Group Interim Report
First Quarter 2012

KBA
Koenig & Bauer Group

KBA Group in Figures

01.01. - 31.03. in €m	2011	**2012**
Order intake	432.1	**236.6**
Sales	253.3	**263.5**
Order backlog at 31.03.	619.6	**798.8**
Export level in %	86.5	**89.2**
Operating profit/loss	–1.8	**2.0**
Earnings before taxes	–3.9	**0.2**
Net loss	–5.8	**–0.8**
Balance sheet total at 31.03. (prior year: 31.12.)	1,222.8	**1,210.8**
Equity at 31.03. (prior year: 31.12.)	466.6	**467.3**
Investment in intangible assets, property, plant and equipment	6.2	**4.5**
Depreciation on intangible assets, property, plant and equipment	8.3	**9.2**
Payroll at 31.03.	6,404	**6,294**
Cash flows from operating activities	40.1	**–23.1**
Earnings per share in €	–0.35	**–0.05**

Title photo
Packed every day: the KBA stand at Drupa – the world's biggest print media trade fair – in Düsseldorf this May

2012 is a significant year for KBA, German press manufacturers and the global print media industry. On 3 May Drupa, the sector's definitive trade fair, opened in Düsseldorf and we are all hoping that it will stimulate demand following some troubled years. But to what extent these hopes will be realised in today's fraught economic and political climate is hard to predict.

The show is taking place at the right time. The spread of online services notwithstanding, print is still the second most popular vehicle for information and advertising, after television. This message has been swamped in recent years by media coverage focussing almost exclusively on the issues confronting the sector. For two weeks every four years, Drupa, which attracts around 400,000 visitors from all over the world, turns the public spotlight on the economic significance and diversity of print. The plethora of innovations unveiled at the fair proves that the sector is squaring up to the challenges posed by media transitions, and in doing so is creating new business applications.

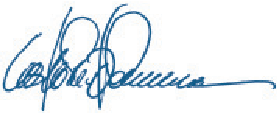
With a raft of new products and processes in just about every segment of our diverse portfolio, our appearance at Drupa could scarcely be more upbeat. We are showing new sheetfed offset presses boasting some unique features for all the formats we offer, and new web presses for newspapers and commercial applications. Our new digital inkjet press, the RotaJET 76, and KBA-MePrint's new Varius 80 for printing flexible packaging address expanding markets we previously had not targeted. Insofar as we, as an exhibitor, can influence the outcome, we have set the stage for a successful fair generating plenty of orders.

There was a distinct contrast in the performance of our two divisions at the beginning of the year. While there was some evidence of the customary pre-Drupa watching brief among potential buyers, our sheetfed offset division booked a modest lift in new orders compared to twelve months earlier. But as we had expected, orders for web and special presses were well below the record level of 2011, which was boosted by some major contracts. The Group order intake of just over €236m for the first quarter thus fell short of our annualised target. Having said that, we are confident that Drupa will have a positive impact in the second and third quarters. And the order backlog of some €800m at the end of March was around 29% above the high prior-year figure.

When it came to sales the situation was reversed, with the web and special press division posting an increase of almost 28% and the sheetfed offset division a drop of some 20% on the corresponding period the previous year. This was not unforeseen, and will balance out in the course of the year. As a result Group sales in the first three months were 4% up on 2011. What is more important, despite a substantial extraordinary outlay for Drupa, Group pre-tax earnings (EBT) improved to €0.2m following a €3.9m loss the year before.

We shall continue to focus firmly on our objectives for 2012. While growth in the press engineering sector slowed after the first three months, our targeted increase in Group sales to over €1.2bn remains realistic, as does a better pre-tax result than last year.

We wish to thank you, our shareholders, for the confidence and trust you have placed in us, and shall make every effort to fulfil your expectations.



Claus Bolza-Schünemann
President and CEO of Koenig & Bauer AG

KBA Shares

After starting the year at €10.33, in a friendly stockmarket environment Koenig & Bauer shares generally followed an upward trajectory with few fluctuations. The preliminary figures for 2011 released at the beginning of March, which revealed a sizeable increase in orders and a profit, were contributory factors, as was speculation concerning the bankruptcy of manroland, a competitor. After hitting a high of €13.76 on 28 March our shares eased down to €13.25 at the end of the quarter. This was a 32.9% improvement on the year-end figure of €9.97 and compared well with both the SDAX (+18.1%) and the DAX (+17.8%). But the Group figures for 2011 published on 30 March, and our cautious projections for 2012, failed to impress the capital markets and this, along with other sector news, affected our share price. At the end of April it stood at €12.35.

