Consolidated Financial Statements 2013

KBA
Koenig & Bauer Group

At a Glance

Over 300 large-format users from numerous countries attended the official premiere of the new Rapida 164 at the KBA sheetfed facility in Radebeul

Title photo:
The precise transfer of ink onto a substrate, whether it be paper, board, film, plastic, metal or glass, has been a core competence of Koenig & Bauer for 197 years

KBA Group in Figures

€m	2009	2010	2011	2012	2013
Order intake	883.9	1,284.9	1,552.1	1,116.2	1,012.2
Sales	1,050.4	1,179.1	1,167.2	1,293.9	1,099.7
Order backlog at 31.12.	335.0	440.8	825.7	648.0	560.5
Operating profit before special items	8.7	22.2	9.9	40.8	24.5
Operating profit/loss after special items	8.7	22.2	9.9	13.7	–130.7
Earnings before taxes	2.7	15.3	3.3	3.7	–138.1
Net profit/loss	6.6	12.5	0.4	0.4	–153.7
Balance sheet total	1,060.4	1,164.4	1,222.8	1,151.8	1,098.0
Intangible assets, property, plant and equipment	259.8	269.4	275.0	243.1	227.5
Equity	419.8	461.3	466.6	441.3	277.9
Investment in intangible assets, property, plant and equipment	30.2	15.4	35.7	33.0	32.3
Depreciation on intangible assets, property, plant and equipment	30.3	31.0	35.5	64.9	59.6
Payroll: annual average	7,327	6,515	6,401	6,272	6,257
Cash flows from operating activities	29.6	30.1	83.9	83.3	34.1
Dividend per share in €	–	0.30	–	0.40	–

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In 2013 investment in newspaper printing technology was once again restrained. Orders for the new KBA Commander CL predominantly came from Germany and other parts of Europe

Major Events in 2013

January: Subsidiary KBA Asia Pacific in Singapore celebrates its tenth anniversary in the presence of numerous customers. This region is a key growth market for KBA with a raft of sheetfed, web offset and special press installations.

February: At the Hunkeler Innovation Days in Lucerne, Switzerland, the market-ready KBA RotaJET digital web press wins over industry experts with its performance and printing of a daily trade show newspaper in a high quality.

March: In North America the *Times Union* newspaper belonging to the media group Hearst Corporation fires up a KBA Commander CL, the first newspaper press from the new series in the U.S. The first KBA Rapida 75 sheetfed offset press in Kazakhstan goes into operation.

April: Throughout the year KBA Radebeul presents its sheetfed presses to print entrepreneurs from all over the world at numerous events. In April 2013 two groups of visitors from South America find out about the latest trends in commercial and packaging printing at the KBA customer centre.

May: The People's Republic of China has long been the largest single market for KBA. Presence at trade fairs, such as the over 1,000 m^2-large and well-attended stand at China Print in Beijing in May, are becoming ever more important. Efforts paid off with the sale of nearly 300 sheetfed offset printing units.

June: Over 300 potential users take part in a two-day open house at the KBA plant in Radebeul celebrating the official premiere of the new large-format Rapida 164 and its enormous advances in automation, makeready and productivity.

From the left:

Anniversary: KBA Asia Pacific in Singapore has grown continuously since its foundation ten years ago. Managing director Stefan Segger (l) and KBA sales director Dietmar Heyduck (centre) are pleased with the subsidiary's performance

Ready for the market: The KBA RotaJET was the subject of great interest as the largest digital press at the Hunkeler Innovation Days in Lucerne, Switzerland

Satisfied: George R. Hearst III, publisher and CEO of the *Times Union* in Albany, USA, is delighted with the printed results delivered by his new KBA Commander CL

July: Printing house Volksfreund-Druckerei Nikolaus Koch in Trier, Germany, orders a waterless compact KBA Cortina with two coaters for printing high-quality products that push the boundaries of sheer newspaper printing. The extremely environmentally friendly Cortina offers the ideal requirements concerning process technology.

August: KBA expands its portfolio for high-quality packaging printing with the majority takeover of Kammann, the global market leader in screen printing systems and soon also digital presses for directly decorating hollow glass containers.

September: Highly qualified staff are crucial to the success of KBA. 79 youngsters begin a vocational training in Würzburg and Radebeul. Along with dual degree programmes in mechanical, electrical and production engineering, 15 different apprenticeships belong to KBA's training spectrum.

October: Following the foundation of own sales and service offices in Mexico, South Korea and Japan in 2012, KBA opens its own sales and service outlet in Latin America's largest market with Koenig & Bauer do Brasil in São Paulo in autumn 2013.

November: Over decades generations of employees have made a key contribution to the growth of KBA from a family-run company to a corporate group. The integration of employees' family members, where possible, has always been a part of Koenig & Bauer's culture. Once again 150 employees' children experience an action-packed day at our main plant in Würzburg in 2013.

December: The takeover of Flexotecnica with its flexo presses gives KBA access to the growth market for flexible packaging. The integration into the Group's global network offers the Italian subsidiary better opportunities for development.

From the left:

Trade show success: Ceremony to mark the handing over of a sheetfed offset press to a Chinese customer at China Print in May 2013 in Beijing

Year after year: 79 youngsters begin their training in one of 15 technical and commercial professions at the main plants in Würzburg and Radebeul in summer

New addition: Italian subsidiary Flexotecnica expands KBA's portfolio for packaging printers. Shown here is the plant in Tavazzano, near Milan


KBA KOENIG & BAUER AG

Letter to shareholders

2013 was a challenging business year for our company as the ongoing structural change in the print industry continued to put a strain on the investment climate. The interim Drupa-high in 2012 proved short-lived. Despite gaining many new customers and significant ground in some niche markets and growth regions, we had to revise our original sales and earnings forecast markedly downwards over the course of the year.

Koenig & Bauer management board (l-r):
Christoph Müller,
Ralf Sammeck,
Claus Bolza-Schünemann (president),
Dr Axel Kaufmann (deputy president),
Michael Kummert

The KBA Group generated order intake of €1,012.2m and sales of €1,099.7m in 2013. This was 9.3% and 15% respectively down on the previous year, and means we visibly failed to meet our annual targets. The lower sales volume had a negative impact on our operating result before special items relating to restructuring. Accordingly, in 2013 operating profit of €24.5m was around 40% below the prior-year figure (2012: €40.8m).

As one of the world's leading companies in our industry we have more demanding goals. In order to achieve these we have to adapt with even more vigour to a permanently changed market environment and draw the necessary conclusions.

Thanks to our broad portfolio and previous restructuring measures we have mastered the fundamental structural shifts in our industry over the last years without losses or state aid. But this alone is not enough in the long term. Capacity utilisation of our traditional web press business in particular is unstable and inefficient despite the raft of countermeasures implemented. The same is true of our earnings which are completely unsatisfactory. Clearly we have a lot of catching up to do. We aim to soon position the KBA Group once again as the driving force in our industry with our excellently trained employees, our extraordinary level of innovative strength, strong capital base, global presence and corporate independency. That is our incentive and our task which now calls for decisive action.

Under the heading Fit@All the management board passed a programme for the Group in agreement with the supervisory board in December 2013. It is our goal to form a de-centrally organised, highly flexible and profitable KBA Group which will have a sound economic basis. Adequate and solid earnings are the prerequisites for ensuring that we remain a reliable and strong partner for our, to a great extent, longstanding customers and partners with innovative and competitive products. And of course we want to be a company that generates profits year after year and continually posts satisfactory earnings for our shareholders.

Fit@All encompasses extensive measures aimed at strengthening the Group's profitability in the long term and future development potential. The focus is on consolidating our core business. In light of the ongoing structural changes and diminishing prospects in traditional volume markets we have set ourselves the mid-term goal of generating sales from €1bn to €1.1bn to return to continued profitability. We will have to adapt our cost items, structures and depth of added value, processes and complexities of these figures. Therefore we have to reduce existing excess capacities systematically, review loss-making products, increase the flexibility of our business models, and bundle and realign our manufacturing activities.

Only with a long-term healthy economic base can we satisfy you, our shareholders and business partners. Only in this way can we finance investments and innovations required, expand into promising business fields with potential for growth and offer employees jobs with a future.

The way to achieving this is linked to considerable structural, personnel and organisational cuts which have resulted in major impacts on earnings this year. This was announced in November 2013. A reduction of distinctly more than 1,000 jobs Group-wide is unavoidable and at some locations considerable impairments on fixed assets were made as part of the realignment. Following a pre-tax profit of €3.7m in 2012, this led to a pre-tax loss this year of €138.1m. EBT without these special items stood at +€17.1m.

Along with consolidating our core business, our realignment targets future markets for which thanks to our market position and innovative strength, we have a sound basis. With the new business unit special applications we aim to focus more on profitable special markets with growth opportunities, such as digital and packaging printing as well as hollow container decoration.

In 2013 we demonstrated this objective with the majority takeover of Kammann, which specialises in systems for glass container direct decoration, and the acquisition of Italian press manufacturer Flexotecnica active in flexible packaging printing. With our sheetfed offset presses for folding carton and metal decorating produced at our plants in Radebeul and Stuttgart we have a strong position in the market. We aim to build on this position with new systems and process innovations launched recently. On top of this we have noticed some initial success with our internally developed KBA RotaJET in the future market digital printing. We aim to expand on this further.

I regret that we are unable to pay a dividend for the 2013 business year due to the exceptional impact resulting from our Fit@All programme. The financial repercussions of this project will also be felt in 2014. Nevertheless, in 2015 we anticipate a notable turnaround in earnings and a return to sustained profitability by 2016 at the latest.

Personally, I am convinced that we have taken the appropriate steps and are now on the right track. My fellow management board members and I wish to thank you for accompanying us along our path this past year with great interest. I would also like to thank our employees who have once again done splendid work in a difficult environment. However, I wish to take this opportunity to ask once more for understanding regarding the essential cuts as part of Fit@All and the personal hardships involved. In the interest of the company these, unfortunately, are crucial and ultimately unavoidable.

Würzburg, 20 March 2014
Koenig & Bauer Management Board

Claus Bolza-Schünemann
President and CEO

Supervisory Board Report

Dr Martin Hoyos
Chairman, Koenig & Bauer AG

Four regular and five extraordinary supervisory board meetings took place in 2013. In the regular sessions the KBA management board provided a full and detailed report on the current business performance, financial position and earnings of the Parent and Group, individual business operations and major subsidiaries. Alongside demand and competition in various market sectors the central issues discussed were corporate policy and planning. In addition to personnel changes in the supervisory board and the replacements necessary, the strategic realignment of the KBA Group was the primary subject of intense debate in the extraordinary sessions.

In an extraordinary meeting on 28 February last year the majority of the supervisory board approved the takeover of Italian press manufacturer Flexotecnica active in the print market for flexible packaging.

The session on 21 March 2013 revolved around the discussion, examination and approval of the financial statements. Alongside the ongoing restructuring programme, the board devoted particular attention to the operational challenges facing the core business with web and sheetfed offset presses, and the status of the Flexotecnica takeover.

Following the announcement by Dr Hermann Jung to resign his position in the supervisory board, in the extraordinary meeting on 23 April a proposal was passed for his replacement. Additionally, the board approved the agenda for the AGM in June.

In the meeting in June the main focus was on the performance of the Parent and Group to 31 May 2013, the situation in the web and digital press business as well as ongoing acquisition projects. The supervisory board approved the majority takeover of Kammann in Bad Oeynhausen, Germany. In addition, personnel topics were discussed, such as a contract extension for a member of the management board and granting the power of procuration for the head of security press construction and the head of web press services.

Quality management in the sheetfed division and the status of the planned majority takeover of Flexotecnica in Italy including the corresponding flexible packaging market segment were on the agenda of the meeting on 26 September 2013. Further main topics were the activities regarding the recent acquisition of Kammann in the niche market for the direct decoration of glass. The management board also informed us about the necessity of developing a comprehensive restructuring programme with the support of external parties due to business trends. In this context the management board was asked to place the external consultants at the supervisory board's disposal for reports and advice. The vacant seats left by Dr Hermann Jung in the strategy and nomination committee were filled by Heinz-Joachim Neubürger.

In the extraordinary meetings on 9 and 28 October 2013 the successors to Dieter Rampl in the supervisory board, as chairman and in the committees, were determined. On 28 October the strategy committee received an interim report on the progress of the Fit@All programme from the management board and external consultants in the presence of all members of the supervisory board.

On 27 November we reviewed the status of the final report on the Fit@All programme for the realignment and strengthening the company's long-term profitability. After in-depth deliberations, the supervisory board unanimously approved this programme passed by the management board in the extraordinary meeting on 16 December 2013.

The programme is the management board's answer to a permanently changing market environment. The shift from print to electronic media will continue and therefore demands consequent implementation of the programme defined.

The supervisory board and its committees fulfilled their legal and statutory obligations with particular vigilance. The Fit@All programme was the subject of particular attention and intense debate. We supported, guided and monitored the activities of the Koenig & Bauer management board on a continual basis, and the members of the supervisory board were closely involved in all executive decision-making processes of any importance. With input from external experts, board resolutions were passed after rigorous scrutiny and discussion.

In addition to coordinating the work of the various committees the chairman fulfilled the monitory and advisory functions between plenary sessions in meetings and discussions with the management board. Since October 2013 a key topic has been the Fit@All programme. Details concerning planning, business developments and risks were also in the foreground. The chairman was informed by the president and CEO about matters of significance. Important business activities and decisions were the subjects of intense discussion.

Five committees assist the supervisory board in the drafting of resolutions and formulating any issues that are to be raised at plenary sessions. The human resources committee gathered twice, the audit committee four times, and the strategy and nomination committee for new supervisory board members for the shareholders' side each met twice. The mediation committee appointed under section 27 (3) of the Law of Codetermination did not convene in 2013.

On 19 March 2014 the audit committee reviewed the 2013 financial statements, management reports and audit reports for both the Parent and the Group. In this meeting the auditors' representatives summarised the major focus and results of their audit, as well as providing further information upon request. In depth discussions were held in further sessions on interim reports and the risks in the Group with the management board. The early warning system was a further focus.

Various personnel issues stood on the human resources committee's agenda. Alongside the acquisitions mentioned, the strategy committee discussed the strategic realignment of the KBA Group in detail. The nomination committee compiled candidate proposals for shareholder representatives for election at the AGM as well as the proposal for the register court to fill the vacant supervisory board posts. The supervisory board was informed about the results of the committee meetings and the entire supervisory board was invited to important strategy committee sessions.

On 14 February this year the supervisory and the management boards duly issued and published an updated declaration of compliance on the Group's website. With only a few company-specific, justified exceptions we comply with the newly included recommendations and principles of the German Corporate Governance Code from 13 May 2013. For more details see the Corporate Governance Report on pages 20 and 21. There were no conflicts of interest among members of the supervisory and management boards.

Nuremberg-based KPMG Bayerische Treuhandgesellschaft, the auditors approved by the AGM for the 2013 business year, examined the financial statements, management reports and method of accounting for Koenig & Bauer AG and for the KBA Group to 31 December 2013, and awarded them the auditor's certificate unreservedly. The auditors confirmed that the management board has put in place an early warning system conforming to section 91 (2) of German Stock Corporation Law. The statements, reports and auditors' reports for the Parent and the Group were distributed to the members of the supervisory board for perusal well in advance. The results of the audit committee's scrutiny were imparted to the supervisory board and approved together with the auditors' report. After conducting its own review the supervisory board raised no objections to the year-end financial statements and management report for the Parent and the Group. At the meeting on 20 March 2014 the supervisory board approved the year-end financial statements submitted by the management board.

The following changes occurred in the Koenig & Bauer supervisory board: upon the conclusion of the AGM on 13 June 2013 Dr Hermann Jung left the supervisory board. Heinz-Joachim Neubürger was elected as his successor by the AGM on 13 June 2013.

At the end of the meeting on 26 September Dieter Rampl resigned for personal reasons as chairman and left the supervisory board with immediate effect. The supervisory board elected Heinz-Joachim Neubürger as its new chairman at the extraordinary board meeting on 9 October 2013. On the basis of the nomination committee's suggestion, in the same session the supervisory board proposed Dr Martin Hoyos as a replacement following Dieter Rampl's resignation as supervisory board member. On 14 October 2013 Dr Martin Hoyos was appointed by the register court. He will stand for election at the AGM on 28 May 2014 by the shareholders.

With effect from 31 December 2013 Günter Hoetzl relinquished his seat on the supervisory board as workforce representative. On 14 January 2014 the register court in Würzburg appointed Willi Eisele, representative of IG Metall Dresden as his successor.

On 25 February 2014 the supervisory board accepted the resignation of Heinz-Joachim Neubürger as chairman and member with immediate effect. Neubürger cited the large investment in terms of time and presence on-site which have arisen from the implementation of the Fit@All programme as reasons for his decision. Dr Martin Hoyos was elected unanimously as new chairman in the extraordinary session on 7 March 2014. In the time between the supervisory board was led by deputy chairman Gottfried Weippert.

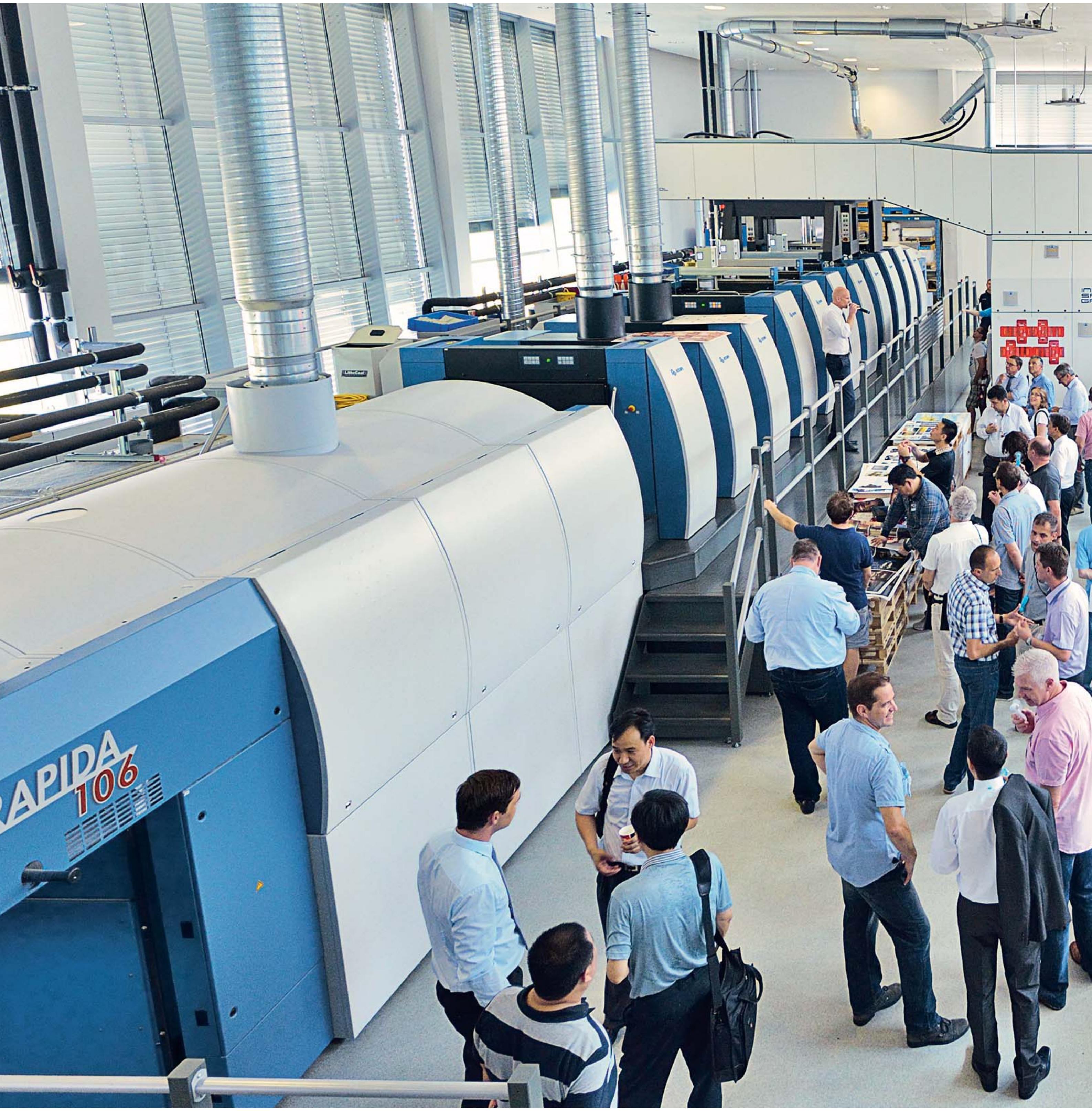
We expressed our gratitude to all the departing members for their valuable contribution to the supervisory board. In particular we thanked Mr Rampl for his longstanding role as chairman of the board as well as Mr Neubürger for his high level of dedication during these challenging times.

The supervisory board would like to thank all Group employees and executives, the members of the KBA management board and staff representatives for their dedication, the contribution they have made towards the success of the company and the Group, and the constructive collaboration in 2013. And we thank you, our shareholders, for your confidence in KBA.

