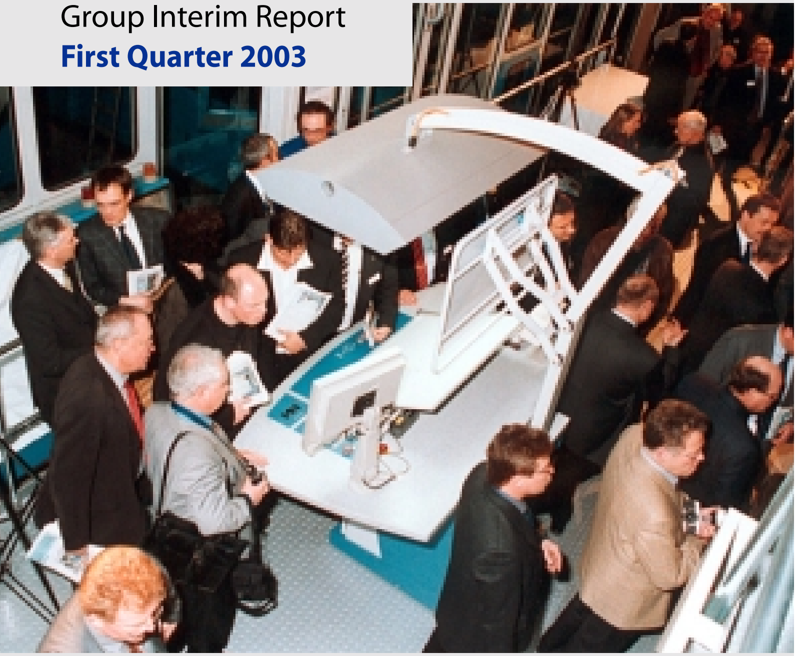
Koenig & Bauer
Group

Group Interim Report
First Quarter 2003



KBA Group in Figures

in €m	**31.03.2003**	31.03.2002
Order intake	231.2	249.7
Order backlog	828.1	1,052.4
Sales	241.2	299.5
Exports	90.0 %	83.6 %
EBIT	–4.4	2.6
Profit/loss from ordinary activities (EBT)	–3.5	3.1
Net profit/loss	–2.0	1.2
Balance sheet total (previous year: 31.12.)	1,232.5	1,240.6
Equity (without dividend payment; previous year 31.12.)	469.4	467.6
Investment (excluding financial investment)	8.4	12.9
Depreciation on intangible assets, property, plant and equipment	10.9	10.9
No. of employees on balance sheet date	7,331	7,615
Cash flows from operating activities	44.0	–7.2
Earnings/loss per share in €	–0.12	0.08

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Title photo: An open house in Offenburg marked the official market launch of our Cortina waterless newspaper press

Group figures for the first quarter reflect the ongoing recession in the graphic arts industry. The slump in ad sales – a crucial source of income for our customers and thus of prime importance for us, as well – has impacted heavily on the newspaper and publishing industries, with no end in sight. According to current indicators and prognoses, demand is unlikely to pick up before the end of the year. We at KBA anticipate little substantial improvement until well into 2004, when we are hopeful that the new products and processes we are launching in May at Drupa, the world's biggest print media trade fair, will stimulate demand once again.

As we disclosed at our press conference on financial statements in early April, turnover in the first three months totalled €241.2m, well below the figure for the same period the previous year (€299.5m). A widespread reluctance among members of the print media to invest in new kit caused the volume of new orders to shrink by 7.4% to €231.2m, from €249.7m in the first quarter of 2002.

Aggressive pricing by competitors and falling capacity utilisation at our web press plants resulted in a Group loss for the quarter of €2m, including restructuring charges. However, we are confident that the cost-cutting measures implemented will enable us to post a profit for the year.