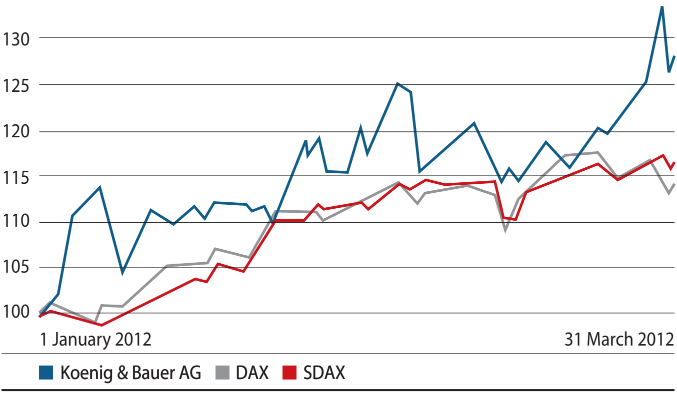
Management Report

Market and Industry Environment

First-quarter statistics issued by the VDMA (German Machinery and Plant Manufacturers' Association) reveal that makers of printing and papermaking equipment posted a real year-on-year decline of 16% in the volume of new contracts received. The drop in the intake of orders for printing technology was less pronounced (13%) because demand picked up in China and remained buoyant in a number of Asian

Koenig & Bauer shares

in %



and South American countries. Alongside economic and structural causes the figures for printing technology reflect the consequences of the above-mentioned investment slowdown ahead of the Drupa international trade fair, which weighed most heavily on demand for batch-produced goods such as sheetfed offset presses for commercial applications. The expanding market for packaging, where KBA is well positioned, was less affected. While trade fairs influence demand for web presses to a much lesser degree, here the expansion of online media acted as a brake on investment. This has been particularly noticeable in the USA for some years now, but is also evident in other industrialised countries.

The Group **order intake** in the first quarter of the current year came to €236.6m. The comparison with the prior-year figure of €432.1m should not be taken at face value since a few major contracts for special presses swelled the volume of new orders in the first three months of 2011 to well above the average for the quarters that followed the financial meltdown. Such fluctuations are not uncommon in the heavy plant sector. New orders for web and special presses in the three months to 31 March were down 71.2% at €83.7m. But a good start to the year and a successful pre-Drupa open house at our Radebeul operation saw demand for sheetfed offset presses bucking the industry trend and climbing 8.1% to €152.9m (2011: €141.5m). The bankruptcy of a competitor, which prompted some of its customers to switch to KBA, also played a part. The models most in demand were our medium- and large-format packaging presses. Business was also brisk at KBA-MetalPrint, a subsidiary in Stuttgart specialising in metal-decorating presses.

Although the total influx of orders was smaller, the Group **order backlog** in the first quarter came to €798.8m, around 28.9% higher than twelve months earlier (€619.6m). The volume of unfilled orders for web and special presses surged by 35.4% to €597.8m, and for sheetfed presses by 12.8% to €201m.

Earnings, Finances and Assets

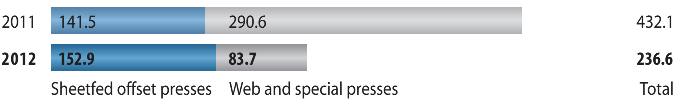
Earnings

Group sales of €263.5m were 4% higher than at the same time last year (€253.3m). Following a fourth-quarter dip in demand last year and some late orders that had not yet worked through to the bottom line, sales of sheetfed offset presses fell by 19.9% to €100.9m (2011: €126m). However, sales of web and special presses improved by 27.7% to €162.6m (2011: €127.3m).

A 16.7% slide in domestic sales raised the export level from 86.5% to 89.2%. Persistent weak demand in the geographical markets most affected by the sovereign debt crisis and regional economic troubles – southern Europe, the UK and much of eastern Europe – reduced sales to the rest of Europe from €101.5m to €67.3m. The volume of Group sales attributable to this region thus fell from 40.1% to 25.6%, well below the historical average. It was surpassed by Asia and the Pacific whose contribution climbed from 24.3% to 30% with China, which has become a key market since the financial meltdown, playing a major role. North American sales accounted for 8.2% of the Group total, up from 7.6% but well below the figures for previous years. One of the main reasons is a persistent lack of investment by US newspaper publishers: in the first three months of this year no web presses were installed in

Group order intake

in €m



Group sales

in €m

the United States. The proportion of Group sales generated in Africa and Latin America soared from 14.5% to 25.4%.

