



Koenig & Bauer  
Group

## Group Interim Report **Third Quarter 2003**



# KBA Group

<b>01.01. - 30.09. in €m</b>	<b>2003</b>	<b>2002</b>
Order intake	854.3	773.7
Sales	808.8	993.8
Order backlog	878.4	882.1
Exports in %	87.5	81.6
Profit/loss from operations	-42.5	36.8
Profit/loss before taxes (EBT)	-40.9	35.7
Net profit/loss	-26.2	20.5
Balance sheet total (previous year: 31.12.)	1,297.7	1,240.6
Equity (previous year: 31.12. without dividend payment)	448.7	467.6
Investment (excluding financial investment)	31.8	32.9
Depreciation on intangible assets, property, plant and equipment	34.2	32.9
No. of employees on balance sheet date	7,285	7,475
Cash flows from operating activities	40.9	-19.6
Earnings/loss per share in €	-1.63	1.28

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*Title photo: Our Cortina waterless offset press has been widely hailed in the industry as a groundbreaking advance in enhancing the quality and cost-efficiency of colour newspaper production*



Capital spending on new plant by the global print industry showed signs of picking up in the third quarter as the economic outlook improved. And for the first time since the end of March 2001 there was a visible increase in new orders for web and special presses, a division badly hit by the economic downturn.

Our sheetfed offset division maintained its impressive performance of previous quarters to post a double-digit jump in bookings.

However, fierce competition driven by overcapacity on the supply side squeezed profit margins in both divisions, most notably on contracts for multi-unit web

press lines. On top of this, currency losses relating to the strong euro, and substantial costs associated with a capacity downsize at our web press production facilities, impacted heavily on Group earnings.

As a result, although we are set to meet our annual sales target of €1.2bn-plus, we reaffirm the double-digit post-tax loss we projected in our half-yearly report.



*Albrecht Bolza-Schünemann*

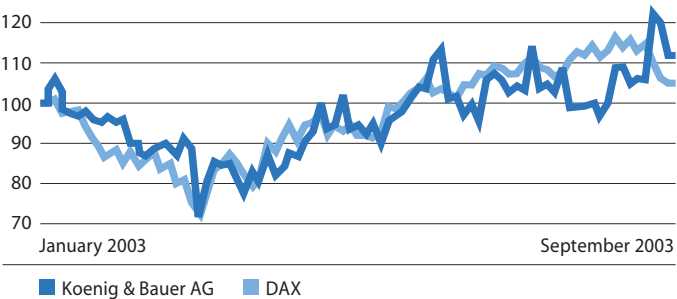
*President of Koenig & Bauer AG*

## KBA Shares

With stock markets on the rise, KBA shares closed the third quarter at €15.43 – an increase of 8%, versus 12% for the mid-caps index (MDAX) as a whole. We attribute this underperformance to persistent soft demand in the European and North American printing industry, to the knock-on effects of a strong euro on prices and margins in the export-intensive German printing press industry, and to profit warnings in our half-yearly report.

Post-quarter news of some big contracts for newspaper presses pushed KBA shares above the €17 mark by the end of October.

**Koenig & Bauer Shares**  
*in %*



## Management Report

### Market Prospects

Following a weak showing in the first six months, the outlook for the German press engineering industry brightened in the third quarter, largely stimulated by demand from abroad. However, the 4.2-month median backlog of orders on hand for the industry as a whole was smaller than at any time since 1999.

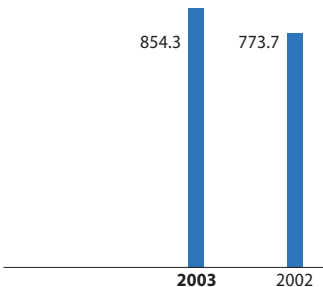
With many printing plants still struggling to fill capacity, demand for new pressroom equipment will revive relatively slowly even if, as expected, the economy rebounds next year and drives up the volume of advertising.

### Group Performance

After falling steadily for the past two years, the **Group order intake** in the third quarter jumped by 10.4% to €854.3m (2002: €773.7m).