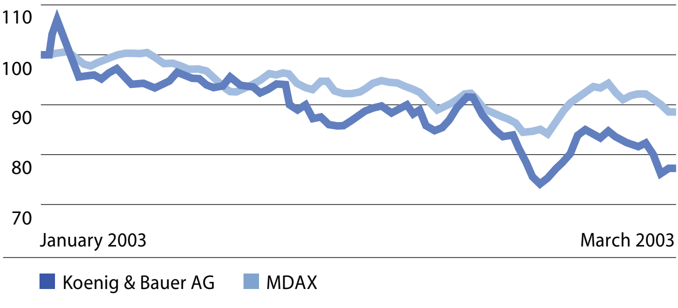
Reinhart Siewert
President of Koenig & Bauer AG

KBA Shares

The economic and political uncertainties surrounding the Iraq conflict cast their shadow over the international stock markets. By the end of the quarter the main German index, DAX, had lost 16.2% to close at 2,424, while the mid-caps index (MDAX) fell 8.4% to 2,770. Mirroring this decline, KBA shares closed at a new low of €10.70. Corporate performance had little bearing on the movement of our shares, which remained sluggish until the Group financial statements were issued on 10 April and markets rallied at the prospect of a rapid end to the war.

Despite sober prospects both for the print trade in general and for the individual companies within it, KBA shares profited from a post-conflict upswing and by the end of April were trading at €13. However, this is still less than half their book value and in no way reflects the company's true worth. Following the reclassification of German indices on 24 March, KBA is now classed as a prime standard in a mid-caps index which has been whittled down to 50 companies.

Koenig & Bauer Shares
in %



Management Report

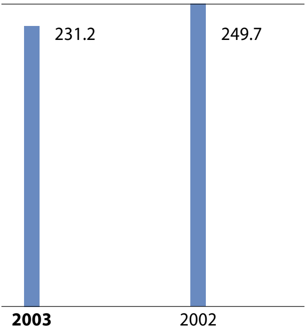
Group Performance

Growth in the domestic and key foreign print markets remained as elusive as it had been in 2002, with a majority of German entrepreneurs anticipating no more than a minor improvement in demand in the second half-year. The printing industry continued to suffer the effects of global economic stagnation. In the spring, growth forecasts for Germany were adjusted to 0.5%, and the International Monetary Fund has since lowered its growth estimates for the leading industrial nations by an average of half a percent to 3.2%. Growth rates of 1.1% for the euro zone and 2.2% for North America, two of our core markets, are not enough to spark a fundamental recovery in advertising, upon which demand for printing presses is heavily dependent.

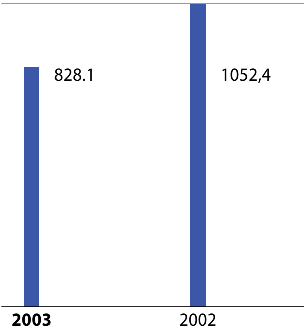
Order Intake/Order Backlog

The **volume of incoming orders** in the first quarter was 7.4% lower than at the same time last year (€231.2m against €249.7m in 2002). Although a big contract for our new super-wide TR 12B gravure press helped to shore up bookings by our web and special press division, our sheetfed division was unable to match the previous year's high level. If we are to meet our targets for 2003 we must win more orders for sheetfed and web presses with short lead times, and for newspaper presses in particular.

Order Intake
in €m



Order Backlog
in €m

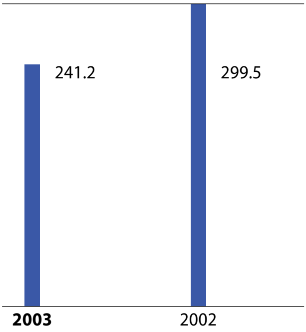


The group **order backlog** of €828.1m at the end of the quarter was roughly the same as at the end of 2002 (€832.9m). However, year on year it was down 21.3% (31 March 2002: €1,052.4m). While the volume of orders on hand will keep our sheetfed offset division busy in the second quarter, a decline in the production of web and special presses in the first quarter has forced us to extend short-time work in the areas affected.

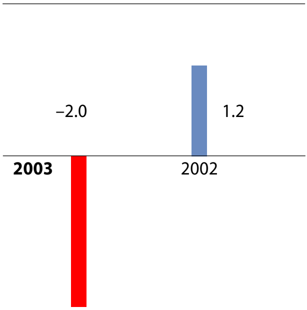
Sales

Group sales totalled €241.2m, 19.5% below the corresponding figure for the previous year (€299.5m). In order to achieve our annual target of around €1.2bn we are planning to ship more web and special presses in the months ahead.

