Koenig & Bauer Group

Group Interim Report
First Half-Year 2008

KBA Group in Figures

01.01. - 30.06. in €m

	2007	**2008**
Order intake	726.3	**708.8**
Sales	794.9	**656.1**
Order backlog at 30.06.	880.1	**844.6**
Export level in %	87.9	**84.6**
Operating profit	27.2	**4.7**
Earnings before taxes	25.6	**2.4**
Net profit	19.1	**6.8**
Balance sheet total at 30.06. (prior year: 31.12.)	1,366.6	**1,386.5**
Equity at 30.06. (prior year: 31.12.)	515.1	**517.5**
Investment in intangible assets, property, plant and equipment	22.7	**25.0**
Depreciation on intangible assets, property, plant and equipment	19.9	**20.1**
Payroll at 30.06.	8,241	**8,098**
Cash flows from operating activities	23.1	**34.2**
Earnings per share in €	1.17	**0.42**

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Title photo: Our 3,400m² stand was a major attraction at the Drupa trade fair in Düsseldorf, Germany, in late May and early June

For the printing-press industry, the second quarter was a period of highs and lows reflecting a broader economic decline and stock market instability. Following a sluggish order inflow in April and May, particularly for sheetfed presses, the volume of contracts awarded at the Drupa trade fair surpassed all our expectations. But despite the surprisingly optimistic mood the fair engendered in the print media industry, and widespread acclaim for our new product launches, post-Drupa business was disappointingly slow.

This was due to a number of factors: the currency-related inflation of German press prices both in dollar-denominated markets and in other major non-euro markets such as the UK; the knock-on effects of the global credit crisis, which made funding difficult to obtain; spiralling energy, paper and ink costs; and a seasonally exacerbated slowdown in the print media industry. Growth in the printing and press industries has ground to a halt, foreshadowing trends in other export economies.

It therefore came as no surprise that Group order bookings slipped 2.4% to €708.8m. Fewer shipments of web presses and intermittently poor levels of plant utilisation at our sheetfed production facilities caused a 17.5% slide in Group sales to €656.1m compared to the prior year period. But despite continued poor contribution margins and the high cost of exhibiting at the Drupa trade fair we turned a first-quarter pre-tax loss of €6.4m into a modest pre-tax profit (EBT) of €2.4m. A net loss of €1m at the end of March was followed by a tax rebate that moved us back into the black at the end of the first half-year with a profit of €6.8m. While the general trend is in the right direction, the absolute figures for new order bookings, sales and earnings cannot be considered satisfactory.

Sufficient orders to meet our annual sales targets for web and special presses have already been booked, safeguarding production at the relevant plants until the end of the year. Our sheetfed business, which has been severely hit by the economic and financial turmoil in the USA, will hinge on whether the funding for a substantial number of contracts can be placed on a firm footing in the third quarter, enabling us to meet our sales targets and keep our Radebeul plant busy for the rest of the year.

There is no denying that the global business climate has cooled over the past few months, heightening the economic, foreign exchange, sales and procurement risks attendant upon our activities as an export-driven enterprise. Future currency movements and energy prices, and their impact on the global economy, are notoriously hard to predict. Against this backdrop, meeting the annual Group targets we projected in the spring, of sales in the region of €1.6bn and a pre-tax profit similar to last year's level, poses something of a challenge. But as long as there is a real chance of success we see no reason to lower our sights.

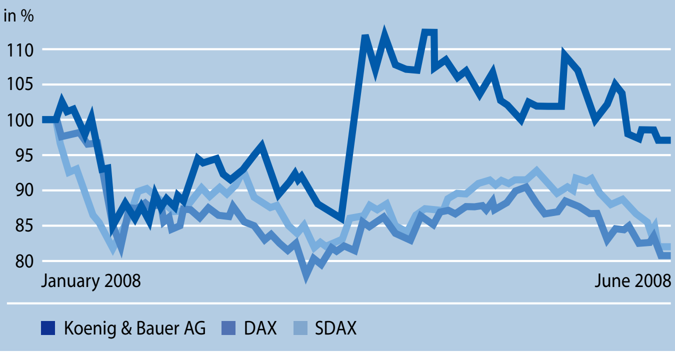
Yours,

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

KBA Shares

In a highly volatile stock market environment, KBA shares remained relatively stable compared to the SDAX (–18.3%), the DAX (–20.4%) and other players in the sector. At the end of June the price stood at €18.73, 3% lower than at the end of last year (€19.30). The unabated strength of the euro against the US dollar and yen, further hikes in the prices of raw materials and energy, mounting economic anxiety in key sales markets and a less optimistic mood in the industry all served to weigh on the shares of export-intensive press manufacturers. This volatility continued in July.