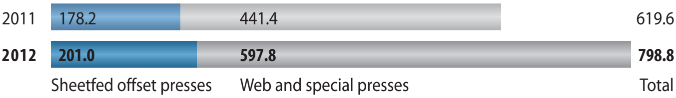
Even though first-quarter sales were weak, as often happens in the plant engineering industry, the product mix delivered had a positive impact on **earnings**. Our **gross profit margin** widened from 23.8% the previous year to 27.9%. An increase in distribution costs from €32.1m to €37.8m primarily related to Drupa and the pre-Drupa open house in Radebeul. Administrative expenses were trimmed from €21.8m to €18.8m. Development costs for new products to launch at the show, and other operating expenses, exceeded other operating income by €15m (2011: €8.1m). However, we posted a first-quarter **operating profit** of €2m following a loss of €1.8m in the prior-year period.

Despite fluctuations in the level of capacity utilisation and narrow margins on some big-ticket items, our web and special press division posted a sizeable profit to which service and niche activities contributed in no small part. A combination of soft sales and high pre-production costs meant that our sheetfed offset division posted an operating loss.

Following a financial loss of €1.8m we made a **pre-tax profit** (EBT) of €0.2m compared to a prior-year loss of €3.9m. A **Group net loss** of €0.8m (2011: €5.8m loss) corresponds to **earnings per share** of –€0.05 (2011: –€0.35).

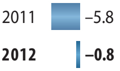
Group order backlog

in €m



Group net loss

in €m



Finances

A substantial drop in trade receivables, lower customer prepayments and a temporary liquidity squeeze caused by bigger inventories, turned **cash flows from operating activities** negative (–€23.1m compared to +€40.1m twelve months earlier). An anticipated increase in shipments following Drupa will trim inventories and boost cash flows. After deducting cash flows for investing activities the **free cash flow** plunged from €36.3m to –€30m. **Funds** came to €119m at the end of March, down from €145.6m at the end of December 2011. Less bank loans of €36.1m this resulted in a comfortable net liquidity of €82.9m. At the end of the quarter equity was worth 38.6% of the balance sheet total, marginally higher than last year.

Assets

The **Group balance sheet total** of €1,210.8m was €12m below the year-end figure of €1,222.8m. This was due in part to a €7.7m reduction in current assets following a €40.8m increase in inventories, a €20.7m decline in trade receivables and a €26.6m contraction in funds. €4.5m (2011: €6.2m) was invested in intangible assets, property, plant and equipment, with the focus on upgrading and streamlining production facilities. Depreciation totalled €9.2m (2011: €8.3m). Between 31 December 2011 and 31 March 2012 non-current assets fell by €4.3m to €340.6m.

Research and Development

In the first three months of the year the development engineers at our manufacturing plants were busy fine-tuning the array of new products and processes scheduled for launching on our 3,500m² exhibition stand in Düsseldorf under the banner “**s**printing ahead”. They include new, still more productive medium- and large-format sheetfed offset presses from our factory in Radebeul and a highly automated half-

Geographical breakdown of sales

in %	2011	**2012**
Germany	13.5	10.8
Rest of Europe	40.1	25.6
North America	7.6	8.2
Asia/Pacific	24.3	30.0
Africa/Latin America	14.5	25.4

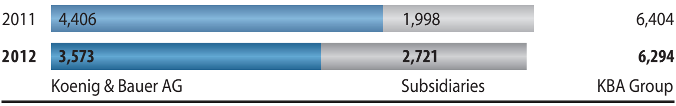
format press built by our Czech subsidiary KBA-Grafitec. In March around 1,000 print professionals from various countries seized the opportunity to see some of our new offerings in action at a three-day pre-Drupa event in Radebeul. Their response was overwhelmingly positive, and a number of contracts were signed even before the show opened.

At Drupa our subsidiary KBA-MePrint has unveiled a variable-format web offset press, the Varius 80, targeting the growing market for flexible packaging. And 200 years after our two company founders produced the world's first mechanical printing press, our collaborative alliance with a major US print group marks our entry into the fast-growing digital print sector with the RotaJET 76 developed and built at our main factory in Würzburg. Like all our other Drupa exhibits this web-fed inkjet press for high-volume print applications has passed a series of rigorous inplant tests. It is one of the main attractions on the KBA stand – along with a new large-format model, the Rapida 145, our Rapida 106 medium-format makeready world champion and our new Rapida 105 with integrated inkjet printing unit. At the world's biggest trade fair we are also demonstrating environmentally friendly waterless offset printing on three sheetfed presses and one web press.