Würzburg, 20 March 2014
Koenig & Bauer AG
Supervisory Board

M. Hoyos

Dr Martin Hoyos
Chairman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Print demonstrations, training courses and events ensure a constant influx of sheetfed offset printers from all over the world to the customer and training centres (photo) at the KBA plant in Radebeul

KBA Shares

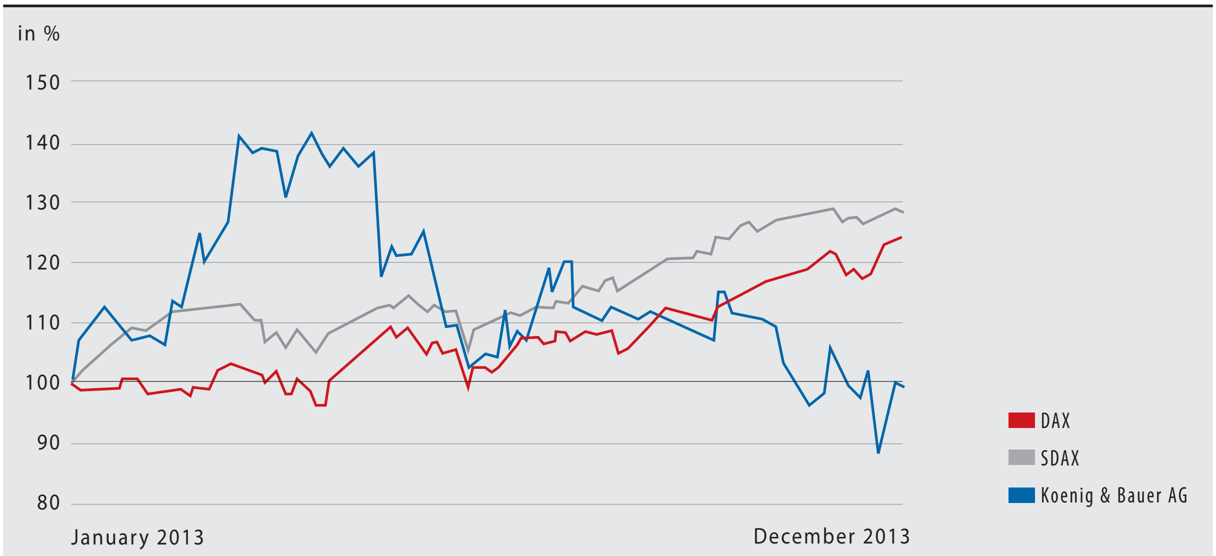
Business performance and Group restructuring push share price down

Koenig & Bauer shares profited from positively assessed news from our company regarding the planned business expansion to the growing packaging and digital printing sectors and a friendly stockmarket environment in the first quarter of 2013. The KBA share price outperformed the DAX and SDAX until early summer. In the following months the central banks' loose monetary policy and optimistic economic forecasts drove comparative indices upwards. The DAX rose by 25.5%, the SDAX by 29.3%. Both indices recorded new historic highs in December 2013. Following a plus of 28% the previous year, KBA shares did not partake in the price rally in 2013. In the fourth quarter our share price suffered a notable setback triggered by the forecast revised at the beginning of November. Market developments, sales and earnings in our core business which remained significantly below our targets and the announced Group realignment contributed to this slide in share price.

Volatile share performance – kept at the previous year's level

After opening at €13.12 our shares hit a high for the year of €18.50 on 15 March and by mid-May the KBA share price fluctuated around the €18 mark. Our first-quarter figures which failed to meet capital market expectations and the slightly scaled down outlook for 2013 indicated at the AGM in June subsequently pushed the price to under €14. Following a short temporary high of €15.68 at the beginning of August and a volatile performance between €14 and €15 until the end of October, the retraction of our original sales and earnings targets, the announcement of an extensive Group realignment and our nine-month figures in the first half of November all led to a sharp decline in share price. On 20 December Koenig & Bauer

Performance of KBA shares in 2013



shares reached a low for the year of €11.50. At the end of December our shares closed at €12.88, 1% up on the prior-year figure. Little has changed with the start of the new stock exchange year.

Open financial communication

Even in challenging times KBA places great importance on transparent and continued communication with shareholders, financial analysts and the media. Some 500 shareholders representing 69.4% of equity, attended our 88th AGM at the Vogel Convention Center (VCC) in Würzburg. We were present once again at the German Investment Conference in Munich at the end of September. In numerous meetings and telephone conferences with institutional and private investors we discussed details of the industry environment, business performance and the focused strategic expansion into growth markets. Our annual analyst and financial press conference took place on 19 December at KBA-MetalPrint in Stuttgart. During a presentation on the company followed by a guided tour and the demonstration of new products, the participants had the opportunity to take a closer look at metal-decorating presses, coating lines, drying technology and air-purification systems, which has become an important business field for KBA. We keep shareholders and interested members of the public informed about key developments and dates in the KBA Group via our website. Along with press releases and quarterly reports under the heading “Investor relations”, relevant presentations and financial information can be downloaded from our website.

Listing in the Prime Standard

KBA shares are listed in the SDAX, the German stock exchange index for small caps. KBA complies in full with the international transparency obligations imposed by our listing in the Prime Standard segment. Several financial institutions actively follow KBA and publish regular studies on our company as well as on the printing press industry. Following the announcement of Group realignment in November, some analysts changed their recommendation for Koenig & Bauer shares to holding. At present most recommend holding or are neutral.

Key data on ordinary KBA shares

	2012	**2013**
Earnings per share	€0.03	–€9.31
Highest price	€14.99	€18.50
Lowest price	€10.33	€11.50
Closing price	€12.76	€12.88
Market capitalisation in €m	210.4	212.8
Cash flow per share	€5.05	€2.06
Dividend	€0.40	–

Corporate Governance

Commitment to sustainable corporate management

At Koenig & Bauer corporate management and business strategy are predicated on sustainable development. Corporate Governance at KBA contributes to justifying the trust placed in us by our shareholders, customers, business partners, employees and the public. We comply with the international standards of good and responsible corporate governance, and largely with the proposals and recommendations issued by the German Corporate Governance Code. Our corporate guidelines and rules of procedure are continually and promptly amended when any changes, in particular to the Code, are made.

Declaration of compliance in accordance with section 161 of German Stock Corporation Law

The Koenig & Bauer supervisory and management boards issued a revised declaration of compliance on 14 February 2014. It may be accessed by the general public on the Group's website at http://www.kba.com/en/investor-relations/corporate-governance/. The Government Commission's recommendations of 13 May 2013 relating to the Code are implemented with the following few exceptions.

Policy excess borne by the supervisory board

At present the policy excess borne by members of the supervisory board for D&O liability insurance of €2,500 is lower than is recommended in provision 3.8 of the Code. This fiscal year the supervisory board will discuss whether to adjust the excess to the amount recommended by the Code.

Supervisory board compensation

In the Notes the remuneration of individual members of the supervisory board is not disclosed, but rather broken down into variable and fixed elements (provision 5.4.6). The total sum has long been stated as a breakdown. We believe that this, together with the information on the remuneration system stated in the articles of association and described in the compensation report detailed on page 28, is largely an assessment of the adequacy of the remuneration given to the supervisory board and of the individual amount of remuneration possible. Supervisory board remuneration contains appropriate adjustments for the chairman and vice-chairman, but not for committee work, since this is covered by the raised annual remuneration as part of the new remuneration system in place since 2010 (provision 5.4.6).

Management and supervisory board shareholdings

At the end of December 2013 members of the management board owned 2.7% of equity capital, members of the supervisory board 0.1%. Since we feel that this separate disclosure is sufficient to meet shareholders' justifiable need for information, the figures for individual board members (provision 6.3) were not disclosed.

Board composition

In their proposal for shareholder representative candidates at the AGM the supervisory board and the nomination committee take the criteria in provision 5.4.1 section 2 of the Code into consideration. The rules of procedure for the supervisory board stipulate an age limit. In recent years we were able to gain independent entrepreneurs and executives with sound international experience and a good grasp of technology and industrial economics as supervisory board members. The supervisory board seeks to maintain diversity when nominating new candidates and efforts are made to increase the proportion of women on the board. Selection criteria of the supervisory board for the management board composition also focuses on diversity.

Corporate compliance programme expanded

After establishing a compliance organisation, the further intensifying of the Code of Conduct with executives and employees as well as the greater involvement of subsidiaries in the compliance process were on the agenda. For Koenig & Bauer regular training sessions and continual development of the existing compliance system are essential elements ensuring that its employees' and executives' conduct complies with legal requirements.

The compliance board, which consists of Group individuals responsible for the control, implementation, monitoring and development of the corporate compliance programme, met every quarter. The extensive internal guidelines were supplemented further. In addition, compliance officers were appointed below the compliance board in the subsidiaries, who serve as first points of contact for relevant topics for the employees on site.

An online training session on compliance, started at the end of 2011 for the Parent and in 2012 for the Group, was completed successfully via e-learning. Special training measures with selected topics for purchasing and sales staff rounded off the compliance activities for 2013.

Group Management Report

Large-format sheetfed offset presses are particularly popular with internet, book and folding-carton printers. KBA's global market share in this format class is almost 60%

Digital printing with high-volume systems, such as the KBA RotaJET, is becoming more important for new business models in the print sector

Corporate Structures

Business Concept and Organisation

Our core competence has been print for 200 years

200 years ago industry pioneers Friedrich Koenig and Andreas Bauer printed The Times in London on their new steam-powered cylinder press for the first time. In 1817 they founded the company Koenig & Bauer, the world's first printing-press manufacturing plant and birthplace of German press engineering in Würzburg, Germany. The precise transfer of ink onto the substrate, whether it be paper, board, film, metal, glass or plastic with the most economical and qualitative process suitable (offset, waterless offset, flexo, gravure, screen, intaglio or inkjet), remains our core competence. This will continue to be so despite shifts in the media landscape as sales potential is far from exhausted in expanding markets, such as digital and packaging printing, and in populous threshold countries.

With annual sales of €1.1bn, today the KBA Group is the world's second-largest press manufacturer with the broadest product range of all major press vendors. Banknotes, metal cans, books, brochures, displays, hollow glass containers, catalogues for industrial goods, magazines, board and film packaging, advertising flyers and newspapers – KBA has cutting-edge press technology for nearly every print sector. We are the market leader with banknote, metal-decorating, large-format sheetfed offset and newspaper presses.

Koenig & Bauer extended its product portfolio early on through a raft of acquisitions targeting print markets less affected by the media shift, such as security printing, metal decorating and coding. This is why the KBA Group has long held its ground in the face of advanced changes in the industry. Nevertheless, the return to sufficient earnings in our traditional core business with sheetfed and web offset presses demands a fundamental realignment of the Group's structure and business strategy. Against this background in 2013 the management board developed an extensive package of measures (see the chapter on the realignment starting on page 32). These measures should be implemented to a great extent in 2014, begin to show initial economic success in 2015 and lead to sustained profitability in all business fields in 2016.

Reorganisation of segments after Group realignment

Koenig & Bauer became a public limited company in 1920 and in 1985 it went public. For years now segment information for the KBA Group has distinguished between our batch-based sheetfed offset activities and our web and special press activities which focus more on large-scale installations. The sheetfed offset presses from KBA Radebeul, KBA-Grafitec and KBA-MePrint as well as metal-decorating, coating and drying systems from KBA-MetalPrint in Stuttgart, all belong to our sheetfed segment. Our web and special press segment comprises of web presses from Würzburg together with folders from Frankenthal, banknote printing presses produced by KBA-Mödling and KBA Würzburg, coding systems from KBA-Metronic as well as the printing systems from our new subsidiaries KBA-Kammann and Flexotecnica, for directly decorating hollow glass containers and flexible packaging. They were consolidated in 2013 on a pro rata basis. Production and sales subsidiaries active in both segments are assigned proportionately.

Segment reporting will be adjusted accordingly after the agreed Group realignment with the creation of divisions that have clearly defined profit responsibilities for the fields sheetfed presses, web presses, special applications and manufacturing is complete.

International Group Structure

At present the KBA Group has eleven European production locations in Germany, Austria, Italy and the Czech Republic. Along with the company's main plant in Würzburg and the affiliated plant in Trennfeld, the sheetfed offset facility in Radebeul (near Dresden) also belongs to the Parent. The two subsidiaries KBA-FT Engineering and Albert-Frankenthal, both located at the Frankenthal site, were spun off in 2011, but they still belong to the Group's consolidated companies. They offer engineering, production and assembly services to the Parent whilst simultaneously expanding their business with third parties outside of the printing press industry.

Our facility in Radebeul is responsible for the development and sales of all of our Rapida sheetfed offset presses as well as the production of medium and large-format presses. Czech subsidiary KBA-Grafitec builds half-format sheetfed presses. Sheetfed offset presses for commercial, book and packaging printers have the largest market volume and the highest share in Group sales. Global distribution via our sales network is controlled from Radebeul. KBA is the world's second-biggest vendor of sheetfed presses with a global market share of 19%. Although KBA Radebeul profits from its strong footing in the packaging market with medium and large-format presses, given investment restraint on the part of commercial, book and advertising printers reductions in capacity cannot be ignored. The same is true of KBA-Grafitec which is suffering the effects of the market slump in half-format presses due to the spread of digital printing and market adjustments in the industry.

Other markets that are less vulnerable to competition from online media, such as metal-decorating, waterless UV printing on film as well as analogue and digital coding, are served by the subsidiaries KBA-MetalPrint, KBA-MePrint and KBA-Metronic. With the majority takeover of KBA-Kammann in Germany, which addresses the profitable niche market for the direct decoration of glass, and Italian press manufacturer Flexotecnica active in the growing flexible packaging market, KBA has acquired two further subsidiaries with promising business fields. With these new subsidiaries we have expanded our portfolio to target more areas of the promising widespread packaging printing market. Together these new KBA companies generated annual sales of over €60m in 2012 with approx. 270 employees. In 2013 they were included in our consolidated financial statements for the first time for the period spent as a member of the KBA Group.

All of the last subsidiaries mentioned concentrate on the development, construction, sales and after-sales service of their products. Capacity utilisation and earnings risks in the case of fluctuations in demand is reduced as they have minimised their own manufacturing activities and are thus models for the future structure of the KBA Group.

In recent years KBA's traditionally high export ratio has generally exceeded 80%. While the per-capita print output in Western Europe, North America, Japan and other established markets has nearly reached its limits, young industrial markets on the edge of Europe, the Middle and Far East, Latin America and parts of Africa are becoming ever more important. New printing firms are even being founded there.

We serve key foreign markets in Europe, on the American and Asian continent, and in Australia with our own sales and service subsidiaries. We also work with longstanding agencies in smaller markets. The most important sales subsidiaries in the KBA Group have all been consolidated, see page 85 in the Notes.

Smaller sales offices in Russia, Eastern Central Europe, Scandinavia, Malaysia, Singapore, South Korea, Japan, Australia and Latin America have not been consolidated in addition to MABEG Machinery (Shanghai), whose 60 employees principally produce sheet feeders for the Chinese market.

Share Capital, Executive Bodies and Compensation Report

Stable shareholder base

On 31 December 2013 the Parent's share capital stood at €42,964,435.80, divided among 16,524,783 bearer shares. In accordance with section 12 (7) of the articles of association, every no-par share conveys a voting right. There are no restrictions on voting rights, the transfer of shares or special rights imparting powers of control.

Banknotes are one of the most sensitive print products. The KBA Group has been a leading systems supplier in this special market for decades

Employee shares are subject to a three-year disposal ban, but enjoy all other rights. To our knowledge the only shareholders with an equity holding of more than 10% are Bestinver Gestión in Madrid, Spain, with 12.8% and MKB Holding in Vienna, Austria, with 10.2%. Some further institutional and private shareholders have a share of between 4% and 8% in KBA and hold a total of 26.5% of capital. The Parent is generally only aware of changes in shareholdings due to the bearer shares issued if these changes are subject to reporting requirements.

Executive bodies

The appointment and dismissal of management board members as well as amendments to the articles of association comply with statutory regulations (sections 84, 85 and 179 of German Stock Corporation Law and section 31 of the Law of Codetermination). Section 17 of the articles of association authorises the supervisory board to amend the articles in compliance with resolutions passed by the AGM, more specifically with regard to the utilisation of authorised capital.

Compensation report

All members of the management board draw a basic salary plus a bonus. The bonus is calculated solely on annual Group profit in consecutive years. Compensation is therefore structured in such a way as to promote sustainable long-term corporate development. Other compensation drawn by the management board covers the costs of sundry benefits, such as the provision of a company car. In 2013 the management board voluntarily waived 1/12 of their basic salary. In addition, all board members are covered by a D&O liability insurance taken out by the company. Pursuant to section 314 (1) 6a clauses 5 to 8 of the German Commercial Code (HGB) on the disclosure of management board compensation, at the AGM on 16 June 2011 a resolution was passed to forego the disclosure of individual management board members' compensation as per section 286 (5) in conjunction with section 314 (2) 2 of the German Commercial Code.

Supervisory board remuneration is regulated by section 11 of the articles of association. In addition to an attendance fee and the reimbursement of out-of-pocket expenses, each member of the supervisory board receives a fixed compensation of €21,000 per year plus a variable component of no more than €9,000 split into payments of €3,000 p.a. over three consecutive years in which the Group posts a profit. The chairman's remuneration is twice the fixed and variable total, his deputies' one-and-a-half times. The members of the supervisory board voluntarily waived 10% of their compensation in 2013.

Employee shares from authorised capital

With the supervisory board's approval, the management board continued the long-term employee share scheme using some of the authorised capital totalling €15,544,724. In accordance with section 4 (3) of the articles of association €1,569,724 was available for new employee shares on a non-pre-emptive basis. 20,420 employee shares were issued on 25 March from the scheme in 2012. In summer 2013 Koenig & Bauer employees were each offered blocks of 10 and 20 no-par bearer shares at a preferential price of €9.50 per share. Almost 27% of the workforce took advantage of this scheme signing up for 18,410 shares which were issued on 21 November 2013. At the end of the year the remaining authorised capital came to €15,443,766 or 5,939,910 no-par shares, which may be drawn on until 15 June 2016. 524,783 shares have been issued to employees since the scheme was launched in 2002. This represents 3.2% of our subscribed capital.

Authority to purchase shares

Koenig & Bauer is authorised to purchase and allot company shares on a non-pre-emptive basis of up to a maximum of 10% of the issued share capital of €42,808,201.80. This authority is valid until 15 June 2016 and is purely a contingency measure permitting Koenig & Bauer to purchase shares and offer them as a negotiating tool for acquisitions of other companies or shareholdings. On 31 December 2013 the Group had no such shares.

Disclosures under section 315 (4) 8 and 9 of the HGB

Koenig & Bauer has entered no basic agreements and made no special provisions governing a change in control or the acquisition of control in the event of a takeover bid, nor do any compensation agreements exist for such a contingency with either the members of the management board or workforce.

Corporate Planning, Control and Monitoring

Corporate management practices developed further

KBA uses comprehensive tools and parameters for the corporate planning and control to back-up decisions and efficient monitoring. The monthly reporting, prompt liquidity planning and cash management provide current feedback on the business situation and our progress towards achieving our objectives.

An important management tool is our integrated three-year corporate plan which is drawn up annually in advance with detailed planning with regards to income statements, balance sheets and cash flow statements. On 30 June and 30 September forecasts for the current year are created based on actual figures. Along with controlling measures, the detailed monthly reporting ensures a timely deviation analysis of targeted and actual performance. If significant deviations are detected, prompt and targeted measures to remedy and control the source are defined. On the basis of the rolling planning process Group-wide developments can be evaluated, potential opportunities and risks identified, and suitable adjustments can then be made.

We use key financial targets, such as sales, earnings and order intake figures for corporate control. In view of the much lower sales volume than expected and high special items primarily from the Fit@All programme, we were unable to achieve our target of a slight increase in Group earnings compared to 2012. Along with contribution margin-orientated product analysis, our operational control system is based on parameters, such as gross profit margins, return on sales and incoming orders as well as cash flow figures. An annual performance-related graduated bonus system for all executives and many employees ensures commitment to achieving Group objectives.

Orderly accounting through internal monitoring

At KBA an internal system for monitoring our accounting practices encompasses principals, procedures and measures for safeguarding their efficacy, cost efficiency and compliance with legal regulations. Sufficient work instructions and directives support these organisational monitoring structures.

The Parent and its subsidiaries all have their own departments responsible for controlling, human resources, payroll management, accounting and financing. Group accounting and internal auditing are managed by the Parent. The duties of the departments that are materially involved in accounting processes are explicitly segregated and their responsibilities are clearly assigned. Those departments involved in the accounting process are appropriately equipped.

The IT systems used for financial and payroll accounting are protected against unauthorised access. Along with the standard software SAP at the Parent, various other systems are in use at the subsidiaries. Over the next few years the IT systems which have been subjected to a raft of own developments in the past, will be gradually switched to SAP widespread in the machinery and project business. In 2013 the project “POINT” was started with the goal of harmonising processes and data Group-wide. The business blueprint with the requirements regarding business processes should be available in 2014 and then installing the system can start. Along with an independent SAP-ERP system at Albert-Frankenthal, the Cloud solution “SAP Business By Design” was introduced in 2013 at KBA Deutschland and Print Assist. In the future it should also be rolled out in other sales and service subsidiaries.