Koenig & Bauer shares



Management Report

Market Environment

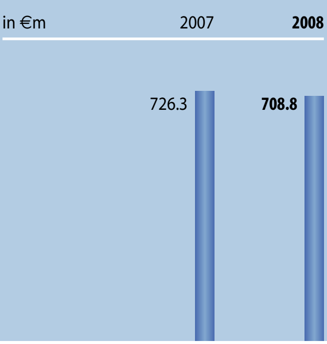
In the second quarter the focus was inevitably on the Drupa trade fair that took place in Düsseldorf, Germany, at the end of May and beginning of June. With demand in North America, the UK, Spain and other markets persistently weak, attendance at Drupa was surprisingly high and interest keen, with a large volume of business placed by printers from Germany, Russia, eastern Europe, China and the Middle East. Even US printers, most of whom had put all investment on hold since autumn 2007, made the most of the bonus depreciation programme launched by the US government and due to expire at the end of the year. The value of the contracts placed partially compensated for the lack of demand in preceding months.

The negative impact of the financial crisis is becoming apparent. A more critical scrutiny of the risks relating to the printing industry is making it more difficult for printers to arrange the lease-purchase agreements that were previously a common means of financing sheetfed or commercial web offset presses. Clarifying the question of finance in the international business arena has become more complex and time-consuming. Similarly, increased risk has restricted the repurchase options and similar commitments that we, as the vendor, can offer. By the end of the quarter we were able to enter in our books just a part of the sheetfed contracts signed at Drupa, and for this reason posted a 2.4% decline in incoming orders compared to the same period last year.

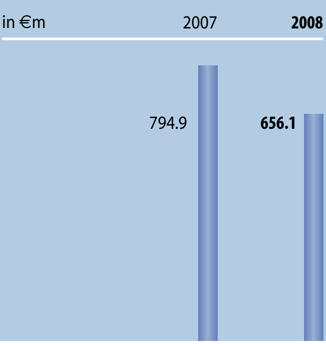
A double-digit leap in new orders for newspaper presses failed to outweigh slack demand for commercial web offset presses and a slide in sales of security presses following brisk sales in 2007. As a result our web and special press division posted a 2.5% drop in incoming orders to €342m (2007: €350.6m). This, in conjunction with the above-mentioned funding-related decline in sheetfed orders to €366.8m, caused the Group **order intake** to slip to €708.8m (2007: €726.3m).

The Group **order backlog** was trimmed by 4% to €844.6m (2007: €880.1m). While the volume of orders on hand for web and special presses, at €565.9m, was only marginally lower than twelve months earlier (€573.4m) and will keep the relevant production plants busy for the rest of the year, the same cannot be said of the backlog of orders for sheetfed presses, which shrank from €306.7m to €278.7m. With delivery time-frames steadily diminishing, in the third quarter a big increase in firm bookings from the contracts signed at or after Drupa is needed to maintain production.

Order intake



Sales



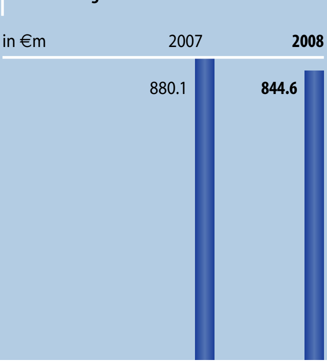
Earnings, Finances and Assets

Earnings were hit by poor contribution margins resulting from slower sales.

