Group Interim Report
First Half-Year 2011

KBA
Koenig & Bauer Group

KBA Group in Figures

01.01. - 30.06. in €m	2010	**2011**
Order intake	679.3	**682.9**
Sales	473.2	**509.7**
Order backlog at 30.06.	541.1	**614.0**
Export level in %	86.2	**85.3**
Operating loss	–18.9	**–7.3**
Earnings before taxes	–22.0	**–11.0**
Net loss	–20.3	**–14.7**
Balance sheet total at 30.06. (prior year: 31.12.)	1,164.4	**1,152.5**
Equity at 30.06. (prior year: 31.12.)	461.3	**451.1**
Investment in intangible assets, property, plant and equipment	5.8	**19.9**
Depreciation on intangible assets, property, plant and equipment	16.1	**17.9**
Payroll at 30.06.	6,445	**6,371**
Cash flows from operating activities	–18.1	**32.3**
Earnings per share in €	–1.23	**–0.89**

Title photo: KBA Rapida presses can handle a broad range of substrates from lightweight paper to cartonboard

Following first-quarter growth rates in new orders and sales that were well into double digits, the pace slowed in the second quarter, but at around €683m the value of incoming orders was above the corresponding figure for the previous year, bucking the industry trend. Sales in the first six months were 7.7% up on 2010 at approximately €510m, in line with expectations. There was a 13.5% increase in the volume of orders on hand, to €614m.

Although we posted a pre-tax loss of €11m for the period to 30 June, this was half the total twelve months ago. The increase compared to the first quarter was largely due to a union-negotiated pay rise, narrower profit margins on the products sold, the costs associated with a prolonged strike at our Frankenthal plant and the considerable up-front expense of developing new products for Drupa 2012. We expect earnings to improve significantly in the second half-year. Our operating cash flow soared from –€18.1m to €32.3m.

Brisk investment by packaging printers has helped revive the geographically diverse market for sheetfed offset and special presses, with their wide range of applications. Business has even picked up outside the fast-growing emerging nations of China, Brazil and Turkey. However, demand for commercial and newspaper web presses has stagnated at the previous year's poor level, with the majority of sales generated in Germany and western Europe. Economic problems and a shift to online media have caused the bottom to drop out of some of our biggest markets, such as the USA, the UK, Spain and Italy, though this is hopefully temporary. And in the emerging nations, interest in web presses has been much weaker than in sheetfed presses.

Given the ongoing structural changes in the print media industry and the number of projects being negotiated, we have based our plans on the premise that there will be no more than a modest lift in the demand for web presses from the present low level. Sadly, this scenario will not enable us to maintain long-term capacity production at our three web press plants in Franconia and Rhineland-Palatinate. Following protracted negotiations, in recent weeks management reached an agreement with employee representatives and the IG Metall trade union on trimming more than 500 jobs over the next few years. Every effort is being made to minimise the social impact.

The Frankenthal facility is to be spun off as two limited companies, which will be free to accept work from external customers as well as KBA, and open to investors from lines of business other than printing presses. Alongside web presses the factory in Würzburg will be responsible for the development and production of digital presses. Some responsibilities relating to sheetfed offset and special presses will also be transferred to Würzburg from our Austrian subsidiary, KBA-Mödling, which is operating at the limits of its capacity.

Our realignment to the radically transformed market environment in which press vendors must operate demands large-scale intervention in processes and structures. Due to the personnel adjustments required it is all taking much longer than we originally expected. Nonetheless, there is no viable alternative. We would have been more than happy to avoid the disruption caused by the six-week industrial dispute at our Frankenthal facility, which ended just before our AGM on 16 June. Unfortunately successive rounds of arduous negotiations failed to produce an acceptable compromise any sooner.

In the second half of the year our objective is to stabilise the inflow of new orders at as high a level as is possible considering the increased economic instability, to work steadily, month by month, towards achieving our sales and earnings targets for 2011, and to start implementing the measures agreed for our web press production plants.

