Group Interim Report
First Quarter 2010

Koenig & Bauer Group

KBA Group in Figures

01.01. - 31.03. in €m	2009	**2010**
Order intake	219.5	**314.4**
Sales	220.2	**209.8**
Order backlog at 31.03.	500.8	**439.6**
Export level in %	83.5	**86.5**
Operating loss	–32.7	**–19.4**
Earnings before taxes	–35.2	**–21.3**
Net loss	–33.2	**–20.2**
Balance sheet total at 31.03. (prior year: 31.12.)	1,060.4	**1,060.0**
Equity at 31.03. (prior year: 31.12.)	419.8	**402.4**
Investment in intangible assets, property, plant and equipment	6.3	**2.2**
Depreciation on intangible assets, property, plant and equipment	7.3	**7.9**
Payroll at 31.03.	7,646	**6,559**
Cash flows from operating activities	19.2	**–41.3**
Earnings per share in €	–2.03	**–1.23**

Title photo: KBA is the leading vendor worldwide of sheetfed offset presses for printing packaging, one example of which is this superlarge-format Rapida 185 for sheets measuring 1300 x 1850mm

In the 2009 business year Koenig & Bauer succeeded in posting a pre-tax Group profit and safeguarded liquidity on a sustained basis through its own resources, even as sales tumbled. In an industry shaken to the core by the collapse of its markets this was exceptional and by no means a given. Sales, earnings and cash flows in the first quarter were less satisfactory. But a relatively weak start to the year and a subsequent race to catch up in the second six months are more or less routine in press manufacturing, as we and our competitors can attest. Extrapolating annual performance from quarterly figures, as some like to do, can therefore give rise to misleading results and conclusions.

Although the volume of incoming orders topped €314m, an above-average increase of more than 40% over the prior-year period, sales slipped to €210m. Weak quarterly sales naturally impacted on profit contributions, earnings and, via the need to finance an increase in inventories in preparation for future shipments, on cash flows and Group liquidity.

So following two profitable quarters and a positive result for 2009, in the three months to April the KBA Group posted a pre-tax loss of €21.3m. This was, however, much smaller than the €35.2m loss posted twelve months earlier and indicates that the cost-cutting measures introduced last year have started to bite. For the reasons stated above the operative cash flow was also negative (–€41.3m). Having said that, the volume of new orders surged in March and April, and prospects are bright. We are therefore confident that both figures will be positive as sales pick up in the second half-year.

The Group's realignment to the diminished market volumes that industry experts warn are more than a short-term phenomenon is proceeding as planned. At the end of March the Group employed a total of 6,559 people, 410 fewer than at the end of last year and 1,087 fewer than a year earlier. Over the next few months the payroll adjustment to around 6,000, a painful process for all concerned, will continue, mainly at our web press production plants. The necessary provisions are already on hand. In addition to improving plant utilisation by trimming the Group workforce we are consolidating our activities by bringing more work in-house, and this has resulted in a shift in our internal division of labour. A high level of staff competence and well-equipped production plants have made this task that much easier.

We are still looking to diversify from our core business of press manufacture, where growth prospects are limited, into an additional high-potential business line. The funds to finance such a move are already in place. We have examined a number of possibilities with a view to entering an alliance or acquiring an interest, and are currently in negotiations. Unremitting economic and stockmarket volatility and the potential impact on exports of the current debt crisis in southern Europe make such far-reaching decisions no easier.

The management board stands by the target it stated in March of a further lift in Group sales and earnings compared to 2009. We shall keep you informed of progress to date in our regular financial reports.

Notwithstanding this weak start to the year and fresh imponderables in the economic arena, we are on the right track. We hope you, our shareholders, will continue to accompany us with interest.

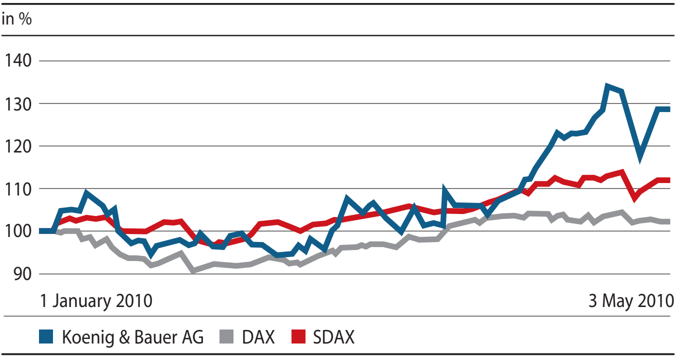
Würzburg, 12 May 2010
Management Board
Koenig & Bauer AG

Helge Hansen
President and CEO

KBA Shares

On 31 March Koenig & Bauer shares stood at €12.86, 12.8% above their closing price at the end of 2009. By comparison, over the same period the SDAX and DAX rose by 9.8% and 3.3% respectively. The response from capital markets to the 2009 financial figures issued on 26 March was positive and a number of analysts recommended buying. Here our unusually rapid turnaround compared to the rest of the sector – the result of a prompt realignment and cost-cutting initiatives – was a key factor, along with the fact that eighteen months after the crisis broke our finances and balance sheet were still healthier than those of other press manufacturers. Stock markets continued their rally in April, briefly pushing our shares above the €16 mark.