Human Resources

At the end of March there were 6,294 employees on the Group payroll. Excluding the staff at our newly consolidated Swiss subsidiary, Print Assist AG, this was 124 fewer than twelve months earlier (6,404). Following the conclusion of all the adjustments initiated in recent years, which include a relatively large number of phased retirement schemes, the total will fall below 6,000 (including some 340 apprentices). In the first quarter 54 trainees completed their courses at the Parent company with above-average exam results.

Payroll at 31 March



Risk Management

The Parent's risk management system is described on pages 41 to 42 of the Group financial statements for 2011, and there have since been no significant changes in the risk profile detailed there and on pages 45 to 48. Despite the current global uncertainties and debt crises we can discern no risks that could pose an existential threat to Group activities. Our solid capital resources and liquidity, and our strong position in less cyclical niche markets help constrain our risk potential.

Outlook

Although KBA booked a higher volume of sheetfed offset orders in the first quarter by winning new customers, ongoing anxiety caused by the high level of sovereign debt in Europe clouded the investment climate. It was exacerbated by an ingrained reluctance among printers to purchase new equipment ahead of the Drupa trade fair.

Our web and special press division lacked the major contracts which in the previous year had swelled the order inflow by more than 42%. Global demand for web presses was very slow. Not until the second quarter did we win some big projects in Europe and overseas.

Differences in economic impediments and performance are reflected in the VDMA's latest forecast for the engineering industry. The association anticipates zero growth in 2012. So the annual figures for us and others in the sector will depend to a great extent on our success at Drupa.

The world's biggest trade fair is expected to provide a huge business stimulus in the second and third quarters. We are confident that expanding into new markets such as digital print and flexible packaging will enable us to ramp up sales in the medium term. However, given the current unstable environment we see little likelihood that the record order volumes we booked at previous exhibitions can be repeated. Structural changes in the print media industry, economic problems in major European and non-European markets and the declining significance of trade fairs in a digital arena are all cause for caution. The investment climate during and after Drupa 2012 is hard to read and will also be influenced by political decisions and developments both inside and outside Europe.

But with our solid financial base and healthy balance sheet, innovative products and uniquely diverse portfolio targeting virtually all print markets we are well placed to consolidate our standing as the world's second-largest press vendor. There are clear indications that following the recent market turbulence potential customers are placing greater emphasis on the financial stability of their suppliers. Our sizeable order backlog, with a large proportion of profitable projects from less price-sensitive niche markets, offers additional security.

We have made considerable progress in adjusting our capacities and structures to a diminished market volume. We have achieved this through our own resources and without endangering our innovative capabilities, our market organisation or our relationships with customers and suppliers, as has happened when other players in the industry became insolvent. We shall continue to pursue this course and exploit the strategic options offered by consolidation in the sector. We have already introduced measures to strengthen our international sales and service network in markets where we see growth potential for KBA. We are also vigorously pursuing our strategic goal of expanding our product range for the key Chinese market by acquiring a stake in a domestic manufacturer.

While Group sales and earnings at the end of the first quarter fell well short of expectations, management stands by its targets for 2012. If business conditions remain stable, we are confident of achieving Group sales of more than €1.2bn and higher Group pre-tax earnings than the prior-year €3.3m. More exact projections will not be possible until the third quarter when the impact of Drupa can be assessed.

Group Balance Sheet

Assets

in €m	31.12.2011	31.03.2012
Non-current assets		
Intangible assets, property, plant and equipment	275.0	272.2
Investments and other financial receivables	22.1	19.5
Other assets	0.2	0.2
Deferred tax assets	47.6	48.7
	344.9	**340.6**
Current assets		
Inventories	328.1	368.9
Trade receivables	310.4	289.7
Other financial receivables	24.3	19.9
Other assets	40.8	43.2
Securities	28.7	29.5
Cash and cash equivalents	145.6	119.0
	877.9	**870.2**
Balance sheet total	**1,222.8**	**1,210.8**

Equity and liabilities

in €m	31.12.2011	31.03.2012
Equity		
Share capital	42.9	42.9
Share premium	87.3	87.3
Reserves	336.4	337.1
	466.6	**467.3**
Liabilities		
Non-current liabilities		
Pension provisions	106.6	107.3
Other provisions	65.9	71.3
Bank loans	8.0	7.9
Other financial payables	12.8	12.3
Other liabilities	0.1	0.1
Deferred tax liabilities	27.8	28.9
	221.2	**227.8**
Current liabilities		
Other provisions	137.4	148.8
Trade payables	64.2	53.8
Bank loans	27.9	28.2
Other financial payables	73.3	78.3
Other liabilities	232.2	206.6
	535.0	**515.7**
Balance sheet total	**1,222.8**	**1,210.8**