Group accounts are compiled with the aid of consolidation software and are meticulously checked on a quarterly basis. Numerous Group-wide planning, forecasting and early warning procedures all promote transparency. Accounting and evaluation guidelines ensure that the principles set out by the International

Accounting Standards Board (IASB) are applied uniformly throughout the Group. The risk management manual describes the process of recognising risks and documents the communication procedures for reporting risks in order to ensure their timely detection and prompt information to the management board on risks at the Parent and its subsidiaries. The reporting guidelines are regularly updated and extended, for e.g. due to changing standards. In 2013 new guidelines for inventories, income statement as well as taxes were added, and more are currently being drawn up.

The integrity and accuracy of accounting data are monitored regularly using random sampling in conjunction with manual or physical inspections that include inventories of stock, property, plant and equipment and sundry other tasks associated with the year-end financial statements. In addition, the software used carries out programmed plausibility checks. The four-eyes principle is applied to all key processes. Regular training and independent supervision ensure that our Group financial statements and management report comply with the pertinent regulations. Fundamental accounting-specific procedures and fields are subjected to analytical scrutiny by our internal auditing department and controlling. The efficiency of these checks is safeguarded by automated input, output and processing controls. In particular cases external experts are enlisted for assistance, such as actuaries for the evaluation of pension obligations.

The authorising and implementing units are segregated as a matter of principle. Read/write authorisation is controlled in all systems. There is a strict separation of functions for booking business transactions. Staff access to IT applications is also controlled and authorisation restricted. No individual personnel assigned to the various functions have access to the entire process level of the accounting software (goods reception, additions to stock, invoice auditing, release and transfer of payments).

We can be confident that our financial reporting complies with statutory regulations with fixed principles, methods and measures. The supervisory board's audit committee monitors accounting practices, the end-of-year audit and the efficacy of the early warning system.

The printed newspaper continues to play a major role as a channel for information and advertising in the highly competitive media arena thanks to its sustainability and credibility

Group Realignment

Structural shifts have a lasting impact on the printing industry

The continual rise in the consumption of online media has accelerated shifts in the print media industry further. In recent years print, and by extension our sales markets, has lost large parts of its business in information and advertising to the internet. The print and publishing industry is furthermore characterised by trends towards consolidation and the search for future-focused business models.

The number of printing firms in industrial countries has been decreasing for years. Potential users are reluctant to invest and the productivity of cutting-edge printing presses has risen substantially. These developments combined with a weak economy in traditional sales markets can only be compensated in part by increasing demand in growth regions. This has led to major excess capacity in the global press manufacturing industry, especially in the production of sheetfed and web offset presses, despite enormous restructuring efforts on the part of the supply industry.

Since 2006 the global market volume for sheetfed offset presses has almost halved from €5bn to €2.6bn and the web press market volume has shrunk by over 70%, from nearly €2bn to under €500m. It is not likely that the web press market will recover permanently. Industry experts also predict that at best the sheetfed offset market will remain stagnant at its current level. Growth is only evident in digital and packaging printing as well as in special markets less dependent on the economy and the media.

Notwithstanding our broad portfolio in numerous segments of the print market, the fundamental shift in the industry has not left the KBA Group untouched. At €1.1bn Group sales in 2013 were over 35% down on the record year of 2006 with revenue of €1.74bn. Not including the recent acquisitions Group payroll has sunk by over 25% since the outbreak of the financial crisis in 2008. KBA has mastered the corporate and financial challenges it posed without State or shareholder aid. Despite sizable restructuring expenses we are the only large press manufacturer to have posted pre-tax profits from 2009 to 2012 and maintained a solid financial standing. This demonstrates how adaptable KBA is. Nevertheless, these measures were not sufficient to ensure a stable level of capacity utilisation and secure adequate earnings. Following an interim high in 2010, the anticipated recovery of traditional core markets for sheetfed and web offset did not take place. The company therefore has to face reality with a fundamental Group realignment and adapt its organisation and capacities accordingly. Alongside the concentration of production activities, this also demands deep cutbacks in personnel again.

Fit@All for sustained profitability

Under the heading “Fit@All” the management board developed and adopted a comprehensive concept for the realignment of the KBA Group. The programme contains an extensive package of measures aimed at strengthening the long-term profitability and competitiveness of the company. The programme’s priorities are the consolidation of the core business by sustainable capacity and structural adjustments, optimising the depth of added value, a new Group structure including establishing four autonomous business units for sheetfed offset, web offset, special applications and production with clear responsibilities for business earnings as well as a more future-orientated focus on profitable special markets with potential for growth.

KBA has consistently pursued a diversification and niche-market strategy from early on with own developments and acquisitions. We will continue to persistently follow this strategy in the future and intensify our efforts. After the entry into banknote and security printing in the 1950s, important milestones were the takeover in 2001 of former partner De La Rue Giori in Lausanne, establishing KBA-MetalPrint with various acquisitions in 2003 and 2006 resulting in today's very successful metal-decorating business, purchasing industrial coding specialists Metronic in 2004 and the entry at Drupa 2012 into the new field digital printing with the KBA RotaJET developed in-house.

These promising fields will be embraced in the new special press product house and a stronger strategic focus will be placed on these business fields. To this end in 2013 we acquired KBA-Kammann which specialises in systems for the direct decoration of glass and hollow containers as well as flexo presses for flexible packaging from Italian manufacturer Flexotecnica that joined the Group in December. On top of this, alongside strengthening our presence in the growth market China, in the last two years KBA has strategically invested in developing regional markets with the foundation of own sales subsidiaries in South Korea, Japan, Mexico and Brazil.

Today our sheetfed offset segment has a strong position in the large folding carton sub-segment within the moderately growing packaging market. Over 50% of the medium and large-format presses produced at our plant in Radebeul go to packaging printers. In contrast the market volume for offset presses for commercials, books, publications and advertising is declining. This sector is feeling the effects of increasing competition from online media and digital printing in particular. Against this background and given continued unsatisfactory earnings in our largest division, management considers further capacity adjustments along with optimising structures and processes necessary. Loss-making products and sales units were and will continue to be subject to scrutiny.

In order to adapt cost structures to a significantly shrivelled sales volume the web presses for newspapers and commercials included in the web and special press division will be carved out as an independent unit in the course of the Fit@All programme with a clear responsibility for earnings. In this segment characterised by large press installations a flexible business model with less permanent staff and minimised fixed costs will alleviate cyclical fluctuations in demand. The newly formed business unit will comprise the areas of responsibility for sales, project planning, construction, assembly, commissioning, press acceptance and after-sales service of web presses. We will therefore remain a reliable partner for respective publication and newspaper printers.

Furthermore, we plan to create an own business unit which merges production Group-wide including all associated factory buildings. It will mainly be a supplier to the web and sheetfed product houses, but also selected activities concerning the special press product house. Dividing up the tasks in this way will improve the cost transparency of own production facilities compared to external suppliers and will illustrate on an ongoing basis which production capacities are economically and technologically viable given structural market changes. The basis of this concept will lead to a removal of selected manufacturing tasks to the optimal site and a focus on the in-house manufacturing of core components.

The programme encompasses extensive adjustments at our five production locations in Würzburg, Radebeul, Frankenthal in Germany as well as Mödling (Austria) and Dobruška (The Czech Republic). We cannot rule out the closure or sale of individual sites. On top of this, Fit@All aims to sustainably reduce general administrative costs at the Group's headquarters.

The new management and corporate structure will result in appropriate changes to segment reporting and thus facilitate the permanent monitoring of the Group's development.

A total of 1,100 to 1,500 jobs will be affected Group-wide by the realignment measures planned. Aligning the Group's cost base combined with distinctly lower fixed costs should lead to an appropriate level of earnings when sales of €1bn are reached. After the realignment is complete we are targeting annual Group cost savings in the higher double-digit million range. The programme is financed through our own resources and guaranteed by irrevocable credit approvals available until the end of 2015. In addition, we are currently negotiating an extension of our financing agreements with German banking pools to the end of 2016.

Transformation to a highly flexible press manufacturing group

Our solid capital resources and potential for improvement with regard to working capital management combined with consequent implementation management are the key foundations for the success of the Fit@All programme. The final goal is a de-centrally organised, highly flexible and profitable KBA Group which is economically sound and can thus serve its customers in high volume and special markets with innovative and competitive products.

R&D investment in new and traditional business fields

Alongside an emphasis on addressing growth fields with appropriate innovative and competitive products KBA aims to maintain its renowned innovative strength in our traditional business with sheetfed, web offset and security presses through R&D activities. As the world's second-largest press manufacturer today KBA offers the most productive presses featuring a raft of technologically unique attributes in medium and large format. We wish to continue to make a contribution to the attractiveness of offset printing opposed to digital media and printing process with our innovative inline processes for finishing, quality control and the personalisation of print products as well as cutting-edge workflow and logistics solutions.

As an international market and technology leader in newspaper printing we have optimised our product portfolio in recent years to meet today's market demands. KBA's strategy in flexible compact web presses pursued early on has prevailed on the market and adopted by other manufacturers. We aim to expand our retrofit and service business for existing presses further given the markedly smaller volume of investment in new presses. Therefore a focus of our R&D activities is on developing technical solutions for new advertising formats in newspapers.

Digital printing widespread in some print areas (book, direct mail, transaction and ad printing) has in the meantime also become the subject of greater interest from the newspaper industry. KBA is a competent partner in this field. Along with enhancing the high-performance KBA RotaJET web press for suitable market segments, over the next few years our engineers will be concentrating on developing digital printing systems for various applications. This includes, by extension, industrial coding systems from KBA-Metronic with digital inkjet and laser technology.

We continue to invest a large part of our R&D resources in banknote and security printing. Only in this way can we maintain our technological lead in this sensitive area and fulfil the ever more increasing demands in the counterfeit protection of banknotes. Furthermore, in 2013 KBA-MetalPrint and KBA-Metronic launched new and enhanced products for the growth markets metal decorating and industrial coding. Investment on research and development represented 5.8% of sales (2012: 4.5%).

Expanding quality management

The complete satisfaction of our customers and a first-class reputation as a supplier of technologically demanding and highly reliable printing systems are, and will remain, key success factors at KBA. This is why the release process for product and process innovations in our batch-based business has been further improved by extending the test cycles under pressroom conditions before the market launch. In addition, we have expanded our quality controls of sub suppliers, own new developments and when inspecting the press before delivery. The responsibility for quality management has been integrated into the individual business divisions.

Business Report

Market and Industry Environment

The German machinery industry's cautiously optimistic expectations for 2013 were not met given economic impacts of the euro crisis, slower economic growth in the BRIC countries and negative currency effects in emerging markets. In real terms the volume of new orders booked by the export-orientated machinery industry was 2% and sales were 2.1% down on the previous year.

Business with printing presses was even more unfavourable. According to statistics issued by the VDMA (German Machinery and Plant Manufacturers' Association) orders fell by 8.9% compared to 2012 and sales by 10%. Development within the different product sectors was extremely diverse. Demand for newspaper and commercial web presses was weak once again. Order intake of sheetfed offset presses also failed to reach the prior-year's figure boosted by Drupa. Packaging-orientated submarkets performed considerably better than media and advertising-focused segments. A positive example in 2013 was metal-decorating systems.

Alongside economic issues, changes in media consumption and ongoing consolidation of the printing industry in industrial countries are the main causes as to why printing and papermaking sector has fared worse than the machinery market as a whole. While large enterprises, internet printers and specialists often continue to grow profitably, the number of smaller and mid-sized companies is steadily decreasing. In addition to the fact that fewer and fewer firms handle an ever increasingly larger share of print volume, the closure of plants or insolvencies result in a raft of used presses on the market. This has direct repercussions for the business of the supply industry.

Business Performance

Regressive core business leaves its mark

In 2013 the revival in demand anticipated for our sheetfed and web offset business, which has been subdued since autumn 2012, did not occur. Too few orders were awarded for newspaper and commercial web presses in particular. Insufficient capacity utilisation, trends towards consolidation at publishing and print firms, even more productive systems and uncertainty concerning how the media market will develop further all reduce the market

Group business operations: order intake / sales / order backlog

in €m	2012	**2013**
Order intake	1,116.2	**1,012.2**
sheetfed offset presses	667.4	608.0
web and special presses	448.8	404.2
Sales	1,293.9	1,099.7
sheetfed offset presses	643.2	571.9
web and special presses	650.7	527.8
Order backlog	648.0	560.5
sheetfed offset presses	173.2	209.3
web and special presses	474.8	351.2

volume for presses. Orders for special machines for banknotes and waterless UV printing also fell short of our expectations. Packaging printers invested a lot more in sheetfed presses than commercial, book and magazine printers. KBA-MetalPrint thus had the best business year in its history. With the acquisitions of Flexotecnica and KBA-Kammann in 2013 the expanding packaging market in its entirety is becoming increasingly more important to KBA. Furthermore, the entry into the growth segment digital printing was secured by the sale of the first RotaJET presses.

Despite our broad product range which has helped business in recent years, at €1,012.2m Group order intake in 2013 failed to top the previous Drupa-year by 9.3% (€1,116.2m). Nevertheless, success in some niche markets could not compensate for the decline in our core business.

Sheetfed offset presses popular with packaging printers

Order intake in our sheetfed segment of €608m was 8.9% lower than 2012's high figure which benefited from Drupa (€667.4m). Accordingly, at €2.6bn even the global market volume for sheetfed offset presses in 2013 was down on the previous year. Thanks to our strong footing in packaging printing KBA was able to maintain its position as the second-largest sheetfed offset press manufacturer with a global market share of almost 20%. Over 50% of sheetfed press orders came from packaging printers specialising in folding carton, film, labels and metal.

We gained many new customers in the current buyer's market with the highly automated Rapida 106 and the Rapida 105, which is based on the same technological platform as the 106 but is designed for users who require less automation. In the face of ongoing tough competition in large format we were able to defend our global market share of over 50% with the new Rapida 145 and 164. In contrast, order intake of small and half-format presses remained markedly below our targets. This format class, which is served by a raft of manufacturers, has been notably affected by the fall in numbers of users and increased competition from digital printing. Business with used presses was within our expectations. KBA-MetalPrint which is consolidated in our sheetfed division once again saw a considerable rise in sales and a high volume of new orders amounting to approx. €82m. As a systems supplier our Stuttgart-based subsidiary offers complete solutions especially to customers in the growing metal-packaging industry particularly in emerging countries, such as China. These include printing and coating lines together with the corresponding innovative drying and exhaust air purification technology. CleanAir systems from KBA-MetalPrint are also implemented in other industries. In 2013 it developed a new printing line with good sales opportunities in threshold markets.

Subdued demand for web and special presses

The decline in new orders in our web and special press segment of 9.9% to €404.2m (2012: €448.8m) is in particular a result of the severely shrunken global web offset press market. In 2013 the volume of investment was below €500m. Orders for compact KBA newspaper web presses, such as the Commander CL and Commander CT, as well as the waterless Cortina predominantly came from regional newspaper houses in Germany, France, Norway and Switzerland. Further orders were placed by customers in Africa, the Middle East and Asia. KBA was able to hold onto its strong position in newspaper printing with a global market share of approx. 40%. However, the volume of orders was too low for utilisation at our current production facilities. In addition, orders for commercial web presses were very subdued. We plan to expand our service business which was on target to a great extent. This includes the maintenance, overhaul and retrofits of older presses as well as the comprehensive support of the technical installations at printing firms with own on-site personnel. Moreover, we intensified our service activities for third-party presses in 2013.

In 2013 and 2012 the traditionally cyclical business with special presses for security printing was noticeably quieter than the record year of 2011 boosted by a number of large orders. Along with ongoing product developments, our subsidiary KBA-NotaSys in Lausanne aims to focus especially on expanding its service activities. With its coding systems which are used in the automobile, food processing and other industries, KBA-Metronic fell slightly short of the prior year's high order volume. Alongside these subsidiaries consolidated in our web and special press segment, in 2013 the order intakes of our two newest subsidiaries KBA-Kammann and Flexotecnica were consolidated proportionally. We aim to expand on these over the next years.

Order backlog below prior year

At €560.5m Group order backlog to 31 December was 13.5% down on the previous year (€648m), thus remaining at the average level of the last five years. The larger backlog of orders in our sheetfed division stood at €209.3m (2012: €173.2m) and guaranteed good capacity utilisation at our main plant in Radebeul in the first few months of the new year. In contrast order backlog for web and special presses came in at €351.2m, approx. 26% less orders in the books compared to 2012 (€474.8m). The declining volume of orders in the web offset business underscores the necessity of sustained realignment as a noteworthy rise in international demand is not likely in light of developments in the media arena.

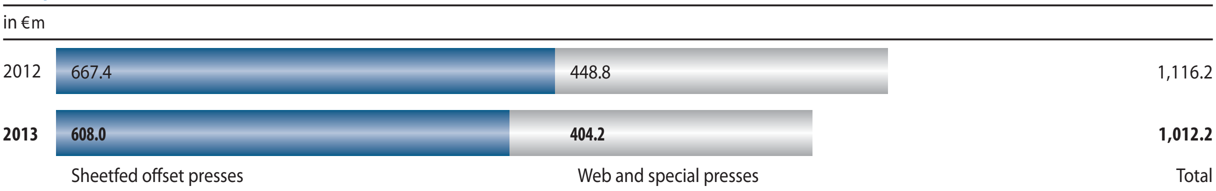
Earnings, Finances and Assets

Earnings

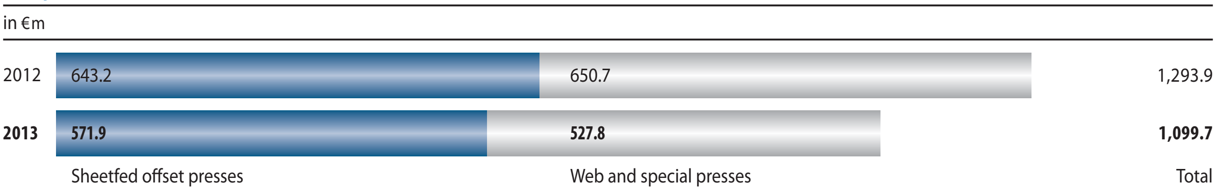
Operating profit displaced by special items

At €1,099.7m Group sales in 2013 were down by 15% on the prior-year figure of €1,293.9m due to an inadequate intake of new orders. Operating earnings were hit by a lack of contribution margins, a smaller earnings input of special presses and poor capacity utilisation levels at our web press plants. Operating profit before special items fell from €40.8m in 2012 to €24.5m in 2013 despite savings in personnel costs as a result of the amendments to wage

Group order intake



Group sales



Group order backlog

agreements in place at our main plants. Provisions for capacity and structural adjustments as part of the Fit@All programme and impairments of fixed assets led to a sizeable one-off effect of €155.2m. Following a Group pre-tax profit of €3.7m the previous year, these special items brought about a high pre-tax loss (EBT) of €138.1m.

Lower sheetfed sales following Drupa-high

Sales in our sheetfed offset division came in at €571.9m, 11.1% lower than the 2012 figure of €643.2m. Notwithstanding successful participation in regional trade shows in China, Thailand, India, Turkey and Mexico, the improvement to sales triggered by Drupa was lacking in 2013. The proportion of Group sales attributable to this segment climbed from 49.7% to 52%.

The medium-format Rapida 106 and Rapida 105 generated the largest contribution to sheetfed sales by far last year. After the switch to a new press generation in large format with the launch of the high-performance Rapida 164 in 2013, we see good opportunities to face the fierce competition technologically. Orders for this format class picked up in the final four months of 2013, after failing to meet our expectations in the months previously. The Rapida 145 unveiled at Drupa 2012 celebrated its premiere in Asia at China Print in May and the new Rapida 164 made its first appearance at an international open-house event in Radebeul at the end of June.

Sales at our subsidiaries KBA-MePrint and KBA-Grafitec failed to reach targets due to increased investment reluctance in small and half format. Both disclosed pre-tax losses and measures to reduce capacity were required.

In contrast KBA-MetalPrint posted a pleasing increase in sales of 19% with its metal-decorating, coating, drying and exhaust air purification systems. At €95.3m sales at our Stuttgart-based subsidiary were the highest in its history (2012: €80.1m) and it recorded a clearly positive pre-tax result.

Substantial decline in web and special press sales

Compared to the previous year revenue in the web and special press segment was down by 18.9% to €527.8m (2012: €650.7m). The greatly reduced business volume with newspaper and commercial web presses left its mark in particular. In the notably contracted newspaper market KBA benefitted from its cutting-edge press portfolio which meets increased demands in terms of economy, flexibility and ecology. Our newest newspaper web press, the Commander CL, was delivered to Rosenheim, Penzberg near Munich, Ansbach, Bielefeld, Albany in New York and Guiyang in China. Further users in Brazil, Canada, the Netherlands, Jordan and China installed other KBA presses for the production of newspapers and semi-commercials. 16 to 80-page commercial press lines went into operation in Germany, France and Brazil.

Sales of industrial coding systems from KBA-Metronic remained largely stable in 2012 and the subsidiary posted a pre-tax profit once again. Revenue with special presses for security printing slowed in 2013 following a brisk prior year. Sales of our two new subsidiaries KBA-Kammann and Flexotecnica were assigned proportionately for the time period of belonging to the KBA Group, five months and one month respectively, and sales totalled approx. €17m.

