Koenig & Bauer Group

# Group Interim Report
# **First Half-Year 2004**

## KBA Group in Figures

| **01.01. - 30.06.** *in €m* | **2004** | 2003 |
|---|---|---|
| Order intake | **731.6** | 543.3 |
| Sales | **534.9** | 501.3 |
| Order level at 30.06. | **1,053.6** | 874.9 |
| Export level in % | **85.7** | 87.9 |
| Loss from operations | **–17.4** | –27.3 |
| Loss before taxes (EBT) | **–18.5** | –26.6 |
| Net loss | **–16.5** | –18.6 |
| Balance sheet total at 30.06. (prior year: 31.12.) | **1,376.9** | 1,299.4 |
| Equity at 30.06. (prior year: 31.12.) | **418.2** | 443.7 |
| Investment in intangible assets, property, plant and equipment | **24.4** | 21.0 |
| Depreciation on intangible assets, property, plant and equipment | **20.9** | 22.4 |
| Payroll on 30.06. | **7,287*** | 7,295 |
| Cash flows from operating activities | **–8.1** | 46.5 |
| Earnings per share in € | **–1.02** | –1.16 |

* including 300 following the acquisition of Metronic AG

*Title page: The entrance to our 3,500m² stand at Drupa. Attendance figures and order bookings at this international trade fair exceeded all expectations*

To widespread relief, the first six months of the year saw the demand for printing presses start to gather speed in major foreign markets, though it remained sluggish in Germany. In May, our sheetfed offset division landed an unexpectedly large number of contracts at the Drupa international print media trade fair in Düsseldorf. As a result the volume of new orders booked by the KBA Group, and the backlog of orders on hand at the end of June, were substantially higher than for the corresponding period the previous year.

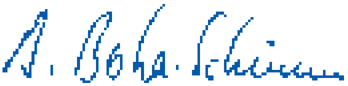
A tally of just under 400,000 visitors, almost 60% of them from abroad, reaffirmed Drupa's standing as the world's definitive communications platform for the graphic arts industry, re-igniting a vital spark. Print is back in force, having rediscovered its strengths, its capabilities and, above all, its self-assurance.

With most countries now reporting an upward adjustment in their economic data and the global advertising industry experiencing a modest recovery, we are confident that the print media are finally moving out of their three-year recession towards an upswing that will steadily gain stability and momentum.

A rise in unfilled orders since autumn 2003 will keep all our production facilities running at capacity until the end of the year.

The rescheduling of certain shipments, and thus a delay in the related earnings, pushed Group sales in the first six months below our target for the year. The strong euro, rising steel prices and unremitting pressure from domestic and foreign competitors also continued to impact heavily on a business driven largely by exports.

Nonetheless, we are confident that a higher turnover in the second half-year and cost savings from restructuring our web and special press division will enable us to achieve the substantial increase in sales to around €1.4bn we predicted at the AGM, and move back into the black.



*Albrecht Bolza-Schünemann*
*President of Koenig & Bauer AG*

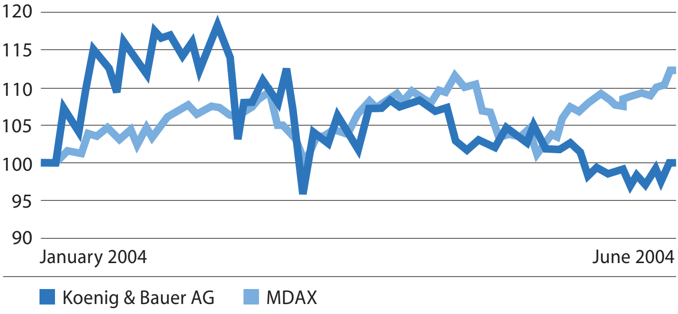
# KBA Shares

At the end of June KBA shares were priced at €17.71 – virtually the same as at the beginning of the year (€17.70) – and thus lagged the German mid-caps index (MDAX) which climbed 14.4% to 5,111.