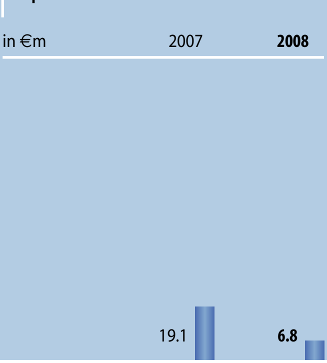
As in 2004 to 2006, well over 50% of the year's shipments are scheduled for the second half. **Group sales** totalling €656.1m for the first six months were 17.5% off last year's above-average figure of €794.9m, with sales of web and special presses down at €346m from €420.5m, a drop of 17.7%. This was largely due to the absence of rotogravure business and a smaller volume of commercial and security press deliveries. Sheetfed sales of €310.1m were 17.2% short of the €374.4m posted the previous year.

Domestic sales climbed 5.6% to €101.2m (2007: €95.8m) on the back of an economic upswing, reducing the export level from 87.9% to 84.6%. The proportion of Group sales generated by the rest of Europe remained stable at 53.7% (2007: 53.8%). While the percentage contributed by Asia and the Pacific was higher (17.8% compared to 15.6% in 2007), a floundering economy and fallout from the mortgage meltdown precipitated a decline in North American sales from 10.5% to 7.6%, well below the historic average of 15 to 18%. The proportion of sales generated in Latin America and Africa fell from 8% to 5.5%.

Order backlog



Net profit

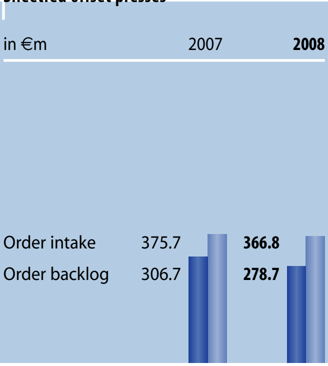


The gross profit margin remained stable at 24.7% (2007: 24.8%). However, a shortfall in sales and the extraordinary expense associated with the Drupa trade fair caused the **operating profit** to slump from €27.2m to €4.7m. A financial loss of €2.3m (2007: a loss of €1.6m) was accompanied by a plunge in **earnings before taxes** (EBT) to €2.4m from €25.6m the previous year. We closed the period with a **net profit** of €6.8m (2007: €19.1m) and proportional **earnings per share** of 42 cents (2007: €1.17).

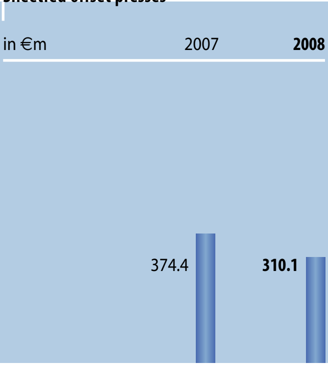
Finances

Despite a temporary jump in inventories, **cash flows from operating activities** swelled to €34.2m from €23.1m twelve months earlier following a €26.5m increase in customer advance payments and an €83.6m drop in trade receivables. After deducting cash flows for investing activities we posted a **free cash flow** of €12.9m. The cash outflow from financing activities, which primarily related to the payment of dividends and the repayment of loans, leaped to €27.6m

Order intake/backlog
Sheetfed offset presses



Sales
Sheetfed offset presses



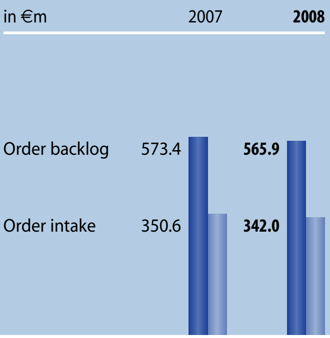
from €8.4m last year. **Funds** ebbed by €14.3m, from €134m at the end of December to €119.7m at the end of June.

Our net financial position, the difference between funds and bank loans, improved to €53.7m from €50.5m at the end of last year, buoyed by a €17.6m reduction in bank loans. Equity stood at €517.5m, or 37.3% of the balance sheet total.

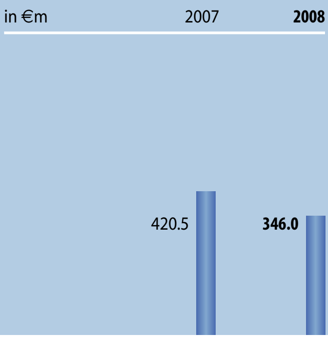
Assets

The Group **balance sheet total** jumped €19.9m to €1,386.5m, from €1,366.6m at the end of last year. This was primarily due to a build-up of inventories – from €402.5m on 31 December to €511.2m on 30 June – which will diminish when shipments increase in the second half-year. The value of property, plant and equipment rose to €263.1m from €258.1m, and we invested a further €25m in both tangible and intangible assets (2007: €22.7m). Depreciation came to €20.1m (2007: €19.9m).

