Consolidated Financial Statements 2008

The KBA stand was a major attraction at Drupa 2008 in Düsseldorf

At a Glance

KBA Group in Figures

€m

	2004	2005	2006	2007	**2008**
Order intake	1,459.1	1,768.9	1,649.7	1,546.9	1,241.5
Sales	1,423.0	1,621.0	1,741.9	1,703.7	1,531.9
Order backlog at 31.12.	893.0	1,040.9	948.7	791.9	501.5
Operating profit/loss	20.4	33.3	46.2	65.7	–79.9*
Earnings before taxes	16.0	25.8	47.4	63.2	–87.1
Net profit/loss	11.8	18.5	34.3	49.0	–101.0
Balance sheet total	1,344.4	1,395.1	1,394.2	1,366.6	1,181.4
Intangible assets, property, plant and equipment	275.5	270.3	293.1	290.3	254.5
Equity (excluding dividend payment)	441.2	441.5	468.1	505.3	411.1
Investment in intangible assets, property, plant and equipment	57.6	39.5	54.3	50.7	52.4
Depreciation on intangible assets, property, plant and equipment	45.5	40.5	41.9	50.2	88.6
Payroll: annual average	7,370	7,882	8,269	8,250	8,052
Cash flows from operating activities	38.1	174.6	90.0	21.3	34.6
Dividend per share in €	0.25	0.40	0.50	0.60	–

* including €93.3m restructuring expenses


18000
RAPIDA


RAPIDA


RAPIDA
74G

Contents

Major Events in 2008

January: Turkish publishing group Haberturk Matbaacilik places an order for five Commander 4/1 presses totalling 27 towers for four production locations. The presses, some with a heatset capability, come on stream just twelve months later.

February: Prominent New York newspaper the *Daily News* signs up with KBA for a highly automated Commander CT press line comprising 15 compact towers, 15 reelstands and three folders.

March: Four years after launching our Rapida 185 and Rapida 205 superlarge-format presses, total shipments fast approach the half-century as demand surges among poster, book, display and packaging printers on every continent but Africa.

April: Under the banner "Strong on quality – fast, simple, reliable" KBA Radebeul holds a pre-Drupa open house for some 1,600 trade professionals to preview the major innovations in sheetfed technology it will be exhibiting at the fair.

May: Drupa, the definitive trade fair for the print media industry, opens its doors on 29 May for the fourteenth time, and the 2,000 exhibitors at this 14-day event attract 391,000 visitors from 138 countries. On our 3,400m² stand, which is one of the largest, we demonstrate new advances in sheetfed, newspaper and commercial web offset technology, digital printshop networking, web-to-print and green printing.

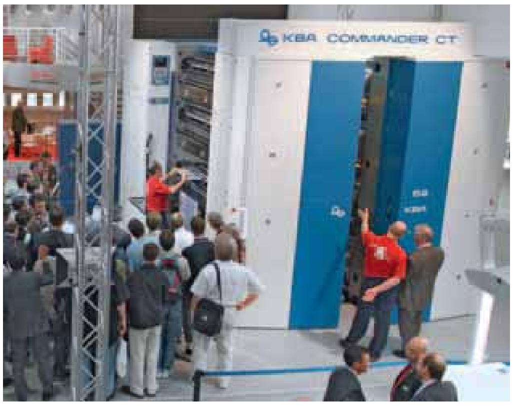
June: Drupa closes in an optimistic mood, with KBA booking a raft of contracts. South American customers order a number of Compacta commercial web presses. Our AGM is held for the first time at the Vogel Convention Center (VCC) – a former press hall – in Würzburg.

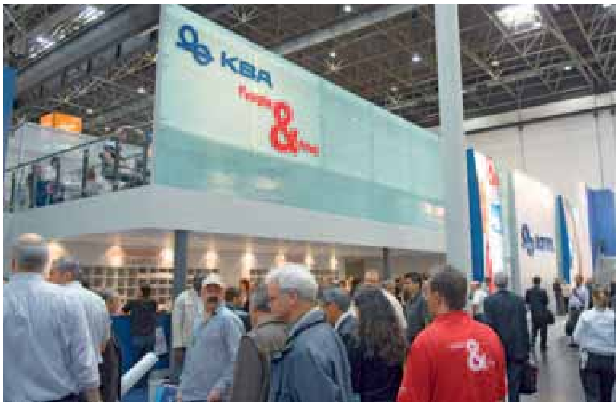
July: The Sego group flicks the switch on the first variable-format 80-page Compacta 818 commercial web offset press in France, while China Translation & Printing Services (CTPS) in Dongguan fires up the country's first large-format eight-colour perfector press.

From the left:
Pre-Drupa open house in Radebeul, April 2008

Our new Commander CT was a focus of interest for newspaper printers at Drupa 2008

On our 3,400m² stand at Drupa we demonstrated new advances in sheetfed and web press technology





August: Our half-yearly report reveals a 2.4% drop in new orders compared to the previous year, largely due to financing difficulties for new business booked at Drupa. Sales are also down, with no sign of the customary post-Drupa bounce required to maintain production at our sheetfed production plants. KBA posts a modest pre-tax profit.

September: Dubai-based Al Nisr Publishing (*Gulf News*) places an order for a big Cortina hybrid press, the first waterless offset installation outside Europe. As the financial crisis deepens, many sheetfed press contracts signed at Drupa are postponed or even cancelled for lack of funding. With foreign demand for presses flagging, we adjust our sales and profit projections for 2008.

October: Fall-out from financial markets impacts on the real economy, triggering a collapse in the sheetfed market, where investment is mainly funded by credit and lease-financing. Mounting anxiety and a slide in ad sales curtail investment in big web presses. But KBA-Metronic books one of the biggest orders in its history when Panasonic in the USA signs up for seven Premius UV presses to print data storage media.

November: The credit crunch mutates into a global economic crisis. The knock-on effects rapidly spread beyond press manufacturers – which tend to lead the cycle – to other branches of the engineering industry, which report a double-digit slide in new orders. Our Radebeul plant and our German competitors introduce short-time work, and notice is given of capacity adjustments at our sheetfed production plants to a smaller market volume.

December: Under the banner "None bigger, none better" an eight-colour Rapida 162a demonstrates KBA Radebeul's unparalleled competence in large-format perfecting. Although 2008 saw the first deliveries of giant perfector presses to major commercial printers, and the book printing sector also held firm, our Radebeul operation was hit by a substantial drop in sales of packaging presses, which account for a large proportion of output.

From the left:
Our waterless Cortina for greener newspaper production

Demand for Compacta commercial web presses among Latin American printers was brisk in 2008

In December 2008 our Radebeul factory reaffirmed its unique standing in large-format perfecting

Foreword

For Koenig & Bauer and most other exporters, 2008 brought some novel experiences. While market volatility and ever-shorter innovation cycles have always been inherent to the engineering industry, in recent decades we have never encountered such an abrupt and dramatic change of mood as in the final two quarters. Although the economic consequences of the mortgage meltdown in the USA and UK had already started to make their mark in 2007, the collapse in demand that occurred in September 2008 nonetheless took us by surprise. After a slow start to the year the Drupa trade fair in late spring had delivered an unexpectedly large volume of orders, and with the numerous new projects initiated at the show promised high levels of production in subsequent months. But mounting anxiety led to a moratorium on investment, while the precipitate withdrawal of credit lines triggered widespread insolvency and the cancellation of existing contracts.

Economists have been philosophising on the pros and cons of globalisation for many years, and during that time we as exporters have certainly reaped its benefits. But the spread of contagion from the mortgage sector to financial and credit markets and thence to the entire world economy demonstrates that globalisation can also have a downside – and this we are now experiencing on a scale unprecedented in the past half-century. Neither the oil crises of the 1970s nor the terrorist attacks of 11 September 2001 caused such a universal and nigh-on simultaneous disruption in export markets worldwide, sweeping from the US across Europe and Russia to Asia.

Koenig & Bauer management board (l-r): Claus Bolza-Schünemann (deputy president), Albrecht Bolza-Schünemann (president until 26.3.09), Ralf Sammeck, Dr Frank Junker, Christoph Müller, Helge Hansen (president since 27.3.09)

Public interest may at present be focussed on the trials and tribulations of the automotive industry, but German press manufacturers, which export over 80% of their output, are suffering just as much if not more from the knock-on effects of the global recession. Having said that, because web presses have a relatively long production cycle the 20% drop in Group order intake was not reflected in sales, which were down 10.1% at €1.5bn. But it was reflected in the backlog of unfilled orders, which shrank by 36.7%. As a result, like our German competitors we were obliged to put most of our staff on short time in the new year.

Hard times demand tough and often unpopular measures. Since there is little prospect of any significant recovery until 2010 at the earliest, the management and supervisory boards have agreed a number of initiatives aimed at streamlining organisational structures, offloading burdensome liabilities and aligning production capacity and overheads with new market realities. Having already terminated all temporary labour contracts we must now trim the core workforce at our sheetfed plants in Radebeul (Germany), Mödling (Austria) and Dobruška (Czech Republic) and make additional capacity adjustments in our web press division.

The retrenchments required to maintain our competitiveness will furnish us with a sustainable operating base in the present market environment and beyond, but they come at a price, and this is disclosed as a charge of many tens of millions of euros in the 2008 accounts. In such a hostile business climate the operating profit generated by the web and special press division was impressive. Unfortunately it was set against a far bigger operating loss incurred by the sheetfed division following a collapse in sales and a painful one-off charge. The KBA Group consequently posted a pre-tax loss – the first since the downturn of 2003 – of €87.1m. The management and supervisory boards will therefore table a motion at the AGM on 18 June to forego the payment of a dividend.

Given the diminished order backlog with which we started the year, and persistent weak demand which for the past six months has impacted on other branches of the engineering industry as well, we anticipate a difficult time ahead and a double-digit drop in Group sales once again. But our leaner cost base should enable us to boost earnings substantially.

Following Albrecht Bolza-Schünemann's resignation on 26 March 2009 the supervisory board appointed me president and CEO of the Parent, Koenig & Bauer AG. As the former head of KBA-Metronic I have been a KBA man for five years now, and speaking for both management and staff I would like to take this opportunity to express our appreciation of all Mr Bolza-Schünemann has done, in his 22 years on the management boards of the Parent and various subsidiaries, to burnish KBA's market credentials the world over.

The financial and economic crisis poses a daunting challenge for KBA as a globally active press manufacturer. Nonetheless, I am confident that, as we enter the 193rd year of the Parent's long and eventful history, we shall once again prove equal to the task. The prompt remedial action taken should enable us to move back towards the black in the course of the 2009 business year.

On behalf of the management board I wish to thank all our executives, staff and worker representatives for the active contribution they have made towards achieving our joint objectives. I also thank you, our shareholders, for your confidence in and loyalty to KBA. And a big thank-you to customers worldwide for choosing our products and services.

Würzburg, 29 April 2009
Koenig & Bauer Management Board

Helge Hansen
President and CEO

Dieter Rampl,
Chairman,
Koenig & Bauer AG

Supervisory Board Report

In a hostile economic environment the supervisory board fulfilled its legal and statutory obligations by monitoring the activities of the Koenig & Bauer management board with particular vigilance while offering support and guidance. The members of the supervisory board were closely involved in all executive decision-making processes of any import, passing board resolutions only after rigorous scrutiny.

A total of four regular and two extraordinary meetings were held at which KBA management provided a detailed briefing on the financial position and performance of the Parent and Group, individual business operations and major subsidiaries, and on fundamental matters of corporate policy and planning. Deviations from scheduled activities were discussed individually. Group strategy was a key item on our agenda throughout the year.

Market developments and the potential they offer, long-term Group objectives and changes in the Parent's organisational structure were the subject of intense debate at an extraordinary meeting held in early March. The regular meeting on 27 March was largely devoted to scrutinising, discussing and approving the financial statements. Post-Drupa prospects and the renewal of employment contracts for members of the management board were the focus of the June meeting. On 25 September the agenda was dominated by a downward revision in Group prospects and profit projections following a collapse in demand for core product lines amid financial and economic turbulence. At an extraordinary session on 12 November we examined and approved a preliminary raft of initiatives submitted by the management board for adjusting sheetfed capacity to a smaller global market volume. The regular session in late November revolved around investment plans for 2009 and strategic issues relating to web press production.

Between the plenary sessions I co-ordinated the work of the various committees and fulfilled the monitory and advisory functions pertaining to my position as chairman in meetings with the management board. President and CEO Albrecht Bolza-Schünemann provided prompt and regular updates on business data, current developments and significant issues. In addition major events and prospective ventures were discussed in detail.

To enhance its efficiency the Koenig & Bauer supervisory board has set up three committees whose task is to formulate supervisory board resolutions and any issues that are to be raised in plenary meetings. Supervisory board meetings include regular briefings by committee chairmen on committee activities. The human resources (executive) and audit committees convened a number of times. The mediation committee appointed under section 27 (3) of the Law on Codetermination did not need to convene in 2008.

In a session on 25 March 2009 the audit committee reviewed the financial statements and management reports, with the auditors summarising the results of their audit and providing further information upon request. Prior to this, the supervisory board had been represented at the audit meeting between management and the auditors on 18 March 2009. Other items included the interim reports, the monitoring of auditor independence and efficiency, risk management and compliance with the Corporate Governance Code.

One of the key personnel issues occupying the executive committee was the appointment on 6 February of Helge Hansen as Chief Financial Officer at the request of Albrecht Bolza-Schünemann, who since his appointment as president in 2003 had combined this remit with his other functions. This was followed at the meeting on 26 March 2009 by Mr Bolza-Schünemann's unexpected resignation from all his remaining executive offices as a direct consequence of the heavy loss incurred by the sheetfed division he had headed since its acquisition eighteen years ago. The supervisory board respectfully accepted Mr Bolza-Schünemann's decision and appointed Helge Hansen, the new CFO, his successor both as president and as head of human resources in Radebeul. Mr Bolza-Schünemann's responsibilities as head of sheetfed product development passed to Dr Frank Junker, executive vice-president for sheetfed production.

Albrecht Bolza-Schünemann spent 22 years on the management boards in Frankenthal, Radebeul and Würzburg. Under his guidance the Radebeul operation evolved into the biggest engineering firm in east Germany and one of the world's leading manufacturers of sheetfed presses. Helge Hansen, who previously headed subsidiary KBA-Metronic, is a business economist with banking expertise and extensive experience as a turnaround specialist.

The amendments published on 6 June 2008 to the German Corporate Governance Code were carefully appraised by the supervisory board, the implementation of the new recommendations at the Parent were discussed and rules of procedure revised accordingly. KBA broadly complies with the Code and in February 2009 the supervisory and management boards duly issued an updated declaration of compliance as per section 161 of German Company Law. There were no conflicts of interest among members of the supervisory and management boards.

The financial statements, management reports and method of accounting for Koenig & Bauer and for the KBA Group to 31 December 2008 were examined by PricewaterhouseCoopers and awarded the auditor's certificate unreservedly (*see page 101*). The auditors confirmed that a risk management system conforming to statutory regulations is in place. The statements, reports and auditors' reports for the Parent and the Group were distributed to the members of the supervisory board well in advance. After conducting its own review the supervisory board raised no objections to the year-end financial statements and management report for the Parent. At a meeting on 26 March 2009 it discussed and officially approved the statements as formally submitted by the management board prior to publication on 30 April. The financial statements and management report for the Group were also reviewed and approved.

The supervisory board wishes to thank all KBA management and staff for the major contribution they have made for the good of the Company and the Group.

Würzburg, 29 April 2009
Koenig & Bauer AG
Supervisory Board

Dieter Rampl
Chairman

Multi-unit Cortina press line for the environmentally friendly production of newspapers and semi-commercials at de Persgroep's Eco Printing Center in Lokeren, Belgium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KBA

Management Report

Share Capital, Executive Bodies and Approved Capital Initiatives

The Parent Company's share capital on 31 December 2008 was valued at €42,606,545.80, divided among 16,387,133 bearer shares with a nominal value of €2.60 apiece. Every no-par share conveys a voting right in accordance with section 12 (7) of the articles of association. There are no restrictions on voting rights, the transfer of shares or special rights imparting powers of control. Employee shares are subject to a three-year disposal ban, but enjoy all other rights. 11.9% of voting rights are held by Spanish investment company Bestinver Gestión in Madrid, 10.3% by MKB Holding in Vienna. To our knowledge these are the only shareholders with an equity holding of more than 10%.

Disclosures on supervisory and management boards

Members of the management board are appointed and dismissed, and amendments made to the articles of association, in accordance with statutory regulations (sections 84, 85 and 179 of German Stock Corporation Law and section 31 of the Law on Codetermination). Section 17 of the articles of association authorises the supervisory board to update the articles as necessary, more specifically with regard to the utilisation of approved capital.

In accordance with the compensation system currently in force, all the members of the Koenig & Bauer management board draw a basic salary plus a bonus calculated solely on annual profit. Supervisory board remuneration is laid down in section 11 of the articles of association, which specifies a basic collective total of €100,000 per year. The supervisory board also receives a variable component comprising 5% of the dividend sum less 4% of equity capital. Fixed and variable remuneration for the individual members is calculated according to their responsibilities and committee activities. Share options and other share-based benefits form no part of board remuneration.

Further issue of employee shares

With the supervisory board's authority, share capital from an increase approved by the shareholders' meeting on 22 June 2006 was used to continue our employee share scheme. Of the €15,402,322 on hand at the beginning of 2008, €1,427,322 or 548,970 new shares were made available to employees, with the option of 10 or 20 no-par bearer shares at a preferential price of €20.20. Almost 40% of the workforce took advantage of this scheme and on 25 September 46,343 employee shares were issued, with pre-emption rights disbarred under section 4 (3) of the articles of association. At the end of the year approved capital amounted to €15,281,830.20 or 5,877,627 no-par shares, and may be drawn on until 21 June 2011. A total of 502,627 shares are still available for issue to employees, who since 2002 have purchased 387,133 company shares, or 2.4% of our subscribed capital.

Albrecht Bolza-Schünemann (r), Drupa president and (until 26 March 2009) KBA president, on a tour of the stands with Lord Heseltine, Britain's former Deputy Prime Minister and longstanding proprietor of the Haymarket media group

Resolution authorises share buy-back

The AGM on 19 June 2008 also authorised the management board to buy and sell company shares, disbarring all pre-emption rights, up to a maximum of 10% of the equity capital of €42,486,054. This authorisation, which is valid until 18 December 2009, is purely a contingency measure permitting Koenig & Bauer to repurchase shares at short notice and use them as a negotiating tool for acquisitions of other companies or shareholdings. No shares had been repurchased by 31 December 2008.

Disclosures under section 315 (4) 8 and 9 of the HGB

No basic agreements were made governing a change in control or the acquisition of control in the event of a takeover bid, nor do any compensation agreements exist for such a contingency with either the members of the management board or the workforce.