A high-profile performance at Drupa, our announcement at the AGM in late June of a double-digit jump in sales and our reiteration of a return to Group profit in the current business year failed to have any impact, and our shares continued to disappoint after the close of the quarter despite upbeat assessments of the print media by financial analysts. The drop in value of around 6% by the end of July can be explained neither by current and anticipated Group performance nor by industry figures, but at best by the subdued mood prevailing in the German stock market.

With analysts estimating a current intrinsic value of around €20 for our shares, they are clearly underpriced.

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



# Management Report

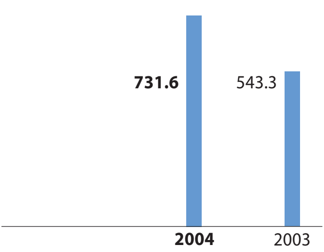
## Market Prospects

Indications of a recovery in the print industry and the international printing press market first emerged in the second half of 2003 and have since become more apparent. Drupa provided a further stimulus, though demand has differed from one region to another and within the various sectors.

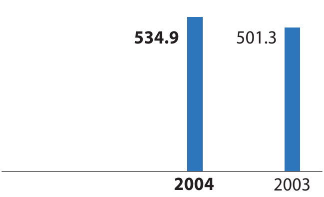
In Europe and other industrialised economies, demand has revived in line with a modest increase in advertising budgets, higher levels of plant utilisation at many printing plants, a need to replace outdated equipment and a dawning realisation that the continuing slide in prices is best addressed by adopting less labour- and cost-intensive workflows.

Demand for modern printing equipment has also been stimulated by a dramatic expansion of production capacity in high-growth markets (China, Eastern Europe) and by the diverse differentiation and niche strategies pursued by graphic arts enterprises in a drive to reduce their dependence on standard products, where margins have been squeezed by recessionary pricing pressures.

**Order Intake**
*in €m*




**Sales**
*in €m*



## Group Performance

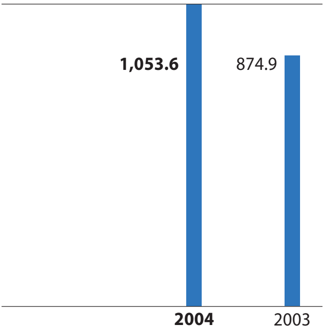
A widespread revival in demand and an unexpectedly high volume of orders booked at Drupa in May caused a gratifying 34.7% leap in the **order intake** to €731.6m (2003: €543.3m). However, intense competition meant that pricing scenarios for many contracts were unsatisfactory.

€21m of the total was contributed by Metronic, which joined the KBA Group at the beginning of the year.

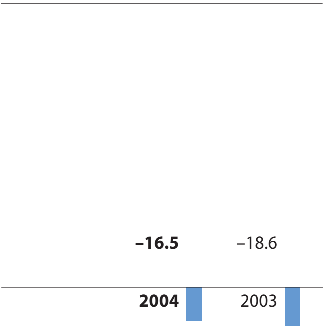
With shipments concentrated in the second half of the year, **sales** in the first six months totalled €534.9m, just 6.7% up on the same period last year (€501.3m). Despite an increase in domestic sales, the export level remained high at 85.7%.

For the first time in two years the **order backlog** climbed above the billion euro mark to hit €1,053.6m at the end of June, over 20% up on the prior year figure of €874.9m.

**Order Backlog**
*in €m*




**Net Loss**
*in €m*



## Assets, Finances and Earnings

**Earnings** were pushed down by high distribution costs, which included extraordinary expenses relating to Drupa, and by a dip in shipments. Nonetheless, we achieved a 36.3% drop in the **loss from ordinary** activities to €17.4m (2003: –€27.3m), largely by reducing other operating expense.

Despite a financial shortfall of €1.1m (2003: €0.7m profit) the **loss from ordinary activitie**s fell to €18.5m at 30 June, from €26.6m a year earlier. The net loss less third-party interests was €16.5m, following a loss of €18.6m in 2003. The proportionate **net loss per share** was €1.02, compared to a net loss of €1.16 the year before.

### Assets

The Group **balance sheet total** rose to €1,376.9m, or 6% higher than at the end of 2003 (€1,299.4m). This was caused by a €100m build-up of inventories in preparation for shipments in the third and fourth quarters. As these presses are shipped, inventories will shrink and the cash flow will improve.

