KBA
Koenig & Bauer
Group

Group Interim Report
Third Quarter 2004

KBA Group in Figures

01.01. - 30.09. *in €m*	2003	**2004**
Order intake	854.3	**1,040.1**
Sales	808.8	**944.5**
Order level at 30.09.	878.4	**952.5**
Export level in %	87.5	**84.2**
Loss from operations	–42.5	**–5.9**
Loss before taxes (EBT)	–40.9	**–9.7**
Net loss	–26.2	**–9.4**
Balance sheet total at 30.09. (prior year: 31.12.)	1,299.4	**1,411.4**
Equity at 30.09. (prior year: 31.12.)	443.7	**428.0**
Investment in intangible assets, property, plant and equipment	31.8	**36.1**
Depreciation on intangible assets, property, plant and equipment	34.2	**32.0**
Payroll on 30.09.	7,285	**7,360***
Cash flows from operating activities	40.9	**–10.3**
Earnings per share in €	–1.63	**–0.58**

* including 294 following the acquisition of Metronic AG

Title page: Our new-generation Rapida 105 in production at the Rob. Leunis & Chapman Group in Berlin

For the graphic arts industry and its suppliers, the year has been defined by the Drupa trade fair and hope of an enduring recovery from a protracted and painful recession. Although the exhibition boosted the volume of new orders and sales booked by many prominent industry players, the print sector, like many others, is still far removed from the vibrant growth experienced at the turn of the century. The widespread optimism of the first half year has given way to a more subdued mood. The level of plant utilisation has risen, but the overall picture in the printing industry remains shadowed. Margins have yet to recover, some suppliers have made delivery and funding commitments that they will be hard put to honour, and the number of bankruptcies in the printing industry is still high.

Massive hikes in steel and energy prices have added millions of euros onto production costs, wiping out savings elsewhere. With exports comprising more than 80% of our output, the strong euro has made it more and more difficult to compete with Japanese and other non-European manufacturers in Asian markets and North America.

Looking on the bright side, in the third quarter we posted a double-digit jump in order bookings and sales, reducing the pre-tax loss. There will be a further substantial improvement by the end of the year. We shall continue to pull out all the stops to achieve our Group sales target for 2004 of €1.4bn – the highest in our 187-year history – and a return to pre-tax profit.

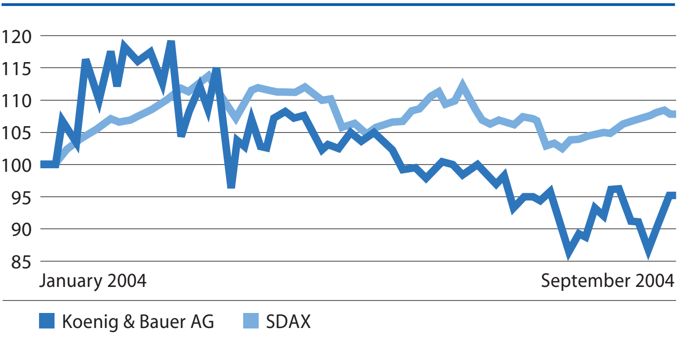
Albrecht Bolza-Schünemann
President of Koenig & Bauer AG

KBA Shares

With effect from 20 September our shares were listed in the small-caps index once again following a reclassification by the German stock exchange. At the end of the quarter they were priced at €16.58, down from €17.70 at the beginning of the year. We attribute this decline to the fact that economic recovery in the printing industry, particularly in Germany, remains patchy. The strong euro also impacted on the export-intensive German engineering industry, and thus on our share price.

Our acquisition of some major contracts, coupled with more optimistic prognoses on the outlook for print, pushed the share price up to €18 in the second half of October, though it fell back again amid general market unease.

