Koenig & Bauer Group

Group Interim Report
First Quarter 2004

KBA Group

01.01. - 31.03. *in €m*	**2004**	2003
Order intake	**309.6**	231.2
Sales	**257.9**	241.2
Order level at 31.03.	**908.6**	828.1
Export level in %	**87.4**	90.0
Loss from operations	**–3.6**	–4.6
Loss before taxes (EBT)	**–4.3**	–3.5
Net loss	**–3.9**	–2.0
Balance sheet total at 31.03. (prior year: 31.12.)	**1,350.6**	1,299.4
Equity at 31.03. (prior year: 31.12.)	**435.9**	443.7
Investment	**12.3**	9.3
Depreciation on intangible assets, property, plant and equipment	**10.4**	10.9
Payroll on 31.03.	**7,303***	7,331
Cash flows from operating activities	**–2.4**	44.0
Earnings per share in €	**–0.24**	–0.12

* following initial consolidation of Metronic AG

Title photo: this 16-page Compacta 217 commercial web offset press was just one of the many new products KBA unveiled at Drupa

The German and European economies failed to gain the momentum that many had anticipated. Nonetheless, the volume of new orders booked by the KBA Group was higher than in the corresponding period the previous year. Figures for the USA and Far East indicate that growth there has picked up sharply.

Here at KBA, the first three months of the year were largely devoted to final preparations for Drupa, the world's biggest print media trade fair, from 6 to 19 May in Düsseldorf. We are confident that Drupa will stimulate press sales and reinvigorate the graphic arts industry following three lacklustre years.

The KBA sheetfed offset presses we are exhibiting at Drupa 2004 are by far the most advanced at the show, while our web presses sport an array of new and unique features. Shortly before the end of the quarter our Radebeul facility held a three-day open house offering a preview of our new product launches. The event drew some 1,500 print professionals from 38 countries, and the media response was overwhelming. Although we anticipate brisk sales at Drupa, in view of the current economic climate we are unlikely to experience an influx of new orders on the same record scale as at the millennium event in 2000.

At the beginning of the year Koenig & Bauer acquired a majority stake in Metronic AG, a company with 310 employees specialising in industrial ID systems (inkjet, laser, heat-stamping) and direct UV offset on data storage devices (CDs, DVDs). In the medium term, the acquisition of Metronic will enable us not only to build up a presence in these two high-potential niche markets but also to exploit synergy gains which will benefit our established product portfolio.

Group sales in the first quarter fell short of our target, largely due to the rescheduling of certain shipments and thus earnings. Unsatisfactory pricing levels in the printing-press market also impacted on the quarterly results.

Even so, with plant utilisation levels much improved and cost savings now coming through from the restructuring measures we initiated a year ago at our web press plants, we are aiming to post a profit for the year at Group level.

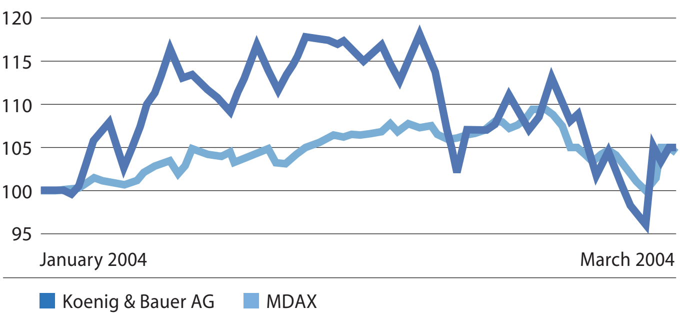
Albrecht Bolza-Schünemann
President of Koenig & Bauer AG

KBA Shares

KBA shares rose by 7.1% to €18.95 in the three months to the end of March and thus outperformed both the DAX (–4%) and the MDAX (+4.9%) indices. However, with the industry emitting contradictory signals to investors, and hopes of an upturn fading, our shares were unable to maintain their temporary high of €20.

Market response to the figures we published for the 2003 business year was generally positives. This, and a more optimistic outlook for 2004, lifted our share price to €19 in mid-April, but in early May it weakened again along with the market as a whole.

Koenig & Bauer Shares
in %



Management Report

Market Prospects

More optimistic economic prognoses in autumn 2003 brightened the mood in the German printing industry as the year opened. But by the end of the first quarter companies' assessments of their business prospects had sobered again.

