

Group Interim Report
First Half-Year 2003



KBA Group

01.01. - 30.06. in €m

| | 2003 | 2002 |
|---|---------|---------|
| Order intake | 543.3 | 549.9 |
| Sales | 501.3 | 685.8 |
| Order backlog | 874.9 | 966.3 |
| Exports | 87.9 % | 83.1 % |
| Profit/loss from operations | -27.3 | 17.3 |
| Profit/loss before taxes (EBT) | -26.6 | 16.8 |
| Net profit/loss | -18.6 | 9.3 |
| Balance sheet total (previous year: 31.12.) | 1,238.0 | 1,240.6 |
| Equity (previous year: 31.12. without dividend payment) | 453.5 | 467.6 |
| Investment (excluding financial investment) | 21.0 | 23.5 |
| Depreciation on intangible assets, property, plant and equipment | 22.4 | 22.4 |
| No. of employees on balance sheet date | 7,295 | 7,520 |
| Cash flows from operating activities | 46.5 | 8.4 |
| Earnings/loss per share in € | -1.16 | 0.58 |

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I was hoping that the first quarterly report to bear my signature as the new president of Koenig & Bauer would coincide with a sustained and significant upturn in the economy, but I regret to say that this is not the case. Advertising revenues, and with them web press sales, failed to pick up in the second quarter and Group performance suffered accordingly, despite a continuing high output by our sheetfed offset division.

As my predecessor, Reinhart Siewert, announced at this year's AGM, the subsequent drop in turnover, and the aggressive pricing policies it has provoked, are reflected in the half-year results. An influx of orders in July is no indication of an imminent market recovery. This, together with delays in capacity- and cost-cutting initiatives at our web press

production plants, means that we shall report a post-tax loss for the year. Nonetheless, we are confident that we shall meet our Group sales target of around €1.2bn.

Although we have managed to hold our own in an adverse business environment, the slump in demand for multi-unit press lines has left its mark. As a result this quarterly report is not as positive as I would have wished.



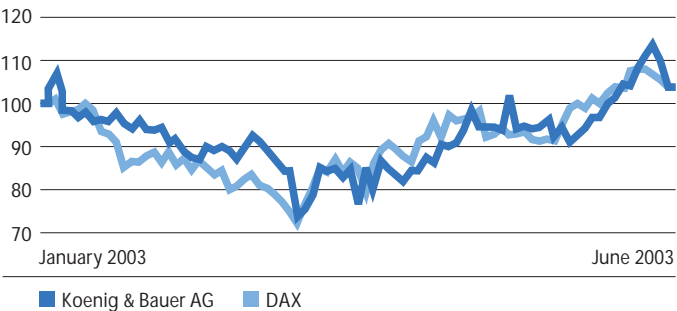
Albrecht Bolza-Schünemann

President of Koenig & Bauer AG

KBA Shares

Leading stock markets experienced a minor rally in the second quarter following the end of the war in Iraq and the release of data indicating a modest improvement in economic performance. The prime German index, DAX, jumped 33% to 3,221, the mid-caps index (MDAX) gained 27% to close at 3,532. KBA shares also benefited from the change of mood, rebounding from their nadir at the end of March to hit €15.70 at one point. On 30 June they stood at €14.28 ex dividend. They held their value in July, despite the unfavourable market conditions.

Koenig & Bauer Shares
in %



Management Report

Market Prospects

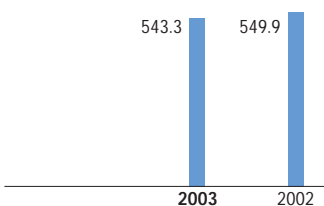
After more than two years of stagnation, the German economy finally appears to have bottomed out and the business outlook is less pessimistic than three months ago.

The print and media industry, with its heavy exposure to advertising cycles, is hoping for a perceptible upturn in the global economy, which this year is expected to grow by 3.2%. North America, Eastern Europe and major markets in the Far East – with the notable exception of Japan – are expected to see much higher growth rates than the euro zone. Germany, where zero growth is anticipated, once again trails the field in Europe. Any stimulus to demand must therefore come from exports which, however, are being hit by the strong euro.

Group Performance

The **volume of incoming orders** at KBA in the six months to 30 June was higher than the industry average. The half-year total, at €543.3m, was just 1% below the corresponding figure for 2002 (€549.9m). Demand for web presses remains poor, though we are currently negotiating a number of contracts.

Order Intake *in €m*



Group **sales** for the first six months totalled €501.3m, 26.9% down on the previous year's figure of €685.8m, primarily due to the reduced number of web and special presses completed. Deliveries of both will increase significantly in the second half of the year.