Business Environment and Activities

Unique blend of mainstream and niche engineering skills

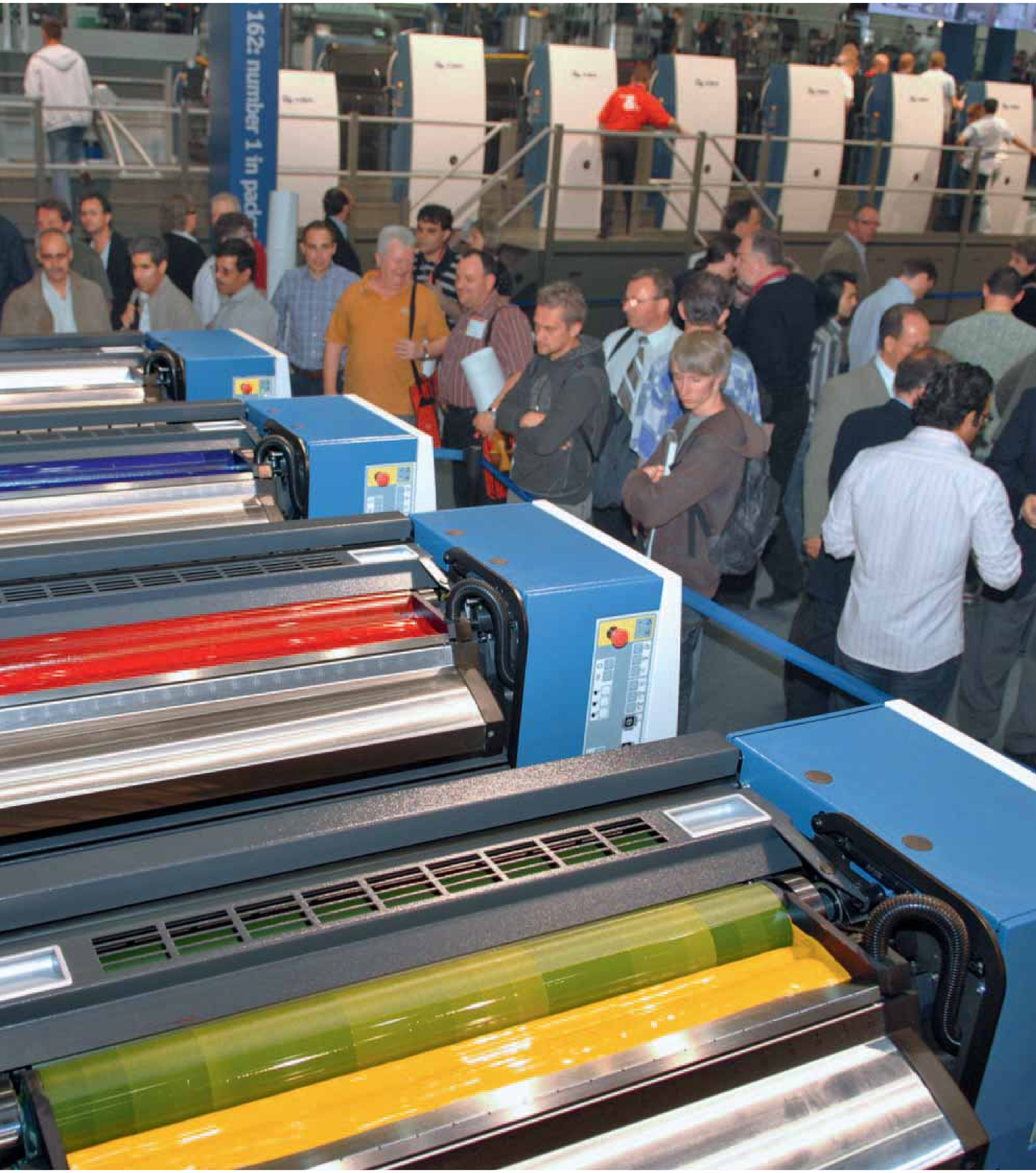
Established in a secularised monastery in 1817, our Würzburg-based Parent, Koenig & Bauer AG (KBA), was the world's first manufacturer of mechanical printing presses. Since listing on the Munich and Frankfurt stock exchanges in 1985 it has become one of the top three press manufacturers in the international marketplace, with the broadest technology base in the industry. In addition to high-volume sectors such as newspapers and litho, KBA has successfully expanded into profitable niches that include security presses and specialist UV presses for printing digital data media, and since the turn of the millennium has pursued such activities with even greater vigour. In economically challenging times like the present, reducing our dependence on individual sectors helps to spread risks and safeguard our continued survival.

At our Würzburg headquarters and our factories in Frankenthal and Trennfeld the production schedule is dominated by customised, multi-unit web presses for newspaper and commercial printers. Our sheetfed offset plants in Radebeul (near Dresden) and Dobruška (Czech Republic) focus on the batch production and sale of small- to superlarge-format presses for printing books, packaging and commercials. Our subsidiaries in Germany, Austria and Switzerland build special presses for printing banknotes and securities, metal goods and data storage media, and also inkjet and laser systems for coding industrial goods. This extensive portfolio serving hugely diverse markets helps counteract volatility in individual sectors, enhance synergy benefits and differentiate our products from those of more monolithic serial manufacturers.

Group statements and reports distinguish between our batch-based sheetfed division and our web and special press division, which builds multi-unit mainstream and small niche presses. Last year, for the first time since 2002, sales by our web and special division accounted for more than 50% of the Group total, which dipped to €1.53 billion.

The global scale of our business activities, with exports routinely generating over 80% of Group output, means that sales and earnings are heavily exposed to volatility in international markets. While Europe remains our biggest market, generating 60% or more of total sales, the high-growth economies of the Middle and Far East and eastern Europe are rapidly gaining ground. Sales in North America, another major market, have taken a downward turn along with the economy.

Our new sheetfed presses were a focus of keen interest at Drupa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International Group Organisation and Financial Controls

Sustainability trumps short-termism

Koenig & Bauer went public almost twenty-five years ago, and is committed to maintaining shareholder value and the transparency accorded by compliance with the Prime Standard and the Corporate Governance Code. Nonetheless, our corporate culture and philosophy, like those of many other successful German engineering firms, reflect the values of the original family enterprise. Now in its 192nd year, KBA is still co-managed by a descendant of the founders, and even though we are an international player in the capital goods sector, the family influence is evident in our long-term strategic focus, which is based on reliability and sustainability. This engenders the enduring customer loyalty so crucial to our success, and also the trust of our suppliers, staff and investors.

Alongside organic growth in what are traditionally our prime markets, over the past few years we have pursued strategic acquisitions to boost earnings and lessen our dependence on print sectors exposed to volatile advertising cycles and competition from new media. We have demonstrated equal agility in adapting to ongoing changes in the industry and market environment. For example, with sales steadily declining our withdrawal from the publication rotogravure sector in 2008 following the disposal of our entire gravure business to Italian press manufacturer Cerutti in 2007 proved to be a prescient decision.

In a constantly shifting marketplace a proactive approach is essential. Payroll reductions at our web press plants last summer were an early response to diminishing market volumes. And when the perennial strong growth that fuelled a massive expansion of capacity in the sheetfed sector ground to a halt, the management and supervisory boards systematically set about trimming capacity at our loss-making sheetfed division.

We deploy financial control mechanisms at Group level based on our gross profit margin, net operating margin, order intake and cash flow. In view of the current financial turmoil we shall continue to refine our existing parameters and optimise our liquidity planning and cash-management systems. A performance-related graduated bonus system based on personal targets for all executives and many workers ensures that management and staff are fully committed to achieving Group objectives.

Last year the relentless downward pressure on prices and margins that typifies the print media industry was exacerbated first by currency fluctuations and the surging cost of raw materials and later by the global recession, with no end in sight. In a volatile environment such as this, the realignment of our organisational structures and our product portfolio to a buyers' market was a key priority, as was systematic cost management. Sales, project management, development and production budgets were subjected to still more rigorous review in a move to optimise target costing.

The slump in new orders prompted us to increase the proportion of components manufactured in-house, wherever this was economically feasible. As well as extending collaboration within the Group we drew on our employees' specialist skills and our sophisticated machine tools to offset cyclical fluctuations in plant utilisation by taking on contract work for external firms and hiring out personnel for installation work.

The KBA Group's corporate image is predicated on customer satisfaction, personnel development, continuous innovation and an enduring commitment to product quality, social responsibility and the environment. This is reflected in a range of staff incentives that include basic and advanced training, employee shares and a suggestion scheme. In addition our various facilities actively promote regional culture and economic growth.

Global Operations

Healthy subsidiaries in profitable niche markets

Koenig & Bauer has been an international player ever since its foundation in 1817. In the nineteenth century our biggest markets were Europe and Russia, but in the twentieth we expanded into North America, the Middle East, Australia, North Africa and industrialised countries in Asia. Over the past twenty years the focus has shifted to emerging economies in Asia – foremost among them China and India – and Latin America. We maintain sales and service subsidiaries in nineteen countries (*for principal locations see Notes, page 79*), backed by a worldwide network of authorised dealers to ensure customer proximity.

KBA has six factories in Germany and one each in Austria and the Czech Republic. Most components are sourced in Europe, though the proportion of non-European suppliers is gradually increasing.

After closing its York (Pennsylvania) web press manufacturing and assembly plant in summer 2007, last autumn KBA North America set about transferring its headquarters from Williston (Vermont) to a more central – and for customers more convenient – location in Dallas (Texas), where it already has a spare-parts store and service facility. The move should be completed this summer. In 2008 KBA (NA) posted a drop in new orders once again, while sales of $131.5m were almost 13% below the prior year's already poor figure of $150.6m due to slack demand for sheetfed presses and flagging investment by US newspaper publishers. Restructuring expenses caused the company to end the year with a loss. With prospects bleak for 2009, KBA (NA) trimmed its workforce by 37 to 140, and anticipates a further reduction during relocation.

At our Austrian subsidiary KBA-Mödling, a decline in the volume of contract work for our main sheetfed facility in Radebeul was balanced by a large backlog of orders for security presses. Sales were therefore roughly on a par with the previous year (€174.7m compared to €178.4m in 2007). However, provisions required for scaling back capacity to a smaller offset market turned a profit into a loss. The payroll fell by just four to 815 at the end of December, but with deliveries to Radebeul continuing to decline, deeper cuts will have to be made in the course of the current year.

The plunge in sheetfed sales in the third and fourth quarters severely affected our Czech subsidiary KBA-Grafitec in Dobruška, which after two years of dynamic growth failed to meet its targets for 2008 despite bringing out new products. Sales slid 15% to €36.8m, resulting in a loss for the year. The workforce was cut by 65 to 435.

However, the global recession had little impact on KBA-Metronic, one of the subsidiaries in our web and special press division. Demand for its specialised UV offset presses and laser or inkjet industrial coding systems held firm, enabling it to gain market share and increase sales to €47m. The number of staff rose by 21 to 357.

The 15 (2007: 19) employees at our Dutch subsidiary Holland Graphic Occasions (HGO) in Wieringerwerf, which sells on third-party presses that have been replaced by KBA presses, posted sales of €10.6m (€15.5m) and a modest profit.

While sales by Lausanne-based KBA-GIORI, our specialist subsidiary for banknote and security presses, were down 6%, the company once again made a signal contribution to Group earnings.

KBA-MetalPrint in Stuttgart, which develops and builds metal-decorating presses along with thermal air-purification systems, experienced a 5.3% dip in sales to €81.9m, but also posted a modest profit. At the end of December the payroll stood at 331 (2007: 339). Former manufacturing subsidiary Bauer+Kunzi now functions as a holding company for KBA-MetalPrint.

Our two consolidated sales subsidiaries, KBA-France and KBA (UK), employ a total of 80 people. KBA-France achieved a double-digit boost in sales, but our British subsidiary failed to equal its prior-year performance due to the severe recession.

Purchasing, Production and Organisation

Ongoing optimisation of structures and processes

In a fiercely competitive global environment, success may hinge on the ability to contain manufacturing and quality costs on an ongoing basis while minimising turnaround times and inventories. Professional procurement management, cost-effective manufacturing technologies and the optimisation of all production sequences from order reception to after-sales service are critical to achieving our objectives.

Focus on material costs

With global demand continuing buoyant in the first six months, the timely and cost-sensitive procurement of raw materials (e.g. steel) as a means of safeguarding the completion of products to exceptionally tight deadlines posed a major challenge for our purchasing department. Here we benefited once again from our longstanding association with suppliers. Even so, intensive negotiations and exhaustive value analyses, technical modifications and the location of alternative sources were unable to offset in full the inflated cost of commodities and energy. It was not until the world economy slowed that conditions eased.

Streamlining manufacture and assembly

In 2008 we enhanced productivity by streamlining manufacture, assembly and logistics. The biggest project in Würzburg was an upgrade of our large-component manufacturing equipment with the installation of two heavy-duty milling centres. The workpieces are fed directly from an integrated pallet transport system, and central swarf disposal is also fully automated. In Radebeul, medium-format printing unit assembly was converted from a static line to a moving line with UGVs. This significantly reduced turnaround times.

Refining information technology

Investment in IT concentrated on optimising communications structures, minimising costs, protecting data and safeguarding the future availability of user applications. Our web press division set up a web shop on the internet that allows customers to order spare parts any time of the day or night, seven days a week. Following the launch of an interactive electronic spare-parts catalogue, our sheetfed division expanded its service portal and remote maintenance capabilities, giving service personnel worldwide access to all press data and characteristics. Other projects include optimising internal digital workflows and the interfaces to external suppliers. The installation of new NC programming software facilitates the transfer of 3-D data from the engineering department to production. Our electronic information system was also expanded to accelerate co-ordination between assembly departments and subcontractors.

A heavy-duty milling centre for large components at our factory in Würzburg

Research and Development

Drupa launches take centre stage

In the first few months of the year our R&D activities revolved around new products and process innovations for launching at the Drupa international trade fair in late May and early June. Our sheetfed division set a world record at the show on a highly automated ten-colour Rapida 106 fitted with dedicated plate-cylinder drives, a technology of which we are the leading exponent. In just 60 minutes the press printed fifteen different jobs with over 500 saleable sheets apiece, entailing a full fourteen set-ups and plate changes. Such an advanced level of productivity, which but a short time ago would have been inconceivable, was made possible by running multiple makeready sequences simultaneously. Since then we have received orders for more than sixty Rapida 106 presses featuring our DriveTronic SPC simultaneous plate-changing system. We also platformed developments in coating and other technologies.

One offering that has been unique to KBA for many years is large-format perfecting, and at Drupa we demonstrated a raft of advances that make these giant presses an appealing proposition for printing not just books but commercials as well, which is a much bigger market. Numerous large-format eight-colour perfector presses have since come on stream at commercial print enterprises, and combine a superb print quality with outstanding productivity. Other high-potential innovations include integrated quality management systems and radio-frequency identification (RFID) systems for streamlining pile logistics – a boon for packaging printers.

Our primary objective in developing the new Rapida 75 (a joint project with KBA-Grafitec) and the Rapida 105 was to cut manufacturing costs. Both models target the many small-scale printshops where economy takes precedence over automation.

Green print production was a key focus on the KBA stand at Drupa, and one which will gain prominence in the near future. In addition to demonstrating alcohol-free conventional offset printing we therefore exhibited three sheetfed and one web press for low-emission waterless offset. Our environmental commitment is widely acclaimed among industry leaders and contributes in no small part to our market success.

KBA Complete, a joint venture established in 2008 by KBA and software developer Hiflex, demonstrated the options now available for creating a cross-platform printshop workflow.

For newspaper printers, two of the major attractions at Drupa were our highly automated, ultra-compact Cortina and Commander CT presses, which underpin our reputation as an engine of innovation in this sector. The waterless Cortina shown was the first triple-wide version to leave the production line. This innovative press type, which eight years ago was the first to feature automatic plate changing, has initiated a wave of automation. Other manufacturers eventually followed our example and in 2008 unveiled some alternative systems.

Orders for the Cortina's conventional counterpart, the Commander CT with dampening units and film-type inking units, were placed by the *Daily News* in New York and the *Straubinger Tagblatt* in Germany.

A KBA innovation for the newspaper market: user-friendly compact presses that split down the centre at the touch of a button

Alongside the new products launched at Drupa, our development engineers were busy working on such topical issues as energy efficiency. Some of the other products currently being developed for our core and niche markets will not attain maturity for a few years yet.

Even at a time like the present, when companies face enormous pressure to cut costs, innovation is crucial to defending German press manufacturers' pole position in the global arena against low-cost rivals.

Market and Industry Environment 2008

The printing press sector is heavily exposed to market forces through its dependence on advertising income, and is thus a harbinger of change in the economic climate. The impending recessions in the USA, the UK and other major markets cast their shadows early in the year in the form of flagging demand. For example, at the end of June the order intake for sheetfed presses, which have a relatively short production cycle, was 2.4% below the figure for 2007. Industry veterans attributed this to the investment hiatus perennially observed in the run-up to big trade fairs. Drupa, which took place at the end of May and beginning of June, did indeed generate a record number of new orders, but in retrospect many of these proved to be worth little more than the paper they were written on.

Sudden post-Drupa downturn in international markets

In the third quarter the pandemic economic crisis engulfed the export-fuelled press engineering sector, taking everyone by surprise. Sheetfed contracts that had already been signed had to be cancelled as funding was unexpectedly withdrawn, and the shipment of presses already under construction had to be postponed. Even web press projects that had initially been rated as urgent were repeatedly deferred. So what at first glance appeared to be a successful trade fair was followed at the end of September not by a rise but by a year-on-year drop of 12.5% in the Group order intake and almost 16% in sheetfed business.

In the fourth quarter the market for printing presses went into freefall as the mounting consequences of the financial tumult sent shockwaves through the real economy. Negative growth rates in key print markets, and the increasing scarcity of capital, made printers not just unwilling but unable to invest in new kit. Nor did other branches of the engineering industry escape this downward spiral. The VDMA (German Machinery and Plant Manufacturers' Association) revealed that in November and December 2008 some branches of the industry saw the inflow of new orders shrink by as much as 50% compared to 2007.

Global crisis accelerates structural changes

The economic downturn was not the only cause of the collapse in demand: structural changes that were already taking place also played a role, and it merely hastened them along. Small-format litho presses, for example, have long been losing market share to digital presses. The newspaper industry and other publication printers are feeling the effects of a shift to the internet as the platform of choice for news, information and advertising. And with breathtaking technological advances boosting productivity on an ongoing basis, fewer new presses are required to handle the level of demand that does exist for print, which is rising more slowly. On top of this some sectors are having to contend with regional overcapacity. In high-growth economies like China and India, agile local manufacturers are increasingly challenging established players from Germany and Japan.

Order intake down almost 20%

The Group order intake fell 19.7% to €1,241.5m (2007: €1,546.9m). Although the year started well with some big newspaper press contracts from Turkey, New York and Dubai, in the second six months business slackened as the economic turmoil spread to the media industry, disrupting investment.

Web printers scale back purchases of new kit

The influx of new orders for web and special presses ebbed to €643m, 16.9% less than the prior-year figure of €773.4m. While several contracts for commercial presses were signed at Drupa, the shortfall here was bigger than for newspaper presses, where our innovative Cortina and Commander CT presses accounted for a rising proportion of new bookings. Market research revealed that the total volume of web press contracts put up for tender was around 40% lower than the norm. However, demand for special presses and security systems remained relatively stable and even approached the previous year's record. In niche markets for specialist UV printing and ID systems, KBA-Metronic landed a major contract for multiple Premius CD printing systems and also expanded its activities in international markets for inkjet technology.

Group business operations: order intake / sales / order backlog

in €m	2007	**2008**
Order intake	1,546.9	1,241.5
sheetfed offset presses	773.5	598.5
web and special presses	773.4	643.0
Sales	1,703.7	1,531.9
sheetfed offset presses	856.9	714.2
web and special presses	846.8	817.7
Order backlog	791.9	501.5
sheetfed offset presses	222.0	106.3
web and special presses	569.9	395.2

Sheetfed business suffers as credit crunch bites

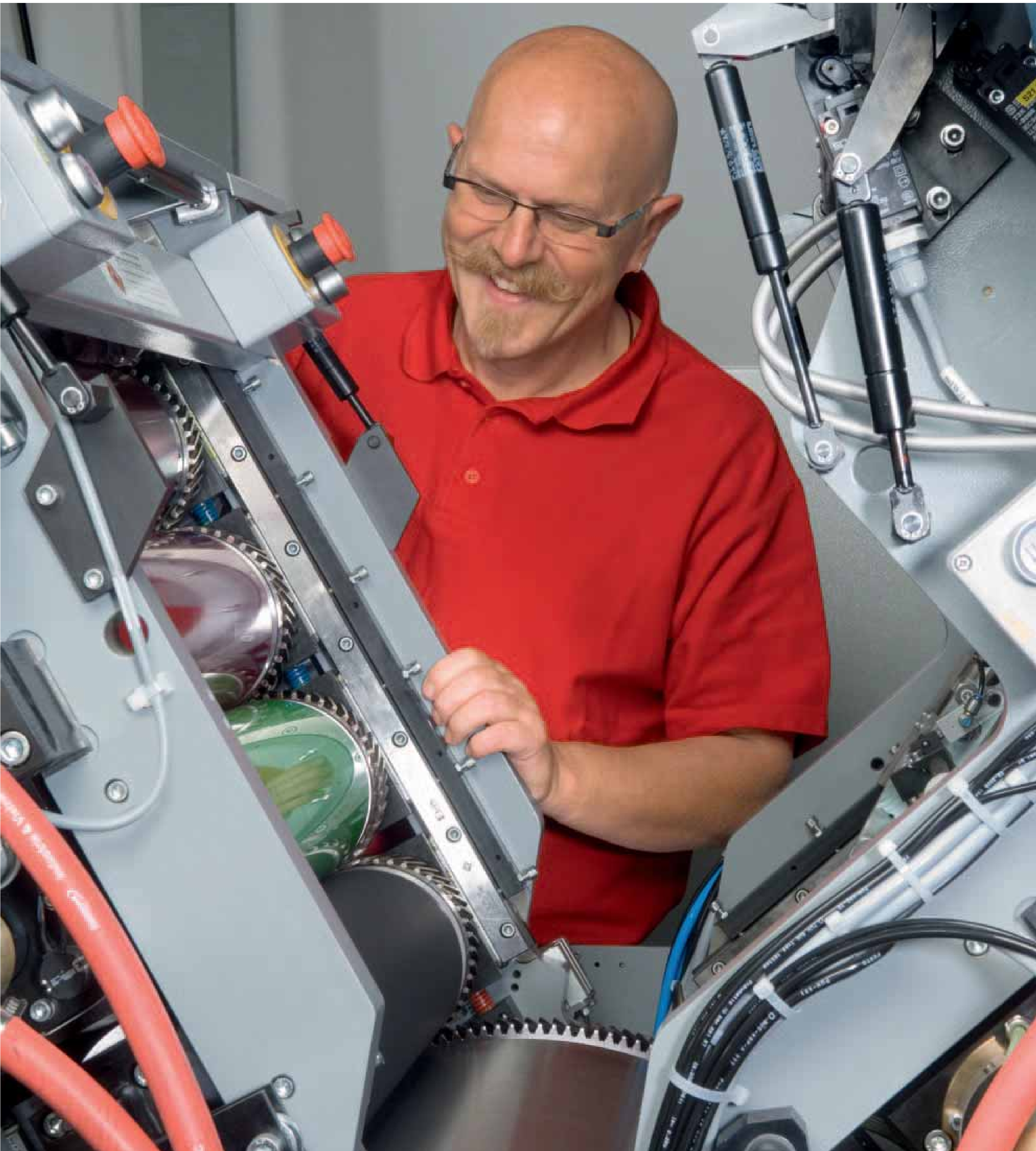
The plunge in sheetfed orders was even more dramatic. In a sector populated by small and mid-size print enterprises the disruption of the credit supply had a devastating impact. The inflow of orders sank to €598.5m – 22.6% below the weak figure of €773.5m for 2007. Exposure to the notoriously cyclical advertising industry caused a slump in sales of both the small-format presses built by our Czech subsidiary in Dobruška and the large-format presses built at our Radebeul plant, which were also hit by softer demand among packaging and book printers in the wake of economic downturns in the USA, UK, Italy and Spain.