**Equity** was disclosed at €418.2m, or 30.4% of the balance sheet total. Most of the changes related to higher liabilities and a welcome €51.6m increase in payments received on account.

### Finances

With inventories swelling and liquidity temporarily tied up in working capital, the cash flow from operating activities dwindled from €46.5m twelve months previously to –€8.1m. Factoring in expenditure on investment, the free cash flow fell to –€31m.
Funds shrank by €37.7m to €47.1m.

## Business Operations

### Sheetfed Offset Presses

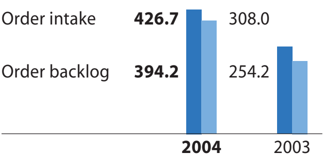
Once again our sheetfed offset division, which has achieved high growth rates continuously since 1993, outperformed the sector to report an extraordinarily successful half-year. By launching a technology upgrade across the board and an array of unique new features, the division more than doubled the volume of orders booked at this year's Drupa compared to the previous one which took place during the millennium boom.

The **inflow of orders** for sheetfed offset presses remained brisk, surpassing the prior year figure of €308m by 38.5% to total €426.7m. Our most popular models were our medium-, large- and extra-large presses, but we also won new customers for our half-size Rapidas and Karats and our new small-format presses.

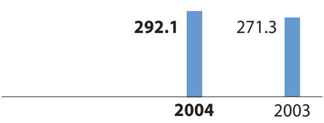
Due to the dip in shipments, **sales** were just 7.7% above the figure for last year (€271.3m), at €292.1m, but will increase substantially in the second half.

The **backlog** of unfilled orders at the end of June stood at €394.2, 55.1% up on a year earlier (€254.2m). This is an all-time high and already guarantees production until the end of the year.

**Order Intake/Order Backlog**
**Sheetfed offset presses**
*in €m*




**Sales**
**Sheetfed offset presses**
*in €m*



## Web and Special Presses

The first six months also saw an upturn in the market for our web and special presses, sales of which had been hard hit by the recession in the advertising and newspaper industries. A number of contracts for commercial and rotogravure presses were signed both during and after Drupa. We also booked orders for single-, double- and triple-width newspaper presses, including our new Cortina and 6/2 Commander.

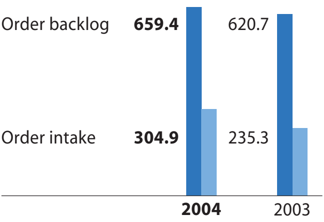
Our consolidated subsidiaries for special presses, KBA-GIORI (security) and Metronic (UV and ID technology), both achieved their targets after launching new products at Drupa or, in the case of KBA-GIORI, at Banknote Horizons 2004, a four-week promotional event at its facility in Switzerland.

As a result the **order intake** rose by 29.6% to €304.9m (2003: €235.3m).

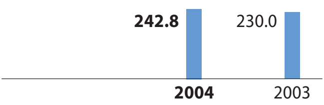
Although **sales** fell short of our annual target, they improved by 5.6% to €242.8m from the previous year's figure of €230m.

The **order backlog** on 30 June stood at €659.4m. Since details of some major contracts signed towards the end of the month were still being clarified, these were not included in the figures.

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




**Sales**
**Web and special presses**
*in €m*



## Key Regions

Group sales of €76.6m in the **domestic** market – a 27% increase over the previous year – were mainly generated by sheetfed offset presses. A high export level of 85.7% reflects the continued weakness of Europe's largest economy.

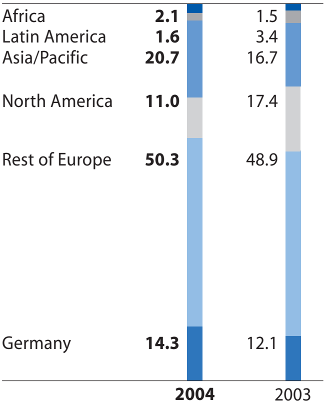
Once again the rest of **Europe** was the biggest market for our products, with sales worth €268.8m (2003: €245m), or 50.3% (2003: 48.9%) of the Group total. Special presses shipped by our subsidiaries KBA-GIORI and Metronic contributed to the increase alongside sheetfed offset, newspaper and commercial presses.