Sales
in €m



Quarterly Loss/Profit
in €m



Assets, Finances and Earnings

Cost-cutting initiatives enabled us to increase **gross profit** to €70.1m (2002: €65.2m) despite a €58.3m drop in shipments. Although distribution costs and administrative expenses were roughly the same as a year earlier, higher research and development costs, together with restructuring measures, led to a substantial increase in other operating expenses. On balance, the KBA Group posted an **operating loss** of €4.6m, compared to a profit of €2.6m in 2002. Without the restructuring expenses the result would have been balanced.

A financial profit of €1.1m (2002: €0.5m) cut the pre-tax loss to €3.5m (2002: €3.1m profit).

Including deferred taxes KBA posted a **quarterly loss** of €2m. The proportionate loss per share at 31 March 2003 was 12 cents (2002: 8 cents earnings).

The balance sheet total of €1,232.5m at the end of the first quarter was just €8.1m down on the previous year's figure of €1,240.6m. This was primarily due to a €53.5m reduction in receivables and other **assets** to €403.5m, including a €50.4m reduction in trade receivables. Cash and cash equivalents rose accordingly to €54.6m.

After deducting the proposed dividend payment, equity of €469.4m accounted for 38.1% of **equity and liabilities**. Other relevant changes included a €15.1m increase in provisions and a €28.6m reduction in bank borrowings, which resulted in a positive cash flow from operating activities of €44m (2002: €7.2m payment). Free cash flow improved by €53.4m to €34.7m (2002: -€18.7m).

Segment Information

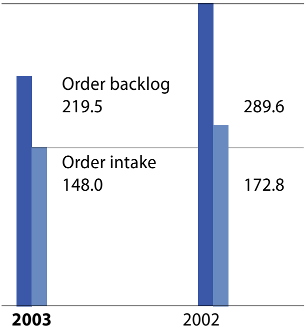
Business Operations

Our **sheetfed offset** division performed well in a challenging economic environment. Although the volume of incoming orders slid 14.4% to €148m, the comparative figure for last year had been exceptionally high. Since business picked up strongly in April there is no indication of an incipient decline. Sheetfed sales remained virtually unchanged at €141.2m (2002: €143.7m). A big increase in shipments of sheetfed presses in 2002, and a smaller volume of new orders in the first quarter of 2003, reduced the order backlog from €289.6m the previous year to €219.5m – the equivalent of four months' production and normal for this market.

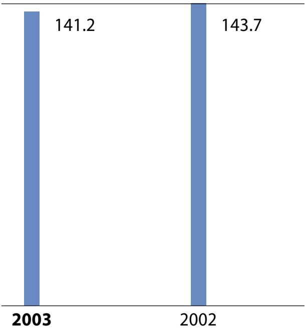
Once again, our sheetfed activities compared well with those of our competitors.

However, excess production capacity and softening demand sharpened competition and forced down prices. So even though our sheetfed division posted a profit, its contribution to total turnover was lower than in 2002.

Order Intake/Order Backlog
Sheetfed Offset Presses
in €m



Sales
Sheetfed Offset Presses
in €m

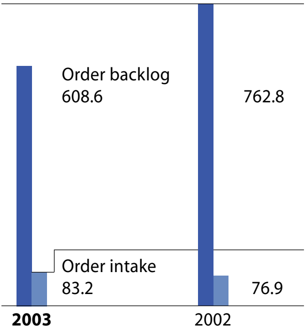


More than two years of flagging demand took their toll on shipments of **web and special presses**, which fell from €155.8m in 2002 to €100m. Newspaper and commercial presses, with their longer production times, suffered the biggest drop.

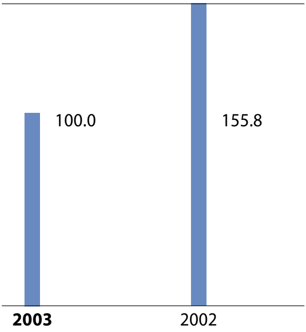
With the newspaper industry, traditionally one of our key markets, keeping a tight lid on capital spending, shipments of new press lines totalled a meagre €83.2m, only a marginal improvement on the previous year's equally unsatisfactory level of €76.9m. Orders from South Korea and China for new double-width Commander and Colora newspaper presses, and from a German publisher for a number of new super-wide gravure web presses, were not enough to provide the volume needed. The critical situation in the global printing and publishing industry was reflected in the backlog of orders on hand, which stood at €608.6m on 31 March 2003, compared to €762.8m a year earlier.