The volume of incoming orders for our new high-end Rapida 106 in the much broader market for medium-format presses was slightly more satisfactory, but demand for the metal-decorating presses manufactured by KBA-MetalPrint perceptibly slowed.

Backlog shrinks by one-third

Weak demand also impacted on the order backlog, which plummeted by 36.7% to €501.5m, from €791.9m. Of this, €395.2m (2007: €569.9m) was attributable to web and special presses, €106.3m (2007: €222m) to sheetfed presses.

Special presses like KBA-Metronic's small-format Genius 52UV helped cushion the impact of flagging demand for mainstream presses in 2008



Earnings, Finances and Assets

Earnings

Restructuring charge and precautionary measures turn profit into loss

Group sales slipped 10.1% to €1,531.9m (2007: €1,703.7m), with earnings affected not only by the €170m fall in profit contributions and the costs associated with reduced machine utilisation but also by soaring commodity prices, persistent price erosion in core markets, and customer insolvencies leading to repurchasing obligations and bad debts. A heavy loss in the sheetfed division was offset by a surprisingly sizeable operating profit in the web and special press division generated by increased service activities and sales in profitable niche markets.

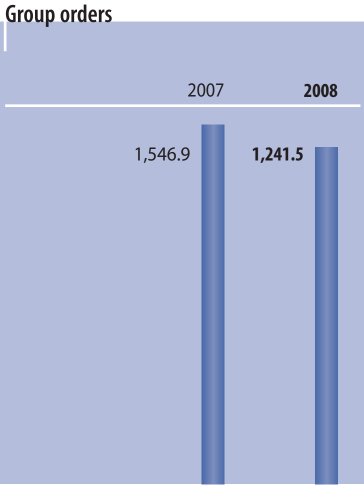
With revenues battered by widespread recession, and little prospect of improvement this year or next, the supervisory and management boards see an urgent need to reorganise all sheetfed activities and take preventive action in the web press division. A further deterioration in the global economic climate in the winter necessitated capacity adjustments on a much larger scale than originally planned. The personnel cutbacks, sundry impairments and precautionary action scheduled for 2009 resulted in a one-off charge in the high double-digit millions. Following a profit in previous years (2007: €63.2m), this expense and the operating loss incurred by our sheetfed division culminated in a pre-tax loss (EBT) of €87.1m.

Slide in sheetfed sales

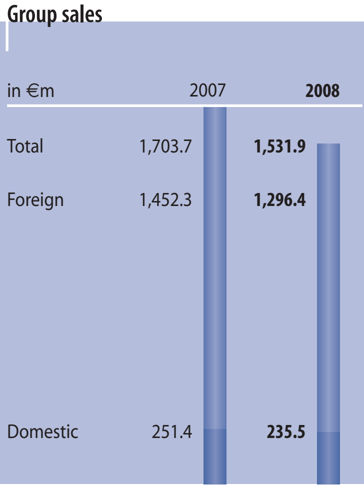
Sheetfed sales sagged to €714.2m, a painful 16.7% below the 2007 figure of €856.9m, and contributed just 46.6% (2007: 50.3%) of the Group total.

In a diminished market our best-selling models were, as ever, our medium-format presses, the top-spec Rapida 106 and versatile Rapida 105. Engineered for excellence, the Rapida 106 appeals to high-volume printers. Buoyant demand for large-format presses among commercial printers attracted by advances in eight-colour perfecting failed to offset slacker sales in a more traditional sector, packaging.

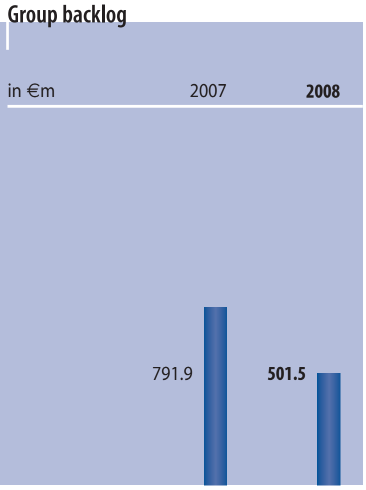
Group orders



Group sales



Group backlog



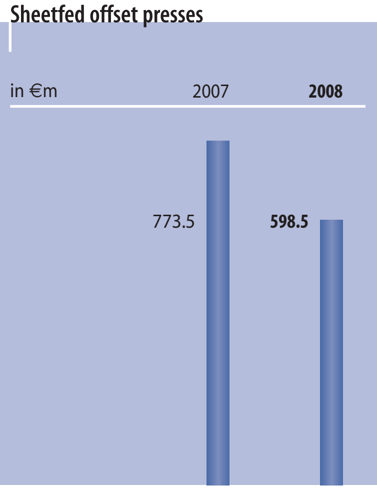
A positive response at Drupa to the new Rapida 75 (B2 format) and upgraded Performa 66 (SRA2 format) presses unveiled by our Czech subsidiary KBA-Grafitec did not translate into adequate sales as small-scale printers deferred investment. Even so, our share of the global market – which contracted by around 30% – remained stable at 15% because other manufacturers experienced similar shortfalls.

Web and special press sales relatively firm

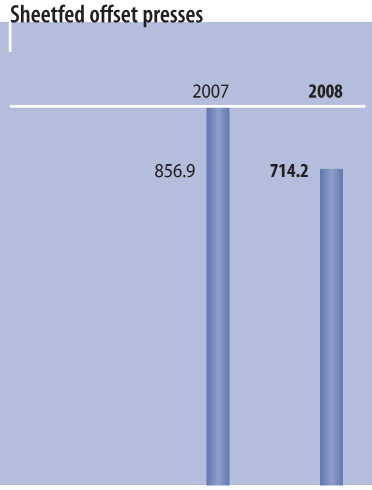
For the first time in six years, sales of web and special presses accounted for more than half the Group total (53.4% compared to 49.7% in 2007), and at €817.7m were just 3.4% down on 2007 (€846.8m). Although demand for newspaper presses softened, the longer production cycles involved had a stabilising influence on output because our factories were kept busy processing a backlog accumulated before the financial storm broke.

Once again newspaper presses made the biggest contribution to web press sales, with revenues approaching those of the previous year. Major shipments to India and Turkey largely balanced a drop in deliveries within Germany, to the rest of Europe and to North America.

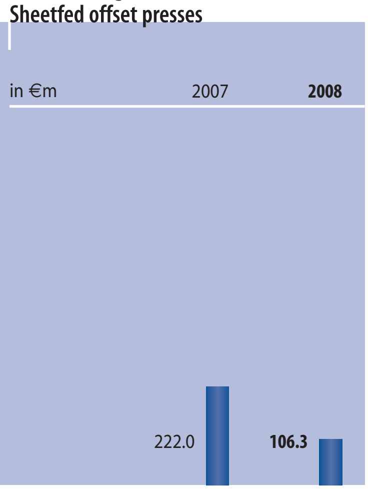
Order intake
Sheetfed offset presses



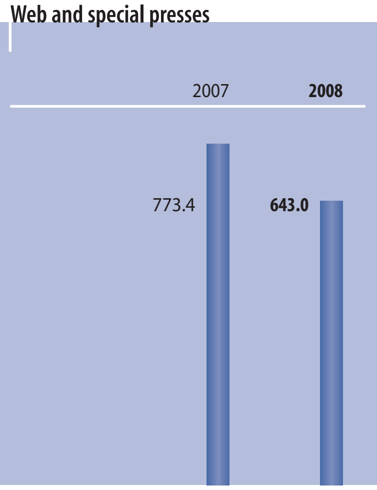
Sales
Sheetfed offset presses



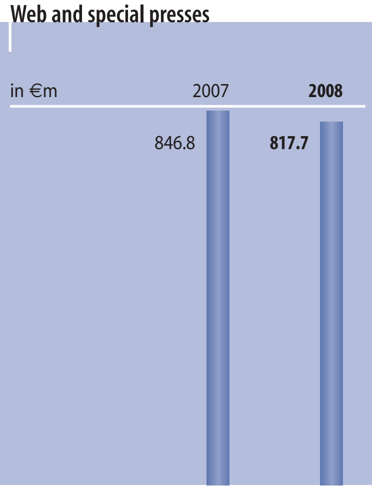
Order backlog
Sheetfed offset presses



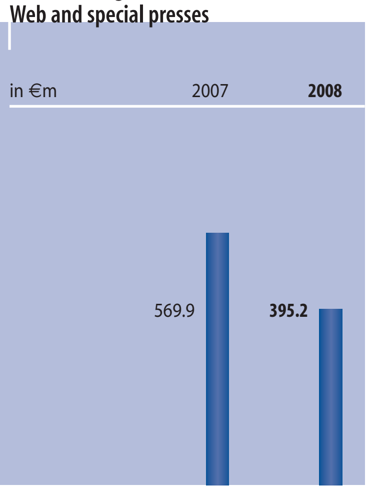
Order intake
Web and special presses



Sales
Web and special presses



Order backlog
Web and special presses



While the total volume of newspaper projects up for tender was much smaller than in 2005 and 2006, when business had been brisk, we are now reaping the benefits of cost-cutting initiatives and our pursuit of greener technologies. Our two labour-saving, low-maintenance compact models – the Cortina and Commander CT – made a signal contribution to newspaper press sales. 50 of the 70 waterless Cortina towers sold to date are now in operation. The first triple-wide presses to leave the production line were shipped to Bremerhaven and Cologne, and the first Commander CT outside Germany was inaugurated in Spain. Multi-unit contracts for New York and Dubai, further orders in Europe and new projects overseas will give an additional boost to sales of these ground-breaking press lines.

Our web press department posted a double-digit leap in commercial web press revenues as an assortment of models, from 16 to 80 pages, went live in Belgium, Italy, Portugal, Hungary, Ukraine and France, where the country's first variable-format 80-page Compacta rolled into action. Although sales of niche products for specialist UV and industrial coding applications remained steady, earnings were affected by a smaller volume of security press deliveries and the absence of gravure business, which had been sold to Italian manufacturer Cerutti in September 2007. Our sole activities in this sector, which has contracted fast in recent years, consist of after-sales service for existing press lines and the production of folders for Cerutti.

Two-thirds of shipments destined for Europe

While 2008 saw a twelve-month decline in the number of web presses installed in Germany, sales of sheetfed presses held firm. The slide in domestic sales – by 6.3% from €251.4m to €235.5m – was therefore less marked than in other parts of the world. The proportion of domestic to total Group sales climbed from 14.8% to 15.4%, trimming the export level from 85.2% to 84.6%.

With the financial crisis rapidly spawning recessions in the UK, Spain and Italy, and downturns in eastern Europe, sales to the rest of Europe fell by 11.6% to €786.8m (2007: €890.5m).

Geographical breakdown of sales

in %	2007	**2008**
Africa/Latin America	7.8	6.1
Asia/Pacific	14.7	17.7
North America	10.5	9.4
Rest of Europe	52.2	51.4
Germany	14.8	15.4

Asia and the Pacific in second place

A major project for an Indian newspaper publisher boosted the volume of shipments to Asia and the Pacific by 8.7% to €271.5m, or 17.7% of the Group total (2007: 14.7%). The region now ranks second only to Europe (51.4%) in its significance for the Group. However, even high-volume markets such as China and India are increasingly suffering the repercussions of the global economic slump.

Sales in North America sink to an historic low

In North America, where investment had already started slowing in 2007 as the subprime property market soured, sales dived 19% to €144.8m (2007: €178.8m) as structural changes in the US newspaper industry were compounded by the knock-on effects of the credit crunch on sheetfed investment. In consequence the proportion of Group sales generated in what used to be one of our biggest markets sank to a new low of just 9.4%. KBA North America is culling its payroll accordingly.

A reduction in deliveries of web presses to Latin America and Africa caused a substantial drop in sales to €93.3m, or 6.1% of the total, from €133.2m and 7.8% the previous year.

Rising costs, declining production erode gross profit margin

While the cost of sales eased to €1,246.9m (2007: €1,249.6m), this represented a larger proportion of total sales (81.4% compared to 73.3% in 2007) because commodity price hikes, higher labour costs and lower levels of capacity utilisation in some areas of production pushed up hourly machine rates. Softer sales, price erosion, a less profitable product mix than in 2007 and the replenishment of reserves for repurchasing and other obligations slashed our gross profit from €454.1m to €285m, and the gross profit margin from 26.7% to 18.6%.

Group income statement

as % of sales	2007	**2008**
Cost of sales	–73.3	–81.4
Research and development costs	–3.6	–3.5
Distribution costs	–10.1	–10.5
Administrative expenses	–5.2	–5.8
Other income less expenses	–4.0	–3.9
Financial result	–0.1	–0.5
Income taxes	–0.8	–0.9
Net profit/loss	2.9	–6.6

Income hit by restructuring charge

Research and development costs came to €54.2m, €7.5m below the prior-year figure of €61.7m. Notwithstanding the added expense associated with the Drupa trade fair in Düsseldorf, distribution costs fell from €170.5m to €161.1m due to fewer shipments. General administrative expenses, at €89.4m, were virtually unchanged (2007: €89.3m). Other operating income rose to €55.5m (2007: €32.9m). A renewed increase in other operating expenses, from a relatively high €99.8m in 2007 to €115.7m, was attributable to a jump in the allowance for doubtful accounts and provisions for restructuring.

The major one-off expense associated with reorganising our sheetfed division and making a further provision for repurchasing obligations and anticipated bad debts converted an operating profit of €65.7m in 2007 into an operating loss of €79.9m. In the same period we posted a modest profit from operating activities (EBITDA) of €8m (2007: €115.4m).

The expansion of service activities and the higher margins generated in niche markets helped the web and special press division to boost profit from €63.1m in 2007 to €108.5m, despite the deterioration in business conditions in the second half-year. However, weighed down by substantial extraordinary expenses and poor levels of capacity utilisation, the sheetfed division posted a loss of €188.4m, following a €2.6m profit in 2007.

Negative pre-tax earnings

While interest income declined from €10.9m to €7.9m, interest expense climbed from €12.9m to €14.4m, giving a financial loss of €7.2m (2007: a loss of €2.5m). In consequence pre-tax earnings (EBT) plummeted from a healthy €63.2m in 2007 to –€87.1m. Taxes on income and earnings, including deferred taxes, came to €13.9m (2007: €14.2m). We posted a net Group loss after tax of €101m (2007: €49m profit) and earnings per share of –€6.18 (2007: €3).

Finances

Financing largely internal

Cash flows from operating activities represent a prime source of corporate financing. Accordingly, measures for reducing the volume of tied capital and externalising customer financing rank high on our list of priorities. The Group cash flow is materially influenced by the customer prepayments commonly made in the heavy plant sector. While the smaller influx of web press orders decreased prepayments by €58.8m, at the end of the year they still totalled a respectable €140.5m and, in conjunction with our sound financial position, allowed us to scale back our external funding commitments. Since minimising currency risks is just as important as safeguarding liquidity, most foreign currency transactions are hedged via forward exchange contracts and options (*see Notes on page 40*).

Free cash flow better than previous year

Smaller inventories, fewer trade receivables and bigger reserves boosted cash inflows from operating activities to €34.6m, well above the prior year's €21.3m. Despite outflows of €44.5m from investing activities (2007: €38.4m) the free cash flow improved from –€17.1m in 2007 to –€9.9m. Cash outflows from financing activities, which included the payment of dividends and the repayment of loans, came to €28.9m (2007: €0.7m).

Net financial position strong, liquidity assured

At the end of December liquid assets stood at €85.8m (31.12.2007: €123.2m). Bank loans were pared by €20.3m, from €83.5m to €63.2m (*cf pages 85 and 86*). Our net financial position – the difference between funds and bank loans – remained strong at €22.6m. Credit lines for cash uses and for guarantees totalling €160m, with company assets as collateral in conjunction with the customary disclosure requirements, have been made available by domestic banks until March 2010. Funding will be automatically extended by a further year upon receipt of a public guarantee.

Equity ratio of 34.8%

The issue of employee shares increased share capital to €42.6m and the share premium to €86.7m. The net loss posted at the end of the year reduced total equity to €411.1m (2007: €515.1m). However, at 34.8% (2007: 37.7%), the equity ratio was still above average for the engineering sector.

Fewer liabilities, more provisions

Current and non-current liabilities sank by €81.2m to €770.3m (2007: €851.5m) following a drop in bank loans by €20.3m, in trade payables by €10.6m and in other liabilities by €64.3m due to a decline in customer prepayments. However, provisions swelled from €363.5m to €378m, with €275.7m (2007: €260.7m) being set aside for other provisions including the proposed restructuring measures. The higher volume of borrowed capital raised our debt-to-equity ratio from 165.3% to 187.4%.

Assets

Solid substance

The value of non-current assets fell to €305.3m (2007: €350.2m), primarily as a result of impairments. Tangible assets were worth €227.8m (2007: €258.1m). The ratio of equity capital to fixed assets was thus 180.5%.

Group assets and capital structure

Assets in %	2007	**2008**
Non-current assets	25.6	**25.8**
Current assets less funds	64.6	**66.9**
Funds	9.8	**7.3**

Equity and liabilities in %	2007	**2008**
Equity	37.7	**34.8**
Non-current liabilities	18.3	**20.8**
Current liabilities	44.0	**44.4**

In 2008 we invested €49.8m (2007: €48.4m) in property, plant and equipment. Most of it was spent on replacement kit and on streamlining our manufacturing and assembly lines. The main items are described on page 22. Together with investment in intangible assets this represented 3.4% of sales (2006: 3%). With depreciation at €88.6m (2007: €50.2m) the investment rate tumbled from 101% to 59.1%.

A €70.2m decline in trade receivables contributed to a €140.3m drop in current assets from €1,016.4m to €876.1m. Working capital fell from €612.7m to €563.5m.

The Group balance sheet total of €1,181.4m on 31 December was €185.2m lower than twelve months before (€1,366.6m).

Summary of Earnings, Finances and Assets

In 2008 we scaled back our bank loans and financed most of our investments from the cash flow. This strengthened our net financial position and capital ratio, and thus also Group liquidity and finances.

Although the global economy largely maintained its headlong pace in the first six months, lacklustre demand in key print markets started taking its toll on the export-driven press engineering industry very early in the year. Margins were further squeezed by wage increases, exorbitant commodity prices and poor levels of plant utilisation. When the financial crisis came to a head in the autumn, demand virtually collapsed. Compounded by relentless pricing pressures, a slump in sheetfed output and the subsequent introduction of short-time work in November, this had a devastating impact on our operating income. Extensive write-downs and provisions for restructuring measures resulted in a substantial net loss.

Following capacity adjustments at our web press plants, the reorganisation of our sheetfed factories will enable us to adapt successfully to what looks set to be a smaller market volume for a prolonged period of time. Cutting-edge products, a higher level of machine utilisation and more efficient manufacturing and assembly will materially enhance our overall performance.