There was also a perceptible rise in the number of big web press contracts put up for tender, but no indication, as yet, of a sustained market recovery. In view of the unsettled political and economic climate many players in the printing industry continued to hold back on capital spending.

#### Order Intake *in €m*



Reduced shipments in the first half-year naturally impacted on **sales** in the nine months to 30 September, causing an 18.6% drop to €808.8m (2002: €993.8m). In order to achieve our annual target for 2003 we are stepping up shipments in the final quarter.

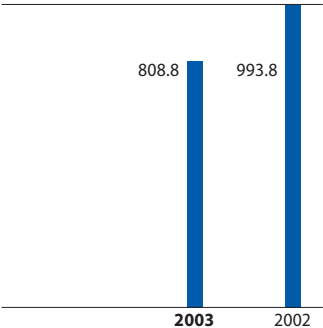
The Group **order backlog**, at €878.4m, approached the level of the previous year (€882.1m).

Trading, Finances and Earnings

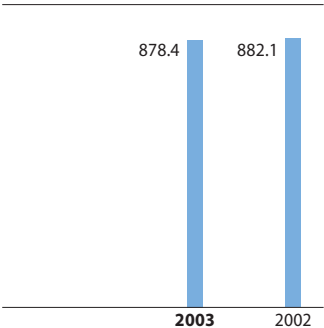
The drop in sales, extensive spending on research and development and the costs incurred in restructuring our web and special press division all took their toll on **earnings** in the third quarter.

Nonetheless, a good product spread enabled us to boost our **gross margin** to 24.3% (2002: 22.3%). With administration and distribution costs virtually unchanged, restructuring provisions and reduced profit contributions led to an **operating loss** of €42.5m (2002: €36.8m profit).

Sales  
in €m



Order Backlog  
in €m





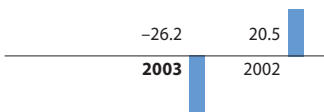
Including the results from financial activities (€1.6m) we posted a **loss before taxes** (EBT) of €40.9m, compared to a profit of €35.7m for the same period 12 months earlier. After allowing for deferred taxes this produced a **net loss** of €26.2m (2002: net profit of €20.5m). The proportional **loss per share** was €1.63 (2002: €1.28 earnings).

### Trading

The **balance sheet total** at the end of the quarter was €1,297.7m, against €1,240.6m at the end of December last year. The difference was due to a build-up of inventories – partially offset by a reduction in trade receivables – and a rise in other receivables and **assets**, accompanied by a decline in **equity** to €448.7m, an upward adjustment in provisions to €311.4m and increased **liabilities** from advanced payments received.

The cash flow from current business activities totalled €40.9m, well above the prior year figure of -€19.6m.

### Net Loss/Profit in €m



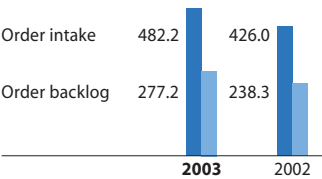
Business Operations

Sheetfed Offset Presses

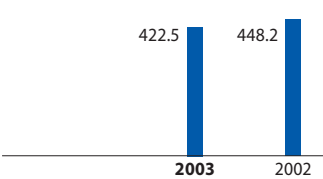
Our sheetfed offset division successfully maintained its expansion course, boosting the volume of **new orders** by 13.2%, year on year, to €482.2m. **Sales** in the first nine months totalled €422.5m, only slightly below the €448.2m posted in 2002, and fourth-quarter sales will be even higher. The **backlog** of unfilled orders, at €277.2m, was 16.3% up on the previous year (€238.3m).

Despite the strong euro, fierce price competition and increased expenditure on R&D in the run-up to Drupa 2004, the definitive international trade fair for the print media, the division posted a good **profit** for the nine months to 30 September.