The concomitant shortfall in web press production, and the restructuring measures initiated in response, resulted in a loss for the quarter.

Order Intake/Order Backlog
Web and Special Presses
in €m



Sales
Web and Special Presses
in €m



Key Regions

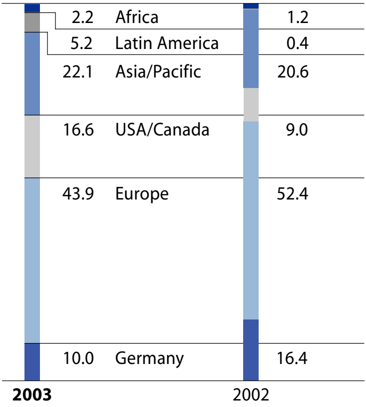
Weak domestic demand pushed up the proportion of exports in the first quarter to 90% (2002: 83.6%). Following a succession of major installations between 1999 and 2001, sales in **Germany** accounted for just €24.2m of total turnover (2002: €49.1m). With the market already well provisioned and advertising revenues unlikely to pick up soon, we must look to exports for growth.

Shipments to our biggest market, **Europe**, fell from €156.9m, or 52.4% of the total, to €105.8m, or 43.9%. Our biggest export markets for web presses in the first three months of the year were the UK, France, Spain and Austria, where new newspaper press lines and extensions came on stream. Eastern Europe and Russia were the most frequent destinations for our sheetfed offset presses, followed by the euro zone with Italy well ahead.

Shipments to the **USA and Canada** totalled €40m (2002: €27m), or 16.6% of turnover. A new Commander directory press for Los Angeles was one of the biggest projects.

The €53.3m turnover we generated in **Asia-Pacific** markets fell short of the previous year's figure of €61.6m which, however, included the final presses for a giant installation at Singapore Press Holdings (SPH). Since this region, and China in particular, is of emerging significance for Group

Geographical Breakdown of Sales
in %



growth, we are steadily expanding our activities there. A new sales and service outlet established in Australia last year has already made inroads in the market and is set to increase sales in coming months.

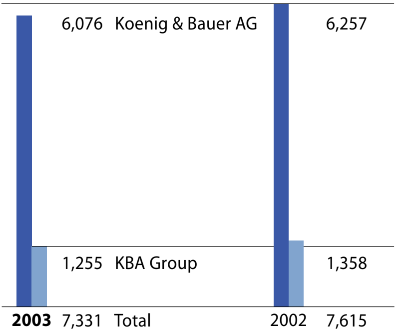
In **Africa** and **Latin America** we increased sales to €17.9m (2002: €4.9m) and substantially expanded our share of the north African market.

Human Resources

The decline in plant utilisation led to further cuts in the Group payroll, which on 31 March totalled 7,331 permanent staff, 284 fewer than a year earlier (7,615). This was on top of the 400-plus loan contracts terminated in 2002. The difference compared to the figures in the first quarterly report for 2002 was due to the retrospective addition of 124 staff following the merger of Karat Digital Press GmbH with Koenig & Bauer AG.

At the end of March further cost-cutting measures were initiated in our web and special press division, as a result of which short-time work was extended until the end of September and a reduction in personnel targeted by the end of the year, within the framework of prevailing social contracts.

Payroll on 31 March 2003



Research and Development

Most of our R&D activities in the first quarter were directed towards developing new sheetfed and web presses for launching at Drupa 2004.

Early in April an open house was organised at Reiff medien in Offenburg to mark the official market launch of the Cortina waterless offset press, and to demonstrate its market maturity. We are the first press manufacturer to create a press engineered to support totally standardised newspaper production. We are confident that the quality and cost-efficiency of the new Cortina, and the enormous potential it offers, will drive up sales.

Our sheetfed offset division focused on integrating the new B3 Genius 52 following its transfer to Radebeul from our development partner, Metronic, and on refining it ready for serial production later this year. In addition assembly commenced of the Rapida 185 and 205, with the aim of defending and expanding our market lead in superlarge format.

Investment

Investment in intangible assets, property, plant and equipment was scaled back in line with economic growth and the level of depreciation. The total, €8.4m, was well below the previous year's figure of €12.9m. Spending on plant and buildings was mostly aimed at upgrading and rationalising the production flow.