Koenig & Bauer shares from 01.01. to 03.05.2010



Management Report

Market and Industry Environment

The impact on demand of the economic upturn perceptible in many markets during the first quarter varied from one sector of the engineering industry to another. According to the VDMA (German Machinery and Plant Manufacturers' Association), the inflow of orders booked by exporters of printing- and paper-related technology was around 20% higher than in the exceptionally weak prior-year period, ranking them two places below machine tools in midfield. At present there is brisk demand for textile, foundry and wood-processing machinery. While almost every sector has benefited from untrammelled growth in China, investment in North America, most of Europe and many other industrialised and developing economies is still well below pre-crisis levels. Comparisons with the previous year, which at first glance are fairly positive, cannot conceal the fact that they stem from a very low base. Alongside economic issues, many printers are influenced by continuing structural turmoil within the industry, ongoing changes in the media landscape and funding problems arising from banks' reluctance to lend, all of which are acting as a brake on investment. The current situation may be described as much better than a year ago, but not yet very good. Even though players throughout the graphic arts industry have reduced capacity on a greater or lesser scale, with demand obstinately weak they are still struggling to achieve and maintain normal production levels. KBA is no exception and as a result is experiencing substantial periodic fluctuations in sales and earnings.

KBA posted a big year-on-year increase in sales. The Group **order intake** in the first quarter climbed 43.2% to €314.4m (2009: €219.5m). The volume of new orders for web and special presses swelled 43.1% from €142.2m to €203.5m, orders for sheetfed presses jumped 43.5% from €77.3m to €110.9m. Following a slow start to the year business picked up strongly in March. Demand for medium-format models and second-hand presses was above average and remained firm in April.

The Group **order backlog** of €439.6m was a good €100m above the year-end figure of €335m but below the corresponding figure for 2009 of €500.8m, which had been boosted by a major contract for newspaper presses. The volume of unfilled orders for web and special presses stood at €322.3m (2009: €394m), the corresponding figure for sheetfed presses was €117.3m (2009: €106.8m). In the second quarter we foresee a big increase in orders on hand for web presses.

Earnings, Finances and Assets

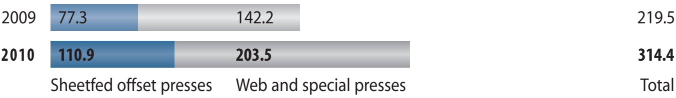
Following a weak intake of orders from November 2009 to February 2010, two weeks of holiday closures and an exceptionally low output of web presses in the three months to April, **Group sales** of €209.8m undercut the previous year's €220.2m by 4.7%. The associated lack of profit contributions inevitably impacted on **earnings**. As a result a welcome pre-tax profit at the end of the year was followed by a €21.3m Group loss in the first quarter. However, thanks to the substantial cost savings achieved this was much smaller than the prior-year pre-tax loss of €35.2m.

Sales generated by the web and special press division slid 13.5% to €124m (2009: €143.4m). Although our sheetfed division posted an 11.7% increase in sales, from €76.8m to €85.8m, this was well below expectations. Large-format sheetfed presses for our mainstream and niche markets featured prominently in the order books.

With domestic sales down 22% at €28.4m (2009: €36.4m), the export level rose from 83.5% to an above-average 86.5%. Sales to the rest of Europe were similarly slow, totalling just €58.4m (2009: €81.1m). A much smaller volume of web press installations and poor sheetfed business in recession-plagued southern and eastern Europe reduced the proportion of sales generated in this region to 27.9% (2009: 36.8%), a new historic low. However, the shipment of several newspaper presses lifted the proportion of Group sales generated in North America to 15% or €31.5m (2009: 13.9% and €30.6m). Brisk demand in China boosted sales to Asia and the Pacific from €36.8m to €58.1m. As a result the proportion of Group sales generated in this region soared from 16.7% to 27.7%. At €33.4m the volume of

Group order intake

in €m



Group sales

in €m

sales to Africa and Latin America was more or less on a par with the previous year (€35.3m). The region's contribution was thus 15.9% (2009: 16.1%) – higher than North America's.