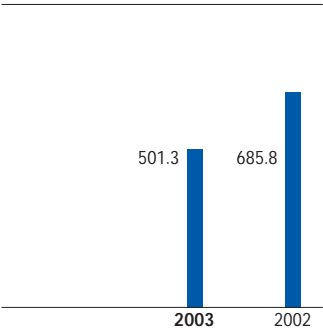
The Group **order backlog** on 30 June stood at €874.9m, 9.5% lower than a year earlier (€966.3m). This reflected a widespread reluctance by large-scale print operations over the past 12 months to invest in new equipment.

Trading, Finances and Earnings

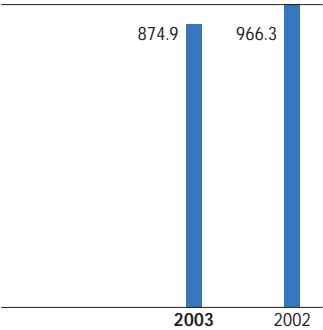
Earnings in the first six months were affected by a drop in sales and a corresponding drop in profit contribution, by higher R&D expenses in preparation for Drupa 2004 and by the costs incurred in rationalising web press production.

Although **gross profit**, at €108.6m, was well down on the prior year figure of €147.3m, the gross margin relative to sales was nearly unchanged at 21.7%.

Sales
in €m



Order Backlog
in €m



Flagging web press sales and the extraordinary expenses already mentioned were only partially balanced by a reduction in administrative and distribution costs, resulting in an **operating loss** of €27.3m (2002: €17.3m profit).

Net of interest income and expense we closed the half-year with a **loss before taxes** (EBT) of €26.6m, against a profit of €16.8m for the same period last year. After allowing for deferred taxes this resulted in a **net loss for the period** of €18.6m (2002: €9.3m profit). The proportionate loss per share in the first six months was €1.16 (2002: 58 cents earnings).

Trading

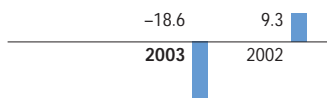
On the **asset** side, a reduction in trade receivables was largely offset by the acquisition of Bauer + Kunzi, a specialist manufacturer of metal-decorating presses, and by a build-up of inventories in readiness for increased shipments in the second half of the year. The **balance sheet total**, at €1,238m, was roughly the same as at the end of 2002 (€1,240.6m).

The biggest changes in **equities and liabilities** were caused by a €14.1m decline in equity to €453.5m, a rise in provisions and an increase in liabilities from advanced payments received.

The cash flow from current business activities was €46.5m, well up on the figure for the previous year (€8.4m).

Net Loss/Profit

in €m



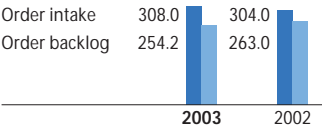
Business Operations

Sheetfed Offset Presses

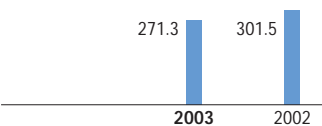
Once again our sheetfed offset division bucked the industry trend to post a 1% increase in **new orders** to €308.0m (2002: €304m). However, due to softer **sales** in the first quarter, the six-month total (€271.3m) failed to match the prior year figure of €301.5m. At the end of June the **backlog** of unfilled orders jumped to €254.2m. Shipments look set to increase in the second half of the year.

With incoming business keeping the production lines humming, our Radebeul facility did not quite achieve the level of **profit** as in 2002, due to fierce competition which has forced down the prices for new presses.

Order Intake/Order Backlog
Sheetfed Offset Presses
in €m



Sales
Sheetfed Offset Presses
in €m



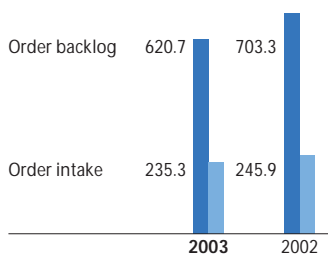
Web and Special Presses

Our web and special web division sold newspaper and commercial presses to printers in Germany, France, Spain, Saudi-Arabia, China, Thailand and Ukraine. Although the **inflow of orders** was 4% down at €235.3m, against €245.9m the previous year, it swelled in July following the receipt of two major contracts for security presses. With our core business, newspaper presses, showing signs of an incipient recovery we anticipate further bookings in the second half-year.