In the advertising sector, which impacts on whole sections of the print media industry, there were signs of a moderate recovery from the dramatic and prolonged recession of recent years. The most positive signals came from the USA.

The situation in the printing industry in general remains patchy. European markets continue to experience severe pricing pressures, while in the USA and other countries tied to the US dollar, currency fluctuations and the strength of the euro have been hitting exports by German businesses.

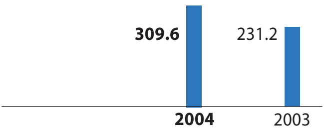
Group Performance

The Group **order intake** in the first quarter jumped an impressive 33.9% to €309.6m (1st quarter 2003: €231.2m), driven by orders for both sheetfed offset and web presses. Although there was no sign of the pre-Drupa investment moratorium that many had feared, pricing scenarios for many contracts were unsatisfactory owing to intense competition.

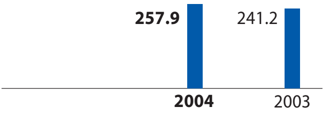
Group sales in the first quarter totalled €257.9m, 6.9% up on the same period last year (€241.2m). Demand for commercial and newspaper presses gathered pace, while sales of sheetfed offset presses remained buoyant. If shipments run on schedule, the volume of sales in the first half-year will be roughly the same as in the corresponding period in 2003. The number of presses shipped will increase still further in the second half of the year.

A rise in new bookings swelled the **order backlog** to €908.6m at the end of the quarter, 9.7% above the prior year figure of €828.1m.

Order Intake
in €m



Sales
in €m



Assets, Finances and Earnings

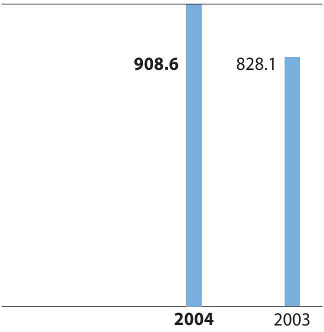
Earnings in the first quarter suffered the knock-on effects of weak demand in the past, when some contracts were secured at unsatisfactory prices to maintain production. The Group **operating loss** was cut from €4.6m in the first three months of 2003 to €3.6m, largely thanks to reductions in administrative and other operating expenses. The initial consolidation of Metronic AG also contributed. A financial loss of €0.7m (2003: €1.1m profit) pushed up the **loss from ordinary activities** from €3.5m to €4.3m. Including deferred tax assets, the **net loss** prior to third-party interests was €3.7m, following a loss of €2m in 2003. The proportionate **net loss per share** at the end of the quarter was 24 cents, compared to a net loss of 12 cents a year before.

Assets

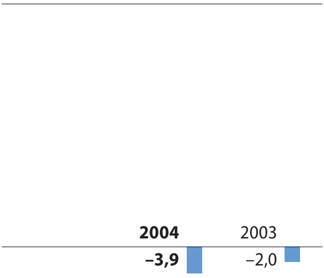
The **balance sheet total** at the end of the quarter rose to €1,350.6m, or 3.9% higher than at the end of 2003. This was caused by a build-up of inventories for processing contracts in the second and third quarters and by the integration of Metronic in the consolidated accounts, which raised the figure by almost €30m.

Equity was disclosed at €435.9m, or 32.3% of the balance sheet total. An increase in payments received on account and the disclosure of bank borrowings by Metronic raised the total volume of liabilities in the consolidated accounts by €34.1m to €527.5m.

Order Backlog
in €m



Net Loss (less minority interests)
in €m



Finances

With inventories swelling and liquidity temporarily tied up in working capital, the cash flow from operating activities shrank to –€2.4m at the end of the first quarter, from €44m twelve months previously. Factoring in expenditure on investment and the acquisition of Metronic, the free cash flow stood at –€14.7m (2003: +€34.7m). Cash reserves shrank by €19.7m to €65.1m. The cash flow is set to stabilise in the course of the year.

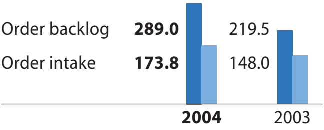
Business Operations

Sheetfed Offset Presses

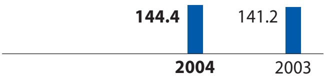
The **inflow of orders** for sheetfed offset presses in the first quarter remained brisk, surpassing the prior year figure of €148m by 17.4% to total €173.8m. Once again we underscored our technology and market edge in medium and large format with complex press configurations, this time for customers in the USA and Australia.