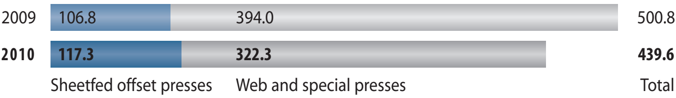
The **gross profit margin** climbed from 13.6% twelve months earlier to 21.7%. Distribution costs and administrative expenses eased down to €33m and €22.3m respectively. Despite a slide in profit contributions we succeeded in cutting our **operating loss** from €32.7m to €19.4m. Following a small financial loss of €1.9m we made a **pre-tax loss** (EBT) of €21.3m, which was a big improvement on the previous year's loss of €35.2m. After taxes we disclosed a **Group net loss** of €20.2m, again a big improvement on the previous year (a loss of €33.2m). **Earnings per share** totalled –€1.23 (2009: –€2.03).

Finances

Firmer demand saw payments received rise by €19.6m to €124m compared to the end of last year. With liquidity temporarily tied up in inventories, which swelled by €27.1m to €346.6m prior to scheduled shipments, **cash flows from operating activities** dropped to –€41.3m, well below the corresponding figure in 2009 of €19.2m. After deducting cash flows for investing activities the **free cash flow** came to –€43.4m, against €13.5m twelve months earlier. **Funds** shrank from €76.1m at the end of December to €38.8m at the end of March. While bank loans totalling €55.5m were higher than at the end of last year (€48.3m), our net debt was a manageable €16.7m. This is well within the long-term credit lines at our disposal. On 31 March equity was worth €402.4m, or 38% of the balance sheet total.

Group order backlog

in €m



Group net loss

in €m

Assets

The Group **balance sheet total**, at €1,060m, was virtually identical to the year-end figure of €1,060.4m. Investment in intangible assets, property, plant and equipment worth €2.2m (2009: €6.3m) compared with depreciation of €7.9m (2009: €7.3m).

Research and Development

In addition to developing new products and improving existing ones our R&D activities in both our sheetfed and our web press division continue to focus strongly on environmental issues. The conservation of energy and materials within the printing process has become a major competitive factor, and KBA is well placed in this field. Reducing unproductive down times, automating quality control and enhancing the visual impact of printed products with new materials and finishing processes rank equally high on our list of priorities.

At the end of March KBA launched a new 16-page commercial web press, the C16, whose market-oriented automation and short makeready times address a shift towards smaller circulations and the need for more cost-effective tools to produce them. A collaborative agreement on inline colour measurement and control was signed with Swiss software specialist System Brunner. A joint product will be launched in May at the Ipex international trade fair in Birmingham, UK, placing us well ahead of our competitors in automated print-quality control. The manifold benefits of our innovative compact presses, the Cortina and Commander CT, which embody the main thrust of our development activities for newspaper printers, continue to attract new buyers. Following an order from Scandinavia for a further Cortina press line, in the second quarter we look set to book some major contracts for Commander CT presses.

Geographical breakdown of sales

in %	2009	**2010**
Africa/Latin America	16.1	15.9
Asia/Pacific	16.7	27.7
North America	13.9	15.0
Rest of Europe	36.8	27.9
Germany	16.5	13.5

Human Resources

Our realignment to smaller market volumes continued, and by the end of March we had trimmed the Group workforce to 6,559, 1,087 fewer than twelve months earlier (7,646). Payrolls at our sheetfed factories were reduced by a total of 719, and at our web press production plants by 368. Whereas adjustments at our sheetfed operations are well advanced, the consolidation of our web and special press facilities will continue into the second half of the year.

Risk Management

The Parent's early warning system is described on pages 39 to 40 of the Group financial statements for 2009. There have since been no significant changes in our risk profile. At present we can discern no risks that could pose an existential threat to Group activities.

Payroll at 31 March

Outlook

The steep rise in new orders in the first quarter is no more an indicator for the rest of the year than are our unsatisfactory sales, earnings and cash flows. Following a fairly good Group performance in the previous two quarters and the 2009 business year, this slowdown is more a reflection of fluctuating demand from a lower level than before the economic crisis.