Order Intake/Order Backlog  
Sheetfed Offset Presses  
*in €m*



Sales  
Sheetfed Offset Presses  
*in €m*



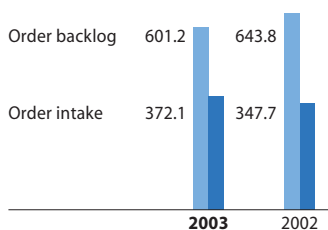
## Web and Special Presses

Bookings for web and special presses also picked up. In addition to a big contract for security presses and an order from the USA for a publication rotogravure press we received commissions for several newspaper and commercial web offset presses. The **inflow of orders** in the nine months to 30 September swelled to €372.1m, or 7% more than for the same period in 2002 (€347.7m). **Sales**, however, slumped to €386.3m, 29.2% below the prior year figure of €545.6m, and will fall short of the 2002 annual total despite a higher volume of shipments in the fourth quarter.

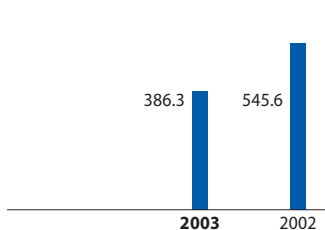
The **order backlog** at the end of September stood at €601.2m, 6.6% lower than last year (€643.8m).

The drop in sales, and heavy restructuring expenses at our web press production plants, resulted in a **loss** for the period.

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



**Sales**  
**Web and Special Presses**  
*in €m*



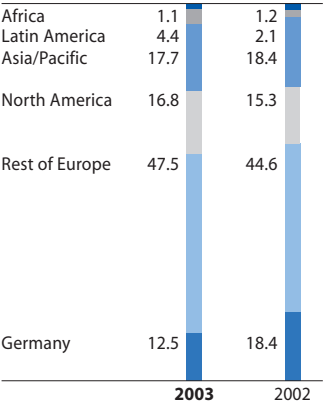
Key Regions

The stagnant economy in **Germany** was reflected in our domestic sales, which slid to €101.1m from €182.8m twelve months earlier. In consequence exports represented an unprecedented 87.5% of Group output.

Sales in **Europe**, at €384m, also failed to match the previous year’s level (€443.1m), although sheetfed offset presses sold well in eastern, western and southern Europe. Three big web press contracts from Switzerland entered the final phase with the first shipment of press lines to Basle at the end of July.

Despite the unfavourable exchange rate **North America** remains one of our biggest single markets, and in the nine months to the end of September accounted for €135.9m, or 16.8%, of Group turnover. Although this was down on 2002 (€152m), the demand for printing presses is expected to rebound in line with the US economy.

Geographical Breakdown of Sales  
*in %*



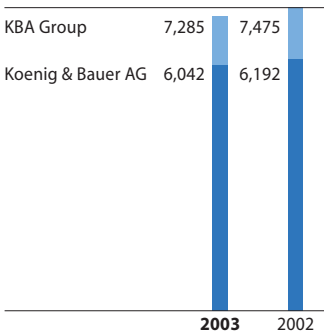
The same applies to the **Asia-Pacific** markets, where China is acting as an engine for growth. Group turnover for the region totalled €143.2m (2002: €183.1m), once again outpacing sales in the USA and Canada.

Substantial gains from a more modest base were posted in **Africa** and **Latin America**, where shipments jumped to €44.6m from €32.8m in 2002.

### Human Resources

The Group payroll on 30 September numbered 7,285, 190 fewer than at the same time last year (7,475). At the end of the quarter management and staff representatives reached an agreement on additional payroll cuts. Our assembly plant in Kusel will close down at the end of the year.

#### Payroll on 30 September 2003



## **Research and Development**

R&D expenditure in the first nine months was higher than in the previous year.

Our web and special press division developed a new generation of sophisticated security systems for banknote production. Alongside advances in our existing press range, activities in newspaper offset centred on refining the technology of our revolutionary Cortina waterless offset press, the first order for which was booked in October from a customer in the Netherlands.

At our sheetfed offset division the focus was on creating new products and process innovations for launching at Drupa in 2004.