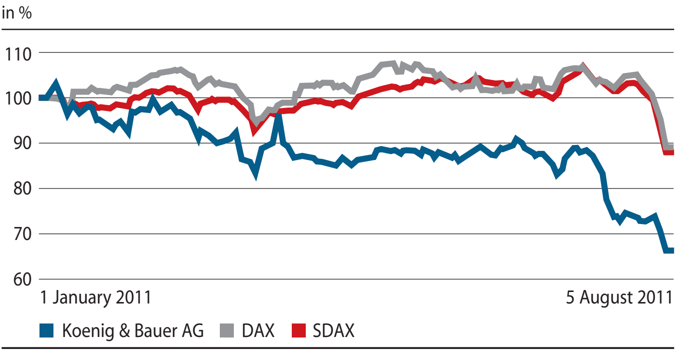
On behalf of my fellow members of the board and KBA employees I would like to thank you, our shareholders, for the confidence and trust you have placed in our company, some of you for many years now.

Helge Hansen
President and CEO of Koenig & Bauer AG

KBA Shares

After climbing above €19 at the beginning of January, Koenig & Bauer shares slipped to €15.10 in mid-March as the catastrophes in Japan sent international stockmarkets tumbling. A brief recovery to €17.89 was followed by a further slide towards the €16 mark. With consolidation at our web press plants not yet concluded, and sovereign debt issues in southern Europe and the USA exacerbating the risks to which export-oriented machine manufacturers were exposed, KBA shares suffered a further decline and on 30 June stood at €15.56, or 11.1% below their closing price on 30 December 2010. During the same period the SDAX and DAX climbed by 4.7% and 6.7% respectively. At the beginning of August, turbulence in the stock markets triggered by the sovereign debt crisis caused an abrupt and unexpectedly sharp decline in our share price to below €12.

Koenig & Bauer shares



Management Report

Market and Industry Environment

Statistics published by the VDMA (German Machinery and Plant Manufacturers' Association) on order intake in the second quarter reveal that of the 21 German engineering branches surveyed, printing and paper technology ranked last with a contraction in real terms of more than 10% compared to the previous year. While the printing-press sector benefited from a boom in China and brisk sales in many other countries in Asia and South America, growth was patchy and both domestic and foreign demand was much weaker than for machine tools and automation technology. Ongoing structural changes in the print media industry have also unsettled potential investors and thus impaired growth. This has impacted severely on the demand for web presses, which has been affected much more by a widespread migration from print to online media than have sales of sheetfed presses for less media-specific products, or special presses for niche applications.

Bucking the industry trend, the Group **order intake** totalling €682.9m for the first six months represented a modest increase on the equivalent figure for last year of €679.3m, which had been bolstered in the second quarter by a string of orders booked at the Ipex trade fair in Birmingham, and by some major contracts for web presses. The much bigger gain in the three months to April 2011 reflected a weak first quarter the previous year.

At €168.6m the volume of new orders booked for sheetfed offset presses between 1 April and 30 June was substantially larger than in the three preceding quarters. This was in no small part due to the Print China trade fair in Guangdong, which took place in April. The volume of incoming orders for the full six months was up 2.1% at €310.1m (2010: €303.6m). New orders for web and special presses amounted to €372.8m and thus fell short of the prior-year figure of €375.7m. This was because some major contracts from European newspaper and commercial printers and non-European security printers did not appear in the books until July.

The Group **order backlog** at the end of June was valued at €614m, 13.5% higher than twelve months earlier (€541.1m). The volume of unfilled orders for sheetfed presses stood at €214.6m (2010: €196.5m), the corresponding figure for web and special presses was €399.4m (€344.6m). Production is thus safeguarded for the immediate future.

Earnings, Finances and Assets

Earnings

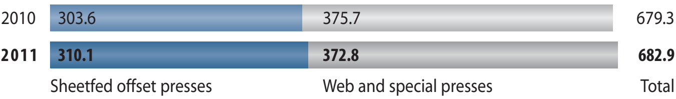
Group sales of €509.7m were 7.7% up on the same time last year (€473.2m). This, and the cost savings achieved through consolidation, halved the pre-tax loss from €22m to €11m. While there will be a charge for restructuring our web press plants, the impact on **earnings** for the year will be offset by the larger volume of shipments scheduled in subsequent quarters and by an increase in products with a wider profit margin, enabling us to post a better result than in 2010.