Domestic sales up

Domestic sales rose by €44.9m to €197m given more installations in Germany and clipped our export level from 88.2% to 82.1%, a low level for KBA. With economic issues in southern and other parts of Europe, compared to the previous year (€395.9m) total European exports slid

Geographical breakdown of sales

in %	2012	**2013**
Germany	11.8	17.9
Rest of Europe	30.6	30.1
North America	10.4	12.8
Asia/Pacific	24.1	27.4
Africa/Latin America	23.1	11.8

With its screen and digital printing systems, KBA-Kammann which joined the Group in 2013 is a frontrunner in the growing market for the high-quality direct decoration of glass containers for luxury brands in the cosmetics and beverage industry by 16.4% to €331m. As a result the proportion of Group sales in this traditional market at 30.1% (2012: 30.6%) remained well below the historic average of 50%-plus.

China: largest export market

The contribution to Group sales from Asia and the Pacific climbed from 24.1% in 2012 to 27.4%. As in previous years, China was by far the driving force in this region with a host of sheetfed press shipments. Our sales offices founded in 2012 helped increase sales in Japan and Korea. At €301m this future region nearly reached the sales volume generated by Europe.

Slight recovery in North America

In light of the pick-up in demand for sheetfed offset and the installation of two newspaper presses, sales booked in North America were up from €134.1m in 2012 to €140.5m. Thus the regional total jumped from 10.4% to 12.8%.

Weak currencies curb Latin America and Africa

The prior year's above-average sales volume of €299m recorded in the threshold markets Latin America and Africa boosted by some larger projects slipped to €130.2m in 2013. Regardless of the good start for our new sales offices in Latin America, weak currencies in the key markets of Brazil and South Africa, and the unstable political situation in North Africa acted as a break on investment. The proportion of sales in this region fell from 23.1% the previous year to 11.8%.

Expenses for Fit@All strain earnings for 2013

In 2013 the cost of sales dropped to €941.1m (2012: €968.2m). Large savings in personnel and material costs were made thanks to amendments to wage agreements and the optimisation programme in purchasing initiated in 2012. High provisions for foreseeable restructuring expenses as part of the Fit@All programme, impairments of assets, insufficient capacity utilisation at our web press plants and fierce price competition led to a decline in gross profit to €158.6m (2012: €325.7m). Our gross profit margin plummeted from 25.2% to 14.4%.

R&D costs rose to €64.2m compared to 2012 (€58.8m), which corresponds to 5.8% of sales (2012: 4.5%). Lower sales commissions and a decrease in expenses for trade shows dropped distribution costs from €157.2m to €134.2m. Administrative expenses grew slightly to €78.9m (2012: €76.1m) and other operating income reduced from €36.2m to €30m. Other operating expenses stood at €42m (2012: €56.1m). This accounted for an operating loss after special items of €130.7m, compared to +€13.7m in 2012. Without this one-off effect operating profit of €24.5m was clearly positive, nevertheless significantly down on the prior-year figure of €40.8m. Earnings before interest, taxes, depreciation

Group income statement

as % of sales	2012	**2013**
Cost of sales	–74.8	–85.6
Research and development costs	–4.5	–5.8
Distribution costs	–12.1	–12.2
Administrative expenses	–5.9	–7.2
Other income/expenses	–1.5	–1.1
Financial result	–0.8	–0.7
Income taxes	–0.3	–1.4
Net profit/loss	0.03	–14.0

and amortisation (EBITDA) as well as before special items came to +€84.1m (2012: +€104m).

Restructuring expenses and impairments connected to the Fit@All programme had a major impact on the results of both segments. In our web and special press division this one-off effect in conjunction with the significantly smaller business volume resulted in an operating loss of €53.1m following a profit of €52.3m in 2012. Without the high special expenses this division would have posted a large operating profit of €32.9m. Our sheetfed division was also heavily affected by substantial one-off expenses and disclosed an operating loss of €77.6m (2012: –€38.6m). It should be noted that also by foregoing unprofitable contracts the operating loss from our sheetfed offset business without special items could be cut from –€11.5m to –€8.4m, though sales were approx. 11% down on 2012.

Our financial loss improved to –€7.4m, compared to –€10m in 2012. Ultimately, Group results after special items of –€155.2m led to earnings before taxes of –€138.1m (2012: +€3.7m). We posted a pre-tax profit of €17.1m not including special items. Around two thirds of the extraordinary expenses will impinge on liquidity.

We recorded a net Group loss of €153.7m (2012: +€0.4m) given the high expenses mainly arising from the Fit@All programme with taxes on income including deferred taxes of –€15.6m. This corresponds to earnings per share of –€9.31 (2012: +€0.03).

Finances

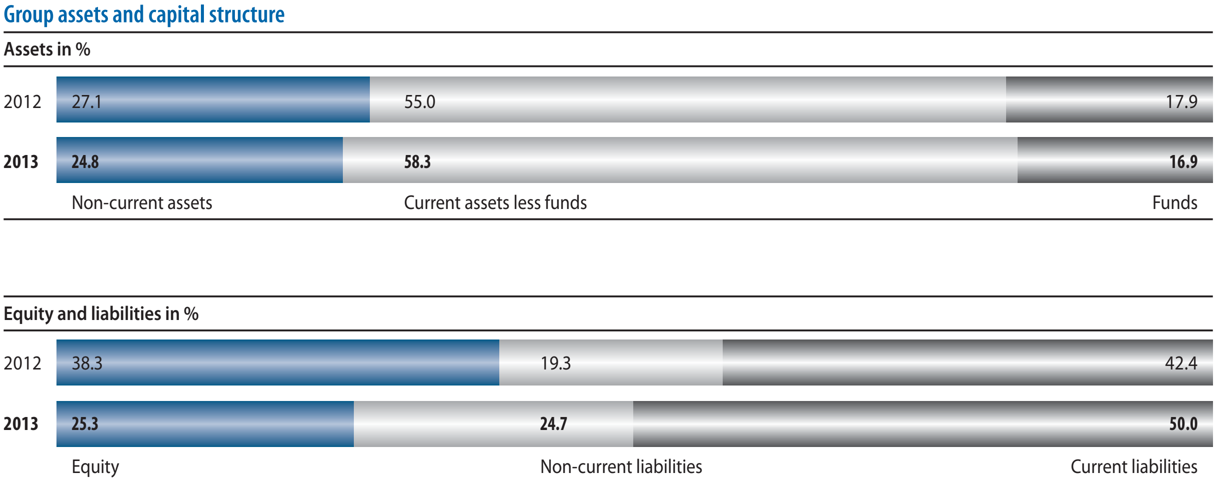
Investments and acquisitions financed from cash flow

Cash flows from operating activities are a primary source of funding at KBA. We place great importance on reducing working capital and actively managing trade receivables. Once again the customer prepayments usual in plant engineering and construction had a decisive influence on our cash flow. At 31.12.2013 these came to €175m (prior year: €164.3m). Investments and acquisitions were financed from our positive cash flow and bank loans scaled back by over €10m. We have access to credit lines totalling €100m for cash use and guarantees until the end of 2015 securing our liquidity in the volatile capital goods business. Moreover, a further ongoing credit facility of 100m Swiss Francs from a large bank in Switzerland is available until the end of March 2016. Along with securing liquidity, our financial strategy focuses on limiting currency risks (see page 54 for more details).

Positive free cash flow

Despite our pre-tax loss and larger inventories our cash flows from operating activities remained clearly positive at €34.1m (2012: €83.3m) – a primary result of reduced trade receivables, higher provisions and liabilities. After deducting funds for investing activities and acquisitions, the free cash flow stood at €3.2m (2012: €61.2m). Cash outflows from financing activities, which consisted of dividend payments and the repayment of loans, came in at –€22.4m (2012: –4.3m).

Group assets and capital structure



High net liquidity

At the end of 2013 liquid assets totalled €185.4m (31.12.2012: €206.3m). Compared to the previous year (€31.6m) bank loans (for more details see page 91 in the Notes) were reduced to €21.5m. Net liquidity, the difference between funds and bank loans, was a comfortable €163.9m (2012: €174.7m). From the credit lines available, only guarantee credit lines were used to secure customer prepayments. None of the credit lines were drawn upon for cash purposes.

Restructuring expenses trim equity ratio

The issue of employee shares increased share capital to €43m and the share premium to €87.5m. The net loss owing to high restructuring expenses reduced equity to €277.9m at the end of 2013 (2012: €441.3m). The ratio of equity to the balance sheet total came to 25.3% (2012: 38.3%). Offsetting the still high customer prepayments against inventories would result in an equity ratio of 30.1%. Although our longstanding above-average equity ratio has suffered from expenses in connection with the comprehensive Fit@All programme, the KBA Group remains financially stable compared to other engineering companies.

Notable increase in provisions

Other provisions were up year-on-year by €119.8m to €296.9m, mainly associated with the Fit@All programme. Pension provisions slid from €145.2m to €142.5m, as did trade payables from €65.7m to €72.2m. The rise in other liabilities from €186.7m to €198.2m is attributable to higher customer prepayments. Compared to 2012 current and non-current liabilities climbed from €710.5m to €820.1m widening our debt-to-equity ratio to 295.1% (2012: 161%).

Assets

Investment in site consolidation

The fall in non-current assets to €272.1m (2012: €312.4m) was mainly due to impairments of property, plant and equipment as well as lower deferred tax assets. The ratio of equity to reduced property, plant and equipment which totalled €188.4m (2012: €219.9m) was 147.5% (2012: 200.7%). Investment in intangible assets, property, plant and equipment of €32.3m (2012: €33m) primarily related to projects for bundling the Group-wide manufacturing of core components and new software. This led to a surge in intangible assets from €23.2m to €39.1m. At the plant in Würzburg we invested in an interlinked milling centre to optimise the manufacturing of small parts and in the bundling of ink duct manufacturing activities. Along with a high performance turning centre, in Radebeul an investment project focused on centralising the manufacturing of gears. Investment represented 2.9% of sales (2012: 2.6%). With depreciation at €59.6m the investment rate came to 54.2% (prior year: 50.8%).

Despite higher inventories (+€25.8m) and other assets (+€4.8m), current assets sank to €825.9m (2012: €839.4m). This was mainly a consequence of a drop in trade receivables (–€26.9m) and liquid assets (–€20.9m).

Flexo presses from our new Italian subsidiary Flexotecnica address the expanding print market for flexible packaging (especially film)

In the future KBA will focus more on core components as part of its mechanical manufacturing activities. This includes high-precision cylinders like the one shown

Working capital totalled €277.2m (2012: €351m). The Group balance sheet total of €1,098m was €53.8m lower than twelve months earlier (2012: €1,151.8m).

Summary of the Economic Situation

Notwithstanding the savings resulting from the amendments to wage agreements and the optimisation measures in purchasing, our operating earnings were overshadowed by a 15% decline in sales and poor utilisation of production capacity at our web press plants. In addition, high provisions as part of the Fit@All programme combined with impairments led to a significant loss for the year. With this extensive package of restructuring measures and a stronger focus on profitable special markets with growth potential, such as digital and packaging printing, we should see a return to sustainable profits for the benefit of our shareholders and our equity base by 2016 at the latest.

All payments for investments and acquisitions were financed from the cash flow and in parallel we were able to reduce our bank loans further. Given our significantly positive net financial position and access to ample credit lines, our liquidity and financial standing were sound at the end of the year. Although the equity ratio fell due to one-effects relating to Fit@All, our equity-to-fixed-assets ratio and net financial position in relation to equity (gearing) were average for the machinery industry.

Sustainability Report

Proactive environmental protection

Corporate sustainability and social responsibility has formed an essential part of our corporate philosophy for many years. In production we are permanently seeking to reduce our environmental footprint whilst complying with the highest quality and safety standards. Along with performance, print quality and operator ergonomics, we focus on cutting the consumption of energy, consumables and emissions when developing and improving new products. In addition, KBA and its employees are dedicated to ecological, cultural and social initiatives. Our commitment to environmentally friendly printing has prompted us to sponsor a number of environmental awards.

Focus on safety at the workplace

Regular inspections and improvements to our processes brought further reductions in our consumption of materials, the volume of waste generated and emissions at all our production plants. Based on the continual measuring of emissions, training and environmentally focused modernisation and completion of our production facilities ensure compliance with internal and external regulations. We reworked our waste guidelines and the addition of new waste containers reduces the strain for the employees concerned. We have implemented an expanded action programme with clear guidelines and new safety measures ensuring safety at the workplace, which is a very important topic with regard to accident prevention. Various preventative measures were put in place as part of promoting health at work.

Environmentally friendly products and processes

Today when making investment decisions our customers focus increasingly more on low-emission printing presses that require less energy and consumables. KBA has long set industry benchmarks in this field. Examples of this are our consistent commitment to the especially environmentally friendly waterless offset printing process and the early certification of our Rapida sheetfed offset presses with the “emissions tested” eco-label. Our engineers constantly work on reducing carbon emissions, dust and noise as well as cutting the consumption of energy and materials. Along with proven solutions for climate-neutral printing, KBA offers technical options to enhance energy efficiency by re-using braking energy and dryer air for its Rapida presses. A current example of such eco-friendly innovation is energy-saving HR-UV drying.

With HIGH-ECON KBA-MetalPrint developed a dryer for the metal decorating industry which requires 70% less gas thus improving the carbon balance. The world’s

The number of highly qualified females in technical professions at KBA is on the rise, such as the construction mechanic pictured here at a welding robot first coating line which can handle thin metal sheets with a thickness of 0.1mm was launched in 2013 and makes an important contribution to savings in materials. Under the name KBA-CleanAir the specialists from Stuttgart also offer energy-saving exhaust air purification systems for various industries.

Promoting social activities

Social responsibility has long been of importance to KBA. A major success this year was a fundraising campaign initiated by the workers' council and management board for the victims of the River Elbe flooding in June 2013. €58,000 was donated by KBA employees and this amount was topped up by a further €25,000 from the Parent. Along with our longstanding sponsorship of the annual Bach festival in Würzburg, in November 2013 KBA organised the eighth annual benefit concert together with other print and media enterprises in the area. The proceeds from the recent event went to two social projects in the region and to a paediatric oncology project at Würzburg University.

Human Resources and Welfare

Less personnel in core business– new employees for future markets

At the end of December 2013 there were 6,409 employees on Group payroll (2012: 6,187). This was up by 266 following the first consolidation of the two new subsidiaries, KBA-Kammann and Flexotecnica. Excluding the newly consolidated subsidiaries, apprentices, trainees, temporary employees and staff on phased retirement schemes, the Group workforce totalled 5,347. This was 75 fewer than twelve months earlier (5,422).

Structural changes in the printing industry have called for challenging personnel decisions for some years now. With effect from 1 January 2013 amendments to wage agreements, which were agreed with employee representatives came into force at the main plants in Würzburg and Radebeul. Introduced to facilitate flexibility in capacity utilisation and reduce costs, these collective special regulations in place until the end of 2014 also serve to improve the profitability of the core sheetfed and web press business. In addition, given the poor level of utilisation at our web press facilities, a reduction in working times was implemented in some areas in 2013.

Notwithstanding the planned reduction of up to 710 jobs at our main plants in Würzburg and Radebeul as part of the Fit@All programme (see page 32 onwards for more details), a new solution to replace the existing amendment to wage agreements must be found with employee representatives and IG Metall. The management board's resolution to reduce the number of employees at our Austrian plants in Mödling and Ternitz by up to 460 from 760 resulted in an agreement with employee representatives in February 2014 to cut payroll here by 385. 330 of the total of 1,500 jobs to be cut in the Group effect the plants in Frankenthal and the Czech Republic. The number of employees will fall to approx. 5,000 following the completion of all of the measures.

Despite the unfortunate, yet imperative job cuts due to fundamental market changes, qualified and dedicated staff remain a crucial success factor in our global and technologically sophisticated line of business. In addition, they are the base for expansion in promising markets. This is why we continue to place great importance on apprenticeships and training of our current and future skilled employees.

KBA invests again in young talent

79 youngsters started an established apprenticeship in future-orientated professions at the Parent in 2013. Along with electromechanics, metalworking and industrial mechanics, other apprenticeships include electronics technician, construction and foundry mechanics, technical product design, model-making, media technology print, industrial clerk, commercial clerk and computer science. KBA also offers dual university degrees in engineering, electrical engineering and production technology. In addition, KBA-Metronic sends its technical apprentices to our state-certified training school in Würzburg. KBA Radebeul also trains the staff of other companies in the region and was awarded a certificate of excellence for the fourteenth time in a row by the Dresden chapter of the Chamber of Industry and Commerce. The number of apprentices and trainees in the Group grew from 428 to 460 at the end of 2013. The training rate rose from 6.9% of the workforce to 7.2%.

Excellent exam results

66 apprentices from the Parent passed the qualifying examinations set by the Chambers of Industry and Commerce (IHK). Five of these were top of their IHK class, two were the best in their region, three came in second place and two came in third, which underscored the high quality of the training we provide. An apprentice press operator and an apprentice metalworking mechanic at our Radebeul plant carried off the titles of best junior skilled worker in Saxony thanks to outstanding examination results.

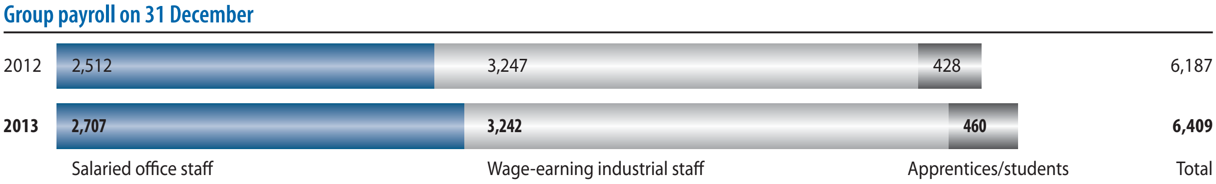
Personnel marketing gains importance

KBA continues to successfully attract qualified young people through diverse activities such as information days for schools, open days at our training centres, presentations in schools, participation in education fairs and the summer camp at Radebeul. By regularly participating in country-wide and regional campaigns, such as Girls' Day and a technology camp for girls, we are committed to increasing the percentage of female professionals and executives at KBA in the mid-term. At 10.5% the proportion of female apprentices stood above the industry average of 7% in the metal sector. In 2013 19 students wrote their undergraduates and masters theses at KBA, and 225 youngsters gained experience in machinery and plant engineering via practical training.

Targeted personnel development

Alongside foreign-language, communication and sales courses, in 2013 further training at KBA focused once again on product and IT seminars as well as specialist training on specific aspects of technology. Job-specific training courses, management training and instructions

Group payroll on 31 December



on work safety were also offered. The large proportion of in-house training is a speciality at KBA. It ties in well with the high level of specialisation in our business, guarantees practical relevance and saves costs.

Saving money through staff ingenuity

Our employees made a valuable contribution towards enhancing the efficiency of our production processes and product development. Last year the in-house suggestion scheme attracted 493 proposals alone in Radebeul, Trennfeld and Würzburg, 251 of these were awarded a prize and delivered sizeable cost savings.

Promoting health in the workplace

The KBA health-insurance scheme (BKK) with 9,516 full and 3,066 family members organised a number of activities promoting health. Along with the traditional initiative “People & Bike” encouraging staff to cycle to work, there was a big response to the activities and services offered, such as spinal and cardiovascular screenings. Furthermore, health groups were set up and our apprentices received training on health matters. KBA supported corporate sport days and employee participation in company runs furthering staff well-being and team spirit.

KBA supports the combination of family and career

Combining a family with a career is increasingly becoming more important to employees. We support our staff with children by offering flexible working times, part-time contracts, job sharing, child care during the holidays, and by working closely with local child-care centres. On a school-free day in November we held our sixth activity day for employees’ children from six to 14 years old in Würzburg and Trennfeld. It attracted 150 children which shows just how high demand for child care is on public holidays.

High level of staff loyalty to KBA

178 employees at Koenig & Bauer were honoured for their long service to the company in 2013: 7 for 50 years, 51 for 40 years and 120 reflected on 25 years at KBA. We see this large number of longstanding staff as a sign that the workforce identifies with KBA. An average length of service of over 20 years is impressive. We wish to thank them all for their loyalty and dedication.

The small-format Genius 52UV waterless offset press from KBA-MePrint is one of the most environmentally friendly presses in KBA's product portfolio. It is shown here live in action at a trade fair in Mexico

Supplementary Statement

No events with a material impact on Group earnings, finances and assets occurred after the balance sheet date.

Risks

Transparency and clear responsibilities

Group-wide risk management is based on an early warning system. Its goal is to provide prompt identification of potential risks and to quantify their possible consequences to support timely intervention.

Group-wide early warning system

The identification, assessment and communication of significant future dangers are systematically categorised in accordance with standard practices. The instruments for recognising and communicating risks are detailed in a dedicated manual. These standard procedures guarantee a systematic, homogenous analysis and assessment of risks in the Group. Management is responsible for taking the appropriate action.