## **Investment**

With cost management a top priority in the current market climate, Group investment in tangible and intangible assets was largely limited to replacements and systems rationalisation. Nonetheless, the total at the end of September (€31.8m) was not far short of depreciation (€34.2m) and only marginally below prior year spending (€32.9m). We shall hold to this course in the months to come.

## Outlook

Third-quarter indicators suggest that the German economy will experience a modest upswing in the coming year. According to recent projections, GNP will rise by 1.9% in the euro zone, by almost 4% in North America and by 5% or more in the growth markets of Eastern Europe and Asia, most notably China. The situation in the graphic arts industry will depend to a great extent on whether the upturn generates significant growth in advertising and thus in the volume of print produced. Only then are print providers likely to re-activate their investment programmes.

Buoyant sales of sheetfed offset presses will largely offset the drop in web press shipments, enabling us to achieve our sales objective of €1.2bn-plus. However, the reduction in output at our web plants in the first six months and the high outlay for remedial measures, in conjunction with unfavourable exchange rates and competitive price constraints, will result in a double-digit loss for the year.

For 2004 we anticipate a substantial increase in sales and earnings. If the global economy experiences a sustained recovery, the Drupa trade fair which takes place in May next year should also stimulate sales. However, performance in our sector will be dictated in no small measure by the movement of the euro against the dollar and the yen.

## Group Balance Sheet

<b>Assets</b> <i>in €m</i>	<b>30.09.2003</b>	<b>31.12.2002</b>
<b>Non-current assets</b>		
Intangible assets	27.0	35.4
Property, plant and equipment	248.0	247.6
Financial assets	22.2	15.5
	297.2	298.5
<b>Current assets</b>		
Inventories	429.7	388.6
Trade receivables	356.0	384.4
Other receivables and assets	102.3	72.6
Securities	13.3	13.1
Cash and cash equivalents (cash, bank balances)	53.3	44.0
	954.6	902.7
<b>Deferred tax assets</b>	45.9	39.4
<b>Balance sheet total</b>	1,297.7	1,240.6

<b>Equity and liabilities</b> <i>in €m</i>	<b>30.09.2003</b>	<b>31.12.2002</b>
<b>Equity</b>		
Issued capital	42.0	41.8
Capital reserve	82.2	81.5
Revenue reserves	350.7	324.2
Net profit/loss	-26.2	28.1
	448.7	475.6
<b>Provisions</b>		
Pension provisions	84.7	82.5
Other provisions	226.7	183.9
	311.4	266.4
<b>Liabilities</b>		
Bank borrowings	134.0	132.9
Payments received	244.2	197.4
Trade payables	69.6	65.3
Other liabilities	47.7	54.3
	495.5	449.9
<b>Deferred tax liabilities</b>	42.1	48.7
<b>Balance sheet total</b>	1,297.7	1,240.6



## Group Income Statement

<b>01.01. - 30.09. in €m</b>	<b>2003</b>	2002
Revenue	808.8	993.8
Cost of sales	-611.9	-771.8
<b>Gross profit</b>	196.9	222.0
Distribution expenses	-83.9	-83.1
Administrative expenses	-69.5	-69.7
Other operating expenses	-86.0	-32.4
<b>Profit/loss from operations</b>	-42.5	36.8
Financial result	1.6	-1.1
<b>Profit/loss before taxes (EBT)</b>	-40.9	35.7
Taxes	14.7	-15.2
<b>Net profit/loss for the period</b>	-26.2	20.5

<b>01.07. - 30.09. in €m</b>	<b>2003</b>	2002
Revenue	307.5	308.0
Cost of sales	-219.2	-233.3
<b>Gross profit</b>	88.3	74.7
Distribution expenses	-32.2	-28.5
Administrative expenses	-22.7	-21.1
Other operating expenses	-48.6	-5.6
<b>Profit/loss from operations</b>	-15.2	19.5
Financial result	0.9	-0.6
<b>Profit/loss before taxes (EBT)</b>	-14.3	18.9
Taxes	6.7	-7.7
<b>Net profit/loss for the period</b>	-7.6	11.2