Integrated workflows are an emerging trend in the printing industry, and new consultancy KBA Complete – a joint venture by KBA and software developer Hiflex – provides the necessary expertise and support


HIFLEX
KOLBUS
SIGLOCH

Risk Management

Systematic approach

The purpose of our early warning system, with clearly defined communication channels, is to support timely intervention by flagging and quantifying with a high degree of transparency potential risks arising from our entrepreneurial activities. As the global economy took a turn for the worse in the second six months we expanded our risk management system and reappraised existing risks impinging on Group activities.

Imponderables are captured, assessed, categorised and reported in accordance with standard Group-wide procedures. All manufacturing affiliates must submit half-yearly risk reports, which are scrutinised for divergence from planned schedules. The management board receives a regular update on the current risk status in the form of concrete data. If predefined threshold values are exceeded, ad hoc reports are sent to our controlling unit and the management board, enabling them to identify incipient risks to our earnings, finances and assets, and thus institute prompt countermeasures. Our risk strategy is determined by the management board and implemented by management.

Risk management units assigned to key subdivisions submit regular reports on pertinent risks, assessed according to their probability and the thresholds above which they must be reported. A co-ordination unit collates and quantifies these risks to provide a systematic overview of the Group's risk status. The sundry checks and controls specified in the risk manual and approved by the management board are monitored independently by specially appointed personnel. Group-wide entrepreneurial planning, the monthly reports automatically generated by our management information system and the ad hoc reports triggered when thresholds are exceeded are all part of our holistic approach. The early warning system is discussed in detail by the supervisory board's audit committee and monitored annually by the auditors in accordance with statutory regulations.

Economic and industry-related risks

When the world economy is functioning normally, annual demand for new printing presses (excluding digital systems, service, spare parts and installation) is around €9bn, of which €7.4bn is attributable to offset. Sheetfed presses account for approximately two-thirds of the offset market, while newspaper and commercial web presses make up the remaining third. Some 80% of Group press sales are generated with offset presses, 20% with niche presses and systems for less cyclical products such as banknotes, metal goods, data storage media and industrial inkjet or laser coding. Although thermal air-purification systems are a niche product for which demand is relatively limited, they do offer potential for growth and are not dependent on the print media industry.

In 2008 KBA-Metronic's Premius press for printing digital storage media established a firm foothold in the market with major contracts from prominent CD and DVD producers Cinram and Panasonic

Based on the volume of orders booked by leading manufacturers, and our own market research, we estimate that sales to offset printers, some 60% of whom are heavily exposed to the advertising industry, amounted to €5.2bn, or just 70% of the historic norm. The recessionary tendencies apparent in the first half-year were compounded in the second half by the negative impact of the banking crisis on credit lines and market confidence, choking off investment in the print media industry. This affected the entire supply sector, and with it both our business divisions.

Market and business risks

Anticipating the decline in demand for web presses, in autumn 2007 we started trimming the payrolls at our web press factories. We subsequently expanded our share of new orders for newspaper presses to 40% and achieved a sizeable increase in the turnover of commercial presses. While our web sales team is pursuing every project put out to tender, the temporary adoption of short-time work may no longer be sufficient to tide us over, making a further capacity cut necessary at our web press facilities. At present the subsidiaries manufacturing special presses for niche applications exert a stabilising influence on Group performance by partially compensating for the weaker sales and earnings posted by the Parent.

Following a 40% plunge in global sales of sheetfed presses in the fourth quarter of 2008, downsizing capacity at our sheetfed plants has become an urgent priority. Provision was made in the year-end accounts for restructuring activities that will include a personnel reduction in line with our amended sales targets. Value adjustments were made to allow for the financial risks associated with existing inventories at our Radebeul operation. The performance and quality risks deriving from the launch of new products are contained by rigorous quality management in conjunction with pre-launch beta trials at customers' premises.

The risks associated with customer financing (e.g. repurchase obligations and agreements relating to secondhand equipment) have been exacerbated by the current tumult in financial markets. To minimise such risks the management board has tightened the specifications governing the acceptance of contracts by our sales departments.

Hitherto there has been no hedging of procurement-specific currency risks arising from the impact of currency movements on our product prices. To defend our profit margins we observe clearly defined pricing guidelines for the acceptance of contracts, pursue cost savings through value analyses and impose innovation premiums commensurate with the unique features incorporated in our products. Adequate provision is made for anticipated losses from existing contracts.

Financial risks

Financial risks mainly comprise pricing, credit, liquidity and cash-flow risks. The type, scope and market value of the mechanisms used to contain financial risks are detailed in the Notes.

Foreign currency risks primarily relate to balance sheet items and uncompleted transactions (mostly dollar-denominated transactions and receivables). Such risks are actively managed by our treasury unit in conjunction with our sales teams. As well as hedging major contracts we also hedge a fixed proportion of foreign-currency contracts for batch-produced machinery, using currency options and future exchange transactions as a means of supporting forward planning. Our operating units are expressly forbidden to make speculative loans, transactions or investments in foreign currency funds. Our treasury unit assesses dollar-related risks by calculating the value of the unhedged portion using a sensitivity analysis based on a fluctuation of ±5% relative to the euro.

Framework agreements negotiated by our purchasing department form the basis for calculating profit margins on major fixed-price contracts. Fluctuations in the cost of raw materials are factored into the running calculations and, if appropriate, disclosed on the balance sheet date in the provisions for unprofitable contracts. The cost of raw materials has fallen in the wake of the global recession.

The financial meltdown has seriously impaired access to money and capital markets. Interest on savings has been cut and higher risk premiums demanded for loans. As a result both our debts and our financial investments are exposed to interest-related risks.

Since its emergence in 2007 the deepening credit crisis has impacted on customer finances with ever greater severity, and the knock-on effects on Group sales and earnings could well prove to be protracted. We can offer prospective customers a choice of financing options and in certain cases can also provide leasing companies with collateral for the projects they are financing. This, combined with the monitoring of customer accounts down to individual project level, enables us to reduce bad-debt risks to a minimum. Credit checks are routinely carried out prior to new contracts being signed. On top of this, customer creditworthiness is reviewed and collateral called in prior to shipment, and ownership transferred only after full payment. Adequate adjustment or provision is made for potential bad debts. At present the USA and Ukraine represent specific financial risks. There are no other discernible concentrations of credit risks.

The liquidity of the Parent and its subsidiaries is managed as part of our financial-planning procedure. Since the crisis broke we have increased the frequency with which liquidity reports must be submitted, and have also intensified our links and contacts to banks. Incoming payments are monitored on an ongoing basis by the competent sales units.

In order to balance fluctuations in cash flows with existing credit lines and sureties, these must first be adjusted to projected market rates. If we fail to achieve such a balance additional credit lines will be required. Given global volatility and the economic imponderables involved, this is a real possibility. We therefore subject our existing credit lines and anticipated liquidity levels to regular scrutiny based on a range of scenarios, with contingency plans for each scenario.

Personnel and capacity utilisation

Our success hinges on the dedication and competence of our employees and executives. Even so, the sharp decline in the volume of orders will oblige us to make deeper capacity cuts based on the anticipated inflow and resultant level of plant utilisation. Our objective is to maximise production efficiency. Ample provision was made in the year-end accounts for unavoidable staff redundancies.

Other risks

At present we see no incalculable risks relating to IT systems or the environment (natural catastrophes included). Individual risks that are hard to quantify are managed using the standard instruments available such as limited liability insurance. The Group is not engaged in any litigation that would materially impair its financial position. However, changes in import and export regulations, foreign currency restrictions or other trade barriers may impact on sales and profitability. No commodity derivatives were held on the balance sheet date. Adequate provision was made in the accounts for all other risks.

The global economic downturn and a widespread reluctance among financial institutions to extend credit to small and mid-size enterprises have increased our total risk exposure. While there are at present no excessive customer-, supplier- or country-specific concentrations of risks, if the influx of new orders in 2009 and 2010 fails to improve on the poor level of the fourth quarter in 2008, then further retrenchments will be necessary so as not to endanger the entire Group.

Having said that, we are confident that extensive structural reforms in our sheetfed division and additional capacity adjustments in our web press division will materially reduce overheads. There is also every chance that demand for new kit, which shrivelled in the financial conflagration, will recover in 2010 and gather momentum in 2011. If the restructuring measures we are proposing to implement are successful, and our equity capital base and gearing remain as healthy as they are now, we foresee no risks that could pose an existential threat to Group activities.

Supplementary Statement

On 6 February 2009 Helge Hansen, hitherto managing director of KBA-Metronic, was appointed Chief Financial Officer of Koenig & Bauer. When KBA president Albrecht Bolza-Schünemann tendered his resignation at the supervisory board meeting on 26 March after six years in office, Mr Hansen was appointed his successor. A business economist with extensive experience in banking, finance and management, Mr Hansen is well qualified to address the challenges associated with our corporate realignment while focussing more intensely on risk management, finances, controlling and financial communications.

As the economic climate continued to deteriorate, the original capacity adjustments scheduled for 2009 and beyond were revisited and revised. This entailed exhaustive analyses of market conditions, revenues and financial requirements, which delayed the disclosure of the financial statements for 2008. The impact on Group earnings, finances and assets is discussed in the outlook.

At Drupa our new Rapida 106 medium-format press put on a record-breaking performance as the world makeready champion


15000
RAPIDA 106

Outlook and Opportunities

Challenging times for exporters

As this report was being finalised in April 2009 there was still no indication of an imminent end to the financial and economic crisis. The mounting consensus among financial observers is that the German economy will contract by around 6% this year. The World Bank is even predicting a 15% slide in global industrial production and negative growth for the first time since the second world war. Never before have economic forecasts been subjected to such frequent and drastic revision as in the past few months. The 2.1% dip in gross domestic product (GDP) posted in the fourth quarter of 2008 by Germany, the world's leading exporter, was the biggest since the war.

The risks posed by the junk bonds clogging the books of financial institutions the world over make any prognoses a matter of conjecture rather than judgment. In the winter, exporting industries were hit by a further decline in incoming orders. According to statistics issued by the VDMA (German Machinery and Plant Manufacturers' Association), the volume of contracts awarded to the engineering industry in November and December 2008 was 30% and 40% respectively below the corresponding figures for 2007. Virtually every sector posted negative rates.

There was little improvement in the first two months of this year, and in March the VDMA adjusted its calculations accordingly. It now expects real production in 2009 to fall by 10 - 20%, reflecting the difficulty of attempting even an approximate prognosis. A projected 22% drop in the production of printing presses is more in line with our own expectations and revised schedules.

Credit crunch and loss of confidence impede investment

While the pervasive reluctance to invest in new kit is primarily attributable to bleak business prospects and the concomitant underutilisation of production capacity, these are compounded by banks' unwillingness to extend credit and the high cost of the rare credit that is available. Billions of dollars' worth of aid in the form of government fiscal stimulus packages and sharp reductions in base lending rates by leading central banks have so far failed to produce the desired effect on money and economic cycles. At the same time, drastic cuts in advertising budgets have impacted on all the media and, in the print sector, most painfully on newspapers, magazines, flyers and other mass publications. This is because a good 60% of all printed products depend on advertising in some form or other. Packaging, which is normally a growth sector, has been affected by weak consumption in mature markets and a dramatic drop in exports of packaging-intensive consumer goods such as toys and home entertainment systems in emerging economies like China.

Other factors acting as a brake on demand for new kit are the spread of online activities by publishing houses, extensive equipment upgrades during the recent economic boom and the disappearance of smaller printshops from the marketplace. The industry has adopted a watching brief, and we anticipate little change until the world economy recovers from the present crisis, the credit supply normalises again and investor confidence is restored. In our opinion this could happen sometime next year.

Drupa demonstrated that print retains its appeal as an information and advertising vehicle, despite competition from e-media

Niche markets exert stabilising influence

The niche markets we address have withstood the international turbulence much better than the bigger sheetfed and web offset markets. In security printing, metal decorating and specialist systems for data storage media and industrial coding we have benefited from our technological pre-eminence and our undisputed lead in certain sectors. Contrary to all expectations, the number of banknotes in circulation is growing as the widespread use of automatic teller machines to dispense banknotes has driven up the demand for new notes (ATMs cannot handle crumpled or damaged notes, so these are taken out of circulation sooner). The demand for increasingly sophisticated counterfeit-proofing for banknotes, passports and other security documents has risen even faster. Thanks to our unparalleled expertise in this field, sales of security systems have climbed steadily in recent years.

Profit margins in our niche markets are broader because there are fewer competitors and their standard of expertise is lower than in high-volume sectors. Developments in the sheetfed market, which is fiercely contested by players from Europe and the Far East, illustrate the risks inherent in an overdependence on a single market. If sales plunge by 30% to 40%, as they have done, then the extensive pre-fabrication, huge inventories and global sales network associated with serial manufacture can abruptly revert from being a cost benefit to a cost deficit against smaller, more agile rivals. We believe that the unique diversity of our product mix, embracing batch-built presses, bespoke installations and niche products for wide-ranging applications, is thus a major advantage. However, in the short term this diversity cannot compensate in full for the collapse in demand for our mainstream products, and the repercussions on sales, employment and earnings.

Adjusting to a diminished market

Far from growing, the print media industry faces a prolonged period of stagnation. We estimate that demand for industrial printing presses in 2009 and 2010 will remain well below the historic norm, and we therefore see no alternative but to trim capacities and overheads. In 2007 and 2008 we responded to a shrinking web market by terminating all temporary labour contracts and reducing the core workforce in our web press division. This year, following a sharp contraction in the sheetfed market, the focus will be on downsizing capacity and payrolls in Radebeul (Germany), Mödling (Austria) and Dobruška (Czech Republic). Redundancies will be unavoidable, and negotiations initiated last November with employee representatives were well advanced by the time this report went to press.

Corporate restructuring programme

In order to realign the Group with these new market realities we devised a restructuring programme which by 2011 should deliver savings of several hundred million euros at our major production plants through a raft of initiatives targeting personnel and process-specific material costs. By implementing this programme we anticipate a balanced result for 2009 and a sustained improvement in earnings in subsequent years. The feasibility of the restructuring programme was confirmed by an external consultant and acknowledged by the funding banks.

Positive changes in commodity, energy and currency markets

In addition to a progressive reduction in labour costs we anticipate lower prices for raw materials and energy thanks to the economic downturn that first became evident in mid-2008. But it is difficult to predict future developments in currency markets. With base lending rates in the USA being held at an historic low, and the budget deficit set to balloon as the new government's mammoth rescue package is put into effect, a further decline in the value of the US dollar cannot be ruled out. However, since similar fiscal and monetary measures are also being implemented in the euro zone, currency markets may well remain highly volatile in coming months, with no clear trend in evidence. Having said that, the Japanese yen is unlikely to become as cheap, in euro terms, as it has been in recent years. This will enhance the competitiveness of German press manufacturers against rivals in the Far East who primarily focus on price.

Print sector still in turmoil

Over the past decade the internet and changes in young people's reading habits have had an enduring impact on the print media, print production and press specifications. This is most striking in the newspaper, magazine and catalogue sectors. However, it has also spawned successful new business models for members of the industry. Web to print, for example, allows customers to be integrated in the production network, supports customer acquisition independent of location and streamlines order handling by limiting staff input.

For providers of print, the technological options available today offer both risks and rewards. Technological advances have shortened innovation cycles and powered demand for new investment which not every player can finance. We estimate that the number of print enterprises in industrialised countries will continue to dwindle, but that their average workforce will increase (at present 80% of printers in Germany employ fewer than 20 people). This trend will be accelerated by the current crisis, which will drive borderline players out of business. Since we cater to large-scale print operations we are less affected than competitors with substantial capacities who depend more heavily on small printshops.

Tapping growth potential in threshold markets

The internet and global economic recession notwithstanding, in many parts of the world there is a huge pent-up demand for printed products of all kinds. This applies chiefly to densely populated industrialising countries such as China, India, Brazil, Turkey and Indonesia, and also to Russia and Ukraine. Growth potential in such countries will largely compensate for saturation in mature markets. Packaging printers will benefit most from rising prosperity and demographic trends. KBA is well positioned in this sector, with a strong offering of medium- and large-format sheetfed presses and more products in the pipeline.

Well prepared for market changes

KBA started the year with a much smaller backlog, and in the first quarter the inflow of orders for sheetfed presses was well below the historic norm. As a result short-time work at our various factories had to be extended. In the near term we see no sign of any improvement and have accordingly scaled back our production scheduling to avoid building up costly inventories or having to make uneconomic concessions on price and financing merely to fill excess capacity.

Our farsighted development of greener products and technologies that are far ahead of their time (e.g. our ultra-compact Cortina waterless newspaper press), our relatively lean global sales and service network and the fact that a sizeable proportion of Group revenue is generated in less cyclical niche markets mean that we are better placed than many other manufacturers to weather the roiling structural changes that are playing out in the printing industry.

Major contract from North America

Although the volume of orders on hand has diminished substantially, prospects for our web and special press division are brighter than for our sheetfed division. The sale of a Commander newspaper press to a Chinese printing house, and of several Colora and Cortina press lines to printers in Germany, the Czech Republic and Ecuador, was followed earlier this year by a contract from North America for a number of our compact Commander CT presses. Despite the fact that industry restraint in purchasing new kit was, if anything still more pronounced in the first quarter, we are aiming to meet our revised sales targets by securing further orders.

Outlook: lower turnover, higher earnings

Given the present economic turbulence, any projections we may make are inevitably of a highly tentative nature. But assuming that the global economy experiences neither total collapse nor vigorous unexpected growth, we estimate that Group sales will be approximately 20% lower than in 2008. We are hopeful that the timely implementation of the restructuring measures provided for in last year's accounts will enable us to return a balanced pre-tax result in 2009.

At this point in time we see little sense in attempting a more detailed prognosis, and the management board is thus reserving this for the interim reports. If the expectations of leading economic research institutes are fulfilled and the global economy starts to pick up speed again in 2010, then in our experience the print media industry will respond relatively fast with new investment. However, we do not expect business – and thus output – to make a strong recovery until 2011.

In the newspaper industry even major press projects ranked as urgent were repeatedly deferred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Human Resources and Welfare

Skills a prime asset in an international arena

On 31 December there were 7,838 employees on the Group payroll. The reduction by 398 (2007: 8,236) was necessitated by softer demand in the global marketplace, with little prospect of imminent improvement. There will be more cutbacks in 2009.

The capacity adjustments initiated in September 2007 at our web press production plants, prompted by our withdrawal from the gravure market and the prospect of curtailed investment in the newspaper industry, were more or less completed by the end of 2008. When demand collapsed in the second six months and machinery stood idle, staff at our German operations were asked to run down their overtime and holiday accounts. In October our Radebeul facility was obliged to shut its gates for several days and in November, in common with other German competitors, went on short-time work.

Personnel cuts the inevitable outcome of universal stagnation

In January 2009 our web press factories, which had been fairly busy until the end of December, were also put on short time because the order backlog was no longer sufficient to maintain full production. This temporary measure was adopted as a means of retaining skilled staff in expectation of better times ahead, but if the situation fails to improve we may be obliged to trim our web press capacity as well.

In a buyer's market, winning contracts hinges as never before on price, swift delivery, automation and the quality of the services provided. All this is only possible with a high level of staff skill. Vocational training for technical staff and advanced training for our specialist and executive personnel therefore remain a core focus of our human resources management.

High standard of training

Last year 455 (2007: 459) of the Group's 7,838 employees were apprentices or student trainees – a very respectable 5.8% of the workforce and a modest increase on 2007 (5.6%). These figures underscore the value we place on youth advancement, even in an adverse business environment.

Our in-house vocational training school in Würzburg, which is one of the oldest in Germany, commemorated its 140th jubilee in 2008. Since being established in 1868 the school has provided in-depth training for thousands of young people who have later gone on to join the permanent workforce or other companies. The curriculum is continually being adapted to a changing environment. For example, alongside metalworking and industrial mechanics the technical qualifications most in demand today are electromechanics and electronics. In association with regional printing and media enterprises our Radebeul and Würzburg facilities also provide training for press operators. This is welcomed by our customers and ensures that our presses are commissioned with the necessary competence.

Women and technology – a symbiosis with huge potential


Fröhlich
KBA

Among the 93 trainees who qualified in 2008, five came top and several came second and third in the qualifying examinations set by the Chambers of Industry and Commerce. Three metalworking mechanics were regional champions in milling, turning and lathe technology in Bavaria and Saxony.

We attract young people to careers in industry through diverse activities that include open days, presentations at schools and participation in national campaigns such as Girls' Day, aimed at promoting a greater interest in technology among girls.