Koenig & Bauer Shares
in %

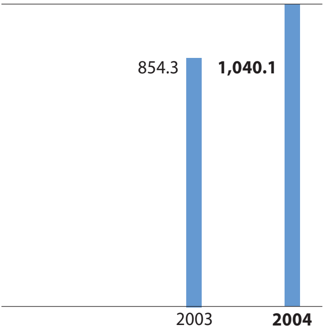


Management Report

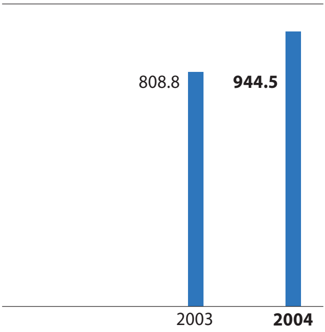
Market Prospects

Although prospects for German press manufacturers, the global market leaders, have brightened since the summer of last year, the broader outlook is still far from rosy. This is partly because a capacity overhang continues to depress prices both in the print industry and among their suppliers. Germany and other key European print markets are still showing no sign of a sustained recovery. And while demand has picked up in North America, Eastern Europe, the Middle East and parts of Asia, government efforts to cool the overheated economy in China may impact temporarily on exports to this immense market. Sales in South America are also relatively weak.

Order Intake
in €m



Sales
in €m



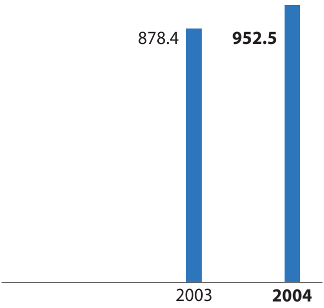
Group Performance

Third-quarter sales traditionally tend to dip with the arrival of the holiday season, but this year they held up better than expected following a strong half-year. As a result the **order intake** leaped 21.7% to €1,040.1m (2003: €854.3m). Metronic, which became a full subsidiary on 1 October, contributed €31.3m.

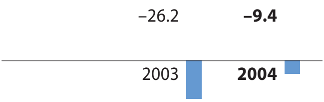
Sales improved 16.8% to €944.5m (2003: €808.8m). Even so, we must increase shipments still further in the last quarter.

Despite the considerable rise in sales the **order backlog**, at €952.5m, was 8.4% higher than twelve months earlier (€878.4m).

Order Backlog
in €m



Net Loss
in €m



Assets, Finances and Earnings

Earnings were hit by revenue losses arising from below-target sales, unsatisfactory prices for shipped goods and spiralling costs for raw materials. Nonetheless, we succeeded in cutting the **loss from operations** to €5.9m, from €17.4m in the second quarter and €42.5m (including restructuring costs) a year earlier.

Despite a financial shortfall of €3.8m, the **loss before taxes** fell to €9.7m, almost 50% lower than for the first six months and a huge reduction on the prior year figure of –€40.9m. The **net loss** less deferred taxes was also much smaller, dwindling to €9.4m from €26.2m for the same period in 2003. The proportionate **net loss per share** was €0.58 (30. September 2003: –€1.63).

The continuing improvement in earnings is also expressed in the fact that, for the first time since the end of 2002, a profit before taxes (EBT) of €8.8m was posted in the third quarter of 2004.

Assets

The Group **balance sheet total** rose to €1,411.4m from €1,299.4m at the end of last year. The gain in **assets** was caused by a build-up of inventories and trade receivables and the addition of property, plant and equipment relating to investments and the acquisition of Metronic. The changes in **equity and liabilities** resulted from an increase of €27.8m in provisions and €47.5m in payments received on account.

Finances

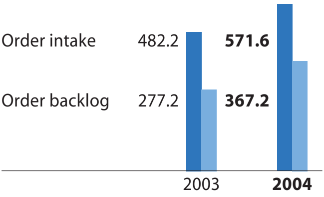
A higher volume of inventories and trade receivables reduced the cash flow from operating activities to –€10.3m, compared to €40.9m twelve months previously. Factoring in additional expenditure on investment, the free cash flow fell to –€45.9m. Cash reserves shrank by €42.5m to €42.3m.