Industrial action at our Frankenthal operation caused delays in the delivery of web presses and contributed to an 8.2% drop in sales of web and special presses to €251.5m (2010: €273.9m). This contrasted with a 29.6% leap in sheetfed offset sales to €258.2m (€199.3m), primarily driven by brisk demand in China, other Asian markets and the Americas. Once again there was a substantial rise in the proportion of medium- and large-format packaging presses sold.

The export level eased down to 85.3% following a 15% lift in domestic sales from €65.2m to €74.7m. Sales to the rest of Europe jumped from €139.7m to €189.3m and the volume of Group sales generated in this region climbed to 37.1%, but was still well below the historical average of almost 50%. This was largely attributable to sluggish investment by printers in southern Europe, the UK and other major markets. In North America, slack demand for web presses led to a decline in sales from €54.8m the previous year to €42.3m, or 8.3% of the Group total (2010: 11.6%). Sales to Asia and the Pacific

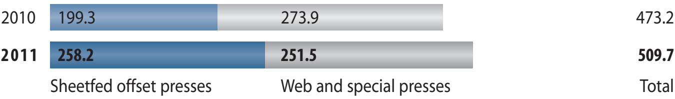
Group order intake

in €m



Group sales

in €m



rose to €144.7m and 28.4% (2010: €127.6m and 27%), boosted by a high volume of shipments to China. Sales to Africa and Latin America were worth €58.7m (2010: €85.9m) or 11.5%.

Notwithstanding the cost cuts delivered by ongoing consolidation, our **gross profit margin** narrowed from 25.6% twelve months earlier to 22.7%, due to wage increases and a less profitable product mix in the second quarter. This key value should improve in the second half-year.

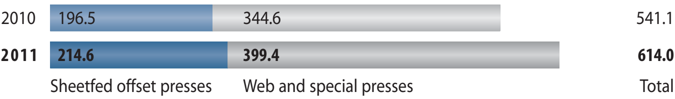
There was a big drop in distribution costs and administrative expenses (to €66.4m and €31.8m respectively) and a small reduction in the negative balance between other operating expenses and income, from –€27.9m to –€24.9m. Our **operating loss** shrank from €18.9m in 2010 to €7.3m.

Although production at our web press plants was well below capacity due to unfavourable market conditions, our web and special press division posted a profit to which niche and service activities, which are less affected by the shifting media landscape, made a sizeable contribution. However, a better performance by our sheetfed offset division compared to last year was not enough to generate an operating profit.

A financial loss of €3.7m and narrower profit margins on products shipped in the first six months contributed to a **pre-tax loss** (EBT) of €11m. The good news is that this was half the prior-year figure. A **Group net loss** of €14.7m was also much smaller than the €20.3m loss incurred twelve months earlier and corresponds to **earnings per share** of –€0.89 (2010: –€1.23).

Group order backlog

in €m



Group net loss

in €m

Finances

While inventories swelled in preparation for a larger volume of sales in the second half-year, higher earnings, customer prepayments and a drop in receivables boosted **cash flows from operating activities** to €32.3m, against –€18.1m twelve months earlier. After deducting cash flows for investing activities the **free cash flow** was also much higher than in the previous year (€15.4m compared to –€23.5m). **Funds** totalled €104.8m, up from €91m at the end of December 2010. Bank loans fell to €40.2m. At the end of June net liquidity was an impressive €64.6m, the Group had access to ample credit lines and our equity ratio was an above-average 39.1% (2010: 39.6%).

Assets

The **Group balance sheet total** of €1,152.5m at 30 June was €11.9m lower than the year-end figure of €1,164.4m. This was primarily due to a €14.3m decline in current assets, whereby an increase of €52.6m in inventories and €13.8m in funds was more than offset by a €92.9m drop in trade receivables. €19.9m (2010: €5.8m) was invested in intangible assets, property, plant and equipment. Here the focus was on refurbishing the foundry at our Würzburg facility, adding a big new hall. Depreciation came to €17.9m (2010: €16.1m). On balance, the value of property, plant and equipment rose from €243m at the end of last year to €246.1m.