Well over 300 pupils and students gained work experience at the Parent through trial training courses and industrial placements. We also maintained close contacts with universities by providing support for 18 students writing industry-related theses. Last year our Benno Bolza Foundation awarded scholarships to four engineering science students for theses and dissertations of outstanding merit on press engineering and printing technology. We also awarded undergraduate and postgraduate grants as a means of nurturing the engineering professions essential to our long-term survival.

Once again advanced training programmes for section managers, young department heads and junior executives were well attended. We also provided courses on new products, specific technical aspects, information technology, foreign languages, social competence and methodology.

Staff ideas save money

A campaign promoting the in-house suggestion scheme at our Parent was a great success, resulting in a total of 1,714 submissions. Bonuses were awarded for 719 suggestions delivering substantial savings to the company.

Combining a family with a career

We work closely with nearby kindergartens and day-care centres to help new parents combine a family with a career. In association with the Alliance for the Family we held an open day to which we invited the children of employees at our Würzburg and Trennfeld factories. The response was overwhelming, with 180 children participating in a programme of games, talks, films and work-related activities.

Group payroll on 31 December

	2007	**2008**
Total	8,236	7,838
Salaried office staff	3,236	3,086
Wage-earning industrial staff	4,541	4,297
Apprentices/students	459	455

Even in a global recession KBA continues to invest heavily in staff training

Health care

Once again the KBA health-insurance scheme, which increased membership to 12,971 (2007: 12,927), organised sundry initiatives promoting a healthy lifestyle and preventive care. In June it launched a "People and Bikes" campaign for the third year in succession, encouraging staff to cycle to work on at least 30 days between June and August. The 323 who participated clocked up nearly 250,000 kilometres.

Centuries in the service of the company

138 employees were awarded long-service bonuses: 77 for 25 years, 57 for 40 years and four for 50 years of service. Our thanks to them all for their loyalty and dedication.


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Sustainability Report

Focus on green products and processes

As well as enhancing the quality of our products and services through continuous quality management, we demonstrate our commitment to the environment and society by seeking to employ sustainable resources in all our manufacturing processes, and by fulfilling our social and cultural commitments.

Conservation and work safety are key issues

In 2008 we implemented a raft of initiatives aimed at diminishing our ecological footprint. These included boosting energy efficiency while cutting waste levels along with solvent, carbon and noise emissions. Intensive training and briefing at individual workplaces, based on measurements taken, have also improved workflow ergonomics and work safety.

Advancing green technology

The current climate debate, tighter environmental regulations and a mounting awareness among print buyers are shifting the focus in the print media industry to press ecology. KBA has long been a leader in this field, offering both sheetfed (Genius 52UV, Rapida 74G, 74 Karat) and web presses (Cortina) with eco-friendly keyless inking and waterless offset technology. Eliminating dampeners and ink keys has minimised paper and water consumption, while the absence of additives and the reduction in ink mist and cleaning agents has slashed carbon emissions. In collaboration with prominent players like the BG Druck- und Papiertechnik (the German equivalent of the UK's Health and Safety Executive), the VDMA (German Machinery and Plant Manufacturers' Association) and ClimatePartner, a private enterprise, KBA has also been spearheading moves to green up conventional press technology. Alcohol-free offset, reduced powder consumption, biodegradable dampening additives and new technologies for cutting energy consumption, noise and carbon emissions are just a few examples. Regular environmental certification has been a routine procedure for all Rapida sheetfed presses manufactured since 2000.

Comprehensive quality management

Our entire production chain, from the goods delivered by subcontractors to the manufacturing process and press installation, complies with rigorous ISO 9001 quality norms. To maintain this quality excellence, in 2008 we intensified first sampling and prototype inspections and optimised both the testing schedules for components manufactured in-house and procedures for assuring the consistently high quality of bought-in parts. In addition all mechanical and electronic assemblies and all the software for our web presses are subjected to exhaustive function tests prior to shipment, with full documentation. The pre-delivery inspections in our sheetfed division are equally rigorous, and as press technology has become more complex we have expanded testing procedures and introduced spot quality checks.

Fulfilling our social commitments

In tandem with other companies and associations in the printing and paper sectors we are supporting Germany's most ambitious national reading campaign to date. Based on Bookstart, a similar initiative in the UK, the aim is to engender a lifelong love of reading among young children. Since the end of May last year some 3,500 paediatricians have distributed free packs of reading books and guides to around 250,000 families.

Our waterless Cortina is a fine example of our commitment to conservation

Other Reports

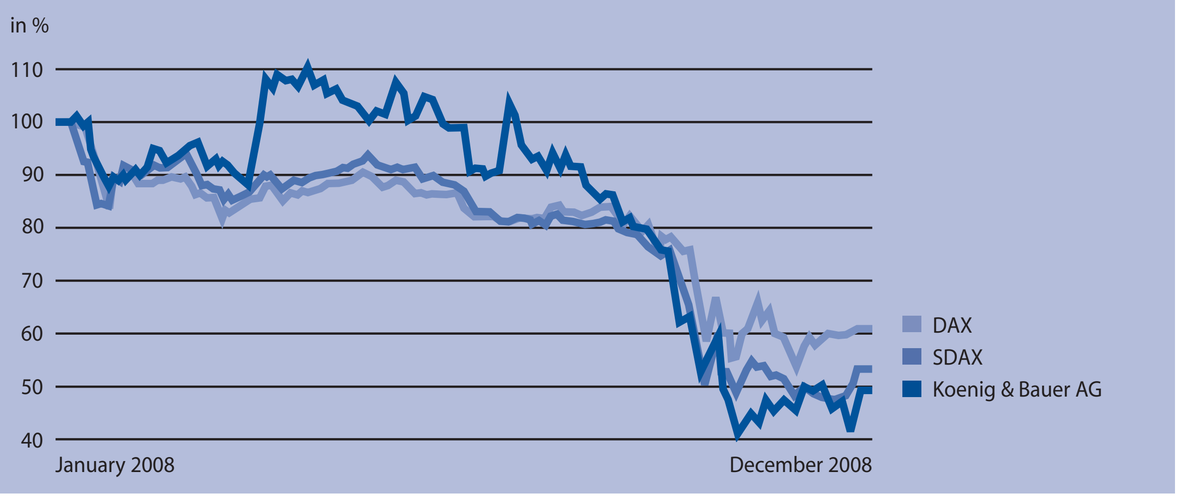
KBA Shares

Knock-on effects of the economic and financial crisis

Market conditions in 2008 were far from favourable. An endless succession of negative reports in the wake of the mortgage meltdown and credit crunch, and the abrupt slowing of the global economy, caused share prices to tumble the world over. A flurry of government rescue packages and cuts in base interest rates by major central banks failed to stem the headlong slide. Export-intensive sectors like the press engineering industry were hit particularly hard, as were small and medium-size enterprises with relatively modest trading volumes. In the course of the year the DAX lost 39.5% and the SDAX 46.3% of their value.

From an opening price of €19.29 on 2 January 2008 KBA shares fell in the first quarter to €16.50, but were able to buck the market trend in the second quarter. The financial results published on 31 March were rewarded by capital markets with a surge in price to over €22. In a volatile environment KBA shares subsequently fluctuated between €22 and €16. When financial devastation struck with the implosion of Lehmann Brothers, a big US investment bank, in mid-September, it precipitated a massive slide in value. The adjustment of annual profit projections on 26 September, the announcement of a sizeable group loss arising from the need to restructure our operations, and bad news from other members of the industry accelerated the decline.

Performance of KBA shares in 2008



On 27 October 2008 KBA shares hit an historic low of €7.73. On 30 December they stood at €9.90, 48.7% below their January opening price. A stock market value of €162.2m based on the year-end share price was nowhere near the group's real value derived from equity capital and cash positions. In the present unstable economic climate stock markets are likely to remain skittish for some time to come, and this is reflected in our share price.

Ongoing dialogue with investors

KBA is fully compliant with the international transparency and disclosure obligations imposed by our listing in the Prime Standard segment of the German stock exchange. These include regular updates of the financial documents, figures and dates on the corporate website and the publication of informative interim reports. Investor and analyst conferences, roadshows and individual interviews with shareholders, investors and analysts of all nationalities provide a forum for elucidating and discussing industry trends, business conditions and Group prospects. As the year progressed, analysts' appraisals were influenced by bleak prospects for the print media industry in general, and as a result many recommendations were amended from buy or hold to neutral or sell.

Our 2008 annual analyst conference took place on 10 June at our Drupa exhibition stand in Düsseldorf. A tour of the stand gave participants an insight into the cutting-edge technology embodied in our products. The annual shareholders' meeting, which is still a prime platform for direct communications between Group executive bodies and shareholders, also took place in June, at the Vogel Convention Center (VCC) in Würzburg. Some 60% of Parent equity was represented.

Key data on ordinary shares

	2007	**2008**
Earnings per share	€ 3.00	–€ 6.18
Price-earnings ratio	6.4	–
Highest price	€ 30.00	€ 22.13
Lowest price	€ 19.30	€ 7.73
Closing price	€ 19.30	€ 9.90
Market capitalisation in €m	315.4	162.2
Cash flow per share	€ 1.30	€ 2.11
Dividend	€ 0.60	–

Corporate Governance Report

Corporate culture predicated on responsible management

Koenig & Bauer is fully committed to the standards summarised in the German Corporate Governance Code promoting transparency in accounting practices. Responsible management and monitoring have long been inherent to our corporate culture, and the recommendations and principles embedded in the Code are implemented with very few exceptions. Any amendments are incorporated without delay in our articles of association and guiding principles.

Declaration of compliance on website

In February 2009 the Koenig & Bauer supervisory and management boards issued an updated declaration of compliance as per section 161 of the German Stock Corporation Act (AktG), and this is permanently accessible on the Group website under Investor Relations/Corporate Governance. The recommendations of the Government Commission on the German Corporate Governance Code, as revised on 6 June 2008, are observed with the exceptions stated below.

Disclosure of board compensation

Pursuant to section 286 (5) of the German Commercial Code (HGB) on the disclosure of management board compensation, at the Koenig & Bauer AGM on 22 June 2006 a resolution was passed to forego until 2011 the disclosure of individual board members' compensation and the details required in section 314 (1) 6a articles 5 to 9 of the HGB. A similar decision was made in respect of supervisory board compensation (provision 5.4.6).

We believe that the customary breakdown into fixed and variable elements for each of the two boards is perfectly adequate and, together with the compensation system detailed on page 17, furnishes our shareholders with sufficient information for assessing the propriety of the remuneration given. Share options and other derivatives have hitherto formed no part of such remuneration, and there are no plans for them to do so in the future.

Management board compensation in 2008, and pension provisions for active and retired members of the board, are disclosed in the Notes on page 96. Compensation for the supervisory board totalled €0.1m (2007: €0.5m), all of it fixed (2007: €0.1m).

Nomination committee

Under provision 5.3.3 of the Code, in addition to existing committees the supervisory board must appoint a nomination committee composed solely of shareholder representatives whose brief is to recommend suitable candidates for nomination by the supervisory board at the shareholders' meeting. This committee has not yet been appointed.

Management and supervisory board shareholdings

At the end of December 2008 members of the management board owned 5.6% of equity capital, members of the supervisory board 2.2%. Since we feel that such a broad disclosure is sufficient to meet shareholders' justifiable need for information, the figures for individual board members (provision 6.6) were not disclosed.

Publication of financial statements

While we routinely publish our Group financial statements within the recommended 90 days (provision 7.1.2), this year is an exception. The devastating impact of the financial and economic crisis on the export-intensive press engineering industry has obliged us to make urgent revisions to our three-year business plan, and provision for these had to be included in the accounts before they could be finalised.

Non-minor shareholdings

Provision 7.1.4 of the Code states that the company shall publish a list of major affiliates together with their operating result in the past financial year. For competitive reasons the overview provided in the Notes on page 79 states only the names and headquarters of such companies, the size of the shareholding and the amount of equity.

Audit agreement

In accordance with provision 7.2.3 of the Code it was agreed that the auditors, PricewaterhouseCoopers, should inform the supervisory board or make a note in the audit if they detected any deviations from the declaration of compliance issued by the supervisory and management boards. The auditors discovered no errors or misrepresentations.

Würzburg, 29 April 2009

For the supervisory board:
Dieter Rampl

For the management board:
Helge Hansen


KBA

Financial Statements for the KBA Group

Group Balance Sheet to 31 December 2008

Assets in €m	Note	31.12.2007	**31.12.2008**
Non-current assets			
Intangible assets	**(1)**	32.2	26.7
Property, plant and equipment	**(1)**	258.1	227.8
Investments and other financial receivables	**(2)**	23.2	23.4
Other assets	**(2)**	2.5	1.2
Deferred tax assets	**(6)**	34.2	26.2
		350.2	**305.3**
Current assets			
Inventories	**(3)**	402.5	392.3
Trade receivables	**(2)**	395.3	325.1
Other financial receivables	**(2)**	23.1	26.6
Other assets	**(2)**	54.6	32.8
Current tax assets		6.9	2.9
Securities	**(4)**	10.8	10.6
Cash and cash equivalents	**(5)**	123.2	85.8
		1,016.4	**876.1**
		1,366.6	**1,181.4**

Equity and liabilities in €m	Note	31.12.2007	**31.12.2008**
Equity	**(7)**		
Share capital		42.5	42.6
Share premium		85.9	86.7
Reserves		386.7	281.8
Capital attributable to equity holders of the Parent		**515.1**	**411.1**
Liabilities			
Non-current liabilities			
Pension provisions	**(8)**	102.8	102.3
Other provisions	**(9)**	88.8	89.3
Bank loans and other financial payables	**(10)**	30.1	28.4
Other liabilities	**(10)**	3.2	3.4
Deferred tax liabilities	**(6)**	25.2	22.9
		250.1	**246.3**
Current liabilities			
Other provisions	**(9)**	171.9	186.4
Trade payables	**(10)**	82.7	72.1
Bank loans and other financial payables	**(10)**	124.0	104.5
Other liabilities	**(10)**	216.7	152.2
Current tax liabilities		6.1	8.8
		601.4	**524.0**
		1,366.6	**1,181.4**

Group Income Statement for 2008

in €m	Note	2007	2008
Revenue	(14)	1,703.7	1,531.9
Cost of sales	(15)	–1,249.6	–1,246.9
Gross profit		**454.1**	**285.0**
Research and development costs	(15)	–61.7	–54.2
Distribution costs	(15)	–170.5	–161.1
Administrative expenses	(15)	–89.3	–89.4
Other operating income	(17)	32.9	55.5
Other operating expenses	(17)	–99.8	–115.7
Operating profit/loss		**65.7**	**–79.9**
Other financial results		–0.5	–0.7
Interest income		10.9	7.9
Interest expense		–12.9	–14.4
Financial result	(19)	**–2.5**	**–7.2**
Earnings before taxes		**63.2**	**–87.1**
Income tax expense	(20)	–14.2	–13.9
Profit for the period attributable to equity holders of the Parent		**49.0**	**–101.0**
Earnings per share (in €, basic/dilutive)	(21)	**3.00**	**–6.18**

The table below shows function costs without restructuring costs (disclosed separately).

in €m	Note	2007	2008
Revenue		1,703.7	1,531.9
Cost of sales		–1,241.2	–1,205.0
Gross profit		**462.5**	**326.9**
Research and development costs		–61.1	–51.9
Distribution costs		–170.1	–158.8
Administrative expenses		–88.3	–85.7
Other operating income		32.9	55.5
Other operating expenses		–54.6	–72.6
Operating profit before restructuring		**121.3**	**13.4**
Restructuring costs	(18)	–55.6	–93.3
Operating profit after restructuring		**65.7**	**–79.9**

Statement of Changes in Group Equity

in €m	Share capital	Share premium	Reserves Recognised in equity	Reserves Other	**Total**
1 January 2007	**42.4**	**84.9**	**2.1**	**346.9**	**476.3**
Total net profit/loss					
Profit for the period	–	–	–	49.0	49.0
Primary financial instruments	–	–	–0.1	–	–0.1
Derivatives	–	–	–1.1	–	–1.1
Exchange differences	–	–	–1.3	–	–1.3
	–	**–**	**–2.5**	**49.0**	**46.5**
Other changes					
Capital increase from approved capital	0.1	1.0	–	–	1.1
Dividend	–	–	–	–8.2	–8.2
Sundry other changes	–	–	–	–0.6	–0.6
31 December 2007	**42.5**	**85.9**	**–0.4**	**387.1**	**515.1**
1 January 2008	**42.5**	**85.9**	**–0.4**	**387.1**	**515.1**
Total net profit/loss					
Loss for the period	–	–	–	–101.0	–101.0
Primary financial instruments	–	–	0.2	–	0.2
Derivatives	–	–	–1.4	–	–1.4
Exchange differences	–	–	5.4	–	5.4
	–	**–**	**4.2**	**–101.0**	**–96.8**
Other changes					
Capital increase from approved capital	0.1	0.8	–	–	0.9
Dividend	–	–	–	–9.8	–9.8
Sundry other changes	–	–	–	1.7	1.7
31 December 2008	**42.6**	**86.7**	**3.8**	**278.0**	**411.1**

For further information see explanatory Note (7).

Group Cash Flow Statement

in €m	2007	**2008**
Earnings before taxes	63.2	–87.1
Depreciation on intangible assets, property, plant and equipment	50.2	88.6
Foreign exchange gain/loss	1.4	–2.9
Interest income/expense	–0.9	4.7
Changes in non-current provisions	3.6	–0.2
Other income/expenses	–5.1	–2.0
Gross cash flow	**112.4**	**1.1**
Changes in inventories	–32.3	34.5
Changes in receivables and other assets	–6.1	81.8
Changes in current provisions	56.6	12.5
Changes in payables and other liabilities	–85.1	–89.5
Interest received	6.8	5.8
Interest paid	–9.7	–7.6
Income tax paid	–21.3	–4.0
Cash flows from operating activities	**21.3**	**34.6**
Proceeds from disposal of intangible assets, property, plant and equipment	11.2	7.4
Payments for investment in intangible assets, property, plant and equipment	–50.7	–52.4
Proceeds from disposal of investments	0.5	0.1
Payments for investments	–0.7	–0.3
Investment subsidies received	1.2	0.6
Dividends received	0.1	0.1
Cash flows from investing activities	**–38.4**	**–44.5**
Free cash flow	**–17.1**	**–9.9**
Proceeds from capital contributions	1.1	0.9
Proceeds from loans	16.5	13.8
Repayment of loans	–10.1	–34.0
Other changes in equity	–	0.2
Dividends paid	–8.2	–9.8
Cash flows from financing activities	**–0.7**	**–28.9**
Change in funds	**–17.8**	**–38.8**
Effect of changes in exchange rates	–2.2	1.4
Change in funds	–	–10.8
Funds at beginning of period	154.0	134.0
Funds at end of period	**134.0**	**85.8**

For further information see explanatory Note (I).

(A) Preliminary Remarks

The KBA Group is a global manufacturer of sheetfed, web and special printing presses for all current processes. The Parent, Koenig & Bauer AG (KBA) based in Würzburg, Germany, is a public limited company under German law. The consolidated financial statements include the Parent and all consolidated affiliates.

Consolidated financial statements for the Parent and a Group management report to 31 December 2008 were prepared in accordance with section 315a of the HGB (German Commercial Law) and published online in the *Bundesanzeiger* (Federal Gazette).

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) valid on that date, as issued by the International Accounting Standards Board (IASB), London, and all binding interpretations by the International Financial Reporting Interpretation Committee (IFRIC), with due regard for EU directives.

Individual items aggregated in the balance sheet and the income statement are disclosed and explained separately in the Notes below. For the income statement we used the cost of sales method. The reporting currency is the euro, and all amounts disclosed in the financial statements represent million euros (€m), unless otherwise indicated.

On 29 April 2009 the Koenig & Bauer management board authorised the submission of the Group financial statements to the supervisory board for scrutiny and approval.

(B) New and Amended Standards and Interpretations

The financial statements for 2008 were prepared in accordance with the following International Financial Reporting Standards that are required to be applied for annual periods beginning on or after 1 January 2008:

IFRIC 11	IFRS 2 Share-based Payment (group and treasury share transactions)
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IAS 39/IFRS 7	Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

The above standards were applied in compliance with the relevant transitional provisions. Where appropriate, amendments were made retrospectively, i.e. as if the new accounting policies had always applied. The comparative prior-year figures were amended accordingly.

The effects on the periods of time specified in the consolidated financial statements are described below.

IFRIC 14: IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This interpretation defines the surplus from a defined benefit plan as an asset. It also explains how a minimum funding requirement might affect the valuation of assets and provisions. This is not expected to have any impact on the Group.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and
IFRS 7 Financial Instruments: Disclosures

Pursuant to the current crisis these amendments allow the reclassification of specific non-derivative financial assets classified as available for sale and recognised at fair value through profit or loss. The pertinent adjustments applied from 1 July 2008. KBA did not utilise this option.

