19.1</b>	<b>17.0</b>
–	–8.2	–8.2
–	<b>357.8</b>	<b>485.1</b>

## Group Cash Flow Statement

01.01. - 30.06.

in €m	2006	2007
Earnings before taxes	18.7	25.6
Non-cash transactions	16.9	17.0
<b>Gross cash flow</b>	<b>35.6</b>	<b>42.6</b>
Changes in inventories, receivables and other assets	-25.3	-38.4
Changes in provisions and payables	42.6	18.9
<b>Cash flows from operating activities</b>	<b>52.9</b>	<b>23.1</b>
<b>Cash flows from investing activities</b>	<b>-20.4</b>	<b>-12.4</b>
<b>Cash flows from financing activities</b>	<b>-17.2</b>	<b>-8.4</b>
<b>Change in funds</b>	<b>15.3</b>	<b>2.3</b>
Effect of changes in exchange rates	-0.9	-0.4
Funds at beginning of period	129.0	154.0
<b>Funds at end of period</b>	<b>143.4</b>	<b>155.9</b>

## Notes to the Interim Statement to 30 June 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 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 Key Events after the Balance Sheet Date

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 will result in a reduction in the Group tax rate.

#### 4 Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Würzburg, 10 August 2007  
KBA Management Board



Albrecht Bolza-Schünemann  
President and CEO



Claus Bolza-Schünemann  
Deputy President



Dr Frank Junker



Andreas Mössner



Christoph Müller

## 5 Segment Information

### 5.1 Business segments

01.01. - 30.06. in €m	Web and special presses		Sheetfed offset presses	
	2006	2007	2006	2007
External sales	393.5	420.5	333.0	374.4
Internal sales	64.6	91.2	121.2	128.8
Total sales	458.1	511.7	454.2	503.2
Investment	13.4	10.0	11.9	12.7

### 5.2 Geographical segments

01.01. - 30.06. in €m	2006	2007
Germany	120.1	95.8
Rest of Europe	347.9	427.4
North America	66.6	83.3
Asia / Pacific	162.2	124.1
Africa / Latin America	29.7	64.3
<b>External sales</b>	<b>726.5</b>	<b>794.9</b>

## 6 Earnings per Share

01.01. - 30.06. in €	2006	2007
Earnings per share	0.77	1.17

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 (16,304,400 no-par shares, previous year: 16,264,760 no-par shares).

## 7 Balance Sheet

### 7.1 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
<b>Total at 31.12.2006</b>	<b>645.5</b>	<b>352.4</b>	<b>293.1</b>
Intangible assets	74.1	40.6	33.5
Property, plant and equipment	578.9	316.1	262.8
<b>Total at 30.06.2007</b>	<b>653.0</b>	<b>356.7</b>	<b>296.3</b>

Investment in property, plant and equipment totalling €21.5m (first half 2006: €13.5m) primarily refers to additions of plant and machinery, factory and office equipment.

### 7.2 Inventories

in €m	31.12.2006	30.06.2007
Raw materials, consumables and supplies	63.1	66.5
Work in progress	288.2	351.3
Finished goods and products	26.3	30.3
	<b>377.6</b>	<b>448.1</b>

### 7.3 Liabilities

The €28.5m jump in **other provisions** largely resulted from the accrual of expenses.

**Key Financial Dates**

Interim report on 3rd quarter 2007  
15 November 2007

Financial statements on 2007  
31 March 2008

Interim report on 1st quarter 2008  
15 May 2008

Koenig & Bauer Annual General Meeting  
19 June 2008  
at the Vogel Convention Center in 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](mailto:bernd.heusinger@kba-print.de)  
[www.kba-print.com](http://www.kba-print.com)