Geographical breakdown of sales

in %	2010	**2011**
Germany	13.8	14.7
Rest of Europe	29.5	37.1
North America	11.6	8.3
Asia/Pacific	27.0	28.4
Africa/Latin America	18.1	11.5

Research and Development

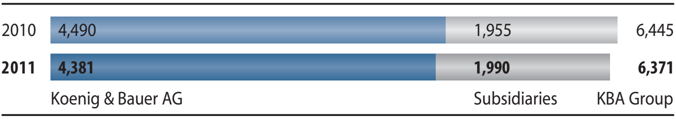
Every four years the world's biggest print-media trade fair, Drupa in Düsseldorf, functions as a showcase where established players and new entrants can promote the latest advances in print production and spotlight emerging trends. The next Drupa is in May 2012, and exhibitors have long been busy preparing for this key event. A major participant ever since the first show was held, KBA will be demonstrating new products, processes and advances for key applications encompassing book, commercial, digital, label, packaging, security and newspaper press technology, plus hybrid systems combining different processes.

The object of all these product and process innovations is to make print more competitive in the media arena by enhancing production flexibility, efficiency and economy on a sustainable basis, by expanding press capabilities and output, by improving control ergonomics still further and by offering users more effective tools for raising their market profile. Work in our R&D department continues apace, and keen beta users are providing valuable feedback to ensure that the products unveiled at Drupa and the months thereafter are mature and well-proven in practice.

Human Resources

At the end of June there were 6,371 employees on the Group payroll, 74 fewer than twelve months before. Excluding our three sales and service subsidiaries in Milan, Hong Kong and Shanghai, which were not consolidated in the Group accounts until this year, the figure would have been 135. The adjustment of our web press capacity to diminished market volumes and prospects has not yet been completed, and at the end of May we announced further capacity cuts and the loss of several hundred more jobs at our web press plants. Following some tough negotiations with employee representatives and IG Metall in Frankenthal, an amended tariff agreement was signed on 15 June. This entails an initial, socially compatible reduction of 142 from a

Payroll at 30 June



total payroll of around 650. The Frankenthal operation will be split into two independent companies, folder production etc. will be transferred to Würzburg and new business partners sought. At the end of July capacity adjustments were negotiated for our Würzburg and Trennfeld plants which will result in the loss of approximately 280 jobs, some 80 of them in the form of phased retirement plans. This will reduce the group workforce to well below 6,000.

Risk Management

Potential risks to Group activities are described in our risk management report on pages 39 to 40 of the Group financial statements for 2010, and also in the outlook on pages 43 to 46. In the first six months of the present year there have been no significant changes in the risk profile detailed there. Despite the current political and economic uncertainties we can discern no risks that could pose an existential threat to Group activities.

Outlook

Sheetfed orders have benefited from a revival in demand for packaging presses following a slump triggered by the economic crisis. In this growth market, which is dominated by medium- and large-format presses, KBA is up among the leaders, and in recent months we have even seen a rise in orders from printers in countries such as Italy and the USA, where demand has hitherto been weak. However, business has lost momentum in China, our biggest single market, as the central Chinese government battles high inflation with a tighter monetary policy and restrictions on credit lines for investment. Our competitors, whose standardised products are much more dependent on the commercial market, are feeling the impact more severely than we are, since we have a larger proportion of packaging customers with deeper pockets. It remains to be seen whether this is a temporary slowdown or not.

A number of web and security press projects scheduled for the second quarter were delayed, and some major contracts from printers in Germany, Italy, the Benelux states, Russia, Latin America and China did not appear in the books until July. With several more projects nearing completion we anticipate a higher volume of new orders in the third quarter.

While cyclical fluctuations are common in the heavy plant sector, it is evident that sales of web presses for printing newspapers, magazines, catalogues and various other products have bottomed out at a much lower level than before the economic crisis. Given the enormous productivity gains achieved in press engineering, and relentless competition from online media, there is no prospect of a return to earlier volumes.

Our announcement that capacity at our web press production plants would have to be trimmed on a larger scale than previously planned precipitated a six-week strike at our Frankenthal facility in the second quarter. By the time work resumed in mid-June our other plants had also been affected, as had earnings. Some of the shipments scheduled for that quarter had to be postponed until the second half of the year. Nonetheless we are confident that we can make up for most of the lost time by the end of December.