At €144.4m, **sales** were just 2.3% up on the figure for last year (€141.2m), due to a rescheduling of shipments. The inauguration of the first Rapida 205 superlarge-format press at Plakatfabrik Ellerhold and the delivery of a 14-unit configuration of our medium-format Rapida 105 to Meinke Druck in Neuss, near Düsseldorf, reflects our strategy of providing printers with effective tools for differentiating their portfolios.

Order Intake/Order Backlog
Sheetfed offset presses
in €m



Sales
Sheetfed offset presses
in €m



The **backlog** of unfilled orders at the end of the quarter totalled €289m, 31.7% higher than a year earlier (€219.5m), and will keep our production plants busy for many months to come.

Web and Special Presses

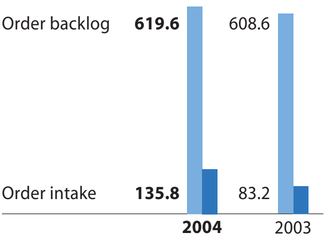
On the whole, the first quarter was satisfactory for our web and special press division. A succession of new contracts for commercial web offset and newspaper presses pushed the **order intake** up by 63.2% to €135.8m (2003: €83.2m). Bookings included a 6/2 Commander newspaper press for a customer in Belgium, Cortina mini tower presses for printers in Belgium and Germany, and a gravure press for Burda Media, also in Germany.

Sales improved to €113.5m from the previous year's poor figure of €100m, and will continue to climb. In February the first sections of a 6/2 Commander with a final length of 100 metres (330ft) were inaugurated at Tamedia in Zurich.

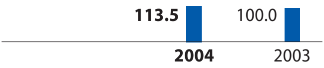
The **order backlog** rose to €619.6m (31.03.2003: €608.6m).

Metronic, the company we acquired at the beginning of the year, was consolidated into our web and special press division. For the current business year its workforce of 310 is targeting sales of more than €35m and a moderate profit. In line with this Metronic booked orders worth €12.4m and sales of €9.1m in the first quarter.

Order Intake/Order Backlog
Web and special presses
in €m



Sales
Web and special presses
in €m



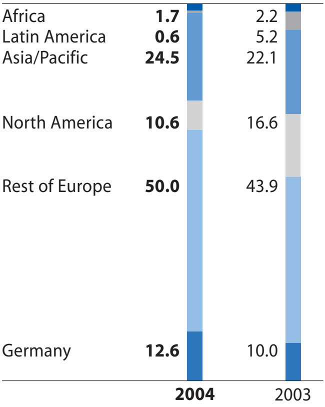
Key Regions

KBA's export level remained high, though at 87.4% it was slightly lower than in the same quarter last year (90%). Owing to slack demand for newspaper presses, Group sales of €32.4m (2003: €24.2m) in the **domestic** market were generated almost exclusively by sheetfed offset presses.

Once again the rest of **Europe** was the biggest market for our goods, with sales worth €128.9m (2003: €105.8m), or 50% of the Group total. Sales of newspaper and commercial presses finally began to revive, while sheetfed offset sales remained stable.

Sales to the **USA** and **Canada** slid from €40m to €27.6m. Though currency fluctuations played a part, last year's figure was inflated by the delivery of a big directory press line. A sizeable backlog of orders for sheetfed offset presses destined for North America, and a number of web presses scheduled for shipping to the USA, will push up the figures for this major market in the course of the year.

Geographical Breakdown of Sales
in %



In **Asia-Pacific markets**, where China is an engine of growth, sales leaped almost 20% to €63.2m (1st quarter 2003: €53.3m). The region now accounts for 24.5% of all Group sales (2003: 22.1%).

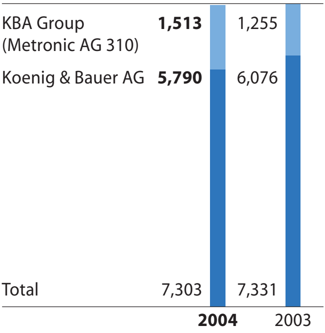
The economic problems assailing many **Latin American** and **African** countries were reflected in sales, which at €5.8m were less than one-third their 2003 level of €17.9m.