Order intake/backlog
Web and special presses



Sales
Web and special presses



Research and Development

R&D activities at our sheetfed plants focused on fine-tuning the numerous models and processes we exhibited at the Drupa trade fair, on gauging their market acceptance and potential for optimisation, and on observing our competitors. Once again we underscored our technological leadership with a world record in makeready set by our new Rapida 106, four-over-four perfecting in large format with the only press of this kind at the show, RFID-controlled pile logistics for printing packaging, and self-regulating quality management with QualiTronic Professional. Our revamped Rapida 105 and the Rapida 75 developed in close collaboration with KBA-Grafitec met with keen interest among printers working to tight budgets. We also reaffirmed our acknowledged role as a pioneer of greener printing by operating all the wet offset presses alcohol-free, and exhibiting four waterless presses.

Our technological prowess in newspaper offset is equally impressive, and our ultra-compact, highly automated Cortina and Commander CT were a major draw at Drupa. In the second quarter a subsidiary of the Georg von Holtzbrinck publishing group, Südkurier in Constance, signed up for the fourteenth Cortina press to leave the production line. Longstanding KBA customer Straubinger Tagblatt opted for a Commander CT wet offset press.

Geographical breakdown of sales

in %	2007	**2008**
Africa/Latin America	8.0	**5.5**
Asia/Pacific	15.6	**17.8**
North America	10.5	**7.6**
Rest of Europe	53.8	**53.7**
Germany	12.1	**15.4**

Payroll at 30 June

	2007	**2008**
KBA Group	8,241	**8,098**
Koenig & Bauer AG	5,869	**5,682**

Human Resources

At the end of June the Group payroll totalled 8,098, or 143 fewer than at the same time last year (8,241). While a few subsidiaries took on additional staff, our web press factories in Frankenthal and Würzburg, and our sheetfed press factory in Radebeul, all trimmed their ranks.

Risk Management

The KBA Group operates an early-warning system whose objective is to make transparent any risks that may eventuate from our entrepreneurial activities. This system is described on pages 39 to 41 of the consolidated financial statements for 2007, and there have been no significant changes since then to our risk exposure. We have detected no risks that could pose an existential threat to the Group.

Outlook

The press engineering industry's historically heavy exposure to the volatile advertising sector has made it an early economic indicator. Disruptive technological advances such as the introduction of photosetting in the 1970s and the conversion to colour newspapers in the 1990s have accentuated its cyclical fluctuations.

Growth started slowing a year ago, much sooner than in other sectors of the engineering industry. This is confirmed by the second-quarter statistics on order intake issued by the VDMA (German Machinery and Plant Manufacturers' Association), which reveal that the growth rate compared to the prior-year period in the printing and paper manufacturing sector was below average. This low ranking is due to several factors: the exposure of key print sectors (newspapers, magazines, catalogues etc) to the media and advertising industry, which itself is under siege from digital media; the above-average export level of around 85%; and the dependency of the German press engineering industry on the US market, whose economy is currently floundering. While the successful Drupa trade fair provided a much-needed investment boost, the effect was temporary rather than permanent. Since then the flagging global economy and the continuing strength of the euro have impacted on growth in other sectors of the engineering industry, bringing the prolonged boom to an end.

In the current climate, our presence in niche markets such as metal decorating, security printing and industrial coding help us to compensate in part for volatility in individual sectors such as commercial web offset or mainstream sheetfed presses. Niche products now generate almost one-quarter of Group sales, roughly the same as our traditional core product, newspaper presses. The breadth of our product portfolio, ranging from web and specialist presses, with their extended production cycles, to batch-based sheetfed presses, which have a shorter turnaround, has a stabilising impact on sales and earnings during cyclical downturns. For example, in the first six months we booked a double-digit jump in new orders for our cutting-edge newspaper presses, which helped to balance a decline in orders for commercial web and security presses. Serial manufacturers that focus on just one market sector are generally much more vulnerable during economic recessions.