The KBA Group did not apply in advance the following IASB standards, interpretations and amendments to existing standards that are not yet mandatory:

		Date applicable
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	1 January 2009
IAS 23	Amendments to IAS 23 Borrowing Costs	1 January 2009
IFRS 8	Amendments to IAS 14 Segment Reporting	1 January 2009
Sundry amendments resulting from the first annual improvements project		1 January 2009
IFRS 1/IAS 27	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements	1 January 2009
IAS 32/IAS 1	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements	1 January 2009
IFRS 2	Amendments to IFRS 2 Share-based Payment: Conditions and Annulment	1 January 2009
IFRS 3/IAS 27	Revisions to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements	1 July 2009
IAS 39	Additions to IAS 39 Financial Instruments: Recognition and Measurement of Eligible Hedged Items	1 July 2009
IFRS 1	Revisions to IFRS 1 First-time Adoption of International Financial Reporting Standards	1 January 2009
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009

The amendments to IAS 1, IAS 23, IFRS 2, IFRS 8 and IFRIC 13 were adopted as part of the EU endorsement process.

The issues treated in the amendments to IAS 32/IAS 1 and IFRS 2, the revised versions of IFRS 1, IFRIC 13, IFRIC 15 and IFRIC 17 are irrelevant to the business activities of the entities included in the statements.

Amendments to IAS 1 Presentation of Financial Statements

Amendments have been made to the disclosure of non-owner changes in equity, new terminology has been adopted and the Notes expanded.

Amendments to IAS 23 Borrowing Costs

Borrowing costs directly attributable to assets on or after 1 January 2009 must be capitalised as part of the cost of the asset. The option previously exercised by the Group, of recognising borrowing costs directly as an expense, is no longer available. In rare cases this will lead to a change in the valuation of assets.

IFRS 8: Amendments to IAS 14 Segment Reporting

This replaced IAS 14. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker. The segment review for KBA is not yet complete, but we anticipate no changes other than additional Notes.

Amendments resulting from the first annual improvements project

The amendments were issued in two parts: those involving accounting changes for presentation, recognition or measurement purposes (the standards affected are IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41) and those involving terminology or editorial changes with minimal effect on accounting. Individual amendments in part 1 will impact on the presentation, recognition and/or measurement of the consolidated financial statements, the amendments in part 2 are of minor relevance.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements under IFRS

An obligation under IAS 27 to reduce the cost of an investment when distributing revenue reserves created prior to the date of acquisition has been deleted. This amendment is at present irrelevant to Group activities.

Revised versions of IFRS 3 Business combinations and IAS 27 Consolidated and Separate Financial Statements under IFRS

Significant amendments to these two standards relate to the balance-sheet valuation of minority interests and the booking of changes in the proportion of ownership interest (e.g. successive acquisitions, loss of control), which may on occasions affect recognition and measurement.

Additions to IAS 39 Financial Instruments: Recognition and Measurement

To simplify the application of the basic principles of IAS 39, the section relating to the designation of a unilateral risk in a hedging item with an option contract was expanded by a clause to the effect that it is now possible to designate only the intrinsic value of an option rather than the value of the option in its entirety comprising intrinsic value and time value. Since the Group has designated no such options, no changes were made in the accounts.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

This interpretation explains which risk positions relating to a foreign operation are relevant to a hedging relationship as per IAS 39. It has no impact on KBA.

(C) Accounting Policies

The financial statements for Koenig & Bauer AG and its domestic and foreign subsidiaries were prepared in compliance with IAS 27 using uniform accounting policies.

Measurement basis and judgements
The measurement of assets and liabilities is based on the historical or amortised cost, with the exception of available-for-sale financial assets, derivative assets and derivative liabilities, which are measured at fair value.
In the process of applying the entity's accounting policies management makes various judgements, essentially on the categorisation of investments held to maturity.

Estimates and assumptions
Where no market prices are available for assessing the value of assets and liabilities, this must be estimated and may give rise to a risk entailing adjustments in subsequent years to the assets and liabilities disclosed. The imputed value is predicated on past experience and current knowledge.

For impairment tests as per IAS 36 a cash-generating unit's future cash flows are calculated using four- or five-year plans. Predictions of future market developments are founded on past experience and plans approved by management. Extrapolations of cash flows beyond the planning period are based on a growth rate of 0.8%.

Appropriate restructuring provisions were created for the measures proposed. The actual expense is not yet known because it depends on the accuracy of the underlying premises.

Further fundamental assumptions are detailed under the individual items (e.g. provisions, deferred taxes, the useful life of intangible assets, property, plant and equipment).

Intangible assets
Purchased intangible assets were disclosed at their purchase price if it was likely that economic benefits attributable to the use of the assets would flow to the enterprise and their cost could be measured reliably. Each asset with a limited useful life was amortised on a straight-line basis over its estimated useful life.

Development costs for new or significantly improved products were capitalised at cost if the technical feasibility, an intention to sell and the existence of a market could be demonstrated, the attributed expenditure measured reliably, adequate development and marketing resources were available and future economic benefits probable. Compliance with the above criteria was checked by conducting product trials in the marketplace, with development costs capitalised from the date on which these trials were initiated. The straight-line method was used to allocate the depreciable amount of such products over their projected useful life, and annual impairment tests carried out. Adequate allowance was made for future market trends. Research costs and non-capitalised development costs were recognised as an expense as they arose.

Property, plant and equipment
Items of property, plant and equipment were disclosed at cost less depreciation, based on the use to which they are put. Each item with a significant value relative to the total asset value was treated as a separate depreciable asset (component recognition). Manufacturing costs for self-constructed plant and equipment included an appropriate proportion of production overheads, material and labour costs. Interest on borrowings was not carried as part of the cost of an asset. Subsequent costs associated with the acquisition or replacement of an item of property, plant or equipment were capitalised and written down over the individual useful life. Replaced items were derecognised accordingly. Costs for maintenance and repairs were also recognised as an expense. No land or buildings were held as financial investments as defined in IAS 40.

Grants

Government grants reduce the cost of assets and were recognised as a reduced depreciation charge over the asset life.

One condition for the disbursement of research funds is that a complete record must be kept of all the costs incurred, and submitted upon completion of the relevant project.

Leases

Leases for which the KBA Group assumed the basic risks and rewards as the lessee were disclosed as finance leases under intangible assets or property, plant and equipment. Leased property was measured at fair value or the lower present value of the minimum lease payments. Depreciation was calculated using the straight-line method for the shorter of the two periods (the term of the contract or the useful life of the leased property). Payment obligations arising from future lease payments comprised interest and capital portions and were disclosed in other financial payables. Where the risks and rewards incident to ownership were not assumed, the lease was classified as an operating lease and payments carried as expenses.

Leases for which the KBA Group assumed the basic risks and rewards as the lessor were disclosed as finance leases under other financial receivables and marked at the present value of the minimum lease payments. Profits accrued in proportion to the term to maturity of the finance lease. The contractual payments for operating leases were recognised as profit.

Depreciation

The systematic straight-line depreciation of intangible Group assets, property, plant and equipment was based on their useful lives as shown in the chart.

	Years
Industrial property rights and similar rights	3 to 7
Product development costs	4 to 6
Buildings	5 to 40
Plant and machinery	3 to 15
Other facilities, factory and office equipment	2 to 12

If there was any indication that intangible assets, property, plant and equipment might be impaired these assets were tested for impairment on the balance sheet date as per IAS 36. The recoverable amount was defined as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Cash-generating units are the smallest group of units defined by the entity whose products are available for sale on an active market. Where the recoverable amount was lower than the carrying amount the difference was disclosed as an impairment loss. If the reason for an impairment no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

Depreciation on and impairments in intangible assets, property, plant and equipment were disclosed under the individual functions.

Goodwill is tested for impairment annually and attributed to the cash-generating units. The discounted free cash flow is the amount recoverable for the unit and corresponds to the value in use, with the discount calculated at post-tax interest rates of between 7.6% and 9% (equivalent to pre-tax interest rates of 10% to 13.5%). Where the recoverable amount exceeded the carrying amount (goodwill included) of the cash-generating unit, the unit was defined as unimpaired. Where the carrying amount exceeded the value in use, an impairment adjustment to the lower market value was made by deducting the impairment loss from goodwill and distributing the difference among the unit assets, taking as the lower value limit the recoverable amount of the individual asset or zero, whichever was higher.

Individual items, depreciation and impairments under IAS 36 were disclosed under "Changes in Intangible Assets, Property, Plant and Equipment" (F).

Financial assets

These were measured at fair value where contractual claims existed and subsequently assigned to one of four categories under IAS 39: financial assets recognised at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Held-to-maturity investments, and also loans and receivables, were stated at their amortised cost using the effective interest method, and were tested for impairment loss on the balance sheet date. Available-for-sale financial assets were measured at fair value, with unrealised gains and losses recognised directly in equity, net of deferred taxes. Financial assets were recognised in the balance sheet on the settlement date. Value adjustments were made as appropriate for all recognisable risks.

Interests in affiliated, non-consolidated entities were reported under **investments** and classified as available for sale. Since they represent financial investments in equity instruments for which no price is quoted in an active market, and whose fair value cannot be reliably determined, they were carried at cost of purchase. Other loans were grouped under loans and receivables.

Other financial receivables included derivatives and held-to-maturity investments.

Trade receivables related to commercial loans and receivables. Non-interest-bearing claims and low-interest claims with maturities of more than one year were discounted.

Securities, cash and cash equivalents refer to available-for-sale financial assets carried at fair value on the balance sheet date. This classification was also used for fixed-interest securities and shares, since we have no plans to hold these until final maturity.

Derivatives

In accordance with IAS 39 all instruments such as swaps and future currency contracts were carried at fair value. Changes in fair value were reported in net profit or loss where no hedge accounting was used.

Where hedge accounting was used, changes in fair value were reported either in equity or in the income statement. With a fair value hedge, changes in the fair value of a hedging instrument and the underlying transaction were reported as a profit or loss. With a cash flow hedge, the portion of the gain or loss in the hedging relationship that was determined to be an effective hedge was recognised directly in equity and the ineffective portion reported in the income statement. Gains and losses were reported in the income statement as soon as the hedged transaction itself was recognised.

The KBA Group is exposed to numerous risks deriving from its global activities.

Currency risk is the risk that the value of business transactions conducted in other currencies, particularly US dollars, will fluctuate due to changes in foreign exchange rates.

Interest-related cash flow risk is the risk that future cash flows will fluctuate following changes in market interest rates.

Interest rate risk is the risk that the interest on deposits or loans will fluctuate as a result of changes in market interest rates.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

These risks are contained by a risk management system. The principles laid down ensure that risk is assessed and documented in accordance with systematic and uniform procedures. Further information can be found on pages 40-41. Derivatives in the form of marketable foreign exchange transactions, currency and interest swaps were used to hedge against currency and interest risks. Where the conditions defined in IAS 39 for an effective hedging relationship were fulfilled, hedge accounting was used, more specifically cash flow hedges.

Inventories

Inventories were carried at the cost of purchase or conversion, with the latter including individual items, their proportionate share of total overheads and depreciation based on a normal level of plant utilisation. Borrowing costs under IAS 23 were not included. The cost of inventories that could not be measured on an item-by-item basis was calculated using the weighted average cost formula.

Inventories whose net realisable value on the balance sheet date was lower than cost, for example due to damage, impaired marketability or prolonged storage, were written down to the lower value. The net realisable value is the estimated sales revenue realisable in normal business minus the estimated cost of completion and pertinent distribution costs.

Construction contracts

Contract revenue and expenses were disclosed using the percentage of completion method, as per IAS 11. Under this method, contract revenue is proportionate to the contract costs incurred in reaching the stage of completion on the balance sheet date, i.e. the revenue, expenses and profit disclosed are those attributable to the proportion of work completed. Contract revenue was carried under trade receivables after deducting payments received.

Equity

The issued capital was calculated from the number of no-par shares issued by Koenig & Bauer AG up to the balance sheet date.

The share premium included the extra charge from the issue of shares, and is subject to the limitations imposed by section 150 of German Company Law.

Reserves encompassed the net profits posted and retained in previous years by consolidated companies, and adjustments arising from the adoption of IFRS, more specifically IFRS 3 in 2004. They also included translation differences relating to the financial statements of foreign entities and to changes in the market value of financial instruments after taxes, where these were not recognised as income or expense.

Pension provisions

Pension provisions were measured using the projected unit credit method described in IAS 19, based on actuarial reports that recognised the present and potential benefits known on the balance sheet date, and included an estimate of anticipated increases in salaries and pensions. Actuarial gains and losses were recognised only where they exceeded a ‘corridor’ of plus or minus 10% of defined-benefit obligations or plan assets (whichever was greater), divided by employees’ average remaining years of service.

As a rule, in accordance with national and regional regulations we offer our employees defined-benefit pension plans, with benefits determined by the individual’s length of service and compensation.

Pensions are partially financed through a funded benefit system. Obligations not covered by fund assets are carried in pension provisions at the value of the net liability.

Other provisions

These included all other corporate risks and uncertain liabilities to third parties, insofar as an outflow of resources was probable and could be reliably assessed. The amounts disclosed represent the best estimate of the expenditure needed to settle current obligations. Long-term provisions were disclosed at their present value where the interest effect was substantial.

Financial payables

A financial payable was recognised on the balance sheet as soon as contractual obligations arose from a financial instrument. Financial payables, which were initially recognised at fair value and subsequently carried at their amortised cost, were reported on the settlement date.

Of **other financial payables**, derivatives with a negative market value were carried at fair value. Payables arising from finance leases were carried at present value.

Deferred taxes

Deferred tax assets and liabilities were recognised on temporary differences between IFRS and tax bases for Group enterprises, and on consolidation measures. Differences were calculated using the liability method specified in IAS 12, and only tax-relevant temporary differences were taken into account. Deferred tax assets also included claims to future tax reductions arising from the anticipated use of existing tax loss carryforwards, where this use was probable. Where the use was improbable, an impairment was disclosed. The tax rates used to calculate deferred taxes were the national rates applicable or notified at the time of recovery, and ranged from 10.4% to 40%.

The effect of changes in tax rates on deferred taxes was reported when such changes came into force.

The Group tax rate was the same as the Parent tax rate. Differences arising from calculations based on national tax rates were disclosed separately under "variances due to different tax rates".

Non-current assets held for sale

A non-current asset is classified as being held for sale if management is committed to a plan to sell the asset and it is highly probable that the sale will be completed within one year from the date of classification. The asset is valued at the lower of its carrying amount and fair value less costs to sell. Such an asset will no longer be written down.

Earnings

Earnings were recognised at the fair value of the consideration received or claimed. Revenues from the sale of goods were recognised at the transfer of ownership or passage of risk. Earnings from the rendering of services were recognised on the balance sheet date either in full subsequent to being rendered or calculated using the effort-expended method, provided the amount of earnings and costs could be reliably estimated. Price reductions, rebates, bonuses and bulk discounts granted to customers were deducted from revenue.

Interest was recognised as profit if the amount could be measured reliably and there was a reasonable likelihood of future economic benefit. Dividends were balanced with the origination of a legal claim to payment.

Expenses by function

Cost of sales included the purchase and conversion costs of products sold. In addition to directly attributable material and prime costs these incorporated overheads, depreciation on production plant and inventory adjustments.

Research and development costs encompassed costs for original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and these were recognised in full in the income statement together with development costs not recognised by IAS 38.

Distribution costs included costs for open house promotions and demonstrations for customers.

Administrative expenses included the amortisation of goodwill and negative goodwill.

Wherever possible, income and expenses were attributed to their respective functions; those that could not be attributed were disclosed under other operating income and expenses.

(D) Consolidated Companies and Consolidation Principles

Consolidated companies

In addition to Koenig & Bauer AG, Würzburg, the consolidated financial statements include 12 (previous year: 12) companies.

Altogether 16 (previous year: 15) subsidiaries were excluded from the consolidated financial statements since they were of minor significance to the Group's financial position and performance.

A special fund, classified under IAS 27 and SIC 12 as a special-purpose entity, was not included in the consolidated financial statements since it was also of minor significance to the Group's financial position and performance. It was carried at fair value as an available-for-sale financial instrument under IAS 39.

Consolidation principles

On the date on which control was obtained the capital consolidation of affiliates and the disclosure of business combinations entailed offsetting the cost of acquiring shares in subsidiaries against the fair value of the Parent's share of equity at the date of initial consolidation. Hidden reserves or liabilities were allocated to the subsidiary's assets and liabilities. Contingent liabilities were offset against equity, and any excess of cost over the amounts allocated was recognised as goodwill. Goodwill generated prior to 1 January 1995 remained netted against reserves as permitted by IAS 22. Negative goodwill was immediately disclosed under administrative expenses.

Receivables, liabilities, income and expenses relating to transactions among consolidated companies were eliminated, as were the profits from such transactions. With the exception of goodwill, temporary tax deferrals arising from the consolidation were recognised as deferred taxes under IAS 12.

(E) Foreign Currency Translation

The financial statements of consolidated companies prepared in a foreign currency were translated using their functional currency and the foreign entity method specified in IAS 21.

Since foreign subsidiaries are financially, economically and organisationally autonomous, their functional currency is the same as their local currency. In the consolidated financial statements their assets and liabilities were therefore translated into the reporting currency at the closing rate, income and expenses at the average exchange rate for the year. The resulting exchange differences were disclosed in equity.

The financial statements for subsidiaries consolidated for the first time, the goodwill arising from the acquisition of such subsidiaries and adjustments in the carrying amounts of assets and liabilities to fair value were translated at the closing rate on the date of the initial consolidation.

Currency gains and losses ensuing from consolidation were recognised as income or expense.

(F) Changes in Intangible Assets, Property, Plant and Equipment

in €m	Cost					
	01.01.	Additions	Translation differences	Reclassifi-cations	Disposals	**31.12.**
2007						
Intangible assets						
Industrial property rights and similar rights	56.1	2.2	–0.3	0.2	9.6	48.6
Goodwill	20.0	–	–	–	–	20.0
Product development costs	5.4	–	–	–	–	5.4
	81.5	**2.2**	**–0.3**	**0.2**	**9.6**	**74.0**
Property, plant and equipment						
Land and buildings	217.9	7.1	–0.4	0.3	1.1	223.8
Plant and machinery	232.8	13.4	–0.3	1.7	8.6	239.0
Other facilities, factory and office equipment	113.3	16.1	–0.2	0.3	10.9	118.6
Assets under construction	–	9.4	–	2.9	1.8	10.5
	564.0	**46.0**	**–0.9**	**5.2**	**22.4**	**591.9**
	645.5	**48.2**	**–1.2**	**5.4**	**32.0**	**665.9**
2008						
Intangible assets						
Industrial property rights and similar rights	48.6	2.6	1.0	0.3	2.1	50.4
Goodwill	20.0	–	–	–	–	20.0
Product development costs	5.4	–	–	–	–	5.4
	74.0	**2.6**	**1.0**	**0.3**	**2.1**	**75.8**
Property, plant and equipment						
Land and buildings	223.8	10.8	0.2	0.5	4.9	230.4
Plant and machinery	239.0	10.8	2.8	5.4	4.0	254.0
Other facilities, factory and office equipment	118.6	16.8	0.7	0.8	10.9	126.0
Assets under construction	10.5	15.4	0.7	–7.0	1.2	18.4
	591.9	**53.8**	**4.4**	**–0.3**	**21.0**	**628.8**
	665.9	**56.4**	**5.4**	**–**	**23.1**	**704.6**

[1] Impairments in web and special press division
[2] Impairments in sheetfed division

Depreciation							Carrying amount	
01.01.	Annual depreciation	Impairments	Translation differences	Reclassifi-cations	Disposals	**31.12.**	01.01.	**31.12.**
43.5	4.2	–	–0.2	0.1	9.5	38.1	12.6	10.5
–	–	–	–	–	–	–	20.0	20.0
2.9	0.8	–	–	–	–	3.7	2.5	1.7
46.4	**5.0**	**–**	**–0.2**	**0.1**	**9.5**	**41.8**	**35.1**	**32.2**
68.3	6.3	5.7	–0.2	–	1.0	79.1	149.6	144.7
161.7	13.6	3.7	–0.3	–	5.0	173.7	71.1	65.3
76.0	15.1	1.0	–0.2	–	10.9	81.0	37.3	37.6
–	–0.2	–	–	0.2	–	–	–	10.5
306.0	**34.8**	**10.4**	**–0.7**	**0.2**	**16.9**	**333.8**	**258.0**	**258.1**
352.4	**39.8**	**10.4** [1]	**–0.9**	**0.3**	**26.4**	**375.6**	**293.1**	**290.3**
38.1	4.0	2.4	1.1	–	2.1	43.5	10.5	6.9
–	–	0.2	–	–	–	0.2	20.0	19.8
3.7	0.8	0.9	–	–	–	5.4	1.7	–
41.8	**4.8**	**3.5**	**1.1**	**–**	**2.1**	**49.1**	**32.2**	**26.7**
79.1	5.8	25.6	0.1	–	2.0	108.6	144.7	121.8
173.7	13.9	10.2	2.2	–	3.9	196.1	65.3	57.9
81.0	15.3	9.5	0.6	–	10.1	96.3	37.6	29.7
–	–	–	–	–	–	–	10.5	18.4
333.8	**35.0**	**45.3**	**2.9**	**–**	**16.0**	**401.0**	**258.1**	**227.8**
375.6	**39.8**	**48.8** [2]	**4.0**	**–**	**18.1**	**450.1**	**290.3**	**254.5**

(G) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

The total includes €3.2m (previous year: €2.5m) for plant and machinery, €4.2m (€3.1m) for other facilities, factory and office equipment, and €0.1m the previous year for rights arising from finance leases. Further details of finance leases are given in Note (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €7.1m (previous year: €10.4m).