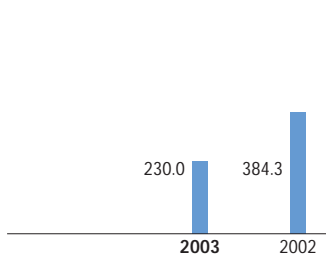
The weak demand for web and special presses naturally impacted on **turnover**, which fell 40%, year on year, to €230m, but will substantially improve in the second six months. The **backlog** on 30 June totalled €620.7m, 11.7% below the corresponding figure for 2002 (€703.3m).

After deducting one-off restructuring expenses our web and special press division posted a **loss** for the period, reflecting the sharp decline in volume and prices over the past two years.

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



Sales
Web and Special Presses
in €m



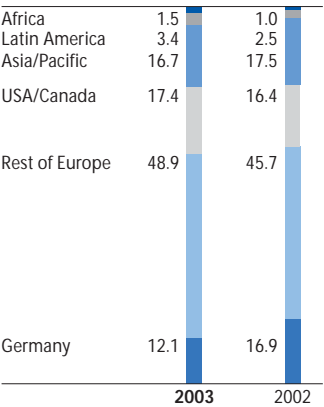
Key Regions

Sales within **Germany** almost halved to €60.5m (2002: €115.7m) due to the slump in domestic demand.

Sales in the **rest of Europe** also fell, to €245m from €313.5m twelve months earlier. Newspaper and commercial presses were shipped to Norway, Finland, Austria and Spain and a big gravure press installed in France. The primary European markets for our sheetfed offset presses were Italy, France, Spain and the Benelux states.

€87.3m of Group turnover was generated in the **USA and Canada** (2002: €112.2m). A rise in sheetfed orders coincided with the shipment of several Colora press lines.

Geographical Breakdown of Sales
in %



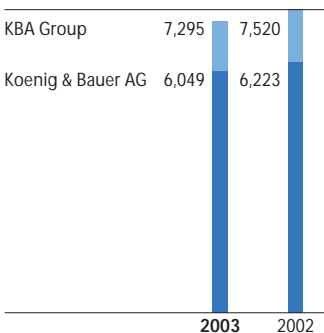
Sales in **Asia-Pacific** markets slackened in line with those in the USA, falling from €119.8m in 2002 (which included the delivery of a multi-unit press line) to €83.8m. Sales in China revived once the SARS crisis was brought under control. In Australia our new subsidiary, Sydney-based KBA Australasia, continued to make inroads in the market.

The volume of sales in **Africa** and **Latin America** was roughly the same as last year (€24.7m, as opposed to €24.6m in 2002).

Human Resources

The slide in output at our web and special press division was reflected in the Group payroll, which by 30 June had been reduced by 225 to 7,295 (2002: 7,520). There will be further cuts at our web press production plants.

Payroll on 30 June 2003



Research and Development

Most of our R&D resources in the second quarter were directed towards developing new sheetfed and web presses and new workflow systems for launching at Drupa 2004. Our sheetfed offset division focused on optimising the Genius 52, a B3 format press, ready for imminent serial production in Radebeul, and on putting the finishing touches to our new super-large format press, the Rapida 205, which is already attracting orders. In our web press division, the market release of our waterless newspaper offset press, the Cortina, in early April represented the culmination of a longstanding development alliance with manufacturers of consumables and pre-press equipment.

Investment

With the economy stagnating, investment spending for the current year is being limited to the level of depreciation. Expenditure on intangible assets, property, plant and equipment in the first six months came to €21m, slightly below the previous year's level of €23.5m and also below depreciation for the same period of €22.4m. With most of the big building projects finished or nearing completion, spending was primarily aimed at upgrading equipment and streamlining our production workflow in order to enhance productivity and cost-efficiency.

Outlook

Although the economic climate in some major foreign markets (most notably North America and the Far East) is finally showing signs of a thaw, there is little indication that the graphic arts industry will experience a fundamental upturn in the second half of the year. Newspaper, magazine and contract printers, who depend heavily on advertising income, are the hardest hit: packaging, another of our core activities, is much less volatile. The strength of the euro, whose value has climbed sharply against the dollar, is also undermining the competitiveness of German press manufacturers against Japanese ones. This has led to regional losses of sales and income. While the breadth of our product range and our pole position in a number of key sectors mean we have suffered less than other manufacturers, we have not escaped unscathed.

Along with many independent analysts and institutes we believe that a sustained recovery is unlikely until next year. We are hopeful that demand will receive a substantial boost from Drupa, the definitive trade fair for the print media industry, which takes place in May.