Although sales of sheetfed offset presses climbed in the **USA** and **Canada**, overall sales fell short of their traditionally high level and accounted for just €58.6m or 11% of total sales, down from €87.3m or 17.4% a year earlier. This is because very few web presses were shipped to North America, but that will change in the fourth quarter.

**Asia-Pacific markets** moved up the league table to second place above Germany. Strong growth in China and sales to Korea, Australia and other countries lifted revenues to €110.8m (2003: €83.8m). The region now accounts for 20.7% of all Group sales (2003: 16.7%).

Sales to **Latin America** and **Africa** generated 3.7% of the total, or €20.1m, compared to 4.9% and €24.7m the year before. Although there was a big increase in shipments to Africa, sales to Latin America, where major economies are struggling, dropped by half.

**Geographical Breakdown of Sales**
*in %*

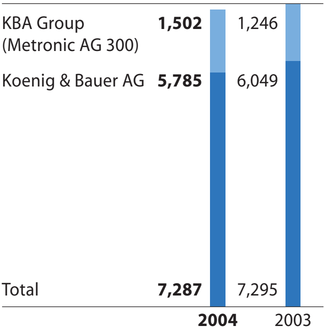


## Human Resources

On 30 June there were 7,287 employees on the Group payroll, 8 fewer than a year earlier (7,295). However, these figures represent a groupwide reduction of 308 over the past twelve months which was almost offset by the addition of 300 from our acquisition of Metronic at the beginning of the year.

Since the level of plant utilisation at our web press facilities has improved significantly, we plan no further cuts at present in production personnel. However, fierce competition in the web press market means that we shall have to reduce the number of non-productive staff by 80. One of the most effective ways to enhance our competitiveness is to make working hours more flexible in order to accommodate order-related peaks and troughs in the production workflow. And because we compete against major international players we are also keeping our options open on current issues like the longer working week.

**Payroll on 30 June 2004**



## Research and Development

Our outstanding performance at Drupa confirmed that KBA has the most advanced, powerful and comprehensive range of sheetfed offset presses in the industry – the result of intensive research and development in recent years. Three of the most striking new models at Drupa were our Rapida 105, unparalleled in its format class; the Rapida 74 G™ (Gravuflow), the world's first unit-type press with keyless inking units; and the Rapida 205, which boasts the biggest sheetfed offset format worldwide.

Our other small, half-size and digital offset presses also represent the current state of the art. Over the next few months we shall focus on stepping up production, expanding the choice of configurations available and getting them into the press room.

R&D activities at our web press division have delivered innovations in newspaper presses, the inauguration of a TR12B rotogravure press for a web 4.32m wide and the launch of a new 16-page high-performance commercial press, the Compacta 217, at Drupa. Other fields of activity include digital workflow integration and new processes in conjunction with new consumables.

## Investment

Investment in tangible and intangible assets totalled €24.4m, slightly above the prior year figure of €21m. Depreciation for the same period came to €20.9m (2003: €22.4m). As in previous years, investment largely related to the rationalisation of key production areas.

In Radebeul, the second quarter saw the completion of an assembly hall extension to expand our mechanical production capacity. The refurbishment of the customer centre, initiated last year, and the installation of six new-generation sheetfed offset presses in the two demonstration halls are scheduled for completion in the third quarter.

## Outlook

A gradual increase in ad expenditure followed by a rise in demand, particularly pronounced at Drupa, signal a burgeoning recovery in the print media industry. Economic indicators for major markets in Europe, North America and Asia predict an average growth rate of 3.5%, and even 8.5% in China. But Germany, Europe's biggest print market, will continue to lag behind for the rest of the year. So Group performance will once again depend largely on exports.

For 2004 we are targeting a good 13% increase in Group sales to around €1.4bn, the highest in our history. Shipments in the third and fourth quarter will be correspondingly high and will make good the shortfall in the first half-year. Despite the hike in steel prices and other raw materials, and the strength of the euro which is impacting heavily on exports, we anticipate a return to profit at Group level.