Intangible assets

Additions to industrial rights and similar rights related to purchased software and licences.

Goodwill

in €m	31.12.2007	**31.12.2008**
Bauer+Kunzi GmbH, Stuttgart, Germany	3.4	3.4
KBA-GIORI S.A., Lausanne, Switzerland	7.2	7.2
KBA-MetalPrint GmbH, Stuttgart, Germany	9.2	9.2
Other	0.2	–
	20.0	**19.8**

Goodwill was tested for impairment on the balance sheet date in accordance with IAS 36. An impairment of €0.2m was recognised for KBA North America since the carrying amount (including goodwill) exceeded the recoverable amount of the cash-generating unit. No other units would have suffered an impairment of goodwill even if interest rates had been 0.5% higher.

Property, plant and equipment

Additions to property, plant and equipment primarily related to new production halls as well as new and replacement plant and machinery.

In view of the critical situation at our cash-generating unit comprising the sheetfed division of Koenig & Bauer, KBA-Mödling and KBA North America, and the proposed adjustment in capacity to address market changes, an impairment test was carried out. The value in use (future cash flows based on a five-year plan and discounted at 8.4%) of production plant was offset against the relevant carrying amounts.

(2) Financial and other assets

Investments

Major interests held by Koenig & Bauer AG are shown in the table below. Unless otherwise indicated, the figures for equity are those disclosed in the single-entity statements audited under the pertinent national accounting laws. Statements in foreign currencies show equity translated at the balance sheet date. Equity interest corresponds to the number of voting rights.

Company, location

	Capital share in %	Equity in €m
Consolidated affiliates		
KBA-Metronic AG, Veitshöchheim, Germany	100.0	10.8
Bauer+Kunzi GmbH, Stuttgart, Germany	100.0	0.7
KBA-MetalPrint GmbH, Stuttgart, Germany[1]	100.0	10.2
KBA-France SAS, Tremblay-en-France, France	100.0	0.7
KBA (UK) Ltd., Watford, UK	100.0	0.3
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	0.7
KBA-Mödling AG, Mödling, Austria	>99.9	24.6
KBA-Le Mont-sur-Lausanne SA, Lausanne, Switzerland	100.0	62.4
KBA-GIORI S.A., Lausanne, Switzerland[1]	100.0	69.3
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	10.5
KBA North America Inc., Wilmington, Delaware, USA	100.0	5.5
Non-consolidated affiliates		
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.8[2]
KBA NORDIC A/S, Herlev, Denmark	100.0	–1.1[2]
KBA-Italia S.p.A., Milan, Italy	100.0	1.4
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	0.5
KBA-Polska Sp. z o.o., Warsaw, Poland	100.0	–0.2[2]
KBA RUS OOO, Moscow, Russia	100.0	0.2
Print Assist AG, Höri, Switzerland[1]	100.0	3.4
KBA (HK) Company Ltd., Hong Kong, China	100.0	0.6
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	0.7
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.9
KBA Complete GmbH, Radebeul, Germany	50.0	0.1
KBA-GIORI India Private Ltd., New Delhi, India[1]	50.0	0.4

[1] Indirect holding
[2] Deficit not covered by equity

The terms to maturity of financial and other assets are shown below:

in €m	31.12.2007	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2008**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade receivables						
- from affiliates	8.2	7.4	0.8	7.9	7.8	0.1
- from companies in which interests are held	–	–	–	3.3	3.3	–
- from third parties	387.1	333.2	53.9	313.9	288.4	25.5
	395.3	**340.6**	**54.7**	**325.1**	**299.5**	**25.6**
Investments	5.7	–	5.7	6.0	–	6.0
Other financial receivables						
- from affiliates	2.0	2.0	–	0.3	0.3	–
- derivatives	3.2	3.0	0.2	2.1	1.8	0.3
- sundry other financial receivables	35.4	18.1	17.3	41.6	24.5	17.1
	46.3	**23.1**	**23.2**	**50.0**	**26.6**	**23.4**
Other assets						
- payments for inventories	38.5	38.5	–	23.4	23.4	–
- payments for intangible assets, property, plant and equipment	1.0	1.0	–	–	–	–
- tax receivables	9.4	9.4	–	3.6	3.6	–
- prepayments	8.2	5.7	2.5	7.0	5.8	1.2
	57.1	**54.6**	**2.5**	**34.0**	**32.8**	**1.2**
	498.7	**418.3**	**80.4**	**409.1**	**358.9**	**50.2**

Adopting the percentage of completion method resulted in €14.9m (previous year: €23.7m) being carried in **trade receivables**.

Sundry other financial receivables include €4m from customer finance leases totalling €5.1m and an interest share of €1.1m, with those due in less than one year representing €2.3m of a total of €2.9m. The terms to maturity of the remainder were less than five years. Value adjustments of €2.6m were made for the total lease sum. Other receivables from derivatives are detailed in Note (11).

Value adjustments for financial assets were based on item-by-item risk assessments. Allowance was made for potential credit risks relating to specific loans or countries. As a result of renegotiated conditions, €2.2m (previous year: €1.3m) was no longer overdue or impaired. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2007	**31.12.2008**
Raw materials, consumables and supplies	74.0	75.7
Work in progress	303.8	277.1
Finished goods and products	24.7	39.5
	402.5	**392.3**

The carrying amount of inventories balanced at net realisable value was €138.6m (previous year: €157.6m). Impairments totalling €23.4m (previous year: –€4.7m) were recognised as an expense.

(4) Securities

These mainly refer to fixed-interest securities and shares in a special fund combining stocks and bonds.

Fixed-interest securities and fund shares were valued at €3.4m (previous year: €3.3m).

The balanced market value of the **special fund** was €7.2m (previous year: €7.5m). This was pledged to employees in order to hedge phased retirement credits.

(5) Cash and cash equivalents

in €m	31.12.2007	**31.12.2008**
Cheques, cash in hand	0.1	0.1
Balances with banks	123.1	85.7
	123.2	**85.8**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m

	Deferred tax assets		Deferred tax liabilities	
	31.12.2007	**31.12.2008**	31.12.2007	**31.12.2008**
Assets				
Intangible assets, property, plant and equipment	1.2	6.3	16.7	14.7
Inventories	2.8	9.3	0.7	1.0
Financial receivables and other assets	2.2	1.6	1.2	1.7
Securities, cash and cash equivalents	–	–	0.1	0.1
Equity and liabilities				
Equity	–	–	–	2.4
Provisions	20.7	18.8	0.3	3.0
Financial payables and other liabilities	1.4	1.4	6.2	13.0
	28.3	**37.4**	**25.2**	**35.9**
Tax loss carryforwards	5.4	1.8	–	–
Other	0.5	–	–	–
Offset	–	–13.0	–	–13.0
	34.2	**26.2**	**25.2**	**22.9**
Of which current deferred taxes	12.5	5.7	8.4	4.3

Deferred taxes disclosed under equity related to the translation differences carried in equity that arose from consolidation procedures. Deferred taxes recognised in equity totalled €3.1m (previous year: €0.8m).

Loss carryforwards for which no deferred tax assets were disclosed totalled €104.7m (previous year: €3.6m) at the end of the year. Although the subsidiaries concerned posted a loss for the period, deferred tax assets of €3.1m were recognised in expectation of a profit.

A deferred tax liability of €1.5m (previous year: €1.3m) on temporary differences in investments was not recognised, since a sale in the foreseeable future was highly improbable.

(7) Equity

Changes in shareholders' equity are described in a separate schedule on page 64, capital management objectives and methods on page 35-36.

Share capital

The Parent's share capital at 31 December 2008 totalled 16,387,133 (2007: 16,340,790) no-par shares with a nominal value of €2.60. The 46,343 increase over the previous year represents the issue of employee shares, using part of the €15.6m capital approved by the shareholders' meeting on 22 June 2006. The remaining €15.3m was approved until 21 June 2011. Management was further authorised to continue buying back shares up to a maximum of one tenth of the issued capital of €42.5m, with repurchasing to be completed by no later than 18 December 2009, but preferably by the end of the next AGM.

All bearer shares issued were paid up in full and convey attendance and voting rights at shareholder meetings plus full dividend entitlement. In 2008 a dividend of 60 cents per share was paid for the previous year.

Share premium
Our share premium rose by €0.8m compared to the previous year, due to the issue of employee shares.

Reserves
The disclosure of primary financial instruments (securities) increased reserves by €0.1m (previous year: –€0.3m).
The use of hedge accounting swelled reserves by €0.6m (previous year: €0.3m). During completion of the underlying transactions €2.6m (previous year: €2.1m) was recognised as income.
Deferred taxes decreased reserves by €1.7m (previous year: €0.7m increase), with primary financial instruments accounting for €0.1m (previous year: €0.2m), derivatives €0.6m (previous year: €0.7m) and foreign currency translation –€2.4m (–€0.2m).

(8) Pension provisions

The extent of the pension obligation (defined-benefit obligation) was calculated using actuarial methods which necessarily entailed making estimates.
Calculations were based on a discount rate of 5.7% (previous year: 5.4%) in Germany and 6.7% (5.8%) in the UK, a pay increase of 4.9% (4.1%) and a fluctuation rate of 2.1% (2.6%). Pension adjustments were calculated at 2.5% (1.8%). All figures are weighted averages of the assumptions contained in the pension plans.
The present value of pension obligations and the current market value of plan assets changed as follows:

in €m	Present value of obligations		Current market value of plan assets	
	31.12.2007	**31.12.2008**	31.12.2007	**31.12.2008**
Status at 01.01.	**127.0**	**110.2**	**–8.8**	**–9.4**
Current service cost	3.5	2.6	–	–
Interest cost	5.3	5.7	–	–
Actuarial gain/loss	–19.6	–5.2	–0.3	1.1
Expected return on plan assets	–	–	–0.4	–0.4
Contributions paid by employer	–	–	–0.4	–1.0
Contributions paid by plan beneficiaries	–	–	–0.1	–0.1
Benefits paid	–5.4	–7.3	0.1	0.2
Foreign currency changes/other changes	–0.6	–1.2	0.5	1.2
Status at 31.12.	**110.2**	**104.8**	**–9.4**	**–8.4**

The following costs and returns were recognised:

in €m	31.12.2007	**31.12.2008**
Current service cost	3.5	2.6
Interest cost	5.3	5.7
Actuarial gain/loss	0.6	–
Expected return on plan assets	–0.4	–0.4
Cost (+)/return (-) for the year	**9.0**	**7.9**

Pension provisions constituted the following:

in €m	31.12.2007	**31.12.2008**
Present value of non-funded obligations	100.0	96.4
Present value of funded obligations	10.2	8.4
Present value of obligations	**110.2**	**104.8**
Current market value of plan assets	–9.4	–8.4
Current market value of obligations (offset)	**100.8**	**96.4**
Unrecognised actuarial gains/losses	2.0	5.9
Balance sheet value at 31.12.	**102.8**	**102.3**
- pension provisions	**102.8**	**102.3**

Plan assets comprised €1.1m (previous year: €3.6m) from life insurance for pension schemes, €2.3m (previous year: €3.5m) from shares and equity securities, €4.9m (€1.9m) from loans and €0.1m (€0.4m) from other assets.

The actual return on plan assets was –€0.7m (previous year: €0.7m). The anticipated rate of return is 4% (previous year: 7.6%), based on returns in previous years.

Net liability resulted from the present value of obligations less the current market value of plan assets, and during the past four years changed as follows:

in €m	31.12.2005	31.12.2006	31.12.2007	**31.12.2008**
Present value of obligations	130.2	127.0	110.2	104.8
Current market value of plan assets	–17.3	–8.8	–9.4	–8.4
Net liability	**112.9**	**118.2**	**100.8**	**96.4**
Experience adjustments of liabilities				–0.9
Experience adjustments of assets				–0.9

Expenses for defined-contribution plans totalled €39.6m (previous year: €37.7m).

Payments for pension obligations in 2009 have been estimated at €8.3m.

(9) Other provisions

in €m	Status at 01.01.2008	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Translation difference	**Status at 31.12.2008**
Other provisions							
- for employees	77.3	20.5	16.7	59.3	0.7	0.1	100.2
- for sales	130.7	29.8	13.0	43.6	1.3	0.6	133.4
- for sundry other purposes	52.7	36.9	1.2	26.4	–	1.1	42.1
	260.7	**87.2**	**30.9**	**129.3**	**2.0**	**1.8**	**275.7**
of which							
- long-term provisions	88.8						89.3
- short-term provisions	171.9						186.4
	260.7						**275.7**

Provisions for employees included expenses relating to long-service bonuses and proposed personnel reductions, credits for phased retirement plans and performance bonuses. Sales expenses covered provisions for process risks, warranty and commission obligations. Provisions for sundry other purposes primarily related to liability insurance premiums, restructuring costs and similar obligations.

(10) Financial and other liabilities

in €m	31.12.2007	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2008**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade payables						
- to affiliates	1.5	1.5	–	1.2	1.1	0.1
- to companies in which interests are held	2.2	2.2	–	0.1	0.1	–
- to others	79.0	78.9	0.1	70.8	70.5	0.3
	82.7	**82.6**	**0.1**	**72.1**	**71.7**	**0.4**
Bank loans	83.5	59.7	23.8	63.2	42.5	20.7
Other financial payables						
- from derivatives	–	–	–	3.2	3.1	0.1
- sundry other financial payables	70.6	64.3	6.3	66.5	58.9	7.6
	154.1	**124.0**	**30.1**	**132.9**	**104.5**	**28.4**
Other liabilities						
- from payments received	199.3	196.1	3.2	140.5	137.1	3.4
- from taxes	17.2	17.2	–	13.2	13.2	–
- sundry other liabilities	3.4	3.4	–	1.9	1.9	–
	219.9	**216.7**	**3.2**	**155.6**	**152.2**	**3.4**
	456.7	**423.3**	**33.4**	**360.6**	**328.4**	**32.2**

Bank loans (financial liabilities) were secured by mortgages to the value of €9.5m (previous year: €5.6m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of trade receivables totalling €12m (€12m). The carrying amounts of secured items of property, plant and equipment came to €11.6m (previous year: €10.3m), of trade receivables €12.5m (€12.2m) and of pledged collateral (other financial receivables) €1.1m (€1.9m). Failure to fulfil contractual obligations as they fall due may result in the seizure of collateral.

Management controls Group liquidity by monitoring and planning the cash flow on an ongoing basis, taking into account agreed credit lines and the maturity structure of financial assets and liabilities.

Lines of credit not drawn down by the KBA Group at the balance sheet date totalled €138.5m (previous year: €194.5m).

Sundry other financial payables included finance leases to the sum of €10.8m (previous year: €9.9m). Standard market conditions apply to renewal and purchase options. Sale and leaseback transactions based on customer financing models were concluded, with liabilities offset against accounts receivable. Turnover was carried upon delivery of the machinery.

The present value of future payments for finance leases was broken down as follows:

in €m	31.12.2007	Term to maturity		**31.12.2008**	Term to maturity	
		up to 1 year	1 to 5 years		up to 1 year	1 to 5 years
Minimum lease payments	11.1	4.4	6.7	11.9	3.9	8.0
Interest portion	–1.2	–0.4	–0.8	–1.1	–0.4	–0.7
Present value of finance lease	**9.9**	**4.0**	**5.9**	**10.8**	**3.5**	**7.3**

The derivative items included in sundry other financial liabilities are explained more fully in Note (11).

Other liabilities included total payments received of €35.3m (previous year: €37.5m) for construction contracts.

(11) Derivatives

At the end of the year short-term currency options denominated in US dollars were valued at €13.7m.

Currency options with a maturity of 3 years were concluded to hedge a foreign subsidiary's current, fixed-term business transactions denominated in euros. The nominal amount at the balance sheet date was €7.6m (previous year: €11.4m), of which €4.2m the previous year had a term to maturity of more than one year.

In addition forward contracts with a maturity of up to 2 years (previous year: 1 year) were used to hedge the calculation rate of other foreign currency trade contracts. The currencies hedged were primarily US dollars.

An interest rate swap relating to a sum of €1.7m and with a maturity of 4 years covers a subsidiary's existing interest risk.

The nominal amounts underlying derivatives, and their market values, are listed below.

in €m	Nominal amount Total 31.12.2007	Nominal amount Term to maturity more than 1 year	Market value 31.12.2007	Nominal amount Total **31.12.2008**	Nominal amount Term to maturity more than 1 year	Market value **31.12.2008**
Forward contracts	15.5	–	0.6	106.6	7.8	–1.4
Currency options	109.1	4.2	2.6	21.3	1.9	0.4
Interest rate swap	–	–	–	1.7	1.7	–0.1
	124.6	**4.2**	**3.2**	**129.6**	**11.4**	**–1.1**

The **nominal amount** of derivatives signifies a calculated reference amount from which payments are deduced. The risk therefore lies not in the nominal amount but in changes in the related exchange and interest rates.

Market value corresponds to the gains and losses derived from a fictitious offsetting of derivatives on the balance sheet date calculated using standardised measurement procedures.

(12) Further disclosures on financial instruments

in €m	Carrying amount	of which not impaired, not overdue	of which not impaired, but overdue < 3 months	of which not impaired, but overdue 3-12 months	of which not impaired, but overdue > 12 months	of which impaired
2007						
Loans and receivables	422.9	300.6	68.8	34.0	2.6	16.9
Assets held to maturity	7.9	7.9	–	–	–	–
Assets available for sale	141.6	141.6	–	–	–	–
Financial instruments recognised at fair value	3.2	3.2	–	–	–	–
	575.6	**453.3**	**68.8**	**34.0**	**2.6**	**16.9**
2008						
Loans and receivables	357.2	290.6	34.4	10.4	1.6	20.2
Assets held to maturity	8.0	8.0	–	–	–	–
Assets available for sale	104.2	104.2	–	–	–	–
Financial instruments recognised at fair value	2.1	2.1	–	–	–	–
	471.5	**404.9**	**34.4**	**10.4**	**1.6**	**20.2**

in €m	Category under IAS 39*	31.12.2007 Carrying amount	Carrying value Amortised cost	Carrying value Fair value recognised in profit or loss	Carrying value Fair value recognised in equity	31.12.2007 Fair value
Assets						
Investments and other financial receivables						
- interests in affiliates	afs	5.6	5.6	–	–	–
- loans	lar	0.1	0.1	–	–	0.1
- other financial receivables from derivatives	rafv	3.2	–	3.2	–	3.2
- sundry other financial receivables	htm	7.9	7.9	–	–	7.9
	afs	2.0	–	–	2.0	2.0
	lar	27.5	27.5	–	–	27.5
		46.3	**41.1**	**3.2**	**2.0**	**40.7**
Trade receivables	lar	395.3	395.3	–	–	395.3
Securities, cash and cash equivalents	afs	134.0	–	–	134.0	134.0
		575.6	**436.4**	**3.2**	**136.0**	**570.0**
Liabilities						
Bank loans and other financial payables						
- bank loans	ofp	83.5	83.5	–	–	83.5
- other financial payables from finance leases	ofp	9.9	9.9	–	–	10.1
- other financial payables from derivatives	rafv	–	–	–	–	–
- sundry other financial payables	ofp	60.7	60.7	–	–	60.7
		154.1	**154.1**	**–**	**–**	**154.3**
Trade payables	ofp	82.7	82.7	–	–	82.7
		236.8	**236.8**	**–**	**–**	**237.0**

* afs = available for sale
lar = loans and receivables
rafv = recognised at fair value
htm = held to maturity
ofp = other financial payables

The fair value of **interests in affiliates** could not be calculated since no prices were quoted in an active market.