The economic and political environment on which global growth and exports depend remains unstable. The political action taken in recent weeks to combat the sovereign debt crisis in the EU and the USA has been fiercely criticised, and has merely postponed the reckoning, not resolved the issue. Financial and stock markets are increasingly jumpy, anxiety is growing among consumers and investors, and fluctuations in the exchange rate between the US dollar and the euro, and in the price of energy and commodities, have become more pronounced. On top of this, some markets in the Middle East and North Africa have been virtually wiped out by political conflicts.

This instability makes it harder for us to foresee market and business trends. The realignment of our Group operations commenced two years ago is not yet concluded. But in view of our solid financial and corporate figures, and cutting-edge products for numerous market sectors, management is confident that the KBA Group is well equipped for growth in a fiercely competitive arena. Provided that no external factors cause a slump in major export markets or in the global economy, we stand by our target for 2011 of a single-digit increase in Group sales and a modest lift in pre-tax profits compared to 2009 and 2010.

Group Balance Sheet

Assets in €m	31.12.2010	30.06.2011
Non-current assets		
Intangible assets, property, plant and equipment	269.4	272.4
Investments and other financial receivables	27.4	26.0
Other assets	0.2	0.5
Deferred tax assets	36.8	37.3
	333.8	**336.2**
Current assets		
Inventories	296.7	349.3
Trade receivables	368.6	275.7
Other financial receivables	10.0	13.5
Other assets	40.6	49.3
Securities	23.7	23.7
Cash and cash equivalents	91.0	104.8
	830.6	**816.3**
Balance sheet total	**1,164.4**	**1,152.5**

Equity and liabilities in €m	31.12.2010	30.06.2011
Equity		
Share capital	42.8	42.8
Share premium	87.1	87.1
Reserves	331.4	321.2
	461.3	**451.1**
Liabilities		
Non-current liabilities		
Pension provisions	104.6	106.0
Other provisions	71.7	76.0
Bank loans	8.8	8.2
Other financial payables	6.2	4.5
Other liabilities	0.5	0.1
Deferred tax liabilities	22.2	22.4
	214.0	**217.2**
Current liabilities		
Other provisions	162.7	141.5
Trade payables	69.4	61.5
Bank loans	34.3	32.0
Other financial payables	49.9	63.1
Other liabilities	172.8	186.1
	489.1	**484.2**
Balance sheet total	**1,164.4**	**1,152.5**

Group Income Statement

01.01. - 30.06. in €m	2010	**2011**
Revenue	473.2	509.7
Cost of sales	–352.2	–393.9
Gross profit	**121.0**	**115.8**
Distribution costs	–71.4	–66.4
Administrative expenses	–40.6	–31.8
Other operating income and expenses	–27.9	–24.9
Operating loss	**–18.9**	**–7.3**
Financial result	–3.1	–3.7
Earnings before taxes	**–22.0**	**–11.0**
Income tax	1.7	–3.7
Net loss	**–20.3**	**–14.7**

01.04. - 30.06. in €m	2010	**2011**
Revenue	263.4	256.4
Cost of sales	–188.0	–200.8
Gross profit	**75.4**	**55.6**
Distribution costs	–38.4	–34.3
Administrative expenses	–18.3	–10.0
Other operating income and expenses	–18.2	–16.8
Operating profit/loss	**0.5**	**–5.5**
Financial result	–1.2	–1.6
Earnings before taxes	**–0.7**	**–7.1**
Income tax	0.6	–1.8
Net loss	**–0.1**	**–8.9**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2010	**42.7**	**87.0**
Total net loss	–	–
Gains recognised directly in equity	–	–
Profit/loss for the period	**–**	**–**
30.06.2010	**42.7**	**87.0**
01.01.2011	**42.8**	**87.1**
Total net loss	–	–
Gains recognised directly in equity	–	–
Profit/loss for the period	**–**	**–**
Dividend	–	–
Other changes	–	–
30.06.2011	**42.8**	**87.1**

Statement of Comprehensive Group Income

01.01. - 30.06. in €m	2010	**2011**
Net loss	**–20.3**	**–14.7**
Foreign currency translation	13.3	7.4
Measurement of primary financial instruments	0.2	–
Measurement of derivatives	–4.2	–
Deferred taxes	–1.9	–0.1
Gains recognised directly in equity	**7.4**	**7.3**
Total comprehensive income	**–12.9**	**–7.4**