Business Operations

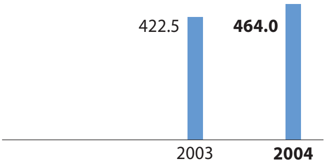
Sheetfed Offset Presses

Business slowed in the third quarter following a punchy performance in the second. The **order intake** for the first nine months rose 18.5% to €571.6m. **Sales,** at €464.0m, were 9.8% up on the prior year level of €422.5m, but fell short of our ambitious annual target. The first of the new medium- and large-format presses launched at Drupa were shipped along with several superlarge-format presses, and new orders booked. The **backlog** of €367.2m at the end of September was 32.5% bigger than at the same time last year (€277.2m). However, revenues were squeezed by the strength of the euro, which made it harder for us to compete against non-European manufacturers.

Order Intake/Order Backlog
Sheetfed offset presses
in €m



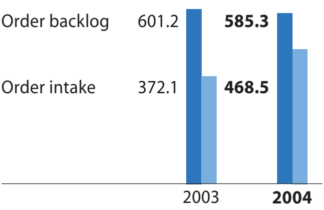
Sales
Sheetfed offset presses
in €m



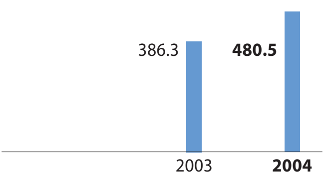
Web and Special Presses

In the third quarter we won some major contracts for publication rotogravure, security and newspaper presses, including our new Cortina and Commander 6/2. The **order intake** to 30 September jumped 25.9% to €468.5m (2003: €372.1m), while **sales** climbed 24.4% to €480.5m, from €386.3m the previous year. Although deliveries increased in the third quarter, causing a 2.6% year-on-year reduction in the **order backlog** from €601.2m to €585.3m, they were lower than planned and, in conjunction with persistent poor profit margins, resulted in a loss. An even larger volume of shipments is scheduled for the fourth quarter.

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



Sales
Web and special presses
in €m



Key Regions

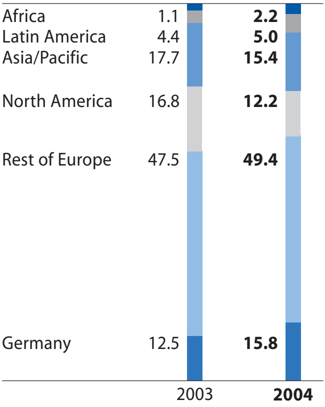
The delivery of two big rotogravure presses and a succession of sheetfed offset presses in the third quarter gave **domestic sales** a substantial boost, raising the total for the nine months to €149.4m, a healthy 47.8% gain on the same period in 2003 (€101.1m). Even so, the export level remained high at 84.2%.

Sales in the rest of **Europe** were up 21.5% at €466.6m (2003: €384m), largely thanks to a buoyant market for sheetfed offset presses in some west, south and east European countries. Shipments included additional flexo printing couples for the *Daily Mail* in London and, in September, multi-unit newspaper press lines for Italy and Switzerland.

Despite the weakness of the dollar, the **USA** and **Canada** remain a prime market. Although sales at €115.1m were down on last year's figure of €135.9m, they will improve in coming months with the delivery of big newspaper and gravure presses and the expansion of our sheetfed business.

Asia and the **Pacific**, where China's booming economy has been powering demand in recent years, are key growth markets for KBA products. Regional sales, at €145.4m, were higher than in North America.

Geographical Breakdown of Sales
in %

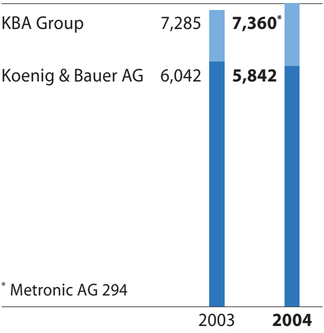


The volume of sales to **Africa** and **Latin America**, though relatively small in comparison to the other regions, jumped by more than 50% to a not insignificant €68m (2003: €44.6m) following heightened activity in North Africa.

Human Resources

The Group payroll at 30 September totalled 7,360, up from 7,285 a year before. The increase of 75 represents the difference between the addition of 294 employees with the acquisition of Metronic and a reduction of 219 in the rest of the Group. As we have already announced, our Berlin assembly plant, KBA-Berlin GmbH with 68 staff (2003: 110), will close down at the end of the year.