Drupa 2008 confirmed our outstanding position in our core sheetfed and newspaper offset markets, where we offer some unique features and in some sectors, eg packaging presses, occupy the top slot. Unfortunately printers whose margins are being eroded by spiralling energy and material costs are seldom prepared to pay the premium that is customary elsewhere for value-added products delivering productivity, quality and cost efficiency gains. In many cases investment decisions are based solely on price, and this has given vendors from Japan and other non-euro countries an enormous competitive advantage that rigorous cost management alone cannot neutralise.

The third and fourth quarters will bring a substantial increase in shipments and sales of web and special presses with higher contribution margins. While the same applies to sheetfed presses in the third quarter, shipments in the fourth quarter depend on funding being secured for a raft of existing contracts, and additional orders being booked and included at short notice in the production schedule. Otherwise we cannot guarantee stable plant utilisation for the rest of the year, which is essential if we are to meet our sheetfed sales target for 2008 and post a profit in this division. Above all, turbulence in financial markets exacerbates the risks associated with the timely financing of new orders, which in view of the significant size of our sheetfed division would also impact on Group sales and earnings targets.

Notwithstanding the challenges facing us, we stand by the Group targets we stated in late March of around €1.6bn in sales, and pre-tax earnings of a similar magnitude to last year. Any significant deviations will be published without delay.

Group Balance Sheet

Assets in €m	31.12.2007	**30.06.2008**
Non-current assets		
Intangible assets	32.2	31.2
Property, plant and equipment	258.1	263.1
Investments and other financial receivables	23.2	23.6
Other assets	2.5	1.8
Deferred tax assets	34.2	42.0
	350.2	**361.7**
Current assets		
Inventories	402.5	511.2
Trade receivables	395.3	311.7
Other financial receivables	23.1	26.1
Other assets	61.5	56.1
Securities	10.8	10.4
Cash and cash equivalents	123.2	109.3
	1,016.4	**1,024.8**
Balance sheet total	**1,366.6**	**1,386.5**

Equity and liabilities in €m	31.12.2007	**30.06.2008**
Equity		
Share capital	42.5	42.5
Share premium	85.9	85.9
Reserves	386.7	389.1
	515.1	**517.5**
Liabilities		
Non-current liabilities		
Pension provisions	102.8	101.5
Other provisions	88.8	90.1
Bank loans and other financial payables	30.1	28.0
Other liabilities	3.2	0.2
Deferred tax liabilities	25.2	26.3
	250.1	**246.1**
Current liabilities		
Other provisions	171.9	170.2
Trade payables	82.7	97.7
Bank loans and other financial payables	124.0	108.3
Other liabilities	222.8	246.7
	601.4	**622.9**
Balance sheet total	**1,366.6**	**1,386.5**

Group Income Statement

01.01. - 30.06. in €m	2007	**2008**
Revenue	794.9	656.1
Cost of sales	–598.1	–494.1
Gross profit	**196.8**	**162.0**
Distribution costs	–83.7	–81.6
Administrative expenses	–48.3	–43.6
Other operating income and expenses	–37.6	–32.1
Operating profit	**27.2**	**4.7**
Financial result	–1.6	–2.3
Earnings before taxes	**25.6**	**2.4**
Income tax	–6.5	4.4
Net profit	**19.1**	**6.8**

01.04. - 30.06. in €m	2007	**2008**
Revenue	380.7	354.4
Cost of sales	–288.9	–270.6
Gross profit	**91.8**	**83.8**
Distribution costs	–40.1	–40.3
Administrative expenses	–22.9	–20.5
Other operating income and expenses	–15.1	–13.3
Operating profit	**13.7**	**9.7**
Financial result	–1.1	–0.9
Earnings before taxes	**12.6**	**8.8**
Income tax	–2.8	–1.0
Net profit	**9.8**	**7.8**

Statement of Changes in Shareholders' Equity

in €m	Share capital	Share premium
01.01.2007	**42.4**	**84.9**
Total net profit		
Profit for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Dividend	–	–
30.06.2007	**42.4**	**84.9**
01.01.2008	**42.5**	**85.9**
Total net profit		
Profit for the period	–	–
Primary financial instruments / derivatives	–	–
Exchange differences	–	–
	–	**–**
Other changes		
Dividend	–	–
Sundry other changes	–	–
30.06.2008	**42.5**	**85.9**