For the current year, with sales of sheetfed offset presses remaining brisk, we stand by our annual Group target of €1.2bn. However, our operating result will be affected by downward pricing pressures, unfavourable exchange rates and delays in the implementation of cost-cutting and downsizing initiatives at our web press facilities. We are therefore unlikely to achieve the Group profit targeted at the beginning of the year. After deducting extraordinary expenses for restructuring measures we anticipate a loss which we are unable to quantify precisely at the present time.

Group Balance Sheet

| Assets <i>in €m</i> | 30.06.2003 | 31.12.2002 |
|---|-------------------|-------------------|
| Non-current assets | | |
| Intangible assets | 30.3 | 35.4 |
| Property, plant and equipment | 248.6 | 247.6 |
| Financial assets | 22.1 | 15.5 |
| | 301.0 | 298.5 |
| Current assets | | |
| Inventories | 422.2 | 388.6 |
| Trade receivables | 337.9 | 384.4 |
| Other receivables and assets | 77.3 | 72.6 |
| Securities | 13.3 | 13.1 |
| Cash and cash equivalents (cash, bank balances) | 45.2 | 44.0 |
| | 895.9 | 902.7 |
| Deferred tax assets | 41.1 | 39.4 |
| Balance sheet total | 1,238.0 | 1,240.6 |

| Equity and liabilities <i>in €m</i> | 30.06.2003 | 31.12.2002 |
|--|-------------------|-------------------|
| Equity | | |
| Issued capital | 41.8 | 41.8 |
| Capital reserve | 81.5 | 81.5 |
| Revenue reserves | 348.8 | 324.2 |
| Net profit/loss | -18.6 | 28.1 |
| | 453.5 | 475.6 |
| Provisions | | |
| Pension provisions | 84.2 | 82.5 |
| Other provisions | 194.5 | 183.9 |
| | 278.7 | 266.4 |
| Liabilities | | |
| Bank borrowings | 116.4 | 132.9 |
| Payments received | 223.9 | 197.4 |
| Trade payables | 65.4 | 65.3 |
| Other liabilities | 55.2 | 54.3 |
| | 460.9 | 449.9 |
| Deferred tax liabilities | 44.9 | 48.7 |
| Balance sheet total | 1,238.0 | 1,240.6 |

Group Income Statement

01.01. - 30.06. in €m

| | 2003 | 2002 |
|---------------------------------------|--------------|--------------|
| Revenue | 501.3 | 685.8 |
| Cost of sales | -392.7 | -538.5 |
| Gross profit | 108.6 | 147.3 |
| Distribution expenses | -51.7 | -54.6 |
| Administrative expenses | -46.8 | -48.6 |
| Other operating expenses | -37.4 | -26.8 |
| Profit/loss from operations | -27.3 | 17.3 |
| Financial result | 0.7 | -0.5 |
| Profit/loss before taxes (EBT) | -26.6 | 16.8 |
| Taxes | 8.0 | -7.5 |
| Net profit/loss for the period | -18.6 | 9.3 |

01.04. - 30.06. in €m

| | 2003 | 2002 |
|---------------------------------------|--------------|-------------|
| Revenue | 260.1 | 386.3 |
| Cost of sales | -221.6 | -304.2 |
| Gross profit | 38.5 | 82.1 |
| Distribution expenses | -24.7 | -28.2 |
| Administrative expenses | -20.5 | -22.5 |
| Other operating expenses | -16.0 | -16.7 |
| Profit/loss from operations | -22.7 | 14.7 |
| Financial result | -0.4 | -1.0 |
| Profit/loss before taxes (EBT) | -23.1 | 13.7 |
| Taxes | 6.5 | -5.6 |
| Net profit/loss for the period | -16.6 | 8.1 |

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 | 24.0 |
| Prior year divided | 0.0 | 0.0 | 0.0 |
| Net profit/loss | 0.0 | 0.0 | 0.0 |
| Capital increase | 0.2 | 1.6 | 0.0 |
| Changes in value of financial instruments | 0.0 | 0.0 | 0.0 |
| Currency change/other | 0.0 | 0.0 | 0.0 |
| 30.06.2002 | 41.8 | 81.5 | 309.1 |
| 01.01.2003 | 41.8 | 81.5 | 309.1 |
| Changes in revenue reserves | 0.0 | 0.0 | 20.1 |
| Prior year divided | 0.0 | 0.0 | 0.0 |
| 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 |
| 30.06.2003 | 41.8 | 81.5 | 329.2 |

| Currency translation, financial instruments | Net profit/loss | Equity |
|---|-----------------|--------|
| 6.3 | 40.0 | 452.9 |
| 0.0 | -24.0 | 0.0 |
| 0.0 | -16.0 | -16.0 |
| 0.0 | 9.3 | 9.3 |
| 0.0 | 0.0 | 1.8 |
| 2.3 | 0.0 | 2.3 |
| 0.3 | 0.0 | 0.3 |
| 8.9 | 9.3 | 450.6 |
| 15.1 | 28.1 | 475.6 |
| 0.0 | -20.1 | 0.0 |
| 0.0 | -8.0 | -8.0 |
| 0.0 | -18.6 | -18.6 |
| 4.8 | 0.0 | 4.8 |
| -0.3 | 0.0 | -0.3 |
| 19.6 | -18.6 | 453.5 |