## Group Balance Sheet

| **Assets** *in €m* | **30.06.2004** | 31.12.2003 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | **18.9** | 20.9 |
| Property, plant and equipment | **256.2** | 239.3 |
| Financial assets | **22.3** | 22.1 |
| | **297.4** | 282.3 |
| **Current assets** | | |
| Inventories | **470.7** | 371.1 |
| Trade receivables | **362.1** | 374.1 |
| Other receivables and assets | **118.7** | 126.9 |
| Securities | **13.6** | 13.2 |
| Cash and cash equivalents (cash, bank balances) | **33.5** | 71.6 |
| | **998.6** | 956.9 |
| **Deferred tax assets** | **80.9** | 60.2 |
| **Balance sheet total** | **1,376.9** | 1.299.4 |

| **Equity and liabilities** *in €m* | **30.06.2004** | 31.12.2003 |
|---|---|---|
| **Equity** | | |
| Issued capital | **42.0** | 42.0 |
| Capital reserve | **82.2** | 82.2 |
| Revenue reserves | **310.5** | 349.5 |
| Net loss | **–16.5** | –30.0 |
| | **418.2** | 443.7 |
| | | |
| **Minority interests** | **2.7** | – |
| | | |
| **Provisions** | | |
| Pension provisions | **88.8** | 86.6 |
| Other provisions | **221.4** | 222.3 |
| | **310.2** | 308.9 |
| **Liabilities** | | |
| Bank borrowings | **159.3** | 148.0 |
| Payments received | **267.9** | 216.3 |
| Trade payables | **87.0** | 69.8 |
| Other liabilities | **65.1** | 59.3 |
| | **579.3** | 493.4 |
| **Deferred tax liabilities** | **66.5** | 53.4 |
| **Balance sheet total** | **1,376.9** | 1,299.4 |

## Group Income Statement

| **01.01. - 30.06.** *in €m* | **2004** | 2003 |
|---|---|---|
| Revenue | **534.9** | 501.3 |
| Cost of conversion | **–411.9** | –392.7 |
| **Gross profit** | **123.0** | 108.6 |
| Distribution costs | **–67.0** | –51.7 |
| Administrative expenses | **–42.3** | –46.8 |
| Other operating expenses | **–31.1** | –37.4 |
| **Loss from operations** | **–17.4** | –27.3 |
| Financial result | **–1.1** | 0.7 |
| **Loss before taxes (EBT)** | **–18.5** | –26.6 |
| Taxes | **2.4** | 8.0 |
| **Net loss for the period** | **–16.1** | –18.6 |
| Profit attributable to minority interests | **–0.4** | – |
| **Net loss less minority interests** | **–16.5** | –18.6 |

| **01.04. - 30.06.** *in €m* | **2004** | 2003 |
|---|---|---|
| Revenue | **277.0** | 260.1 |
| Cost of conversion | **–216.2** | –221.6 |
| **Gross profit** | **60.8** | 38.5 |
| Distribution costs | **–35.4** | –24.7 |
| Administrative expenses | **–20.0** | –20.5 |
| Other operating expenses | **–19.2** | –16.0 |
| **Loss from operations** | **–13.8** | –22.7 |
| Financial result | **–0.4** | –0.4 |
| **Loss before taxes (EBT)** | **–14.2** | –23.1 |
| Taxes | **1.8** | 6.5 |
| **Net loss for the period** | **–12.4** | –16.6 |
| Profit attributable to minority interests | **–0.2** | – |
| **Net loss less minority interests** | **–12.6** | –16.6 |

## 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 | – | – | 20.1 |
| Prior year dividend | – | – | – |
| Net loss | – | – | – |
| Other | – | – | 4.5 |
| **30.06.2003** | 41.8 | 81.5 | 348.8 |
| | | | |
| 01.01.2004 | 42.0 | 82.2 | 349.5 |
| Changes in revenue reserves | – | – | –30.0 |
| Net loss | – | – | – |
| Other | – | – | –9.0 |
| **30.06.2004** | 42.0 | 82.2 | 310.5 |

| Net loss | Equity |
|---|---|
| | |
| 28.1 | 475.6 |
| –20.1 | – |
| –8.0 | –8.0 |
| –18.6 | –18.6 |
| – | 4.5 |
| –18.6 | 453.5 |
| | |
| –30.0 | 443.7 |
| 30.0 | – |
| –16.5 | –16.5 |
| – | –9.0 |
| –16.5 | 418.2 |