Payroll on 30 September 2004



Research and Development

Engineering teams in both our divisions were engaged in monitoring and enhancing the shopfloor performance of the presses launched at the Drupa trade fair, and in optimising additional new features and configurations.

R&D activities in our sheetfed division also focused on inline finishing, quality control and brand protection for printed products.

Gravure engineers in our web and special press division saw their efforts come to fruition with the inauguration at a printing plant in Germany of the world's first rotogravure press for a web width of 4.32m. The main thrust of our newspaper R&D, alongside improvements to conventional wet offset presses, was the enhancement of processes involved in our innovative waterless mini tower press, the popular Cortina.

This, and a digital workflow capability for all our press types, are two of our ongoing objectives. In early October we teamed up with eight other international manufacturers to form the Print Media Network (PRIME), dedicated to developing viable workflow systems for the newspaper industry.

Investment

Investment largely related to plant upgrades and the rationalisation of key production areas. Investment in tangible and intangible assets totalled €36.1m was above the prior year figure of €31.8m and the level of depreciation (€32.0m). Following extensive building programmes in recent years the focus is now on controlling expenditure and enhancing core productivity.

Outlook

While the overall investment climate in the international printing industry has improved in the past twelve months, there are striking differences among the individual sectors and regions. Those heavily exposed to advertising cycles – and that includes newspaper, commercial and magazine printers – face the additional challenge of adapting to changes in consumer habits and thus in the allocation of advertising spend. Overcapacity, pricing pressures and a surge in mergers and acquisitions are the manifestation of an ongoing structural change in mature print markets. At the same time new, high-growth markets are developing in eastern Europe, China and the emerging economies of the Middle and Far East.

But the upturn to date has been too modest to fill the additional production capacity built up during the boom. As a result margins are being squeezed by fierce competition on pricing that has made it impossible for manufacturers to pass on the soaring cost of energy and steel to the consumer. The strong euro is an additional burden for exporters. It is thus necessary to agree longer and more flexible working hours to take the strain off costs and to improve earnings.

Nevertheless, we reaffirm our target for 2004 of an increase in Group sales to around €1.4bn, and a pre-tax profit.

Group Balance Sheet

Assets *in €m*	31.12.2003	**30.09.2004**
Non-current assets		
Intangible assets	20.9	**18.2**
Property, plant and equipment	239.3	**257.0**
Financial assets	22.1	**22.1**
	282.3	**297.3**
Current assets		
Inventories	371.1	**456.9**
Trade receivables	374.1	**416.9**
Other receivables and assets	126.9	**120.2**
Securities	13.2	**13.7**
Cash and cash equivalents (cash, bank balances)	71.6	**28.6**
	956.9	**1,036.3**
Deferred tax assets	60.2	**77.8**
Balance sheet total	1,299.4	**1,411.4**

Equity and liabilities *in €m*	31.12.2003	**30.09.2004**
Equity		
Issued capital	42.0	**42.2**
Capital reserve	82.2	**83.1**
Revenue reserves	349.5	**312.1**
Net loss	–30.0	**–9.4**
	443.7	**428.0**
Provisions		
Pension provisions	86.6	**89.7**
Other provisions	222.3	**247.0**
	308.9	**336.7**
Liabilities		
Bank borrowings	148.0	**168.0**
Payments received	216.3	**263.8**
Trade payables	69.8	**89.7**
Other liabilities	59.3	**59.2**
	493.4	**580.7**
Deferred tax liabilities	53.4	**66.0**
Balance sheet total	1,299.4	**1,411.4**

Group Income Statement

01.01. - 30.09. *in €m*	2003	**2004**
Revenue	808.8	**944.5**
Cost of conversion	–611.9	**–740.1**
Gross profit	196.9	**204.4**
Distribution costs	–83.9	**–99.5**
Administrative expenses	–69.5	**–66.0**
Other operating expenses	–86.0	**–44.8**
Loss from operations	–42.5	**–5.9**
Financial result	1.6	**–3.8**
Loss before taxes (EBT)	–40.9	**–9.7**
Taxes	14.7	**0.3**
Net loss for the period	–26.2	**–9.4**
Profit attributable to minority interests	–	**–**
Net loss less minority interests	–26.2	**–9.4**