## Statement of Changes in Shareholders' Equity

in €m

	Share capital	Capital reserve	Revenue reserves
01.01.2002	41.6	79.9	291.4
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
Other	0.0	0.0	1.1
<b>30.09.2002</b>	<b>41.8</b>	<b>81.5</b>	<b>316.5</b>
01.01.2003	41.8	81.5	324.2
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
Capital increase	0.2	0.7	0.0
Other	0.0	0.0	6.4
<b>30.09.2003</b>	<b>42.0</b>	<b>82.2</b>	<b>350.7</b>

Net profit/ loss	Equity
40.0	452.9
-24.0	0.0
-16.0	-16.0
20.5	20.5
0.0	1.8
0.0	1.1
20.5	460.3
28.1	475.6
-20.1	0.0
-8.0	-8.0
-26.2	-26.2
0.0	0.9
0.0	6.4
-26.2	448.7

Cash Flow Statement

01.01. - 30.09. in €m	2003	2002
Profit/loss before taxes (EBT)	-40.9	35.7
Non-cash transactions	36.8	34.5
Gross cash flow	-4.1	70.2
Changes in inventories, receivables and other assets	-55.2	26.6
Changes in provisions and liabilities	100.2	-116.4
Cash flows from operating activities	40.9	-19.6
Cash flows from investing activities	-34.0	-31.3
Cash flows from financing activities	3.4	15.6
Change in funds	10.3	-35.3
Effect of changes in exchange rates	-0.8	1.9
Funds at beginning of period	57.1	101.9
Funds at end of period	66.6	68.5

## Notes to the Interim Statements to 30 September 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. - 30.09. in €m

	Web and special presses		Sheetfed offset presses	
	2003	2002	2003	2002
External turnover	386.3	545.6	422.5	448.2
Internal turnover	74.9	115.9	117.7	109.8
Total turnover	461.2	661.5	540.2	558.0
Investment	16.2	16.4	15.6	16.5

### 4.2 Geographical segments

01.01. - 30.09. in €m

	2003	2002
Germany	101.1	182.8
Rest of Europe	384.0	443.1
North America	135.9	152.0
Latin America/Africa	44.6	32.8
Asia/Pacific	143.2	183.1
<b>External turnover</b>	<b>808.8</b>	<b>993.8</b>

## 5 Earnings per Share

01.01. - 30.09. in €

	2003	2002
Earnings per share	-1.63	1.28

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 (16,093,883; 2002: 16,036,748 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
<b>Total at 31.12.2002</b>	<b>566.5</b>	<b>268.0</b>	<b>298.5</b>
Intangible assets	67.7	40.7	27.0
Property, plant and equipment	500.2	252.2	248.0
Financial assets	22.8	0.6	22.2
<b>Total at 30.09.2003</b>	<b>590.7</b>	<b>293.5</b>	<b>297.2</b>

Investment in property, plant and equipment totalling €30.4m (3rd quarter 2002: €28.3m) 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*

	30.09.2003	31.12.2002
Raw materials, consumables and supplies	57.1	52.5
Work in progress	336.6	312.1
Finished goods and products	2.6	1.7
Payments on account	33.4	22.3
	<b>429.7</b>	<b>388.6</b>

### **6.3 Provisions**

The €42.8m increase in provisions mainly refers to liabilities relating to personnel issues.

### **6.4 Liabilities**

The €45.6m net increase in liabilities resulted from an increase in payments received to €46.8m.



## **Key Financial Dates**

Financial statements on 2003

5 April 2004

Interim report on 1<sup>st</sup> quarter 2004

17 May 2004

Analysts' conference

17 May 2004, Düsseldorf (Drupa)

Koenig & Bauer Annual General Meeting

24 June 2004, Würzburg



Published by:

Koenig & Bauer AG

Postfach 60 60

97010 Würzburg, Germany

Contact:

Investor Relations

Jan Stradtman

Tel: (+49) 931 909-2103

Fax: (+49) 931 909-2102

E-mail: [jstradtman@kba-print.de](mailto:jstradtman@kba-print.de)

[www.kba-print.com](http://www.kba-print.com)