Our risk management system comprises a central risk co-ordination unit under the CFO and dedicated risk managers whose job it is to assess potential risks within their remit qualitatively and quantitatively at half-yearly intervals. Management must be alerted if the value at risk exceeds a predefined threshold. Key manufacturing affiliates are obliged to submit half-yearly reports on individual risks in accordance with the procedures laid down. These are forwarded to the management board after being aggregated. Group-wide corporate planning procedures, regular reports to the management board, ad-hoc releases (e.g. forecasts) during the course of the year by affiliate controlling and an internal reporting system complete our systematic approach. Clearly defined communication channels expedite the early detection of divergent development risks. Our half yearly reporting process makes critical market and corporate developments transparent, improves the accuracy of our planning procedures and heightens our risk awareness. Potential risks to Group earnings, finance and assets are detected well in advance and thus institute targeted countermeasures.

The early warning system installed by the management board is discussed annually by the supervisory board's audit committee and is monitored by the auditor in accordance with statutory regulations. Internal auditing oversees the reporting procedure and performs plausibility checks.

Our earnings, finances and assets will be strongly influenced by the upcoming restructuring measures. Nevertheless, our solid financial base, good liquidity and risk provision policy limit potential risks. Despite economic uncertainties and persisting difficult market conditions for the press industry, we perceive no risks that could pose an existential threat to the KBA Group.

The key risks are described below. Nevertheless, they are not necessarily the only imponderables facing the Group.

The separating system udaFORMAXX from KBA-Metronic configurable with inkjet, laser, hot-stamping or thermal transfer technology can code and label folding carton, labels, blister and ISO cards in small print runs

Economic and sector risks

The international economic environment and structural shifts in the print industry have a major impact on our business. Political decisions and regional conflicts can reduce demand for our products and affect our outlooks and budgets. The changes in the media arena and ever more efficient presses constrain demand for our products.

Over the last eight years the global market volume for traditional offset press technology has shrunk considerably. This is especially true for our web press business and also for our sheetfed offset business, albeit to a somewhat lesser extent. Although KBA took steps to reduce production capacity at its web and sheetfed plants some years ago, the current capacity and market risks necessitate the strategic realignment described on page 32 onwards.

Our focus on less media and advertising-orientated markets, such as metal decorating, coding, security and packaging printing, has already reduced our dependency on the web press business. In 2013 it contributed approx. 15% to Group sales and this percentage will continue to fall in the future. KBA is strategically well-positioned in the sheetfed offset market due to the concentration on medium and large format to a great degree, and a strong footing in packaging printing. However, we have to markedly improve capacity utilisation and profitability as part of the restructuring announced with organisational and procedural changes as well as capacity adjustments.

Thanks to our know-how built up over decades, KBA is the leading supplier of banknote presses. After years of encouraging brisk sales, since 2012 demand has slowed in this cyclical special press market and competition has increased. We aim to meet these challenges with innovation, initiatives to cut costs and an expansion of our service activities.

Risks from Group restructuring

A number of risks will emerge upon implementing the agreed Fit@All programme which we will face with a phased approach, clearly defined responsibilities, detailed planning and the assistance of external specialists. Fundamentally, there is the risk that the measures might not deliver in full the success expected. In parallel this programme results in impairments on assets and substantial restructuring expenses which were recorded as far as possible in 2013. However, it cannot be ruled out that some subsequent effects might occur in 2014. This is especially true for postponed deliveries due to lengthier employee strikes at the production plants affected by restructuring.

The goal of all of these measures and expenses is a quick return to adequate profitability in a structurally significantly changed industry with sustained lower market volumes.

Currency, sales and financial risks

The exchange rate of the euro against the US dollar and the Japanese Yen has a major influence on our export business. Our Japanese competitors particularly profit in key markets from the strongly devalued Yen.

With clear price targets, permanent controls on the pricing of new and used presses as well as reasonable price premiums on technical advantages, we limit the risks associated with the current buyer’s market. Pricing and margin pressures for web and sheetfed offset presses still exist due to over-capacity. Immediate adequate provision is made for obligations arising from unprofitable contracts. At the same time we aim to offset depreciation risks associated with the existing inventory level with a planned reduction in inventories.

Notwithstanding the rise in financing risks in past years, we paid special attention to sales financing and the risks it poses. Nonetheless, KBA has to be able to offer its customers the usual financing options. Occasionally customer-specific co-ventures are agreed with leasing companies we work with. Loan insurance combined with the monitoring of customer accounts down to individual project level, enables us to obviate bad-debt risks as far as possible. Customer creditworthiness is reviewed and collateral called in prior to shipment, and after shipment ownership is transferred only when full payment has been made. On top of this, credit checks are routinely carried out on new customers. Adequate allowances or provisions are made for potential bad debts, repurchasing obligations and sales returns. At present we can discern no customer-specific or geographical concentrations of credit risks.

In 2013 KBA-MetalPrint launched the Mailänder 280 metal-decorating press which is designed to handle particularly thick metal sheets and addresses the growing demand in emerging countries

Framework agreements negotiated by our purchasing department form the basis for calculating profit margins on major fixed-price contracts. The impact of fluctuations in the cost of raw materials is offset where possible by inserting price escalation clauses in customer contracts. No commodity derivatives were held on the balance sheet date. In 2014 we do not expect a noteworthy increase in prices of materials and procurement.

Although the Group works closely with suppliers, delays in the delivery of individual components, which has a corresponding impact on the anticipated sales volume, can never be entirely ruled out. The same is true of the on-time readiness for acceptance by our international customers. Delays can occur, e.g. with the completion of printing house buildings.

Development risks

In order to maintain our competitiveness, fulfil customer demands and access new customer groups, every year KBA invests substantial resources in improving and developing new products and processes. This causes technical and market-related risks. Before development begins we analyse the market and start marketing activities as part of launching products to counter market risks. We keep technical risks to a minimum by our comprehensive project and quality management, as well as ongoing beta testing.

Financial risks

Financial risks mainly comprise credit, liquidity, currency and pricing risks. The type, scope and market value of the financial instruments used by KBA to contain financial risks are detailed in the Notes. At present we perceive no major country or counterparty-related risks. Management receives regular breakdowns of receivables by region, so potential concentrations of risk can be identified.

Foreign currency risks relate to balance sheet items and pending transactions in foreign currencies, primarily dollar-denominated transactions and receivables. Group risk position is pooled centrally by transferring risk positions from the subsidiaries affected to the Parent by internal hedges, if necessary. Opposed foreign currency payment flows of a specific currency are used as natural hedges. In economically viable dimensions hedging (forward exchange transactions in particular) with banks secure the remaining risk positions. We only do business of this kind with banks that have first-class credit ratings. Invoiced receivables and anticipated net positions of projected sales are secured by hedges. Our treasury unit assesses foreign-currency risks by calculating the value of the unhedged portion using a sensitivity analysis based on a fluctuation of ±5% in the relative value of the euro. More detailed figures can be found in the Notes.

Given higher capital requirements for banks it has become more difficult for the real economy to obtain loans. Interest on savings is very low, and relatively high risk premiums are being demanded for loans. Since we deploy financial instruments whose exposure to market interest rates may have an impact on their fair value or the cash flows they generate, in some cases we use derivatives to limit such risks, see page 92 in the Notes for more details.

The liquidity of the Parent and its subsidiaries is monitored and managed via daily status reports. In addition to this cash management system, liquidity and financial planning is reviewed and reported weekly for the Parent and monthly for the Group. Incoming and outgoing payments are monitored continually by the responsible units.

We have credit and guarantee lines of €100m needed for current and projected fluctuations in cash flows in the cyclical machinery and plant manufacturing industry from our domestic banks until the end of 2015. In 2014 the covenants will be redefined as part of the changed conditions from the Fit@All restructuring programme. We are currently negotiating an extension of our financing agreements with German banking pools to the end of 2016. Among others we have a four-year credit line of 100m Swiss francs from a large Swiss bank until the end of March 2016.

Risks in human resources

Our success primarily depends on highly qualified engineers, specialists and executives. There is a risk that given the currently challenging situation in the print media sector we could lose qualified staff. In 2013 working times were reduced at our web press plants. Collective special regulations designed to alleviate fluctuations in capacity utilisation through more flexible working hours and to reduce costs at our main plants in Würzburg and Radebeul were agreed for 2013 and 2014. Should these be lifted before expiration or changed it will have an impact on earnings. Against this background unavoidable personnel adjustments as part of the agreed Group restructuring measures are also of great importance. If an adequate and prompt reduction in personnel as planned does not take place, this could have notable adverse consequences for our profitability.

Legal risks

The Group is not currently involved in any court proceedings which would have a major impact on our economic situation. Nevertheless, we are subject to various risks in connection with legal procedures from our usual field of business. Provisions are made when it becomes likely that a obligation will occur and an estimation is possible. In addition, in our business with technically sophisticated capital goods there is always the latent risk of unquantifiable damage to our reputation through quality issues, infringements of property rights or similar issues.

IT risks

The widespread landscape of proprietary IT systems in the Group pose considerable risks and limits the operational and strategic management of business. That is why the management board decided on the implementation of a Group-wide rollout of SAP in 2013. Risks regarding the smooth handling of future business processes result from this multi-year project. To limit these IT risks KBA has hired the services of an IT consultant and has formed a project group to launch the SAP modules. Sizeable financial consequences could arise if the installation of the ERP software does not take place on time and without issues.

Other risks

Individual imponderables are covered by insurance with standard indemnity limits. Adequate provisions have been made against other risks. The assessment of provisions for losses resulting from orders, for restructuring expenses, legal disputes as well as warranty obligations is dependant to a great extent on estimates.

Outlook

2014 – A year characterised by realignment

The majority of economic research institutes predict a significantly greater rate of global economic growth for 2014 and beyond compared with the previous year. The World Bank forecasts that the global gross domestic product will increase from 2.4% in 2013, to 3.2% in 2014 and to 3.4% in 2015. Following years marked by the financial and economic crisis, the advanced economies in particular of the USA and the euro zone should make a greater contribution to growth once again. The Machinery and Plant Manufacturers' Association also perceives signs of recovery and expects growth of approx. 3% in total for the machinery and plant manufacturing industry. Whether these optimistic outlooks will come true depends on a host of economic and political factors, including a raft of risks. These contain the possibility of higher interest rates brought on by a more restrictive monetary policy, larger fluctuations in exchange rates and the escalation of regional conflicts.

A favourable overall economic situation with a rise in advertising and consumer spending would have positive repercussions for the print industry and its suppliers. A major part of print volume is dependent on advertising and increased consumption leads to more printed packaging. On top of this, in recent years traditional key markets for KBA, such as Italy and Spain, have been sluggish to a great extent due to budgetary and economic issues. However, recently there have been signs of a gradual improvement in the investment climate. The same applies to the printing press market in the USA which remains large. In contrast the strong euro hinders sales opportunities of German press manufacturers in countries with weak currencies, such as Turkey, South Africa and Indonesia, as well as our price competitiveness compared to Japanese and other non-EU vendors.

No growth in classic volume markets

Despite some glimmers of hope in certain regions and print sectors, in the mid-term we do not anticipate a lasting recovery of the subdued demand in our traditional volume markets. We expect the global market for web offset presses, which has shrunk by over 70% to an annual volume of approx. €500m since 2006, to fall further to €400m in 2014 and 2015. We are adjusting our capacities accordingly. The sheetfed offset global market volume has almost halved since 2006 given consolidation in the industry, more productive printing systems and competition from digital presses. Although sales in sheetfed offset in January and February 2014 were up on the previous year and significant European markets are starting to show higher levels of activity again, we do not see any indications of a sustained uplift in global demand.

The mid and long-term prospects for sheetfed offset presses in the packaging printing segment are better than for commercial and book printing. KBA has long been well-positioned in packaging printing and more than half of all Rapidas go to this market segment

We are gearing ourselves towards a moderate decline in the sheetfed offset market in the mid-term with a volume of about €2.5bn.

The banknote and security printing market segment, an important sector for KBA, has returned to a normal level since 2012 following several brisk years with an extraordinarily high order inflow. The contribution to sales and earnings from this profitable, yet at all times cyclical business field, will therefore be smaller in 2014 and probably also in 2015 than in previous years.

Positive prospects for special presses

Nevertheless, we see prompt opportunities for growth in other areas of our extensive portfolio. These include the relatively young and expandable field of digital printing technology, the industrial coding systems from KBA-Metronic as well as special presses and systems for diverse packaging printing segments successfully addressed by our existing and new subsidiaries KBA-MetalPrint, KBA-Kammann and Flexotecnica. We expect annual single-digit percentage increases in growth for 2014 and beyond in these market segments.

The KBA Group has a strong technological footing in several fields of the expanding packaging market and KBA is the global market leader in printing systems for board, metal sheets and glass containers. We aim to maintain this position with new products. In the young digital printing business field the deliveries of the first RotaJET presses in 2014 pave the way for differentiation as a competent press manufacturer in market environments characterised by many newcomers from the IT industry. In the large market for coding technology, which predominantly comprises industries outside of the print arena, KBA-Metronic's growth prospects lie mainly in the further internationalisation of its business. With this goal in mind in 2013 it founded sales and assembly office KBA-Metronic (Hangzhou), which in the meantime is already in operation, together with domestic partners for the auspicious market in China. A further KBA production subsidiary in China, soon to trade under the name KBA Machinery (Shanghai), primarily supplies Chinese die-cutter, laminating and printing press manufacturers with sheet feeders. We plan on expanding both subsidiaries that have a total of some 100 employees.

The print market is continually moving at high speeds. However, its various segments are developing at different rates. In recent years we have adjusted our product portfolio, capacities and organisation consistently to the market prospects. Nonetheless, today we have realised that we underestimated the size and momentum of structural shifts in the print media industry, and that our planning has been too optimistic in some segments. This applies in particular to our web offset business, but also to our sheetfed segment to a lesser extent. Based on market development reports from external experts we have therefore come to the conclusion that fundamental changes beyond the previous measures are imperative to secure a sustainable business model. Fit@All, a programme meticulously compiled over months by internal and external experts, envisions an extensive realignment of the KBA Group. Its goals and contents are described in detail beginning on page 32.

Outlook: Temporary special expenses from Fit@All

Besides impairments, we have made provisions in our annual accounts 2013 for the personnel cuts associated with measures as part of Fit@All. These have had a pronounced impact on our annual financial statements for 2013. In 2014 we expect further expenses due to the upcoming relocation of production equipment, adjustments to capacity, training and other measures. The amount of which is not yet foreseeable, but it is very likely that these will have a negative effect on results in 2014.

Despite the burdens associated with the comprehensive realignment of the Group, management is targeting €1bn to €1.1bn in Group sales for the new fiscal year and a positive operating result before special items. Nevertheless, as a result of the special expenses attached to Fit@All and the profit increasing measures which have not yet fully come into effect, Group earnings before taxes (EBT) will likely be negative once again in 2014. Assuming the economic climate and exchange rate development remain stable, we anticipate a clear improvement to our operating and pre-tax earnings in the course of 2015 before the Group returns to sustainable profitability in 2016.

At this time from the management board's perspective it does not seem appropriate to make more detailed forecasts and statements given numerous internal and external effects. Management will therefore provide further information on the progress of Fit@All and the current business performance in the regular interim reports and other announcements.

Print continues to fascinate the masses even if reports in the media suggest otherwise. This can be seen clearly time and again at large trade shows in emerging markets

Koenig & Bauer
Group Financial Statements 2013

Group Balance Sheet to 31 December 2013

Assets in €m	Note	01.01.2012*	31.12.2012*	**31.12.2013**
Non-current assets				
Intangible assets	**(1)**	26.4	23.2	39.1
Property, plant and equipment	**(1)**	248.6	219.9	188.4
Investments and other financial receivables	**(2)**	22.1	16.4	16.7
Other assets	**(2)**	0.2	0.1	0.6
Deferred tax assets	**(6)**	47.6	52.8	27.3
		344.9	**312.4**	**272.1**
Current assets				
Inventories	**(3)**	328.1	331.4	357.2
Trade receivables	**(2)**	310.4	255.1	228.2
Other financial receivables	**(2)**	21.5	18.5	17.4
Other assets	**(2)**	39.8	26.9	31.7
Current tax assets		1.0	1.2	3.1
Securities	**(4)**	–	–	0.9
Cash and cash equivalents	**(5)**	145.6	206.3	185.4
Assets held for sale		–	–	2.0
		846.4	**839.4**	**825.9**
		1,191.3	**1,151.8**	**1,098.0**

Equity and liabilities in €m	Note	01.01.2012*	31.12.2012*	**31.12.2013**
Equity	**(7)**			
Share capital		42.9	42.9	43.0
Share premium		87.3	87.3	87.5
Reserves		326.3	311.1	146.6
Equity attributable to owners of the Parent		**456.5**	**441.3**	**277.1**
Equity attributable to non-controlling interests		–	–	0.8
		456.5	**441.3**	**277.9**
Liabilities				
Non-current liabilities				
Pension provisions	**(8)**	116.4	145.2	142.5
Other provisions	**(9)**	34.7	34.0	92.4
Bank loans and other financial payables	**(10)**	20.8	17.9	15.3
Other liabilities	**(10)**	0.1	2.8	5.3
Deferred tax liabilities	**(6)**	27.8	22.2	15.9
		199.8	**222.1**	**271.4**
Current liabilities				
Other provisions	**(9)**	137.4	143.1	204.5
Trade payables	**(10)**	64.2	65.7	72.2
Bank loans and other financial payables	**(10)**	101.2	91.0	76.7
Other liabilities	**(10)**	225.5	183.9	192.9
Current tax liabilities		6.7	4.7	2.4
		535.0	**488.4**	**548.7**
		1,191.3	**1,151.8**	**1,098.0**

* amended, for further information see explanatory Note(F)

Group Income Statement 2013

in €m		2012*		2012*	2013		2013
		Operating profit			Operating profit		
		before special items	special items		before special items	special items	
	Note						
Revenue	**(14)**	1,293.9	–	1,293.9	1,099.7	–	1,099.7
Cost of sales	**(15)**	–949.2	–19.0	–968.2	–813.3	–127.8	–941.1
Gross profit		**344.7**	**–19.0**	**325.7**	**286.4**	**–127.8**	**158.6**
Research and development costs	**(15)**	–55.2	–3.6	–58.8	–57.5	–6.7	–64.2
Distribution costs	**(15)**	–155.3	–1.9	–157.2	–128.4	–5.8	–134.2
Administrative expenses	**(15)**	–73.5	–2.6	–76.1	–67.9	–11.0	–78.9
Other operating income	**(17)**	36.2	–	36.2	30.0	–	30.0
Other operating expenses	**(17)**	–56.1	–	–56.1	–38.1	–3.9	–42.0
Operating profit/loss		**40.8**	**–27.1**	**13.7**	**24.5**	**–155.2**	**–130.7**
Other financial results				–1.7			–
Interest income				3.6			3.2
Interest expense				–11.9			–10.6
Financial result	**(19)**			**–10.0**			**–7.4**
Earnings before taxes				**3.7**			**–138.1**
Income tax expense	**(20)**			–3.3			–15.6
Profit/loss for the period attributable to owners of the Parent				**0.4**			**–153.7**
Earnings per share (in €, basic/dilutive)	**(21)**			**0.03**			**–9.31**

For further information concerning special items see explanatory Note (18).
* amended

Statement of Comprehensive Group Income 2013

in €m	2012*	2013
Net profit/loss	**0.4**	**–153.7**
Items to be reclassified to consolidated profit or loss		
Foreign currency translation	1.4	–1.6
Measurement of primary financial instruments	1.8	0.4
Measurement of derivatives	2.4	0.4
Deferred taxes	–0.9	–0.2
	4.7	**–1.0**
Items not to be reclassified to consolidated profit or loss		
Defined benefit plans	–28.0	4.7
Deferred taxes	8.2	–7.9
	–19.8	**–3.2**
Losses recognised directly in equity	**–15.1**	**–4.2**
Total comprehensive income attributable to owners of the Parent	**–14.7**	**–157.9**

For further information see explanatory Note (7).
* amended

Statement of Changes in Group Equity 2013

in €m			Reserves								
			Recognised in equity								
	Share capital	Share premium	Defined benefit plans	Primary financial instruments	Derivatives	Exchange differences	Deferred taxes	Other	**Equity attr. to owners**	Equity attr. to non-controlling interests	**Total**
31 December 2011	**42.9**	**87.3**	**–**	**2.4**	**–2.3**	**43.0**	**–0.5**	**293.8**	**466.6**	**–**	**466.6**
Amendments of accounting policies	–	–	–12.8	–	–	–	1.0	1.7	–10.1	–	–10.1
1 January 2012*	**42.9**	**87.3**	**–12.8**	**2.4**	**–2.3**	**43.0**	**0.5**	**295.5**	**456.5**	**–**	**456.5**
Net profit	–	–	–	–	–	–	–	0.4	0.4	–	0.4
Gains/losses recognised directly in equity	–	–	–28.0	1.8	2.4	1.4	7.3	–	–15.1	–	–15.1
Total comprehensive income	**–**	**–**	**–28.0**	**1.8**	**2.4**	**1.4**	**7.3**	**0.4**	**–14.7**	**–**	**–14.7**
Other changes	–	–	–	–	–	–	–	–0.5	–0.5	–	–0.5
31 December 2012*	**42.9**	**87.3**	**–40.8**	**4.2**	**0.1**	**44.4**	**7.8**	**295.4**	**441.3**	**–**	**441.3**
1 January 2013	**42.9**	**87.3**	**–40.8**	**4.2**	**0.1**	**44.4**	**7.8**	**295.4**	**441.3**	**–**	**441.3**
Net loss	–	–	–	–	–	–	–	–153.7	–153.7	–	–153.7
Gains/losses recognised directly in equity	–	–	4.7	0.4	0.4	–1.6	–8.1	–	–4.2	–	–4.2
Total comprehensive income	**–**	**–**	**4.7**	**0.4**	**0.4**	**–1.6**	**–8.1**	**–153.7**	**–157.9**	**–**	**–157.9**
Capital increase from authorised capital	0.1	0.2	–	–	–	–	–	–	0.3	–	0.3
Dividend	–	–	–	–	–	–	–	–6.6	–6.6	–	–6.6
Other changes	–	–	–	–	–	–	–	–	–	0.8	0.8
31 December 2013	**43.0**	**87.5**	**–36.1**	**4.6**	**0.5**	**42.8**	**–0.3**	**135.1**	**277.1**	**0.8**	**277.9**