Group Income Statement

01.01. - 31.03. in €m	2011	**2012**
Revenue	253.3	263.5
Cost of sales	–193.1	–189.9
Gross profit	**60.2**	**73.6**
Distribution costs	–32.1	–37.8
Administrative expenses	–21.8	–18.8
Other operating income and expenses	–8.1	–15.0
Operating profit/loss	**–1.8**	**2.0**
Financial result	–2.1	–1.8
Earnings before taxes	**–3.9**	**0.2**
Income tax	–1.9	–1.0
Net loss	**–5.8**	**–0.8**

Statement of Comprehensive Group Income

01.01. - 31.03. in €m	2011	**2012**
Net loss	**–5.8**	**–0.8**
Foreign currency translation	–5.9	0.6
Measurement of primary financial instruments	–0.2	0.8
Measurement of derivatives	0.4	1.7
Deferred taxes	0.1	–0.5
Gains/losses recognised directly in equity	**–5.6**	**2.6**
Total comprehensive income	**–11.4**	**1.8**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2011	**42.8**	**87.1**
Net loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2011	**42.8**	**87.1**
01.01.2012	**42.9**	**87.3**
Net loss	–	–
Gains recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2012	**42.9**	**87.3**

Reserves		
Recognised in equity	Other	**Total**
34.3	**297.1**	**461.3**
–	–5.8	–5.8
–5.6	–	–5.6
–5.6	**–5.8**	**–11.4**
–	2.1	2.1
28.7	**293.4**	**452.0**
42.6	**293.8**	**466.6**
–	–0.8	–0.8
2.6	–	2.6
2.6	**–0.8**	**1.8**
–	–1.1	–1.1
45.2	**291.9**	**467.3**

Group Cash Flow Statement

01.01. - 31.03. in €m	2011	2012
Earnings before taxes	–3.9	0.2
Non-cash transactions	10.9	12.6
Gross cash flow	**7.0**	**12.8**
Changes in inventories, receivables and other assets	20.1	–9.3
Changes in provisions and payables	13.0	–26.6
Cash flows from operating activities	**40.1**	**–23.1**
Cash flows from investing activities	**–3.8**	**–6.9**
Cash flows from financing activities	**0.8**	**0.3**
Change in funds	**37.1**	**–29.7**
Effect of changes in exchange rates and consolidated companies	–0.6	3.1
Funds at beginning of period	91.0	145.6
Funds at end of period	**127.5**	**119.0**

Notes to the Interim Accounts to 31 March 2012

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

One subsidiary – Print Assist AG in Höri, Switzerland – was consolidated in the Group accounts for the first time on 1 January 2012. Domestic sheetfed offset sales activities were spun off from Koenig & Bauer AG into a new subsidiary, KBA Deutschland GmbH.

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 Segment Information

3.1 Business segments

01.01. - 31.03.	Web and special presses		Sheetfed offset presses	
in €m	2011	**2012**	2011	**2012**
Revenue	127.3	162.6	126.0	100.9
Capital investments	4.1	3.2	2.1	1.3

3.2 Geographical breakdown of revenue

01.01. - 31.03.		
in €m	2011	**2012**
Germany	34.2	28.5
Rest of Europe	101.5	67.3
North America	19.3	21.7
Asia/Pacific	61.6	79.0
Africa/Latin America	36.7	67.0
Revenue	**253.3**	**263.5**

4 Earnings per share

01.01. - 31.03.		
in €	2011	**2012**
Earnings per share	–0.35	–0.05

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 (16,485,953 no-par shares, previous year: 16,464,693 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	71.4	45.0	26.4
Property, plant and equipment	648.0	399.4	248.6
Total at 31.12.2011	**719.4**	**444.4**	**275.0**
Intangible assets	71.9	45.3	26.6
Property, plant and equipment	656.9	411.3	245.6
Total at 31.03.2012	**728.8**	**456.6**	**272.2**

Investment in property, plant and equipment totalling €4.4m (first quarter 2011: €5.8m) primarily refers to assets under construction and additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2011	**31.03.2012**
Raw materials, consumables and supplies	62.2	64.6
Work in progress	221.8	258.3
Finished goods and products	44.1	46.0
	328.1	**368.9**

5.3 Liabilities

Current and non-current liabilities were €12.7m lower than at 31 December 2011. This was largely due to a €17.2m reduction in customer prepayments.

Key Financial Dates

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

Interim report on 2nd quarter 2012
14 August 2012

Interim report on 3rd quarter 2012
14 November 2012

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