01.07. - 30.09. *in €m*	2003	**2004**
Revenue	307.5	**409.6**
Cost of conversion	–219.2	**–328.2**
Gross profit	88.3	**81.4**
Distribution costs	–32.2	**–32.5**
Administrative expenses	–22.7	**–23.7**
Other operating expenses	–48.6	**–13.7**
Profit/loss from operations	–15.2	**11.5**
Financial result	0.9	**–2.7**
Profit/loss before taxes (EBT)	–14.3	**8.8**
Taxes	6.7	**–2.1**
Net profit/loss for the period	–7.6	**6.7**
Profit attributable to minority interests	–	**0.4**
Net profit/loss less minority interests	–7.6	**7.1**

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	–	–	–
Capital increase	0.2	0.7	–
Other	–	–	6.4
30.09.2003	42.0	82.2	350.7
01.01.2004	42.0	82.2	349.5
Changes in revenue reserves	–	–	–30.0
Net loss	–	–	–
Capital increase	0.2	0.9	–
Other	–	–	–7.4
30.09.2004	42.2	83.1	312.1

Net profit/ loss	Equity
28.1	475.6
–20.1	–
–8.0	–8.0
–26.2	–26.2
–	0.9
–	6.4
–26.2	448.7
–30.0	443.7
30.0	–
–9.4	–9.4
–	1.1
–	–7.4
–9.4	428.0

Group Cash Flow Statement

01.01. - 30.09. *in €m*	2003	**2004**
Loss before taxes (EBT)	–40.9	**–9.7**
Non-cash transactions	36.8	**30.1**
Gross cash flow	–4.1	**20.4**
Changes in inventories, receivables and other assets	–55.2	**–106.4**
Changes in provisions and liabilities	100.2	**75.7**
Cash flows from operating activities	40.9	**–10.3**
Cash flows from investing activities	–34.0	**–35.6**
Cash flows from financing activities	3.4	**6.4**
Change in funds	10.3	**–39.5**
Effect of changes in exchange rates	–0.8	**–3.0**
Funds at beginning of period	57.1	**84.8**
Funds at end of period	66.6	**42.3**

Notes to the Interim Statement to 30 September 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 and at the end of the third quarter the remaining shares (26.1%) were purchased, 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. - 30.09. *in €m*

	Web and special presses		Sheetfed offset presses	
	2003	**2004**	2003	**2004**
External turnover	386.3	**480.5**	422.5	**464.0**
Internal turnover	74.9	**50.7**	117.7	**149.4**
Total turnover	461.2	**531.2**	540.2	**613.4**
Investment	16.2	**16.9**	15.6	**19.2**

3.2 Geographical segments

01.01. - 30.09. *in €m*	2003	**2004**
Germany	101.1	**149.4**
Rest of Europe	384.0	**466.6**
North America	135.9	**115.1**
Latin America/Africa	44.6	**68.0**
Asia/Pacific	143.2	**145.4**
External turnover	808.8	**944.5**

4 Earnings per Share

01.01. - 30.09. *in €*	2003	**2004**
Earnings per share	–1.63	**–0.58**

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 (16,160,546 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	60.0	41.8	18.2
Property, plant and equipment	537.9	280.9	257.0
Financial assets	23.7	1.6	22.1
Total at 30.09.2004	621.6	324.3	297.3

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 €34.9m (3rd quarter 2003: €30.4m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2003	**30.09.2004**
Raw materials, consumables and supplies	49.9	**61.0**
Work in progress	292.3	**362.1**
Finished goods and products	2.9	**4.8**
Payments on account	26.0	**29.0**
	371.1	**456.9**

5.3 Provisions

The increase of €24.7m in other provisions largely results from obligations to employees for holiday and Christmas bonuses and outstanding invoices.

5.4 Liabilities

The €87.3m increase in liabilities resulted from an increase in payments received and liabilities relating to Metronic.

Key Financial Dates

Financial statements on 2004
8 April 2005

Interim report on 1st quarter 2005
13 May 2005

Koenig & Bauer Annual General Meeting
23 June 2005, Würzburg

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