Human Resources

At the end of the quarter there were 7,303 employees on the Group payroll. Excluding the addition of 310 with our acquisition of Metronic at the beginning of the year the total was 6,993, or 338 fewer than twelve months earlier (2003: 7,331).

Most of the cuts were made at our web press operations, and more are to come.

Payroll on 31 March 2004



Research and Development

The Drupa trade fair from 6 to 19 May in Düsseldorf spurred intensive research and development activities in recent years, culminating in a proliferation of new products, features and technological advances. We have upgraded our entire sheetfed offset programme and expanded it to embrace superlarge formats in addition to small, medium and large. We can lay claim to the most advanced and powerful sheetfed offset presses at the show, each of them embedded in a digital workflow created in alliance with major players in pre-press and finishing. New products include the Rapida 74 G™ – the world's first unit-type press with keyless inking units and an unbeatably low level of waste.

Recent launches by our web press division include a new 16-page high-performance commercial press, the Compacta 217, and an automatic plate changer for our Cortina waterless offset newspaper press. These are just two of the diverse advances that have extended the frontiers of web press technology and are now delivering concrete benefits in the press room.

Investment

In the first quarter, as in 2003, we continued to focus on our core competences with a view to preserving liquidity. Investment in property, plant and equipment largely related to the replacement of existing equipment and the implementation of rationalisation projects, and was roughly in line with the level of depreciation. Expansionary activities were only undertaken where they were considered essential for future growth. The total outlay for investment in tangible and intangible assets, including the acquisition of Metronic, was €12.3m, against depreciation of €10.4m for the same period.

Outlook

The economic recovery in the USA and unflagging growth in many Asian markets look set to stimulate the global economy and unlock pent-up demand in the graphic arts industry. Europe, however, which is one of our biggest markets, continues to lag behind. The strength of the euro is acting as a brake on Germany's export-oriented engineering industry.

A higher level of plant utilisation at our web press division and a buoyant demand for sheetfed offset presses will substantially boost Group sales in the course of the year. However, the Group result is unlikely to improve perceptibly until the second half, when brisker sales and the cost savings from our ongoing restructuring programme will work their way through to the bottom line. We are unwilling to attempt a more detailed prognosis until the summer, when we can better assess the impact of various external factors. Nonetheless, we stand by our Group target of returning to profit in 2004.

Group Balance Sheet

Assets *in €m*	**31.03.2004**	31.12.2003
Non-current assets		
Intangible assets	**19.9**	20.9
Property, plant and equipment	**254.5**	239.3
Financial assets	**22.1**	22.1
	296.5	282.3
Current assets		
Inventories	**430.0**	371.1
Trade receivables	**352.5**	374.1
Other receivables and assets	**130.7**	126.9
Securities	**13.7**	13.2
Cash and cash equivalents (cash, bank balances)	**51.4**	71.6
	978.3	956.9
Deferred tax assets	**75.8**	60.2
Balance sheet total	**1,350.6**	1,299.4

Equity and liabilities *in €m*	**31.03.2004**	31.12.2003
Equity		
Issued capital	**42.0**	42.0
Capital reserve	**82.2**	82.2
Revenue reserves	**315.6**	349.5
Net loss	**–3.9**	–30.0
	435.9	443.7
Minority interests	**2.4**	–
Provisions		
Pension provisions	**87.6**	86.6
Other provisions	**232.4**	222.3
	320.0	308.9
Liabilities		
Bank borrowings	**161.1**	148.0
Payments received	**226.9**	216.3
Trade payables	**83.6**	69.8
Other liabilities	**55.9**	59.3
	527.5	493.4
Deferred tax liabilities	**64.8**	53.4
Balance sheet total	**1,350.6**	1,299.4

Group Income Statement

01.01. - 31.03. *in €m*	**2004**	2003
Revenue	**257.9**	241.2
Cost of conversion	**–195.7**	–171.1
Gross profit	**62.2**	70.1
Distribution costs	**–31.6**	–27.0
Administrative expenses	**–22.3**	–26.3
Other operating expenses	**–11.9**	–21.4
Loss from operations	**–3.6**	–4.6
Financial result	**–0.7**	1.1
Loss before taxes (EBT)	**–4.3**	–3.5
Taxes	**0.6**	1.5
Net loss for the period	**–3.7**	–2.0
Profit attributable to minority interests	**–0.2**	–
Net loss less minority interests	**–3.9**	–2.0