The fair value of **other financial receivables/payables from derivatives** was the market value. The figures disclosed for **securities, cash and cash equivalents** were the quoted market prices.

Other financial payables from finance leases refer to payment obligations discounted at the market interest rate.

The fair values of **loans** and **sundry other financial receivables/payables** were basically the carrying amounts recognised at amortised cost.

The maximum **credit risk** relating to financial assets corresponded to the carrying amounts.

The **liquidity risk** derived from cash flows comprising contractual payments of interest and capital on bank loans. These will result in a liquidity outflow of €44.4m within the next twelve months, €15.2m in one to three years and €10.1m after three years.

31.12.2008	Carrying value			31.12.2008
Carrying amount	Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	Fair value
5.8	5.8	–	–	–
0.2	0.2	–	–	0.2
2.1	–	2.1	–	2.1
8.0	8.0	–	–	8.0
2.0	–	–	2.0	2.0
31.9	31.9	–	–	31.9
50.0	**45.9**	**2.1**	**2.0**	**44.2**
325.1	325.1	–	–	325.1
96.4	–	–	96.4	96.4
471.5	**371.0**	**2.1**	**98.4**	**465.7**
63.2	63.2	–	–	63.2
10.8	10.8	–	–	10.9
3.2	–	3.2	–	3.2
55.7	55.7	–	–	55.7
132.9	**129.7**	**3.2**	**–**	**133.0**
72.1	72.1	–	–	72.1
205.0	**201.8**	**3.2**	**–**	**205.1**

Interest, exchange and credit risks relating to financial assets and liabilities at the balance sheet date are indicated in the chart below showing the associated net gains and losses.

in €m	Net gain/loss	from interest	from subsequent measurement: due to impairment	currency impact	at fair value	from disposal	Other
31.12.2007							
Loans and receivables	–19.4	4.8	–10.0	–8.1	–	–6.1	–
Assets available for sale	2.4	5.2	–0.5	–2.3	–	–	–
Financial instruments recognised at fair value in profit or loss	–0.4	–	–	1.4	–1.8	–	–
Other financial payables	–5.8	–6.3	–0.1	0.6	–	–	–
	–23.2	**3.7**	**–10.6**	**–8.4**	**–1.8**	**–6.1**	**–**
31.12.2008							
Loans and receivables	–31.9	2.1	–26.3	–3.3	–	–4.4	–
Assets available for sale	5.1	4.1	–0.8	1.7	–	–	0.1
Financial instruments recognised at fair value in profit or loss	–2.6	–	–	–5.1	2.5	–	–
Other financial payables	–5.9	–5.6	–	–0.3	–	–	–
	–35.3	**0.6**	**–27.1**	**–7.0**	**2.5**	**–4.4**	**0.1**

Value adjustments were made of €24.1m (previous year: €10.1m) on trade receivables, €2.8m on investments and other financial receivables and €0.2m (€0.5m) on securities.

Foreign currency risks were assessed using a sensitivity analysis based on the premise that all currencies fluctuate in value by +/–5% relative to the euro.

A 5% devaluation in foreign currencies would have increased equity by €3.9m (previous year: €0.3m) and reduced income by €1.2m (previous year: €3.3m) on the balance sheet date, whereas a 5% revaluation would have reduced equity by €4.3m (previous year: €0.5m) and increased income by €1.8m (previous year: €4m).

(13) Other financial commitments and contingent liabilities

Other financial commitments

in €m	31.12.2007	Term to maturity: up to 1 year	1 to 5 years	more than 5 years	**31.12.2008**	Term to maturity: up to 1 year	1 to 5 years	more than 5 years
Commitments from:								
operating leases	8.5	4.3	4.2	–	20.6	6.3	13.6	0.7
leasing and service contracts	19.0	5.5	10.3	3.2	11.9	6.7	5.2	–
investment plans	13.3	12.4	0.9	–	6.8	6.8	–	–
sundry other activities	0.6	0.6	–	–	3.8	1.9	1.9	–
	41.4	**22.8**	**15.4**	**3.2**	**43.1**	**21.7**	**20.7**	**0.7**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €8m (previous year: €6.6m) were carried in the income statement. Commitments from operating leases were stated at the minimum lease payments.

Investment plans included commitments to invest in intangible assets to the value of €0.3m (previous year: €0.5m) and in property, plant and equipment to the value of €6.5m (€12.8m).

Sundry other commitments were carried at their nominal amount and included payables for repairs.

Contingent liabilities

These comprised contingencies totalling €152.7m (previous year: €217.7m) from financial guarantees, primarily relating to repurchase obligations to lessors and banks. The guaranteed repurchase price decreased over the term of the repurchase obligation.

Where existing risks were not classified as minor they were recognised in the balance sheet. Otherwise no provisions were created for the contingent liabilities stated.

(H) Explanatory Notes to the Income Statement

(14) Revenue

Construction contract revenue totalled €203m (previous year: €219.3m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €495m (€541.1m).

Further details can be found in Segment Information, Note (J).

(15) Expenses by function

Cost of sales

Cost of sales included €0.4m (previous year: €0.6m) in subsidies for apprentice training, job promotion and contract development projects. Manufacturing costs for construction contract projects still in progress on the balance sheet date amounted to €458.1m (previous year: €477.5m).

Research and development costs

Excluding write-downs of €5.4m on production-specific intangible assets, research and development costs were €7.5m below the prior-year figure.

Government research grants for expenses already incurred were recognised at the time of approval, reducing research and development costs by €0.7m (previous year: €0.5m).

Distribution costs and administrative expenses

Distribution costs fell by €9.4m, largely due to a decline in sales. However, administrative expenses rose by a mere €0.1m.

(16) Expenses by nature

Material costs

in €m	2007	2008
Cost of raw materials, consumables, supplies and purchased goods	713.3	680.9
Cost of purchased services	146.0	132.3
	859.3	**813.2**

Personnel costs

in €m	2007	2008
Wages and salaries	385.2	355.4
Social security and other benefits	71.0	69.7
Pensions	5.5	5.2
	461.7	**430.3**
Average payroll		
- wage-earning industrial staff	4,595	4,472
- salaried office staff	3,241	3,171
- apprentices/students	414	409
	8,250	**8,052**

(17) Other operating income and expenses

in €m	2007	2008
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	6.4	3.0
Foreign currency gains	0.9	3.0
Currency measurement	1.4	5.2
Reversal of write-downs and provisions	20.1	38.1
Sundry other operating income	4.1	6.2
	32.9	**55.5**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–1.2	–0.7
Foreign currency losses	–7.9	–12.6
Currency measurement	–2.8	–2.3
Creation of write-downs and provisions	–60.8	–81.5
Sundry other operating expenses	–27.1	–18.6
	–99.8	**–115.7**
Other operating income and expenses	**–66.9**	**–60.2**

Sundry other operating income included insurance and compensation claims and other refunds.

Sundry other operating expenses included the loss of receivables outstanding, customer credit notes and warranty claims.

(18) Restructuring costs

A plan of action was devised for adjusting Group activities to a smaller market volume by 2011. This resulted in impairments totalling €48.8m on intangible assets, property, plant and equipment at our Radebeul (Germany), Mödling (Austria) and Williston (USA) facilities. Expenses relating to a substantial payroll reduction and further restructuring measures were also included (*cf. pages 46-47*).

(19) Financial result

in €m	2007	**2008**
Other financial results		
Income from interests in affiliates	0.1	0.1
Impairments in securities	–0.6	–0.8
	–0.5	**–0.7**
Interest income/expense		
Other interest and similar income	10.9	7.9
- from affiliates	(0.1)	(0.1)
Other interest and similar expense	–12.9	–14.4
- from affiliates	(–)	(–)
	–2.0	**–6.5**
Financial result	**–2.5**	**–7.2**

(20) Income taxes

Tax expense mainly comprised the following:

in €m	2007	**2008**
Actual tax expense	–13.6	–10.3
Deferred taxes from loss carryforwards	–6.9	–3.6
Deferred tax income from temporary differences	6.3	–
	–14.2	**–13.9**

Other tax effects included €1.9m in payments (previous year: €2.5m) and €4m in income tax expense, both unrelated to the accounting period.

in €m	2007	**2008**
Earnings before taxes	**63.2**	**–87.1**
Group tax rate	39.0 %	30.0 %
Expected taxes	**–24.6**	**26.1**
Tax effects from		
- variances due to different tax rates	14.4	7.3
- tax-free earnings	1.6	0.7
- write-downs	–3.1	–1.1
- non-capitalisation of losses	–	–39.9
- decreases and increases	–1.5	–1.3
- other	–1.0	–5.7
Income tax expense	**–14.2**	**–13.9**

(21) Earnings per share

	2007	2008
Group profit/loss for the period in €m	49.0	–101.0
Weighted average of ordinary shares issued	16,312,675	16,353,072
Earnings per share in €	**3.00**	**–6.18**

The total number of ordinary shares issued was 46,343 higher than in the previous year following the issue of employee shares in the third quarter. There was no dilution of earnings per share.

(I) Explanatory Notes to the Cash Flow Statement

The cash flow statement as per IAS 7 shows how Group funds changed as a result of cash inflows and outflows from operating, investing and financing activities.

Cash flows from operating activities were adjusted for currency translation effects and changes in the number of consolidated companies. Funds totalling €85.8m (previous year: €134m) included cash and cash equivalents. Funds excluded securities (previous year: €10.8m), since these were subject to the risk of changes in value caused by developments in financial markets.

Tax expense embraced tax payments of €8.8m (previous year: €22.6m) and refunds of €4.8m (€1.3m).

(J) Segment Information

In accordance with the rules contained in IAS 14, segment information for the KBA Group was broken down into business segments (web and special presses, sheetfed offset presses) as the primary reporting format and geographical segments as the secondary format. The distinction reflects internal reporting structures.

The business segment web and special presses encompasses newspaper, commercial, directory and security presses, industrial ID systems and UV presses for printing electronic data storage media.

The business segment sheetfed offset presses constitutes commercial, book, packaging, metal-decorating and digitally integrated presses.

Segment information was based on the same accounting and consolidation procedures as the consolidated financial statements. Internal Group transactions contained in the segment result (operating profit/loss) were classed as arm's length transactions.

There were no inter-segment sales. Non-cash expenses included transfers to provisions.

Segment assets and liabilities included all assets and liabilities that had contributed to the operating profit generated in the business segment concerned. Segment assets primarily related to intangible assets, property, plant and equipment, inventories, trade receivables and other assets. Segment liabilities basically included other provisions, trade payables and other liabilities.

Reconciliation related to financial assets and liabilities, and consolidation between segments.

Business segments

in €m	Web and special presses		Sheetfed offset presses		Consolidation/ reconciliation		Group	
	2007*	**2008**	2007*	**2008**	2007	**2008**	2007	**2008**
External turnover	**846.8**	**817.7**	**856.9**	**714.2**	**–**	**–**	**1,703.7**	**1,531.9**
Operating profit/loss	63.1	108.5	2.6	–188.4	–	–	65.7	–79.9
Depreciation	21.1	21.1	18.7	18.7	–	–	39.8	39.8
Significant non-cash expenses	89.5	55.0	35.5	76.3	–	–	125.0	131.3
Capital investments	25.1	31.1	25.6	21.3	–	–	50.7	52.4
Assets	508.6	514.5	658.0	521.9	200.0	145.0	1,366.6	1,181.4
Liabilities (with payments received)	426.9	333.5	179.9	215.6	244.7	221.2	851.5	770.3

* adjusted in accordance with IAS 8

Adjustments under IAS 8

In previous years some expenses relating to the sheetfed offset segment had been allocated to the web and special press segment. In compliance with IAS 8 this error was corrected in 2008 and the prior period adjusted retrospectively.

The effects are shown in the table below.

in €m	Web and special presses		Sheetfed offset presses	
	01.01.07	**31.12.07**	01.01.07	**31.12.07**
Balance sheet				
Assets	12.3	4.4	–12.3	–4.4
Liabilities (with payments received)	–16.1	–23.0	16.1	23.0
		2007		**2007**
Income statement				
Operating profit/loss		–1.0		1.0
Significant non-cash expenses		–4.9		4.9

The geographical areas were defined according to their significance for Group income.

Geographical segments

in €m	External turnover		Capital investments		Assets	
	2007	**2008**	2007	**2008**	2007	**2008**
Germany	251.4	235.5	29.8	32.9	829.8	683.3
Rest of Europe	890.5	786.8	20.4	19.4	285.5	316.0
North America	178.8	144.8	0.5	0.1	51.3	37.1
Asia/Pacific	249.8	271.5	–	–	–	–
Africa/Latin America	133.2	93.3	–	–	–	–
Consolidation/reconciliation	–	–	–	–	200.0	145.0
Group	**1,703.7**	**1,531.9**	**50.7**	**52.4**	**1,366.6**	**1,181.4**

(K) Notes to Section 285 no. 17 HGB

The auditors, PricewaterhouseCoopers, received €0.2m remuneration.

(L) Related Party Disclosures

Related parties as defined by IAS 24 are all affiliated, non-consolidated entities (*see Note G(2)*) and members of the management and supervisory boards.

Business transactions with related entities resulted essentially from deliveries to and services for our sales and service subsidiaries, which as intermediaries disclosed receivables and revenue of roughly the same amount from customers. The same conditions applied as for arm's length transactions.

in €m	2007	**2008**
Trade receivables at 31.12.	8.2	7.9
Trade payables at 31.12.	1.5	1.2
Revenue	32.2	36.4

Management board remuneration totalled €1.2m (previous year: €3.2m), with the fixed portion representing the entire sum (previous year: €1.1m). No variable portion (previous year: €2.1m) was paid because this is performance-related and based on net profit. Pension provisions were increased by €0.1m (previous year: €0.2m) for the current service cost. Remuneration for former members and their survivors stood at €1.1m (€1m). Supervisory board remuneration totalled €0.1m (€0.5m), none of which was variable (previous year: €0.4m).

€11.6m (previous year: €12.3m) was set aside for pension claims by active and retired members of the management board, and their survivors. The individual compensation specified by section 314 (1) 6 of the German Commercial Code was omitted as per section 314 (2) in conjunction with section 286 (5).

At 31 December 2008 members of the management board held 5.6% and members of the supervisory board 2.2% of Koenig & Bauer's share capital, giving a total of 7.8%.

Supervisory Board

Dieter Rampl
Chairman
Banker
Munich

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert
Deputy chairman
Business economist
Würzburg

Peter Hanzelka*
Drill operator
Coswig

Matthias Hatschek
Entrepreneur
Blindenmarkt, Austria

Günter Hoetzl*
Representative of IG Metall
Hofheim

Dr Hermann Jung
Member of the management board, Voith AG
Heidenheim

Baldwin Knauf
Deputy chairman of the shareholders' committee,
Knauf Gips KG
Iphofen

Walther Mann*
Representative of IG Metall
Würzburg

Klaus Schmidt*
Director Corporate Communications, KBA
Hettstadt

Jochen Walther*
Instructor
Grossniedesheim

Professor Horst Peter Wölfel
Department of Mechanical Engineering
Technical University Darmstadt
Höchberg

* elected by the workforce

Committees

Mediation committee as per section 27(3) of the Law on Codetermination
Dieter Rampl
Klaus Schmidt
Gottfried Weippert
Professor Horst Peter Wölfel

Human Resources Committee
Dieter Rampl
Reinhart Siewert
Gottfried Weippert

Financial Audit Committee
Reinhart Siewert
Peter Hanzelka
Dieter Rampl
Gottfried Weippert

Management Board

Albrecht Bolza-Schünemann
President and CEO (until 26 March 2009)
Head of sheetfed product development and human resources
Radebeul/Würzburg

Helge Hansen
CFO (since February 2009)
President and CEO (since 27 March 2009)
Head of human resources, sheetfed division
Würzburg

Claus Bolza-Schünemann
Deputy president
Executive vice-president web press engineering,
production and human resources
Würzburg

Dr Frank Junker
Executive vice-president sheetfed production,
purchasing, logistics, IT and sheetfed product development
Radebeul

Christoph Müller
Executive vice-president web press sales,
marketing, service, purchasing and logistics
Würzburg

Ralf Sammeck
Executive vice-president sheetfed sales,
marketing and service
Radebeul

Other positions held by members of the Koenig & Bauer supervisory board

	Member of the supervisory board at:
Dieter Rampl	Bayerische Börse AG, Munich, Germany
Chairman	Bode Grabner Beye AG & Co. KG, Grünwald, Germany
	FC Bayern München AG, Munich, Germany
	Mediobanca, Milan, Italy
	UniCredit, Milan, Italy
Reinhart Siewert	Bank Schilling & Co. AG, Hammelburg, Germany
Deputy chairman	KBA-GIORI S.A., Lausanne, Switzerland (until March 2008)
	KBA-Metronic AG, Veitshöchheim, Germany
	KBA-Mödling AG, Mödling, Austria
	Winkler + Dünnebier AG, Neuwied, Germany
Matthias Hatschek	Buy-Out Central Europe II Beteiligungs-Invest AG, Vienna, Austria
Dr Hermann Jung	Putzmeister AG, Aichtal, Germany
Baldwin Knauf	Lindner AG, Arnstorf, Germany
	Lindner Holding KGaA, Arnstorf, Germany
Klaus Schmidt	KBA-France SAS, Tremblay-en-France, France
	KBA-Metronic AG, Veitshöchheim, Germany
	KBA-Polska Sp.z o.o., Warsaw, Poland

Other information

A declaration of compliance was issued in accordance with section 161 of German Company Law and made permanently accessible under www.kba.com/en/investor/corporate_governance.html

(M) Events after the Balance Sheet Date

Former KBA-Metronic managing director Helge Hansen was appointed Chief Financial Officer of Koenig & Bauer with effect from 6 February 2009. Following Albrecht Bolza-Schünemann's resignation at the supervisory board meeting on 26 March, after six years as KBA president and CEO, Mr Hansen was appointed his successor.

Würzburg, 29 April 2009
Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy president

Dr Frank Junker

Christoph Müller

Ralf Sammeck

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the 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.

Würzburg, 29 April 2009
Management Board

Helge Hansen President and CEO	Claus Bolza-Schünemann Deputy president

Dr Frank Junker	Christoph Müller	Ralf Sammeck

Auditor's Opinion

We have audited the consolidated financial statements prepared by Koenig & Bauer Aktiengesellschaft, Würzburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315(1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Nuremberg, 29 April 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Thomas Hartmann	ppa. Claus Gossmann
Auditor	Auditor

Balance Sheet for Koenig & Bauer AG to 31 December 2008

under the German Commercial Code (HGB)

Assets in €m	31.12.2007	**31.12.2008**
Non-current assets		
Intangible assets	2.0	2.9
Property, plant and equipment	157.2	157.0
Financial assets	58.7	43.3
	217.9	**203.2**
Current assets		
Inventories less payments received	182.0	163.5
Trade receivables	281.3	184.5
Other receivables and assets	106.3	102.4
Securities	8.4	8.4
Cash and cash equivalents	50.7	31.9
	628.7	**490.7**
Prepayments	**5.1**	**4.1**
	851.7	**698.0**

Equity and liabilities in €m	31.12.2007	**31.12.2008**
Equity		
Share capital	42.5	42.6
Share premium	85.9	86.7
Reserves	245.4	246.4
Retained earnings	10.8	–99.4
	384.6	**276.3**
Special items with equity portion	**6.1**	**4.5**
Provisions		
Pension provisions	65.7	67.5
Tax provisions	–	4.5
Other provisions	253.4	254.7
	319.1	**326.7**
Liabilities		
Bank loans	32.1	14.4
Trade payables	55.3	41.7
Sundry other liabilities	54.5	34.4
	141.9	**90.5**
	851.7	**698.0**

Income Statement for Koenig & Bauer AG for 2008

under the German Commercial Code (HGB)

in €m	2007	2008
Revenue	1,382.4	1,178.4
Cost of sales	–1,121.4	–1,032.4
Gross profit	**261.0**	**146.0**
Distribution costs	–104.6	–111.4
Administrative expenses	–45.3	–40.4
Other operating income	23.7	45.5
Other operating expenses	–131.9	–127.5
Profit/loss from operations	**2.9**	**–87.8**
Financial result	22.9	–6.1
Profit/loss from ordinary activities	**25.8**	**–93.9**
Income taxes	–2.7	–5.5
Other taxes	–1.5	–
Net profit/loss	**21.6**	**–99.4**

Key Financial Dates

Interim report on 1st quarter 2009
15 May 2009

Koenig & Bauer Annual General Meeting
18 June 2009
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2009
14 August 2009

Interim report on 3rd quarter 2009
13 November 2009

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Consolidated Financial Statements

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