For further information see explanatory Note (7).
* amended

Group Cash Flow Statement 2013

in €m	2012*	2013
Earnings before taxes	3.7	–138.1
Depreciation on intangible assets, property, plant and equipment	64.9	59.6
Currency measurement	–1.8	–0.2
Non-cash interest income/expense	9.3	8.8
Changes in pension provisions	28.8	–2.7
Other non-cash income/expenses	–25.2	4.5
Gross cash flow	**79.7**	**–68.1**
Changes in inventories	4.6	–10.2
Changes in receivables and other assets	75.5	32.3
Changes in other provisions	4.3	119.0
Changes in payables and other liabilities	–73.1	–32.0
Interest received	2.8	2.8
Interest paid	–1.8	–1.4
Income tax paid	–10.3	–9.0
Income tax refunded	1.6	0.7
Cash flows from operating activities	**83.3**	**34.1**
Proceeds from the disposal of intangible assets, property, plant and equipment	0.5	2.6
Payments for investment in intangible assets, property, plant and equipment	–22.6	–24.0
Proceeds from the disposal of investments	1.0	0.2
Payments for investments	–1.1	–1.0
Payments for the acquisition of consolidated companies	–	–8.7
Investment subsidies received	0.1	–
Cash flows from investing activities	**–22.1**	**–30.9**
Free cash flow	**61.2**	**3.2**
Proceeds from capital contributions	–	0.3
Proceeds from loans	–	1.1
Repayment of loans	–4.3	–17.2
Dividends paid	–	–6.6
Cash flows from financing activities	**–4.3**	**–22.4**
Change in funds	**56.9**	**–19.2**
Effect of changes in exchange rates	1.3	–1.7
Effect of changes in consolidated companies	2.5	–
Funds at beginning of period	145.6	206.3
Funds at end of period	**206.3**	**185.4**

For further information see explanatory Note (J).
* amended

Notes to the Group Financial Statements

(A) Preliminary Remarks

The KBA Group is a global manufacturer of sheetfed, web and special printing presses for all current processes. The Parent, KOENIG & BAUER AG (KBA) at Friedrich-Koenig-Str. 4, 97080 Würzburg, Germany, is a public limited company under German law. The consolidated financial statements include the Parent and all consolidated affiliates.

Consolidated financial statements for the Parent to 31 December 2013 were prepared in accordance with section 315a of the HGB (German Commercial Code), as was a Group management report, and will be published in the *Bundesanzeiger* (Federal Gazette).

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) valid on that date, as issued by the International Accounting Standards Board (IASB), London, and all binding interpretations by the International Financial Reporting Interpretation Committee (IFRIC), with due regard for EU directives.

Individual items aggregated in the balance sheet and the income statement are disclosed and explained separately in the Notes below. For the income statement we used the cost of sales method. The reporting currency is the euro, and all amounts disclosed in the financial statements represent million euros (€m), unless otherwise indicated.

On 20 March 2014 the Koenig & Bauer management board authorised the submission of the Group financial statements to the supervisory board for scrutiny and approval.

(B) New and Amended Standards and Interpretations

The financial statements for 2013 were prepared in accordance with the following International Financial Reporting Standards that are required to be applied for annual periods beginning on or after 1 January 2013:

IAS 1	Amendments to IAS 1 Presentation of Financial Statements: Components of Other Comprehensive Income
IAS 12	Amendments to IAS 12 Recovery of Underlying Assets
IAS 19	Amendments to IAS 19 (revised 2011) Employee Benefits
IFRS 1	Amendments to IFRS 1 Government Loans, Hyperinflation and Removal of Fixed Dates for First-Time Adopters
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting a Financial Asset and a Financial Liability
IFRS 13	Fair Value Measurement
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Sundry	Improvements to IFRS (2009-2011)

The above standards were applied in compliance with the relevant transitional provisions. Where appropriate, amendments were made retrospectively, i.e. as if the new accounting policies had always applied. The comparative prior-year figures were amended accordingly.

The effects on the periods of time specified in the consolidated financial statements are described below.

Amendments to IAS 1 Presentation of Financial Statements: Components of Other Comprehensive Income (OCI)

The amendments to IAS 1 require companies to group separately items within OCI that may later be reclassified to the profit or loss section of the income statement. This will enhance transparency and improve comparability.

Amendments to IAS 19 (revised 2011) Employee Benefits

The revised IAS 19 specifies the immediate recognition of all actuarial gains and losses from the measurement of pension obligations and plan assets in OCI. There is no longer a choice between immediate recognition in the income statement or OCI, or deferred recognition using the corridor approach. Interest income on plan assets has to be calculated at the same discount rate used for pension obligations, therefore additional information will be required in the Notes, such as sensitivity analyses. Other provisions for top-up payments for early retirement contracts are accumulated in instalments.

Further information on the impacts of the first-time adoption of IAS 19 (revised) can be found in Note (F).

Amendments to IFRS 7 – Offsetting a Financial Asset and a Financial Liability

The amendment to IFRS 7 outlines an expansion of disclosures in the Notes for offsetting financial instruments. The amendments have no impact on KBA's consolidated financial statements.

IFRS 13 Fair Value Measurement

The aim of this standard is to improve consistency by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs (exceptions: IAS 17 and IFRS 2). The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In isolated cases this could entail changes for KBA compared to previous regulations.

Sundry Improvements to IFRS (2009-2011)

Amendments resulting from the annual improvements project (2009-2011) affect the standards IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1. The improvements serve to clarify existing regulations, but also could give rise to impacts on accounting, recognition and measurement as well as the disclosures in the Notes. At KBA this will lead to an expansion of the segment notes found in the interim reports in particular.

The KBA Group did not apply in advance the following IASB standards, interpretations and amendments to existing standards that are not yet mandatory:

		Date applicable
IAS 19	Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	2015
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements – Separate Financial Statements	2014
IAS 28	Amendments to IAS 28 Investments in Associates	2014
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting a Financial Asset and a Financial Liability	2014
IAS 36	Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	2014
IAS 39	Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	2014
IFRS 10	Consolidated Financial Statements	2014
IFRS 11	Joint Arrangements	2014
IFRS 12	Disclosure of Interests in Other Entities	2014
IFRS 10 / IFRS 11 / IFRS 12	Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure on Interests in Other Entities – Transition Guidance	2014
IFRS 10 / IFRS 12 / IAS 27	Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure on Interests in Other Entities and IAS 27 Consolidated and Separate Financial Statements – Investment Entities	2014
IFRS 9	Financial Instruments	open
IFRS 9	Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39	open
IFRS 7 / IFRS 9	Amendments to IFRS 7 and IFRS 9 Mandatory Effective Date and Transition Disclosures	open
IFRS 14	Regulatory Deferral Accounts	2016
IFRIC 21	Levies	2014
Sundry	Improvements to IFRS (2010-2012)	2015
Sundry	Improvements to IFRS (2011-2013)	2015

IFRS 10, IFRS 11, IFRS 12, their amendments as well as amendments to IAS 27, IAS 28, IAS 32, IAS 36 and IAS 39 were adopted as part of the EU endorsement process.

IFRS 11, IFRIC 21 and the issues treated in the amendments to IAS 27, IAS 28, IFRS 10, IFRS 12 and IFRS 14 are irrelevant to the business activities of the entities included in the statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. A relief is provided for contributions that are independent to the number of years of service. This has no significant impacts on KBA.

Amendments to IAS 32 Offsetting a Financial Asset and a Financial Liability
This addition to IAS 32 clarifies the criteria for offsetting financial instruments. It explains the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. For KBA this may result in individual amendments in presentation.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
Additional disclosures arise from this amendment provided that an impairment originates from a goodwill impairment test conducted and the recoverable amount was calculated on the basis of a fair value.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

With a novation of a hedging instrument on a central counterparty under certain circumstances derivatives remain designated as hedges in existing hedging relationships. These amendments have no considerable effects on the KBA Group.

Amendments to IAS 27 Separate Financial Statements and IFRS 10 Consolidated Financial Statements

IFRS 10 redefines the concept of control as being where one entity has decision-making powers over another entity through voting or other rights, has an interest in the entity's variable earnings components and can influence such components through its decisions. IFRS 10 supersedes IAS 27. This has no impact on the scope of KBA's consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 defines and expands the obligatory disclosures. The disclosure requirements have therefore been deleted from IAS 27, IAS 28 und IAS 31. As a result we expect fuller disclosure of KBA's interests in other entities.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance

The amendments contain reliefs upon adopting the standards for the first time regarding disclosures from comparative information of past years.

IFRS 9 Financial Instruments: Classification and Measurement, Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 and Amendments to IFRS 7 and IFRS 9 Mandatory Effective Date and Transition Disclosures

This standard is phase one of a project to replace IAS 39. The existing four measurement categories will be replaced by two: "amortised cost" and "fair value". Whether a financial instrument is measured at amortised cost or fair value depends on the entity's business purpose for holding the instrument, and the nature of the instrument. Fair-value financial assets must basically be recognised at fair value through profit or loss, selected equity instruments may also be recognised in equity. Financial liabilities may be reported in the balance sheet at fair value. Changes in the market value resulting from changes in the entity's credit risk must be disclosed in equity.

In addition, IFRS 9 introduced a new hedge accounting model. The circle of qualified underlying items and hedging instruments was expanded in order to link the risk management system more to the financial reporting. In so far as underlying items can be individually qualified, the designation of groups of underlying items is possible as well as net and net zero positions. As a hedge every financial instrument recognised at fair value can be implemented in so far as one of the options described in phase one of IFRS 9 is performed. The premature termination of a hedging relationship is no longer possible as long as the underlying risk management strategy remains unchanged. Additionally, some default risks of financial liabilities can be recognised in OCI without the application of the standard's remaining requirements.

The adoption of IFRS 9 will entail changes in the presentation of Group financial statements as well as in the expanded Notes but is not expected to have any major impact on recognition and measurement.

The amendments to IFRS 7 and IFRS 9 allow that the prior-year figures do not need to be adjusted upon adopting the standards for the first time. However, additional disclosures are required in the Notes, according to IFRS 7.

Sundry Improvements to IFRS (2010-2012)

Amendments resulting from the annual improvements project (2010-2012) affect the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The improvements mainly serve to clarify existing regulations but there are also changes to the disclosures in the Notes. This has no considerable impact on the scope of KBA's consolidated financial statements.

Sundry Improvements to IFRS (2011-2013)
Amendments resulting from the annual improvements project (2011-2013) affect the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40. The improvements mainly serve to clarify existing regulations.

(C) Accounting Policies

The financial statements for Koenig & Bauer AG and its domestic and foreign subsidiaries were prepared in compliance with IAS 27 using uniform accounting policies.

Measurement basis and judgements
The measurement of financial assets and liabilities is based on the historical or amortised cost, with the exception of available-for-sale financial assets and liabilities, and derivative financial instruments, which are measured at fair value.

In the process of applying the entity's accounting policies management makes various judgements, essentially on the categorisation of investments held to maturity.

Estimates and assumptions
Where no market prices are available for assessing the value of assets and liabilities, this must be estimated and may give rise to a risk entailing adjustments in subsequent years to the assets and liabilities disclosed. The imputed value is predicated on past experience and current knowledge.

Impairment tests as per IAS 36 require, amongst other things, cash flow forecasts as well as their discount. The forecast for cash flows is calculated based on three-year integration plans, which are related in particular to predictions of future market developments, future market shares as well as product profitability, approved by management. Integrated planning is also used to assess the recognition of deferred tax assets on losses carried forward.

Restructuring provisions were created based on the measures planned. The actual expense is not yet known because it depends on the accuracy of the underlying premises.

Further fundamental assumptions are detailed under the individual items (e.g. provisions, deferred taxes, the useful life of intangible assets, property, plant and equipment).

Intangible assets
Purchased intangible assets were disclosed at their purchase price if it was likely that economic benefits attributable to the use of the assets would flow to the enterprise and their cost could be measured reliably. Each asset with a limited useful life was amortised on a straight-line basis over its estimated useful life.

Development costs for new or significantly improved products were capitalised at cost if the technical feasibility, an intention to sell and the existence of a market could be demonstrated, the attributed expenditure measured reliably, adequate development and marketing resources were available and future economic benefits probable. Compliance with the above criteria was checked by conducting product trials in the marketplace, with development costs capitalised from the date on which these trials were initiated. The straight-line method was used to allocate the depreciable amount of such products over their projected useful life, and annual impairment tests carried out. Adequate allowance was made for future market trends. Research costs and non-capitalised development costs were recognised as an expense as they arose.

Property, plant and equipment

Items of property, plant and equipment were disclosed at cost less depreciation, based on the use to which they are put. Each item with a significant value relative to the total asset value was treated as a separate depreciable asset (component recognition). Manufacturing costs for self-constructed plant and equipment included an appropriate proportion of production overheads, material and labour costs. Where borrowing costs were directly attributable to a qualifying asset they were capitalised as part of the cost of that asset. Subsequent costs associated with the acquisition or replacement of an item of property, plant or equipment were capitalised and written down over the individual useful life. Replaced items were derecognised accordingly. Costs for maintenance and repairs were also recognised as an expense.

No land or buildings were held as financial investments as defined in IAS 40.

Grants

Government grants reduce the cost of assets and were recognised as a reduced depreciation charge over the asset life.

One condition for the disbursement of research funds is that a complete record must be kept of all the costs incurred, and submitted upon completion of the relevant project.

The Federal Employment Agency in Germany reimburses part of the social security expense relating to short-time employment. The reimbursements are directly offset against the personnel expenses disclosed under the individual functions.

Leases

Leases for which the KBA Group assumed the basic risks and rewards as the lessee were disclosed as finance leases under intangible assets or property, plant and equipment. Leased property was measured at fair value or the lower present value of the minimum lease payments. Depreciation was calculated using the straight-line method for the shorter of the two periods (the term of the contract or the useful life of the leased property). Payment obligations arising from future lease payments comprised interest and capital portions and were disclosed in other financial payables. Where the risks and rewards incident to ownership were not assumed, the lease was classified as an operating lease and payments carried as expenses.

Leases for which the KBA Group as the lessor transferred the basic risks and rewards to the lessee were disclosed as finance leases under other financial receivables and marked at the present value of the minimum lease payments. Profits accrued in proportion to the term to maturity of the finance lease. The contractual payments for operating leases were recognised as profit.

Depreciation

The systematic straight-line depreciation of intangible Group assets, property, plant and equipment was based on their useful lives as shown in the chart.

	Years
Industrial property rights and similar rights	3 to 7
Product development costs	4 to 6
Buildings	5 to 50
Plant and machinery	3 to 15
Other facilities, factory and office equipment	2 to 12

If there was any indication that intangible assets, property, plant and equipment might be impaired these assets were tested for impairment on the balance sheet date as per IAS 36. The recoverable amount was defined as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Cash-generating units are the smallest group of units defined by the entity whose products are available for sale on an active market. The discounted free cash flow is the amount recoverable for the unit and corresponds to the value in use, with the discount calculated at post-tax interest rates, which correspond to the weighted average cost of capital. It comprises a risk-free interest rate for equity components, adjusted for business risks, and the average borrowing rate of interest for debts, tax-adjusted for each unit. Future cash flows are calculated on the basis of the three-year integrated plan approved by the management at the time when the impairment test is valid. Further details can be found in the Management Report on page 29. Three-year planning will be extended by two further years in some cases. Cash flows which surpass the planning period are calculated using a growth rate of 0.8% (2012: 0.8%). Where the recoverable amount was lower than the carrying amount the difference was disclosed as an impairment loss. If the reason for an impairment no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

Depreciation on and impairments in intangible assets, property, plant and equipment were disclosed under the individual functions.

Goodwill is tested for impairment annually and attributed to the cash-generating units. Where the recoverable amount exceeded the carrying amount (goodwill included) of the cash-generating unit, the unit was defined as unimpaired. Where the carrying amount exceeded the value in use, an impairment adjustment to the lower market value was made by deducting the impairment loss from goodwill and distributing the difference among the unit assets, taking as the lower value limit the recoverable amount of the individual asset or zero, whichever was higher. The cash flow forecast based on the management's integrated three-year planning is used to calculate the value in use of a cash-generating unit, which contains goodwill. Along with the discount rate, planning includes anticipated developments in sales and the EBIT margin. Planning is created based on past experience, future market predictions and margin developments expected by the management. External data concerning the development of relevant markets is also taken into account. Adjustments are made for the impact of special and one-off effects on past values when predicting individual EBIT margins.

Individual items, depreciation and impairments under IAS 36 were disclosed under "Changes in Intangible Assets, Property, Plant and Equipment".

Financial assets

These were initially measured at fair value where contractual claims existed and subsequently assigned to one of four categories under IAS 39: financial assets recognised at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Held-to-maturity investments, and also loans and receivables, were stated at their amortised cost using the effective interest method, and were tested for impairment loss on the balance sheet date. Available-for-sale financial assets were measured at fair value, with unrealised gains and losses recognised directly in equity, net of deferred taxes. Financial assets were recognised in the balance sheet on the settlement date. Value adjustments were made as appropriate for all recognisable risks.

Interests in affiliated, non-consolidated entities were reported under **investments** and classified as available for sale. Since they represent financial investments in equity instruments for which no price is quoted in an active market, and whose fair value cannot be reliably determined, they were carried at cost of purchase. Other loans were grouped under loans and receivables.

Other financial receivables included derivatives, receivables and held-to-maturity financial assets.

Trade receivables related to commercial loans and receivables. Non-interest-bearing claims and low-interest claims with maturities of more than one year were discounted.

Securities refer to available-for-sale financial assets carried at fair value on the balance sheet date. The same classification was used for fixed-interest securities and shares, since we have no plans to hold these until final maturity.

Cash and cash equivalents were disclosed under loans and receivables.

They were assigned to one of three levels of a fair-value hierarchy defined in IFRS 7, where level 1 refers to quoted prices in active markets for the same instrument (without modification or repackaging); level 2 refers to quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and level 3 refers to valuation techniques for which any significant input is not based on observable market data.

Derivatives

In accordance with IAS 39 all instruments such as swaps and future currency contracts were carried at fair value. The derivatives disclosed in the Group financial statements were classified as level 2.

Changes in fair value were reported in net profit or loss where no hedge accounting was used.

Where hedge accounting was used, changes in fair value were reported either in equity or in the income statement. With a fair value hedge, changes in the fair value of a hedging instrument and the underlying transaction were reported as a profit or loss. With a cash flow hedge, the portion of the gain or loss in the hedging relationship that was determined to be an effective hedge was recognised directly in equity and the ineffective portion reported in the income statement. Gains and losses were reported in the income statement as soon as the hedged transaction itself was recognised.

The KBA Group is exposed to numerous risks deriving from its global activities.

Currency risk is the risk that the value of business transactions conducted in other currencies, particularly US dollars, will fluctuate due to changes in foreign exchange rates.

Interest-related cash flow risk is the risk that future cash flows will fluctuate following changes in market interest rates.

Interest rate risk is the risk that the interest on deposits or loans will fluctuate as a result of changes in market interest rates.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

These risks are contained by a risk management system. The principles laid down ensure that risk is assessed and documented in accordance with systematic and uniform procedures. Further information can be found on page 52 onwards. Derivatives in the form of marketable foreign exchange transactions (forwards and swaps) and interest rate hedges were used. Where the conditions defined in IAS 39 for an effective hedging relationship were fulfilled, hedge accounting was used, more specifically cash flow hedges.

Inventories

Inventories were carried at the cost of purchase or conversion, with the latter including individual items, their proportionate share of total overheads and depreciation based on a normal level of plant utilisation. Where borrowing costs were directly attributable to a qualifying asset they were capitalised as part of the cost of that asset. The cost of inventories that could not be measured on an item-by-item basis was calculated using the weighted average cost formula.

Inventories whose net realisable value on the balance sheet date was lower than cost, for example due to damage, impaired marketability or prolonged storage, were written down to the lower value. The net realisable value is the estimated sales revenue realisable in normal business minus the estimated cost of completion and pertinent distribution costs.