Although we have noticed a certain stabilisation and modest uplift in our markets, we see no sign of a sustained and universal resurgence in demand. Recent upbeat prognoses regarding future economic developments, and more positive figures issued by many sectors, are not automatically applicable to the press sector. Its severe exposure to economic and advertising cycles, and disruptive changes in the media environment, mean that it tends to lag behind when the economy starts to revive. Press manufacturers have benefited less than other industries from the massive fiscal stimulus packages introduced last year the world over. China – a booming, high-growth market unscathed by global economic turbulence – and relatively brisk investment in big-ticket items by printers in densely populated threshold economies like India or Brazil can only compensate in part for persistent slack demand in North America, Europe, Southeast Asia, Japan and other major markets.

The debt crisis that has engulfed southern Europe poses a new threat to the global economy, the funding banks and the euro. The widespread uncertainty it has engendered is no basis for a strong, sustained upturn: what is needed are stable economic conditions and banks that are willing – and able – to finance deals.

While a weaker euro makes the German engineering industry more competitive in export markets against Japanese, American and potential Chinese vendors, exporters' interests would be ill served by a currency whose very existence has been publicly questioned following recent events, and which could well become an object of speculation.

Factoring in the ongoing structural, technological and global changes, we calculate that, even if the global economy rebounds to its former heights, the realisable business volume for German press manufacturers will be some 25 per cent smaller than in the best of previous years. Hence our prompt adoption of measures to adjust the payroll accordingly. We are well on the way to achieving this goal by the end of the current year, and are confident that a leaner, more efficient organisation, a slimmer cost base and innovative products for more diverse applications will enable us to hold our own in a diminished post-transition market. And we remain firmly committed to developing an additional business line alongside our core business of press technology. For some months now the management board has been negotiating with potential partners, and is hopeful of reaching a decision soon. Our solid financial figures and balance sheet after more than eighteen months of crisis and recession furnish a sound foundation.

Recent developments in web press manufacture and our batch-based sheetfed business give us reason to believe that the influx of new orders will surge in the second quarter. This will have a positive impact on sales and profits in subsequent quarters. In addition to brisk business in China we recently booked more orders in Italy, Spain, Russia and North America – key markets where sales had nosedived in 2009. We have also received some interesting contracts from the Middle East, Turkey, the UK, Sweden and Brazil, to name but a few. Even though excess capacity on the supply side continues to place severe constraints on prices and margins, our success in cutting costs enables us to operate efficiently within these confines.

Security presses, which are largely non-cyclical, make a stable contribution to sales and earnings. Demand for metal-decorating presses and industrial coding systems, which slackened in 2009, has also stabilised. Following prolonged and persistent glacial demand for newspaper and commercial web presses we may now be seeing a glimmer of light at the end of the tunnel. However, in 2010 we shall be unable to achieve the high market volumes of previous years.

Notwithstanding the dip in sales and earnings in the first quarter we are confident that the Group realignment initiated twelve months ago will be completed on schedule, and that we shall meet our sales and earnings targets for 2010. By the end of the year we anticipate higher Group sales and a better pre-tax result than in 2009. In view of the €100m-plus jump in our order backlog during the first quarter, and the volume of orders expected in the second quarter, we have a real chance of achieving this objective. At this early stage we see little sense in issuing a sales and earnings forecast with specific figures for the year.

Group Balance Sheet

Assets in €m	31.12.2009	**31.03.2010**
Non-current assets		
Intangible assets, property, plant and equipment	259.8	255.7
Investments and other financial receivables	24.4	24.5
Deferred tax assets	31.7	33.9
	315.9	**314.1**
Current assets		
Inventories	319.5	346.6
Trade receivables	276.2	275.5
Other financial receivables	24.4	27.5
Other assets	32.7	41.7
Securities	15.6	15.8
Cash and cash equivalents	76.1	38.8
	744.5	**745.9**
Balance sheet total	**1,060.4**	**1,060.0**

Equity and liabilities in €m	31.12.2009	**31.03.2010**
Equity		
Share capital	42.7	42.7
Share premium	87.0	87.0
Reserves	290.1	272.7
	419.8	**402.4**
Liabilities		
Non-current liabilities		
Pension provisions	103.7	104.3
Other provisions	56.0	59.1
Bank loans	13.0	12.8
Other financial payables	7.6	6.8
Other liabilities	0.1	–
Deferred tax liabilities	21.0	21.5
	201.4	**204.5**
Current liabilities		
Other provisions	156.9	147.0
Trade payables	74.8	71.2
Bank loans	35.3	42.7
Other financial payables	48.3	54.3
Other liabilities	123.9	137.9
	439.2	**453.1**
Balance sheet total	**1,060.4**	**1,060.0**