## Group Cash Flow Statement

| **01.01. - 30.06.** *in €m* | **2004** | 2003 |
|---|---|---|
| Loss from ordinary activities (EBT) | **–18.5** | –26.6 |
| Non-cash transactions | **17.3** | 18.8 |
| **Gross cash flow** | **–1.2** | –7.8 |
| Changes in inventories, receivables and other assets | **–64.1** | 4.5 |
| Changes in provisions and liabilities | **57.2** | 49.8 |
| **Cash flows from operating activities** | **–8.1** | 46.5 |
| **Cash flows from investing activities** | **–22.9** | –26.4 |
| **Cash flows from financing activities** | **–3.6** | –18.0 |
| Change in funds | **–34.6** | 2.1 |
| Effect of changes in exchange rates | **–3.1** | –0.7 |
| Funds at beginning of period | **84.8** | 57.1 |
| **Funds at end of period** | **47.1** | 58.5 |

# Notes to the Interim Statement to 30 June 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 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

In the first quarter we acquired a 73.9% interest in Metronic AG, which was consolidated as per IFRS 3 (2004). Negative goodwill was immediately recognised in profit.

Negative goodwill at 1 January 2004 was derecognised, also as per IFRS 3 (2004), 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. - 30.06.** *in €m*

| | Web and special presses | | Sheetfed offset presses | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| External turnover | **242.8** | 230.0 | **292.1** | 271.3 |
| Internal turnover | **27.8** | 61.0 | **82.3** | 75.6 |
| Total turnover | **270.6** | 291.0 | **374.4** | 346.9 |
| Investment | **11.6** | 12.5 | **12.8** | 8.5 |

## 3.2 Geographical segments

| **01.01. - 30.06.** *in €m* | **2004** | 2003 |
|---|---|---|
| Germany | **76.6** | 60.5 |
| Rest of Europe | **268.8** | 245.0 |
| North America | **58.6** | 87.3 |
| Latin America/Africa | **20.1** | 24.7 |
| Asia/Pacific | **110.8** | 83.8 |
| **External turnover** | **534.9** | 501.3 |

# 4 Earnings per Share

| **01.01. - 30.06.** *in €* | **2004** | 2003 |
|---|---|---|
| | | |
| Earnings per share | **–1.02** | –1.16 |

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 | 59.4 | 40.5 | 18.9 |
| Property, plant and equipment | 529.7 | 273.5 | 256.2 |
| Financial assets | 23.8 | 1.5 | 22.3 |
| **Total at 30.06.2004** | 612.9 | 315.5 | 297.4 |

In accordance with IFRS 3 (2004) the amortisation of goodwill was discontinued on 1 January 2004 and purchase or manufacturing cost adjusted to allow for accumulated depreciation from the previous year.

Investment in property, plant and equipment totalling €23.9m (2nd quarter 2003: €19.8m) primarily refers to additions of plant and machinery, factory and office equipment.

## 5.2 Inventories

| *in €m* | **30.06.2004** | 31.12.2003 |
|---|---|---|
| Raw materials, consumables and supplies | **56.5** | 49.9 |
| Work in progress | **378.7** | 292.3 |
| Finished goods and products | **3.9** | 2.9 |
| Payments on account | **31.6** | 26.0 |
| | **470.7** | 371.1 |

### 5.3 Provisions

The €0.9m drop in other provisions, despite the inclusion of Metronic, was due to the consumption of prior year provisions for restructuring.

### 5.4 Liabilities

The €85.9m increase in liabilities resulted from an increase in payments received and liabilities relating to Metronic.

# Key Financial Dates

Interim report on 3rd quarter 2004
15 November 2004

Financial statements on 2004
8 April 2005, Würzburg

Interim report on 1st quarter 2005
13 May 2005

Koenig & Bauer Annual General Meeting
23 June 2005, Würzburg

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