With the new production hall at our Würzburg facility approaching completion we started transferring manufacturing islands, the steel store and downstream departments to the new building.

Outlook

Group prospects for the year have changed little since our press conference on financial statements at the beginning of April.

However, recent economic forecasts for developed countries indicate that growth will slow even further. The SARS crisis represents an additional risk to sales in Asia, especially in our main growth market, China.

Based on the data currently available we are targeting sales of around €1.2bn for the year and a group operating profit once again. We are unable to quote more precise figures until the market situation stabilises.

In order to achieve our sales and earnings targets we must win more contracts both for sheetfed offset presses and, more particularly, for smaller web presses which can be shipped before the end of the year. In a market suffering from overcapacity and weak demand this represents no small challenge.

Under these circumstances any increase in earnings can only be achieved by cutting material and personnel costs. The options we are reviewing include layoffs, temporary shut-downs and the possible closure of our smaller assembly plants.

Group Balance Sheet

Assets *in €m*

Non-current assets	**31.03.2003**	31.12.2002
Intangible assets	33.1	35.4
Property, plant and equipment	246.3	247.6
Financial assets	17.7	15.5
	297.1	298.5
Current assets		
Inventories	424.1	388.6
Trade receivables	334.0	384.4
Other receivables and assets	69.5	72.6
Securities	13.1	13.1
Cash and cash equivalents (cash, bank balances)	54.6	44.0
	895.3	902.7
Deferred tax assets	40.1	39.4
Balance sheet total	1,232.5	1,240.6

Equity and liabilities *in €m*

Equity	**31.03.2003**	31.12.2002
Issued capital	41.8	41.8
Capital reserve	81.5	81.5
Revenue reserves	356.1	324.2
Net profit/loss	–2.0	28.1
	477.4	475.6
Provisions		
Pension provisions	83.1	82.5
Other provisions	198.4	183.9
	281.5	266.4
Liabilities		
Bank borrowings	104.3	132.9
Payments received	219.5	197.4
Trade payables	58.4	65.3
Other liabilities	43.1	54.3
	425.3	449.9
Deferred tax liabilities	48.3	48.7
Balance sheet total	1,232.5	1,240.6

Group Income Statement

01.01. – 31.03.2003

in €m	**01.01. – 31.03.2003**	01.01. - 31.03.2002
Revenue	241.2	299.5
Costs of conversion	–171.1	–234.3
Gross profit	70.1	65.2
Distribution costs	–27.0	–26.4
Administrative expenses	–26.3	–26.1
Other operating expenses	–21.4	–10.1
Profit/loss from operations	–4.6	2.6
Financial result	1.1	0.5
Profit/loss before taxes (EBT)	–3.5	3.1
Taxes	1.5	–1.9
Net profit/loss for the period	–2.0	1.2

Statement of Changes in Shareholders' Equity

in €m

	Share capital	Capital reserve	Revenue reserves
01.01.2002	41.6	79.9	285.1
Changes in revenue reserves	0.0	0.0	40.0
Net profit/loss	0.0	0.0	0.0
Changes in value of financial instruments	0.0	0.0	0.0
Currency change/other	0.0	0.0	0.0
31.03.2002	41.6	79.9	325.1
01.01.2003	41.8	81.5	309.1
Changes in revenue reserves	0.0	0.0	28.1
Net profit/loss	0.0	0.0	0.0
Changes in value of financial instruments	0.0	0.0	0.0
Currency change/other	0.0	0.0	0.0
31.03.2003	41.8	81.5	337.2

Currency translation, financial instruments	Net profit/ loss	Equity
6.3	40.0	452.9
0.0	–40.0	0.0
0.0	1.2	1.2
–1.1	0.0	–1.1
0.2	0.0	0.2
5.4	1.2	453.2
15.1	28.1	475.6
0.0	–28.1	0.0
0.0	–2.0	–2.0
3.4	0.0	3.4
0.4	0.0	0.4
18.9	–2.0	477.4