Group Income Statement

01.01. - 31.03. in €m	2009	**2010**
Revenue	220.2	209.8
Cost of sales	–190.2	–164.2
Gross profit	**30.0**	**45.6**
Distribution costs	–33.4	–33.0
Administrative expenses	–23.6	–22.3
Other operating income and expenses	–5.7	–9.7
Operating loss	**–32.7**	**–19.4**
Financial result	–2.5	–1.9
Earnings before taxes	**–35.2**	**–21.3**
Income tax	2.0	1.1
Net loss	**–33.2**	**–20.2**

Statement of Comprehensive Group Income

01.01. - 31.03. in €m	2009	**2010**
Net loss	**–33.2**	**–20.2**
Foreign currency translation	–0.4	3.6
Measurement of primary financial instruments	–0.1	0.2
Measurement of derivatives	–2.4	–1.0
Deferred taxes	0.7	–0.6
Gains/losses recognised directly in equity	**–2.2**	**2.2**
Total comprehensive income	**–35.4**	**–18.0**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2009	**42.6**	**86.7**
Comprehensive income	–	–
Other changes	–	–
31.03.2009	**42.6**	**86.7**
01.01.2010	**42.7**	**87.0**
Comprehensive income	–	–
Other changes	–	–
31.03.2010	**42.7**	**87.0**

Reserves		
Recognised in equity	Other	**Total**
3.8	**278.0**	**411.1**
–2.2	–33.2	–35.4
–	–0.5	–0.5
1.6	**244.3**	**375.2**
5.5	**284.6**	**419.8**
2.2	–20.2	–18.0
–	0.6	0.6
7.7	**265.0**	**402.4**

Group Cash Flow Statement

01.01. - 31.03. in €m	2009	2010
Earnings before taxes	–35.2	–21.3
Non-cash transactions	8.9	6.9
Gross cash flow	**–26.3**	**–14.4**
Changes in inventories, receivables and other assets	88.1	–24.3
Changes in provisions and payables	–42.6	–2.6
Cash flows from operating activities	**19.2**	**–41.3**
Cash flows from investing activities	**–5.7**	**–2.1**
Cash flows from financing activities	**–0.6**	**7.0**
Change in funds	**12.9**	**–36.4**
Effect of changes in exchange rates	0.7	–0.9
Funds at beginning of period	85.8	76.1
Funds at end of period	**99.4**	**38.8**

Notes to the Interim Statement to 31 March 2010

1 Accounting Policies
This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The consolidated financial statements were prepared in accordance with the standards 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.

The interim accounts conform to IAS 34. Taxes on income were disclosed at the average national tax rate applicable.

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

2 Consolidated Companies and Consolidation Principles
There were no changes in the number of consolidated companies or 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 Segment Information

3.1 Business segments

01.01. - 31.03.	Web and special presses		Sheetfed offset presses	
in €m	2009	**2010**	2009	**2010**
External sales	143.4	**124.0**	76.8	**85.8**
Internal sales	32.6	**32.8**	22.2	**31.2**
Total sales	176.0	**156.8**	99.0	**117.0**
Investment	2.5	**1.3**	3.8	**0.9**

3.2 Geographical breakdown of sales

01.01. - 31.03.		
in €m	2009	**2010**
Germany	36.4	**28.4**
Rest of Europe	81.1	**58.4**
North America	30.6	**31.5**
Asia/Pacific	36.8	**58.1**
Africa/Latin America	35.3	**33.4**
External sales	**220.2**	**209.8**

4 Earnings per Share

01.01. - 31.03.		
in €	2009	**2010**
Earnings per share	–2.03	**–1.23**

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,426,053 no-par shares, previous year: 16,387,133 no-par shares).

5 Balance Sheet

5.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	77.0	51.8	25.2
Property, plant and equipment	646.5	411.9	234.6
Total at 31.12.2009	**723.5**	**463.7**	**259.8**
Intangible assets	67.3	42.4	24.9
Property, plant and equipment	651.4	420.6	230.8
Total at 31.03.2010	**718.7**	**463.0**	**255.7**

Investment in property, plant and equipment totalling €1.9m (first quarter 2009: €6.3m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2009	**31.03.2010**
Raw materials, consumables and supplies	62.3	61.5
Work in progress	211.7	238.8
Finished goods and products	45.5	46.3
	319.5	**346.6**

5.3 Liabilities

Current and non-current liabilities increased by €17m in the three months to 31 March. Following a first-quarter surge in orders, prepayments received rose by €19.6m. In addition deferred expenses of €14.2m relating to the Group realignment became due, resulting in a €7.2m increase in **bank loans**.

Key Financial Dates

Koenig & Bauer Annual General Meeting
17 June 2010
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2010
13 August 2010

Interim report on 3rd quarter 2010
15 November 2010

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