Construction contracts

Contract revenue and expenses were disclosed using the percentage of completion method, as per IAS 11. Under this method, contract revenue is proportionate to the contract costs incurred in reaching the stage of completion on the balance sheet date, i.e. the revenue, expenses and profit disclosed are those attributable to the proportion of work completed. Contract revenue was carried under trade receivables after deducting payments received.

Equity

The issued capital was calculated from the number of no-par shares issued by Koenig & Bauer AG up to the balance sheet date.

The share premium included the extra charge from the issue of shares, and is subject to the limitations imposed by section 150 of German Company Law.

Reserves encompassed the net profits posted and retained in previous years by consolidated companies, and adjustments arising from the adoption of IFRS, more specifically IFRS 3 in 2004. They also included translation differences relating to the financial statements of foreign entities, measurement changes in defined benefit plans and changes in the market value of financial instruments after taxes, recognised in other comprehensive income (OCI).

Pension provisions

Pension provisions were measured using the projected unit credit method described in IAS 19, based on actuarial reports that recognised the present and potential benefits known on the balance sheet date, and included an estimate of anticipated increases in salaries and pensions. Actuarial gains and losses are recognised in reserves without an effect on profit or loss.

As a rule, in accordance with national and regional regulations we offer our employees defined-benefit pension plans, with benefits determined by the individual's length of service and compensation.

Pensions are partially financed through a funded benefit system. Obligations not covered by fund assets are carried in pension provisions at the value of the net liability. The interest of the market value of plan assets is calculated with the discount rate of the present value of the pension obligation.

Current service costs are recognised in the individual functions. Interest income from plan assets as well as expenses from discounting obligations are recognised in the financial result.

Other provisions

These included all other corporate risks and uncertain liabilities to third parties, insofar as an outflow of resources was probable and could be reliably assessed. The amounts disclosed represent the best estimate of the expenditure needed to settle current obligations. Long-term provisions were disclosed at their present value where the interest effect was substantial.

Financial payables

A financial payable was recognised on the balance sheet as soon as contractual obligations arose from a financial instrument. Financial payables, which were initially recognised at fair value and subsequently carried at their amortised cost, were reported on the settlement date.

Bank loans were defined as **financial liabilities**.

Of **other financial payables**, derivatives with a negative market value were carried at fair value. Payables arising from finance leases were carried at present value.

Deferred taxes

Deferred tax assets and liabilities were recognised on temporary differences between IFRS and tax bases for Group enterprises, and on consolidation measures. Differences were calculated using the liability method specified in IAS 12, and only tax-relevant temporary differences were taken into account. Deferred tax assets also included claims to future tax reductions arising from the anticipated use of existing tax loss carryforwards, where this use was probable. Where the use was improbable, an impairment was disclosed. The tax rates used to calculate deferred taxes were the national rates applicable or notified on the balance sheet date, and ranged from 10% to 40%.

The effect of changes in tax rates on deferred taxes was reported when such changes were published.

The Group tax rate was the same as the Parent tax rate. Differences arising from calculations based on national tax rates were disclosed separately under “variances due to different tax rates”.

Assets held for sale

A non-current asset is classified as being held for sale if management is committed to a plan to sell the asset and it is highly probable that the sale will be completed within one year from the date of classification. The asset is valued at the lower of its carrying amount and fair value less costs to sell. Such an asset will no longer be written down.

Earnings

Revenue from the **sale of goods** was recognised at fair value if the entity had transferred to the buyer the significant risks and rewards of ownership of the goods, had retained neither continuing managerial involvement nor effective control over the goods sold, and it was probable that the economic benefits would flow to the entity. More details on the recognition of revenue from customer-specific construction contracts can be found on page 77.

Earnings from the **rendering of services** were recognised on the balance sheet date either in full subsequent to being rendered, or else calculated using the effort-expended method, provided the amount of earnings and costs could be reliably estimated.

Price reductions, rebates, bonuses and bulk discounts granted to customers were deducted from revenue.

Interest was recognised as profit if the amount could be measured reliably and there was a reasonable likelihood of future economic benefit. Dividends were balanced with the origination of a legal claim to payment.

Expenses by function

Cost of sales included the purchase and conversion costs of products sold. In addition to directly attributable material and prime costs these incorporated overheads, depreciation on production plant and inventory adjustments.

Research and development costs encompassed costs for original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and these were recognised in full in the income statement together with development costs not recognised by IAS 38.

Distribution costs included costs for open house promotions and demonstrations for customers.

Administrative expenses included the amortisation of goodwill.

Wherever possible, income and expenses were attributed to their respective functions; those that could not be attributed were disclosed under other operating income and expenses.

(D) Consolidated Companies and Consolidation Principles

Consolidated companies

In addition to Koenig & Bauer AG, Würzburg, the consolidated financial statements include 23 (previous year: 19) companies.

Altogether 20 (previous year: 17) subsidiaries were excluded from the consolidated financial statements since they were of minor significance to the Group's financial position and performance.

Consolidation principles

On the date on which control was obtained the capital consolidation of affiliates and the disclosure of business combinations entailed offsetting the cost of acquiring shares in subsidiaries against the fair value of the Parent's share of equity at the date of initial consolidation. Hidden reserves or liabilities were allocated to the subsidiary's assets and liabilities. Contingent liabilities were offset against equity, and any excess of cost over the amounts allocated was recognised as goodwill. Goodwill generated prior to 1 January 1995 remained netted against reserves as permitted by IAS 22. Negative goodwill was immediately disclosed as other administrative expenses.

Receivables, liabilities, income and expenses relating to transactions among consolidated companies were eliminated, as were the profits from such transactions. With the exception of goodwill, temporary tax deferrals arising from the consolidation were recognised as deferred taxes under IAS 12.

(E) Foreign Currency Translation

The financial statements of consolidated companies prepared in a foreign currency were translated using their functional currency and the foreign entity method specified in IAS 21.

Since foreign subsidiaries are financially, economically and organisationally autonomous, their functional currency is the same as their local currency. In the consolidated financial statements their assets and liabilities were therefore translated into the reporting currency at the closing rate, income and expenses at the average exchange rate for the year. The resulting exchange differences were disclosed in equity.

The financial statements for subsidiaries consolidated for the first time, the goodwill arising from the acquisition of such subsidiaries and adjustments in the carrying amounts of assets and liabilities to fair value were translated at the closing rate on the date of the initial consolidation. In subsequent periods goodwill was translated at the closing rate on the balance sheet date.

Currency gains and losses ensuing from consolidation were recognised as income or expense.

(F) Changes in Accordance with IAS 8

The revised and mandatory application of IAS 19 in 2013 specifies the immediate recognition of all actuarial gains and losses from the measurement of pension obligations and plan assets in OCI, and allows interest income on plan assets to be calculated at the same discount rate used for pension obligations. Other provisions for top-up payments for early retirement contracts are accumulated in instalments.

In 2013 it was determined that the netting of pledged securities in order to hedge phased retirement credits with provisions for partial retirement plans is appropriate. The consolidated balance sheet was corrected accordingly.

In order to improve the quality of the assessment of pension liabilities the estimation of the mortality of the beneficiaries was introduced for the first time in Switzerland considering the rise in average life expectancy.

Earlier periods were adjusted retrospectively in accordance with IAS 8.

in €m	01.01.2012 Adjustment	31.12.2012 Adjustment
Deferred tax assets	–	8.9
Other financial receivables	–2.8	–4.6
Securities	–28.7	–30.3
Reserves	–10.6	–29.9
Profit/loss for the period	0.5	–1.9
Pension provisions	9.8	37.2
Other provisions	–31.2	–31.7
Deferred tax liabilities	–	0.3
Earnings per share (in €, basic/dilutive)	0.03	–0.11

(G) Changes in Intangible Assets, Property, Plant and Equipment

in €m	Cost						
	01.01.	Group additions	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
2012							
Intangible assets							
Industrial property rights and similar rights	41.5	–	0.8	–	–	1.2	41.1
Goodwill	21.7	–	–	–	–	–	21.7
Product development costs	8.2	–	0.2	–	–	–	8.4
	71.4	**–**	**1.0**	**–**	**–**	**1.2**	**71.2**
Property, plant and equipment							
Land and buildings	253.2	3.2	2.8	0.4	8.1	1.9	265.8
Plant and machinery	251.5	–	7.8	0.6	5.8	2.8	262.9
Other facilities, factory and office equipment	127.7	0.7	20.4	0.1	0.2	10.8	138.3
Assets under construction	15.6	–	1.0	–	–14.1	–	2.5
	648.0	**3.9**	**32.0**	**1.1**	**–**	**15.5**	**669.5**
	719.4	**3.9**	**33.0**	**1.1**	**–**	**16.7**	**740.7**
2013							
Intangible assets							
Industrial property rights and similar rights	41.1	6.1	1.3	–0.1	–	1.0	47.4
Goodwill	21.7	6.3	–	–0.1	–	–	27.9
Product development costs	8.4	–	–	–	–	–	8.4
Assets under construction	–	–	4.5	–	–	–	4.5
	71.2	**12.4**	**5.8**	**–0.2**	**–**	**1.0**	**88.2**
Property, plant and equipment							
Land and buildings	265.8	5.7	0.9	–1.2	0.1	3.9	267.4
Plant and machinery	262.9	1.7	8.6	–1.9	2.1	23.0	250.4
Other facilities, factory and office equipment	138.3	1.6	12.8	–0.5	0.1	16.0	136.3
Assets under construction	2.5	–	4.2	–	–2.3	–	4.4
	669.5	**9.0**	**26.5**	**–3.6**	**–**	**42.9**	**658.5**
	740.7	**21.4**	**32.3**	**–3.8**	**–**	**43.9**	**746.7**

[1] Business segment sheetfed offset presses

[2] Business segment web and special presses €2m, business segment sheetfed offset presses €27.4m.

(H) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

With finance leases the total includes €4.5m for assets under construction on intangible assets, €0.3m for land and buildings (previous year: €0.3m), €1.8m (previous year: €2.9m) for plant and machinery, and €10.1m (€15.4m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €5.2m (previous year: €5.7m).

	Depreciation							Carrying amount	
	01.01.	Group additions	Annual depreciation	Impairments	Exchange differences	Disposals	**31.12.**	01.01.	**31.12.**
	39.4	–	1.2	–	–	1.2	39.4	2.1	1.7
	0.2	–	–	–	–	–	0.2	21.5	21.5
	5.4	–	0.3	2.7	–	–	8.4	2.8	–
	45.0	**–**	**1.5**	**2.7**	**–**	**1.2**	**48.0**	**26.4**	**23.2**
	105.3	1.9	7.5	12.6	0.2	1.4	126.1	147.9	139.7
	197.1	–	13.6	4.6	0.5	2.3	213.5	54.4	49.4
	97.0	0.7	15.2	7.2	0.1	10.2	110.0	30.7	28.3
	–	–	–	–	–	–	–	15.6	2.5
	399.4	**2.6**	**36.3**	**24.4**	**0.8**	**13.9**	**449.6**	**248.6**	**219.9**
	444.4	**2.6**	**37.8**	**27.1**[1]	**0.8**	**15.1**	**497.6**	**275.0**	**243.1**
	39.4	1.0	1.0	0.1	–0.1	0.9	40.5	1.7	6.9
	0.2	–	–	–	–	–	0.2	21.5	27.7
	8.4	–	–	–	–	–	8.4	–	–
	–	–	–	–	–	–	–	–	4.5
	48.0	**1.0**	**1.0**	**0.1**	**–0.1**	**0.9**	**49.1**	**23.2**	**39.1**
	126.1	0.6	6.5	13.8	–0.6	1.9	144.5	139.7	122.9
	213.5	1.5	10.7	11.1	–1.6	22.9	212.3	49.4	38.1
	110.0	1.3	12.0	4.2	–0.4	14.0	113.1	28.3	23.2
	–	–	–	0.2	–	–	0.2	2.5	4.2
	449.6	**3.4**	**29.2**	**29.3**	**–2.6**	**38.8**	**470.1**	**219.9**	**188.4**
	497.6	**4.4**	**30.2**	**29.4**[2]	**–2.7**	**39.7**	**519.2**	**243.1**	**227.5**

Intangible assets

Additions to assets under construction as well as industrial rights and similar rights related to purchased software and licences.

In 2013 the KBA Group expanded its product portfolio in the field of flexible packaging printing and direct decoration with majority acquisitions. The goodwill of KBA-Kammann GmbH reflects the expectation of a profitable niche business, whereas the access to a growth market and the use of synergies led to recognising goodwill for Flexotecnica S.p.A.

Goodwill is made up as follows:

in €m	31.12.2012	31.12.2013
KBA-MetalPrint GmbH, Stuttgart, Germany	12.6	12.6
KBA-NotaSys SA, Lausanne, Switzerland	8.9	8.8
KBA-Kammann GmbH, Bad Oeynhausen, Germany*	–	5.5
Flexotecnica S.p.A., Tavazzano, Italy*	–	0.8
	21.5	**27.7**

* preliminary

The relief-from-royalty-method and multi-period excess earnings method are applied to determine the fair values of acquired intangible assets (also for other assets). The relief-from-royalty-method considers the discounted estimated royalty payments that are expected to be avoided as a result of the brand or technology being owned. The multi-period excess earnings method considers the present value of net cash flows, order backlog expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

KBA is obligated to pay KBA-Kammann GmbH's former shareholders further consideration of €1.9m when certain working capital relations are achieved by 31.12.2013 as well as a further €1.7m if measures to reduce personnel can be avoided until 31.12.2015. At the acquisition date the fair value of the contingent consideration is estimated at €1.6m. A further contingent consideration of €0.8m resulted from the purchase of shares in Flexotecnica S.p.A. The sellers are entitled to this provided that within one year no warranty claims from before the shares were purchased are made and it is accounted for in full.

In compliance with IAS 36 the following impairment tests were conducted on the balance sheet date for all cash-generating units to which goodwill was attributable.

Cash-generating unit	Number of planning periods	Pre-tax interest rate	Post-tax interest rate
KBA-MetalPrint GmbH	3	10.1 %	7.4 %
KBA-NotaSys SA	3	8.6 %	7.8 %

Based on the results of various sensitivity analyses, KBA assumes that no impairment arises from changes to essential planning parameters.

Property, plant and equipment

Additions to property, plant and equipment primarily related to new and replacement plant and machinery as well as other facilities, factory and office equipment.

Impairments of €13.3m on the projected sales revenues of tangible assets which are no longer required according to plan in the mid-term in Austria, the Czech Republic and Würzburg were made.

Given the sustained shift of the market environment in the sheetfed business and the realignment of the Group through the Fit@All programme, impairment tests were conducted for the corresponding cash-generating units in the sheetfed offset press segment. An impairment test covers the cash-generating unit of the sheetfed operations at the Parent, KBA-Mödling AG as well as KBA Deutschland GmbH, KBA North America Inc., KBA (HK) Company Ltd. and KBA Printing Machinery (Shanghai) Co., Ltd. The value in use of production systems (based on the future cash flows ascertained in a five-year plan, discounted with an average interest rate of 7.4% (previous year: 7.1%)) was compared to the carrying amount. The carrying amount exceeding the value in use led to an impairment loss of €12m (previous year: €27.1m).

A further impairment test was conducted for our Czech subsidiary KBA-Grafitec s.r.o. on the basis of a two-year plan. The future cash flows are discounted with 8.1%, the impairment loss stood at €3.4m.

(2) Financial and other assets

Investments

Major interests held by Koenig & Bauer AG are shown in the table below. Unless otherwise indicated, the figures for equity are those disclosed in the single-entity statements audited under the pertinent national accounting laws, and correspond to additional disclosures under the German Commercial Code. Statements in foreign currencies show equity translated at the balance sheet date. Equity interest corresponds to the number of voting rights.

Company, location	Capital share in %	Equity in €m
Consolidated affiliates		
Albert-Frankenthal GmbH, Frankenthal, Germany	100.0	2.8
KBA-FT Engineering GmbH, Frankenthal, Germany	100.0	0.1
KBA Deutschland GmbH, Radebeul, Germany	100.0	0.3
KBA-MePrint AG, Veitshöchheim, Germany	100.0	4.7
KBA-Metronic GmbH, Veitshöchheim, Germany [1]	100.0	8.5
KBA-MetalPrint GmbH, Stuttgart, Germany	100.0	4.7
KBA-Kammann GmbH, Bad Oeynhausen, Germany	85.0	1.1
KBA-Mödling AG, Mödling, Austria	>99.9	25.4
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	1.2
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	0.4
KBA ITALIA SPA, Milan, Italy	100.0	–0.2 [2]
Flexotecnica S.p.A., Tavazzano, Italy	90.0	3.2
KBA (UK) Ltd., Watford, UK	100.0	–5.2 [2]
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	–6.6 [2]
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	55.2
KBA-NotaSys SA, Lausanne, Switzerland [1]	100.0	91.0
Print Assist AG, Höri, Switzerland [1]	100.0	2.1
KBA North America Inc., Wilmington, DE, USA	100.0	5.5
KBA (HK) Company Ltd., Hong Kong, China	100.0	1.9
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	3.4
Non-consolidated affiliates		
PrintHouseService GmbH, Würzburg, Germany	100.0	0.1
KBA NORDIC A/S, Herlev, Denmark	100.0	–4.7 [2,3]
KBA CEE Sp. z o.o., Warsaw, Poland	100.0	–0.7 [2]
KBA RUS OOO, Moscow, Russia	100.0	–1.3 [2]
KBA-Kammann USA, Inc., Portsmouth, NH, USA [1]	85.0	3.0
KBA LATINA S A P I DE CV, Mexico City, Mexico	60.0	0.1
Koenig & Bauer do Brasil Comércio de Impressoras e Serviços Ltda., São Paulo, Brazil	80.0	–0.1 [2]
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	0.8
MABEG Machinery (Shanghai) Co., Ltd., Shanghai, China	80.0	2.7
KBA KOREA CO., LTD., Goyang-si, South Korea	100.0	0.1
KBA Japan Co., Ltd, Tokyo, Japan	100.0	–0.1 [2]
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.5 [2]
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.2 [3]
KBA NotaSys India Private Limited, New Delhi, India [1]	50.0	0.4

[1] Indirect holding [2] Deficit not covered by equity [3] Preliminary figures

In 2013 the number of consolidated subsidiaries was expanded with acquisitions from the packaging print sector.

On 8 August 2013 85% of KBA-Kammann GmbH in Bad Oeynhausen, Germany, was acquired. The new subsidiary KBA-Kammann has 167 employees and generated sales of €22.3m in 2013 and a net loss of €1.6m. KBA-Kammann supplies presses for the direct decoration of round and hollow containers.

On 3 December 2013 KBA's product portfolio was expanded in the field of flexible packaging printing with the takeover of 90% of Flexotecnica S.p.A., in Tavazzano, Italy. With its 99 employees Flexotecnica posted sales of €17m and a net loss of €2.8m in 2013.

The terms to maturity of financial and other assets are shown below:

in €m	31.12.2012*	Term to maturity		31.12.2013	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade receivables						
- from affiliates	14.0	13.9	0.1	9.5	9.5	–
- from companies in which interests are held	7.0	7.0	–	5.6	5.6	–
- from third parties	234.1	206.6	27.5	213.1	182.5	30.6
	255.1	**227.5**	**27.6**	**228.2**	**197.6**	**30.6**
Investments	2.8	–	2.8	4.2	–	4.2
Other financial receivables						
- from affiliates	1.5	1.5	–	5.6	5.6	–
- derivatives	0.6	0.6	–	1.1	1.1	–
- sundry other financial receivables	30.0	16.4	13.6	23.2	10.7	12.5
	34.9	**18.5**	**16.4**	**34.1**	**17.4**	**16.7**
Other assets						
- payments for inventories	14.5	14.5	–	13.3	13.3	–
- tax receivables	10.4	10.4	–	16.3	16.3	–
- prepayments	2.1	2.0	0.1	2.7	2.1	0.6
	27.0	**26.9**	**0.1**	**32.3**	**31.7**	**0.6**
	317.0	**272.9**	**44.1**	**294.6**	**246.7**	**47.9**

* amended

Adopting the percentage of completion method resulted in €6.2m (previous year: €18.1m) being carried in **trade receivables**.

Sundry **other financial receivables** included €1.2m (previous year: €1.3m) from customer finance leases totalling €1.5m (previous year: €1.6m) and an interest share of €0.3m (€0.3m), with those due in less than one year representing €0.1m (€0.1m) of a total of €0.2m (€0.2m) and other receivables representing €0.7m (€0.6m) of a total of €0.9m (€0.8m) having terms to maturity of one to five years. The terms to maturity of the remainder were less than six years. Other receivables from derivatives are detailed in Note (11).

Value adjustments for financial assets were based on item-by-item risk assessments. Allowance was made for potential credit risks such as default of payment relating to specific loans or countries. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2012	31.12.2013
Raw materials, consumables and supplies	67.2	68.1
Work in progress	233.7	259.5
Finished goods and products	30.5	29.6
	331.4	**357.2**

The carrying amount of inventories balanced at net realisable value was €107.8m (previous year: €121.2m). Total value adjustments were increased by €11.1m (previous year: €1.1m reduced).

(4) Securities

These refer to shares in a fund combining stocks and bonds. The market value of the fund was €33.7m (previous year: €30.3m). In so far as the securities are pledged to employees in order to hedge phased retirement schemes, a balancing of the market value with the other provisions takes place.