Cash Flow Statement

in €m

	31.03.2003	31.03.2002
Profit/loss from ordinary activities (EBT)	–3.5	3.1
Depreciation write-up/write-down	10.9	10.9
Other non-cash transactions	–2.4	–0.2
Gross cash flow	5.0	13.8
Changes in inventories, receivables and other assets	14.3	8.7
Changes in provisions and liabilities	25.2	–28.0
Interest income/expense	–0.5	–1.3
Tax expense	0.0	–0.4
Cash flows from operating activities	44.0	–7.2
Cash flows from investing activities	–9.3	–11.5
Cash flows from financing activities	–24.9	–4.8
Change in funds	9.8	–23.5
Effect of changes in exchange rates	0.8	0.5
Funds at beginning of period	57.1	101.9
Funds at end of period	67.7	78.9

Notes to the Interim Statements to 31 March 2003

1 Accounting Policies

This quarterly 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 2002 were retained. The interim accounts conform to IAS 34. Taxes on income were disclosed in accordance with 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

In the first quarter we acquired the remaining shares in Print Assist AG, Höri (Switzerland), which had previously been consolidated at equity. Print Assist will no longer be included in the group financial statements since it is of minor significance to the Group's financial position and performance due to a change in its business model.

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 Comparative Information

In accordance with IAS 1 the figures for the prior year quarter were converted to IFRS wherever necessary. As a result, segment information to 31 March 2002 was redefined in line with new internal reporting procedures. Figures relating to Karat Digital Press GmbH, Radebeul, were no longer disclosed separately following its merger with the Parent, Koenig & Bauer AG.

4 Segment Information

Business segments

	Web and special presses		Sheetfed offset presses	
in €m	**31.03.2003**	31.03.2002	**31.03.2003**	31.03.2002
External turnover	100.0	155.8	141.2	143.7
Internal turnover	17.7	37.0	40.3	27.1
Total turnover	117.7	192.8	181.5	170.8
Investment	5.8	5.9	2.6	7.0

Geographical segments

in €m	**31.03.2003**	31.03.2002
Germany	24.2	49.1
Europe	105.8	156.9
USA/Canada	40.0	27.0
Latin America/Africa	17.9	4.9
Asia / Pacific	53.3	61.6
External turnover	241.2	299.5

5 Earnings per Share

in €

	01.01. - 31.03.2003	01.01. - 31.03.2002
Earnings per share	–0.12	0.08

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,071,396 scrip shares).

6 Explanatory Notes to the Balance Sheet

6.1 Non-Current Assets

in €m

	Purchase or manufacturing cost	Accumulated depreciation	Net book value
Intangible assets	67.8	32.4	35.4
Property, plant and equipment	482.5	234.9	247.6
Financial assets	16.2	0.7	15.5
Total at 31.12.2002	566.5	268.0	298.5
Intangible assets	68.3	35.2	33.1
Property, plant and equipment	487.7	241.4	246.3
Financial assets	18.4	0.7	17.7
Total at 31.03.2003	574.4	277.3	297.1

Investment in intangible assets, property, plant and equipment totalling €8.1m (1st quarter 2002: €12.9m) primarily refers to additions of plant and machinery, factory and office equipment.

6.2 Inventories

in €m

	31.03.2003	31.12.2002
Raw materials, consumables and supplies	52.8	52.5
Work in progress	338.6	312.1
Finished goods and products	1.5	1.7
Payments on account	31.2	22.3
	424.1	388.6

6.3 Provisions

€14.5m of the €15.1m increase in provisions refers to other provisions.

6.4 Liabilities

The €24.6m reduction in liabilities resulted from a €28.6m reduction in bank borrowings. Payments received rose by €22.1m.

7 Explanatory Notes to the Income Statement

in €m

	01.01. - 31.03.2003	01.01. - 31.03.2002
Material costs	115.0	169.6
Personnel costs	91.3	97.0

To maintain transparency in key items when classifying expenses by function, basic expenses were summarised above according to their nature.

Key Financial Dates

Koenig & Bauer Annual General Meeting
26 June 2003
Congress Centrum Würzburg

Payment of dividends
27 June 2003

Interim report on 2nd quarter 2003
14 August 2003

Interim report on 3rd quarter 2003
14 November 2003

Published by:
Koenig & Bauer AG
Postfach 60 60
D-97010 Würzburg, Germany
Contact:
Investor Relations
Jan Stradtmann
Tel: (+49) 931 909-6034
Fax: (+49) 931 909-4707
E-mail: jstradtmann@kba-print.de
www.kba-print.com