Cash Flow Statement

| 01.01. - 30.06. <i>in €m</i> | 2003 | 2002 |
|--|-------|-------|
| Profit/loss before taxes (EBT) | -26.6 | 16.8 |
| Depreciation write-up/write-down | 22.4 | 22.4 |
| Other non-cash transactions | -3.6 | 4.1 |
| Gross cash flow | -7.8 | 43.3 |
| Changes in inventories, receivables and other assets | 4.5 | 43.5 |
| Changes in provisions and liabilities | 50.3 | -76.4 |
| Interest income/expense | -0.2 | -1.3 |
| Tax expense | -0.3 | -0.7 |
| Cash flows from operating activities | 46.5 | 8.4 |
| Cash flows from investing activities | -26.4 | -21.7 |
| Cash flows from financing activities | -18.0 | -5.7 |
| Change in funds | 2.1 | -19.0 |
| Effect of changes in exchange rates | -0.7 | 0.2 |
| Funds at beginning of period | 57.1 | 101.9 |
| Funds at end of period | 58.5 | 83.1 |

Notes to the Interim Statements to 30 June 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).

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. 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

4.1 Business segments

01.01. - 30.06. in €m

| | Web and special presses | | Sheetfed offset presses | |
|-------------------|-------------------------|-------|-------------------------|-------|
| | 2003 | 2002 | 2003 | 2002 |
| External turnover | 230.0 | 384.3 | 271.3 | 301.5 |
| Internal turnover | 61.0 | 88.5 | 75.6 | 68.0 |
| Total turnover | 291.0 | 472.8 | 346.9 | 369.5 |
| Investment | 12.5 | 10.7 | 8.5 | 12.8 |

4.2 Geographical segments

01.01. - 30.06. in €m

| | 2003 | 2002 |
|--------------------------|--------------|--------------|
| Germany | 60.5 | 115.7 |
| Rest of Europe | 245.0 | 313.5 |
| USA/Canada | 87.3 | 112.2 |
| Latin America/Africa | 24.7 | 24.6 |
| Asia/Pacific | 83.8 | 119.8 |
| External turnover | 501.3 | 685.8 |

5 Earnings per Share

01.01. - 30.06. in €

| | 2003 | 2002 |
|--------------------|-------|------|
| Earnings per share | -1.16 | 0.58 |

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 Balance Sheet

6.1 Non-Current Assets

in €m

| | Purchase or manufactur- ing 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 | 68.2 | 37.9 | 30.3 |
| Property, plant and equipment | 496.0 | 247.4 | 248.6 |
| Financial assets | 22.8 | 0.7 | 22.1 |
| Total at 30.06.2003 | 587.0 | 286.0 | 301.0 |

Investment in property, plant and equipment totalling €19.8m refers to a new production hall in Würzburg as well as additions of plant and machinery, factory and office equipment.

The increase in financial assets in the second quarter resulted from the purchase of additional shares in Print Assist AG in Höri, Switzerland, and the acquisition of Bauer + Kunzi Gesellschaft für Drucktechnik mbH in Ditzingen, Germany.

6.2 Inventories

in €m

| | 30.06.2003 | 31.12.2002 |
|---|--------------|--------------|
| Raw materials, consumables and supplies | 56.5 | 52.5 |
| Work in progress | 331.4 | 312.1 |
| Finished goods and products | 1.8 | 1.7 |
| Payments on account | 32.5 | 22.3 |
| | 422.2 | 388.6 |

6.3 Provisions

€10.6m of the €12.3m increase in provisions mainly refers to outstanding invoices and liabilities relating to personnel issues.

6.4 Liabilities

The €11m increase in liabilities resulted from an increase in payments received to €26.5m and a reduction in bank borrowings by €16.5m.

Key Financial Dates

Interim report on 3rd quarter 2003
14 November 2003

Financial statements on 2003
5 April 2004

Interim report on 1st quarter 2004
17 May 2004

Analysts' conference
17 May 2004, Düsseldorf (Drupa)

Koenig & Bauer Annual General Meeting
24 June 2004, Würzburg



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