Reserves		
Recognised in equity	Other	**Total**
5.5	**284.6**	**419.8**
–	–20.3	–20.3
7.4	–	7.4
7.4	**–20.3**	**–12.9**
12.9	**264.3**	**406.9**
34.3	**297.1**	**461.3**
–	–14.7	–14.7
7.3	–	7.3
7.3	**–14.7**	**–7.4**
–	–4.9	–4.9
–	2.1	2.1
41.6	**279.6**	**451.1**

Group Cash Flow Statement

01.01. - 30.06.		
in €m	2010	**2011**
Earnings before taxes	–22.0	–11.0
Non-cash transactions	20.1	22.6
Gross cash flow	**–1.9**	**11.6**
Changes in inventories, receivables and other assets	–31.5	46.9
Changes in provisions and payables	15.3	–26.2
Cash flows from operating activities	**–18.1**	**32.3**
Cash flows from investing activities	**–5.4**	**–16.9**
Cash flows from financing activities	**–2.6**	**–7.8**
Change in funds	**–26.1**	**7.6**
Effect of changes in exchange rates	–4.2	6.2
Funds at beginning of period	76.1	91.0
Funds at end of period	**45.8**	**104.8**

Notes to the Interim Statement to 30 June 2011

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

Three subsidiaries – KBA-Italia S.p.A. in Milan/Italy, KBA (HK) Company Ltd. in Hong Kong/China, and KBA Printing Machinery (Shanghai) Co., Ltd. in Shanghai/China – were consolidated in the Group accounts for the first time on 1 January.

There were no changes in our 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 Events after the balance sheet date

As part of the proposed realignment of our web press activities, in July we announced plans to reduce the payrolls at our Würzburg and Trennfeld factories by around 280.

4 Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for 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 year.

Würzburg, 9 August 2011
Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy President

Dr Axel Kaufmann

Christoph Müller

Ralf Sammeck

5 Segment Information

5.1 Business segments

01.01. - 30.06.	Web and special presses		Sheetfed offset presses	
in €m	2010	**2011**	2010	**2011**
Revenue	273.9	251.5	199.3	258.2
Depreciation	9.6	9.4	6.5	8.5
Capital investments	3.6	11.6	2.2	8.3

5.2 Geographical breakdown of revenue

01.01. - 30.06.		
in €m	2010	**2011**
Germany	65.2	74.7
Rest of Europe	139.7	189.3
North America	54.8	42.3
Asia/Pacific	127.6	144.7
Africa/Latin America	85.9	58.7
Revenue	**473.2**	**509.7**

6 Earnings per Share

01.01. - 30.06.		
in €	2010	**2011**
Earnings per share	–1.23	–0.89

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 (16,464,693 no-par shares, previous year: 16,426,053 no-par shares).

7 Balance Sheet

7.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	69.6	43.2	26.4
Property, plant and equipment	645.8	402.8	243.0
Total at 31.12.2010	**715.4**	**446.0**	**269.4**
Intangible assets	70.9	44.6	26.3
Property, plant and equipment	666.4	420.3	246.1
Total at 30.06.2011	**737.3**	**464.9**	**272.4**

Investment in property, plant and equipment totalling €19m (first half-year 2010: €5.2m) primarily refers to assets under construction, additions of plant and machinery, and factory and office equipment.

7.2 Inventories

in €m	31.12.2010	**30.06.2011**
Raw materials, consumables and supplies	56.1	62.7
Work in progress	198.0	230.7
Finished goods and products	42.6	55.9
	296.7	**349.3**

7.3 Liabilities

Current and non-current liabilities were just €1.7m lower than at 31 December 2010. A reduction in provisions (particularly for sales) and trade payables was largely balanced by a €10.8m rise in customer prepayments and an increase in other financial payables.

Key Financial Dates

Interim report on 3rd quarter 2011
15 November 2011

Financial statements on 2011
End of March 2012

Interim report on 1st quarter 2012
15 May 2012

Koenig & Bauer Annual General Meeting
14 June 2012
Vogel Convention Center, Würzburg

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