Reserves		
Recognised in equity	Other	**Total**
2.1	**346.9**	**476.3**
–	19.1	19.1
–1.4	–	–1.4
–0.7	–	–0.7
–2.1	**19.1**	**17.0**
–	–8.2	–8.2
–	**357.8**	**485.1**
–0.4	**387.1**	**515.1**
–	6.8	6.8
3.4	–	3.4
1.6	–	1.6
5.0	**6.8**	**11.8**
–	–9.8	–9.8
–	0.4	0.4
4.6	**384.5**	**517.5**

Group Cash Flow Statement

01.01. - 30.06. in €m	2007	**2008**
Earnings before taxes	25.6	2.4
Non-cash transactions	17.0	22.3
Gross cash flow	**42.6**	**24.7**
Changes in inventories, receivables and other assets	–38.4	–18.5
Changes in provisions and payables	18.9	28.0
Cash flows from operating activities	**23.1**	**34.2**
Cash flows from investing activities	**–12.4**	**–21.3**
Cash flows from financing activities	**–8.4**	**–27.6**
Change in funds	**2.3**	**–14.7**
Effect of changes in exchange rates	–0.4	0.4
Funds at beginning of period	154.0	134.0
Funds at end of period	**155.9**	**119.7**

Notes to the Interim Statement to 30 June 2008

1 Accounting Policies

This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The disclosures and measurements published in the Group accounts to 31 December 2007 were retained. The interim accounts conform to IAS 34. Taxes on income were disclosed at the average national tax rate applicable.

Individual items in the balance sheet and the income statement were aggregated to clarify presentation. Figures represent million euros (€m), unless stated otherwise.

2 Consolidated Companies and Consolidation Principles

KBA Complete GmbH was established in Radebeul in April 2008, with the Group holding 50% of the shares. Since the new entity is of minor significance to the Group's financial position and performance, it was excluded from the consolidated financial statements.

There were no changes in consolidation principles.

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

3 Responsibility Statement

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

Würzburg, 11 August 2008
KBA Management Board

Albrecht Bolza-Schünemann
President and CEO

Claus Bolza-Schünemann
Deputy President

Dr Frank Junker

Christoph Müller

Ralf Sammeck

4 Segment Information

4.1 Business segments

01.01. - 30.06. in €m	Web and special presses		Sheetfed offset presses	
	2007	**2008**	2007	**2008**
External sales	420.5	**346.0**	374.4	**310.1**
Internal sales	91.2	**90.0**	128.8	**99.9**
Total sales	511.7	**436.0**	503.2	**410.0**
Investment	10.0	**12.3**	12.7	**12.7**

4.2 Geographical segments

01.01. - 30.06. in €m	2007	**2008**
Germany	95.8	**101.2**
Rest of Europe	427.4	**352.6**
North America	83.3	**49.7**
Asia / Pacific	124.1	**116.8**
Africa / Latin America	64.3	**35.8**
External sales	**794.9**	**656.1**

5 Earnings per Share

01.01. - 30.06. in €	2007	**2008**
Earnings per share	1.17	**0.42**

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,340,790 no-par shares, previous year: 16,304,400 no-par shares).

6 Balance Sheet

6.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	74.0	41.8	32.2
Property, plant and equipment	591.9	333.8	258.1
Total at 31.12.2007	**665.9**	**375.6**	**290.3**
Intangible assets	75.7	44.5	31.2
Property, plant and equipment	613.0	349.9	263.1
Total at 30.06.2008	**688.7**	**394.4**	**294.3**

Investment in property, plant and equipment totalling €22.9m (first half 2007: €21.5m) primarily refers to additions of plant and machinery, factory and office equipment.

6.2 Inventories

in €m	31.12.2007	**30.06.2008**
Raw materials, consumables and supplies	74.0	77.0
Work in progress	303.8	403.0
Finished goods and products	24.7	31.2
	402.5	**511.2**

6.3 Liabilities

The €17.8m reduction in **bank loans and other financial payables** largely resulted from the repayment of loans.
The €20.9m jump in **other liabilities** was attributable to a substantial increase in advance payments.

Key Financial Dates

Interim report on 3rd quarter 2008
14 November 2008

Financial statements on 2008
End of March 2009

Interim report on 1st quarter 2009
15 May 2009

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

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