Statement of Changes in Shareholders' Equity

in €m

	Share capital	Capital reserve	Revenue reserves
01.01.2003	41.8	81.5	324.2
Changes in revenue reserves	–	–	28.1
Net loss	–	–	–
Other	–	–	3.8
31.03.2003	41.8	81.5	356.1
01.01.2004	42.0	82.2	349.5
Changes in revenue reserves	–	–	–30.0
Net loss	–	–	–
Other	–	–	–3.9
31.03.2004	42.0	82.2	315.6

Net loss	Equity
28.1	475.6
–28.1	–
–2.0	–2.0
–	3.8
–2.0	477.4
–30.0	443.7
30.0	–
–3.9	–3.9
–	–3.9
–3.9	435.9

Cash Flow Statement

01.01. - 31.03. *in €m*	**2004**	2003
Loss from ordinary activities (EBT)	**–4.3**	–3.5
Extraordinary items	**–3.3**	–
Non-cash transactions	**8.9**	8.5
Gross cash flow	**1.3**	5.0
Changes in inventories, receivables and other assets	**–22.4**	14.3
Changes in provisions and liabilities	**18.7**	24.7
Cash flows from operating activities	**–2.4**	44.0
Cash flows from investing activities	**–12.3**	–9.3
Cash flows from financing activities	**–4.3**	–24.9
Change in funds	**–19.0**	9.8
Effect of changes in exchange rates	**–0.7**	0.8
Funds at beginning of period	**84.8**	57.1
Funds at end of period	**65.1**	67.7

Notes to the Interim Statement to 31 March 2004

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 2003 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 a 73.9% interest in Metronic AG, which was consolidated as per IFRS 3 (revised 2004). Negative goodwill was immediately recognised in profit.

Negative gooodwill at 1 January 2004 was derecognised with a corresponding adjustment of retained earnings. In future, goodwill will only be amortised in accordance with IAS 36 (revised 2004).

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. *in €m*

	Web and special presses		Sheetfed offset presses	
	2004	2003	**2004**	2003
External turnover	**113.5**	100.0	**144.4**	141.2
Internal turnover	**14.9**	17.7	**32.7**	40.3
Total turnover	**128.4**	117.7	**177.1**	181.5
Investment	**6.5**	5.8	**5.9**	2.6

3.2 Geographical segments

01.01. - 31.03. *in €m*	**2004**	2003
Germany	**32.4**	24.2
Europe	**128.9**	105.8
North America	**27.6**	40.0
Latin America/Africa	**5.8**	17.9
Asia/Pacific	**63.2**	53.3
External turnover	**257.9**	241.2

4 Earnings per Share

01.01. - 31.03. *in €*	**2004**	2003
Earnings per share	**–0.24**	–0,12

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,157,860 no-par shares).

5 Explanatory Notes to the Balance Sheet

5.1 Non-Current Assets

in €m

	Purchase or manufacturing cost	Accumulated depreciation	Net book value
Intangible assets	68.7	47.8	20.9
Property, plant and equipment	492.1	252.8	239.3
Financial assets	23.0	0.9	22.1
Total at 31.12.2003	583.8	301.5	282.3
Intangible assets	69.9	50.0	19.9
Property, plant and equipment	521.1	266.6	254.5
Financial assets	23.7	1.6	22.1
Total at 31.03.2004	614.7	318.2	296.5

Investment in property, plant and equipment totalling €12.3m (1st quarter 2003: €7.7m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	**31.03.2004**	31.12.2003
Raw materials, consumables and supplies	**55.1**	49.9
Work in progress	**343.7**	292.3
Finished goods and products	**3.8**	2.9
Payments on account	**27.4**	26.0
	430.0	371.1

5.3 Provisions

The €10.1m increase in provisions mainly refers to liabilities relating to personnel issues and the inclusion of Metronic.

5.4 Liabilities

The €34.1m increase in liabilities resulted from an increase in payments received and liabilities relating to Metronic.

Key Financial Dates

Koenig & Bauer Annual General Meeting
24 June 2004
at the Congress Centrum, Würzburg

Interim report on 2nd quarter 2004
13 August 2004

Interim report on 3rd quarter 2004
15 November 2004

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