(5) Cash and cash equivalents

in €m	31.12.2012	31.12.2013
Cheques, cash in hand	0.2	0.1
Balances with banks	206.1	185.3
	206.3	**185.4**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2012*	**31.12.2013**	31.12.2012*	**31.12.2013**
Assets				
Intangible assets, property, plant and equipment	1.0	1.2	10.6	7.0
Inventories	30.3	20.1	2.3	3.5
Financial receivables and other assets	1.2	1.8	3.1	2.2
Equity and liabilities				
Equity	–	–	0.3	0.1
Provisions	27.3	16.0	4.0	8.4
Financial payables and other liabilities	8.0	3.9	33.7	19.5
	67.8	**43.0**	**54.0**	**40.7**
Tax loss carryforwards	16.8	9.1	–	–
Offset	–31.8	–24.8	–31.8	–24.8
	52.8	**27.3**	**22.2**	**15.9**
- of which current deferred taxes	8.4	10.1	9.6	5.1

* amended

At the end of the year there were loss carryforwards totalling €413m (previous year: €265.9m) and temporary differences of €83.9m (€10.5m) for which no deferred tax assets were disclosed. €18.4m of the unrecognised tax loss carryforwards are time-limited to 2024 or later. Restructuring activities in recent years and other proposed reorganisational measures gave rise to positive earnings projections and the recognition of deferred tax assets totalling €11.5m (€18.7m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €3.4m (previous year: €5.5m), since a reversal in the foreseeable future was highly improbable.

(7) Equity

The purpose of capital management is to maintain our creditworthiness in capital markets, support our operating activities with adequate liquidity and substantially enhance our corporate value.

Changes in shareholders' equity are described in a separate schedule on page 66, capital management methods on page 41 onwards.

Share capital

The Parent's share capital at 31 December 2013 totalled 16,524,783 (2012: 16,485,953) no-par shares with a nominal value of €2.60. Part of the €15.6m capital authorised by the shareholders' meeting on 16 June 2011 represents the issue of employee shares in 2011. Further shares were issued in March and November 2013, as part of the employee share scheme 2012 and 2013. The remaining €15.4m was authorised until 15 June 2016. Management was further authorised to repurchase shares up to a maximum of 10% of equity capital of €42.8m. This authorisation is valid at least until the next AGM and expires no later than 15 June 2016.

All bearer shares issued were paid up in full and convey attendance and voting rights at shareholder meetings plus full dividend entitlement.

Share premium

Our share premium rose by €0.2m compared to the previous year, due to the issue of employee shares.

Reserves

The use of hedge accounting increased reserves by €1.3m (previous year: €3.5m). During completion of the underlying transactions €0.9m was recognised as an expense (previous year: €1.1m).

Deferred taxes trimmed reserves by €8.1m (previous year: €7.3m increase), with defined benefit pension plans accounting for €7.9m (previous year: €8.2m), derivatives of –€0.1m (–€0.5m), primary financial instruments of –€0.1m (–€0.5m) and foreign currency translation of €0.1m in the prior year.

(8) Pension provisions

The KBA-Group provides a number of employees with retirement, disability and surviving dependents' benefits.

In Germany the pension benefits are defined as a fixed amount with rates of increase or are determined by the wages and salary group upon retirement, incapacity or death. The benefits are paid monthly as a pension payment. The plans are generally unfunded.

In Switzerland retirement benefits include legally defined benefits that are secured by pension funds. Employers' and employees' contributions are paid into these pension funds. Employees can choose between a one-off payment or regular payments upon retirement, incapacity or death. The plans are fully funded by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

The extent of the (defined-benefit) pension obligation was calculated using actuarial methods which necessarily entailed making estimates.

Calculations were based on a discount rate of 3.7% (previous year: 3.7%) in Germany and 2% to 4.4% (1.8% to 4.1%) in the rest of Europe. Calculations were further based on a pay increase of 2.7% (2.8%) and a fluctuation rate of 2.7% (2.7%). Pension adjustments were calculated at 1.2% (1.5%). All figures are weighted averages of the assumptions contained in the pension plans. Changes in unspecified actuarial assumptions had a negligible impact on pension obligations.

The present value of pension obligations and the current market value of plan assets changed as follows:

in €m	Present value of pension obligations		Fair value of plan assets		Net obligation/ Net asset	
	31.12.2012*	**31.12.2013**	31.12.2012*	**31.12.2013**	31.12.2012*	**31.12.2013**
Status at 01.01.	**197.6**	**238.2**	**–81.2**	**–93.0**	**116.4**	**145.2**
Recognised in profit or loss						
Current service cost	6.5	7.8	–	–	6.5	7.8
Interest cost/income	7.7	7.0	–2.1	–2.0	5.6	5.0
	14.2	**14.8**	**–2.1**	**–2.0**	**12.1**	**12.8**
Recognised in other comprehensive income						
Actuarial gain/loss						
- demographic assumptions	0.3	0.1	–	–	0.3	0.1
- financial assumptions	29.0	–0.1	–4.1	–3.4	24.9	–3.5
- experience adjustments	2.7	–1.5	–	–	2.7	–1.5
Foreign currency changes	–	0.1	–	–	–	0.1
	32.0	**–1.4**	**–4.1**	**–3.4**	**27.9**	**–4.8**
Other						
Contributions paid by employer	–	–	–5.0	–4.2	–5.0	–4.2
Contributions paid by plan beneficiaries	–	–	–1.4	–1.5	–1.4	–1.5
Benefits paid	–7.3	–11.1	2.3	5.9	–5.0	–5.2
Changes in consolidated companies	4.4	0.2	–4.2	–	0.2	0.2
Foreign currency changes	0.8	–1.6	–0.7	1.4	0.1	–0.2
Other changes	–3.5	0.2	3.4	–	–0.1	0.2
	–5.6	**–12.3**	**–5.6**	**1.6**	**–11.2**	**–10.7**
Status at 31.12.	**238.2**	**239.3**	**–93.0**	**–96.8**	**145.2**	**142.5**

* amended

Pension provisions constituted the following:

in €m	31.12.2012*	31.12.2013
Present value of non-funded obligations	131.9	134.2
Present value of funded obligations	106.3	105.1
Present value of obligations	**238.2**	**239.3**
Fair value of plan assets	–93.0	–96.8
Pension provisions	**145.2**	**142.5**

* amended

Plan assets comprised €33.8m (previous year: €32.8m) from shares and equity securities, €36m (€38.5m) from loans, €9.8m (€7.3m) from liquid assets and €17.2m (€14.4m) from other assets. All equity securities and loans have quoted prices in active markets. All loans are bonds issued by European governments and are rated AAA or AA, based on rating agency ratings.

The actual return on plan assets was €5.5m (previous year: €6.2m). The anticipated rate of return is 2.2% (previous year: 2.2%), based on returns in previous years.

Plan contributions for 2014 are estimated at €3.3m (previous year: €3.9m).

The impacts of a change to an actuarial parameter on the present value of a pension obligation, whereby residual parameters remain unchanged, were as follows:

in €m	Benefit obligation	
	Increase	Decrease
Discount rate (0.5% change)	–19.5	21.3
Salary increase rate (0.5% change)	3.6	–3.4
Pension increase rate (0.5% change)	12.7	–12.5
Fluctuation rate (0.5% change)	–0.1	–
Life expectancy (1 year change)	5.0	–5.1

The weighted duration of pension obligations is 15.1 years at 31.12.2013. In 2013 pension payments totalled €11.1m (previous year: €7.3m).

Defined benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

Expenses for defined-contribution plans totalled €31.8m (previous year: €34.6m).

(9) Other provisions

in €m	Status at 01.01.2013*	Group additions	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Exchange differences	Reclassifi-cations	**Status at 31.12.2013**
Other provisions									
- for employees	34.1	1.8	22.7	4.3	120.3	0.6	–0.4	–0.1	129.3
- for sales	88.8	0.5	24.9	10.5	32.9	–	–0.6	9.6	95.8
- for sundry other purposes	54.2	–	32.9	3.2	63.7	–	–0.5	–9.5	71.8
	177.1	**2.3**	**80.5**	**18.0**	**216.9**	**0.6**	**–1.5**	**–**	**296.9**
of which									
- long-term provisions	34.0								92.4
- short-term provisions	143.1								204.5
	177.1								**296.9**

* amended

Provisions for employees included expenses relating to the realignment of the KBA Group as part of the Fit@All programme as well as long-service bonuses, performance bonuses and credits for phased retirement plans, in so far as these have not been settled with securities.

Sales expenses covered provisions for process risks, warranty and anticipated goodwill obligations arising from contractual and legal agreements, and commission obligations.

Provisions for sundry other purposes primarily related to liability insurance premiums, archiving costs and similar obligations.

Long-term provisions included obligations relating to phased retirements plans, long-service bonuses, process risks and all sundry other provisions with a maturity of more than 1 year.

(10) Financial and other liabilities

in €m	31.12.2012	Term to maturity		**31.12.2013**	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade payables						
- to affiliates	0.5	0.5	–	0.9	0.9	–
- to companies in which interests are held	0.3	0.3	–	0.1	0.1	–
- to others	64.9	60.7	4.2	71.2	71.1	0.1
	65.7	**61.5**	**4.2**	**72.2**	**72.1**	**0.1**
Bank loans	31.6	31.6	–	21.5	21.5	–
Other financial payables						
- from derivatives	0.1	0.1	–	0.1	–	0.1
- sundry other financial payables	77.2	59.3	17.9	70.4	55.2	15.2
	108.9	**91.0**	**17.9**	**92.0**	**76.7**	**15.3**
Other liabilities						
- from payments received	164.3	164.3	–	175.0	173.6	1.4
- from taxes	13.2	13.2	–	13.3	13.3	–
- sundry other liabilities	9.2	6.4	2.8	9.9	6.0	3.9
	186.7	**183.9**	**2.8**	**198.2**	**192.9**	**5.3**
	361.3	**336.4**	**24.9**	**362.4**	**341.7**	**20.7**

Bank loans (financial liabilities) were secured by mortgages to the value of €9.1m (previous year: €17.3m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of inventory and trade receivables totalling €7.2m (€4.1m). The carrying amounts of secured items of property, plant and equipment came to €15.8m (€24.6m), of trade receivables €13.5m (€16.2m), of inventories €6.2m (€4.7m) and of pledged collateral (other financial receivables) €1.1m (€1.1m). Failure to fulfil contractual obligations may result in the seizure of collateral.

Management controls Group liquidity by monitoring and planning the cash flow on an ongoing basis, taking into account agreed credit lines and the maturity structure of financial assets and liabilities. Lines of credit not drawn down by the KBA Group at the balance sheet date totalled €46.5m (previous year: €54.9m).

Sundry other financial payables included finance leases to the sum of €21.3m (previous year: €19.8m). Standard market conditions apply to renewal and purchase options.

Some sale and leaseback transactions were concluded for software licences or to finance showroom machinery, others were based on individual customer financing models, with sale and leaseback agreements being followed by financial leasing agreements with customers. Turnover was carried upon delivery of the machinery, liabilities set against accounts receivable.

The present value of future payments for finance leases was broken down as follows:

in €m	31.12.2012	Term to maturity			**31.12.2013**	Term to maturity		
		up to 1 year	1 to 5 years	more than 5 years		up to 1 year	1 to 5 years	more than 5 years
Minimum lease payments	21.7	5.8	15.1	0.8	23.0	8.1	14.7	0.2
Interest portion	–1.9	–0.8	–1.1	–	–1.7	–0.8	–0.9	–
Present value of finance lease	**19.8**	**5.0**	**14.0**	**0.8**	**21.3**	**7.3**	**13.8**	**0.2**

The derivative items included in sundry other financial liabilities are explained more fully in Note (11).

Other liabilities included total payments received of €24.7m (previous year: €21.5m) for construction contracts.

(11) Derivatives

Forward contracts with a maturity of up to 1.5 years (previous year: up to 2 years), which were used to hedge the calculation rate of other foreign currency trade contracts, correlated with underlying transactions with the same maturity. The currencies hedged were primarily CHF, JPY and US dollars. The fair value of forward contracts qualifying as hedges with a nominal amount totalling €15.2m (previous year: €19.4m) was €0.7m (€0.2m).

Interest rate swaps and cap transactions with a maturity of 3.5 years (previous year: 1.5 years) covered subsidiaries' existing interest risk.

The nominal amounts underlying derivatives, and their market values, are listed below.

in €m	Nominal amount Total 31.12.2012	Nominal amount Term to maturity more than 1 year	Market value 31.12.2012	Nominal amount Total **31.12.2013**	Nominal amount Term to maturity more than 1 year	Market value **31.12.2013**
Forward contracts	37.4	–	0.5	24.9	0.1	1.1
Interest rate hedges	6.0	6.0	–	7.0	1.0	–0.1
	43.4	**6.0**	**0.5**	**31.9**	**1.1**	**1.0**

The **nominal amount** of derivatives signifies a calculated reference amount from which payments are deduced. The risk therefore lies not in the nominal amount but in changes in the related exchange and interest rates.

The **market value** corresponds to the gains and losses derived from a fictitious offsetting of derivatives on the balance sheet date calculated using standardised measurement procedures.

(12) Further disclosures on financial instruments

in €m	Carrying amount	of which not impaired, not overdue	of which not impaired, but overdue < 3 months	of which not impaired, but overdue 3-12 months	of which not impaired, but overdue > 12 months	of which impaired
2012*						
Loans and receivables	464.6	351.5	70.5	20.8	7.1	14.7
Gross amount due from customers for contract work	18.1	8.4	4.7	1.6	–	3.4
Assets held to maturity	8.6	8.6	–	–	–	–
Assets available for sale	4.4	4.4	–	–	–	–
Financial instruments recognised at fair value	0.4	0.4	–	–	–	–
	496.1	**373.3**	**75.2**	**22.4**	**7.1**	**18.1**
2013						
Loans and receivables	426.4	354.7	36.8	14.4	3.1	17.4
Gross amount due from customers for contract work	6.2	3.5	0.4	0.6	1.7	–
Assets held to maturity	8.4	8.4	–	–	–	–
Assets available for sale	6.5	6.5	–	–	–	–
Financial instruments recognised at fair value	0.4	0.4	–	–	–	–
	447.9	**373.5**	**37.2**	**15.0**	**4.8**	**17.4**

* amended

in €m		31.12.2012**	Carrying value	
	Category under IAS 39*	Carrying amount	Amortised cost	Fair value recognised in profit or loss
Assets				
Investments and other financial receivables				
- interests in affiliates	afs	2.8	2.8	–
- loans	lar	–	–	–
- other financial receivables from finance leases	lar	1.3	1.3	–
- other financial receivables from derivatives	rafv	0.4	–	0.4 [2]
- other financial receivables from hedge accounting	–	0.2	–	–
- sundry other financial receivables	htm	8.6	8.6	–
	afs	1.6	–	–
	lar	20.0	20.0	–
		34.9	**32.7**	**0.4**
Trade receivables	lar	237.0	237.0	–
Gross amout due from customers for contract work	lar	18.1	18.1	–
Securities	afs	–	–	–
Cash and cash equivalents	lar	206.3	206.3	–
		496.3	**494.1**	**0.4**
Liabilities				
Bank loans and other financial payables				
- bank loans	ofp	31.6	31.6	–
- other financial payables from finance leases	ofp	19.8	19.8	–
- other financial payables from derivatives	rafv	0.1	–	0.1 [2]
- sundry other financial payables	ofp	57.4	57.4	–
		108.9	**108.8**	**0.1**
Trade payables	ofp	65.7	65.7	–
		174.6	**174.5**	**0.1**

* afs = available for sale
lar = loans and receivables
rafv = recognised at fair value
htm = held to maturity
ofp = other financial payables
** amended

[1] level 1 of fair-value hierarchy
[2] level 2 of fair-value hierarchy

The fair value of **interests in affiliates** could not be calculated since no prices were quoted in an active market. No sales are planned.

The fair value of **other financial receivables/payables from derivatives** was the market value. The figures disclosed for **securities, cash and cash equivalents** were the quoted market prices. This is calculated from forward exchange transactions based on forward exchange rates, for interest rate swaps the expected future cash flows are discounted using current market interest rates.

Other financial payables from finance leases refer to payment obligations discounted at the market interest rate.

The fair values of **loans** and **sundry other financial receivables/payables** were basically the carrying amounts recognised at amortised cost.

	31.12.2012	31.12.2013	Carrying value			31.12.2013
Fair value recognised in equity	Fair value	Carrying amount	Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	Fair value
–	–	4.0	4.0	–	–	–
–	–	0.2	0.2	–	–	0.2
–	1.4	1.2	1.2	–	–	1.2
–	0.4	0.4	–	0.4 [2]	–	0.4
0.2 [2]	0.2	0.7	–	–	0.7 [2]	0.7
–	8.6	8.4	8.4	–	–	8.4
1.6 [1]	1.6	1.6	–	–	1.6 [1]	1.6
–	20.0	17.6	17.6	–	–	17.6
1.8	**32.2**	**34.1**	**31.4**	**0.4**	**2.3**	**30.1**
–	237.0	222.0	222.0	–	–	222.0
–	18.1	6.2	6.2	–	–	6.2
–	–	0.9	–	–	0.9 [1]	0.9
–	206.3	185.4	185.4	–	–	185.4
1.8	**493.6**	**448.6**	**445.0**	**0.4**	**3.2**	**444.6**
–	31.6	21.5	21.5	–	–	21.5
–	19.6	21.3	21.3	–	–	21.2
–	0.1	0.1	–	0.1 [2]	–	0.1
–	57.4	49.1	49.1	–	–	49.1
–	**108.7**	**92.0**	**91.9**	**0.1**	**–**	**91.9**
–	65.7	72.2	72.2	–	–	72.2
–	**174.4**	**164.2**	**164.1**	**0.1**	**–**	**164.1**

The maximum **credit risk** relating to financial assets corresponded to the carrying amounts, with no perceptible risks relating to assets that were neither value-adjusted nor overdue.

The **liquidity risk** derived from cash flows comprising contractual payments of interest and capital on bank loans. Interest-bearing debts and payables from finance leases will result in a liquidity outflow of €29.5m (previous year: €37.4m) within the next twelve months, €12.2m (€12m) in one to three years and €2.5m (€2.2m) in more than three years from now. Additional liquidity was required for sundry other financial payables, other financial payables and financial guarantees.

Interest, exchange and credit risks relating to financial assets and liabilities at the balance sheet date are indicated in the chart below showing the associated net gains and losses.

in €m	Net gain/loss	from interest	from subsequent measurement due to impairment	from subsequent measurement currency impact	from disposal	Other
31.12.2012						
Loans and receivables	–21.7	2.8	–12.6	–0.5	–11.4	–
Gross amount due from customers for contract work	–3.8	0.2	–3.8	–0.2	–	–
Assets available for sale	–1.5	0.2	–	–	–	–1.7
Financial instruments recognised at fair value in profit or loss	1.3	–	–	1.3	–	–
Other financial payables	–5.7	–4.2	–	–1.5	–	–
	–31.4	**–1.0**	**–16.4**	**–0.9**	**–11.4**	**–1.7**
31.12.2013						
Loans and receivables	–24.2	2.3	–14.0	0.6	–13.1	–
Gross amount due from customers for contract work	1.4	0.9	1.2	–	–0.7	–
Assets available for sale	0.1	0.1	–	–	–	–
Financial instruments recognised at fair value in profit or loss	–0.2	–	–	–0.2	–	–
Other financial payables	–4.0	–4.1	–	0.1	–	–
	–26.9	**–0.8**	**–12.8**	**0.5**	**–13.8**	**–**

Value adjustments were made of €10.6m (previous year: €15.6m) on trade receivables and €2.2m (€0.8m) on investments and other financial receivables.

Foreign currency risks were assessed using a sensitivity analysis based on the premise that key currencies for the KBA-Group fluctuate in value by +/– 5% relative to the euro.

A 5% devaluation in the US dollar would have increased equity by €0.6m (previous year: €0m) and income by €0.6m (–€0.7m) on the balance sheet date, whereas a 5% revaluation would have reduced equity by €0.7m (€0m) and income by €0.6m (–€0.8m). A 5% devaluation in CHF would have increased equity by €3.7m (€0.3m) and income by €3.3m (€0.3m). A 5% revaluation would have reduced equity by €4.0m (€0.3m) and income by €3.7m (€0.3m). On the balance sheet date the KBA Group was exposed to a foreign currency risk amounting to €65.6m (previous year: €25.4m), primarily relating to the category "available for sale" (previous year: "available for sale").

A sensitivity analysis to assess **interest rate risks**, based on the assumption that variable interest rates would fluctuate by ±5%, revealed that such fluctuations would have had no significant impact on equity in the business year.

(13) Other financial commitments and contingent liabilities

Other financial commitments

in €m	31.12.2012	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2013**	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years
Commitments from:								
- operating leases	7.4	2.7	4.3	0.4	6.4	2.5	3.7	0.2
- leasing and service contracts	9.4	7.4	2.0	–	12.6	8.4	4.1	0.1
- investment plans	2.7	2.7	–	–	3.5	3.5	–	–
- sundry other activities	0.1	0.1	–	–	0.1	0.1	–	–
	19.6	**12.9**	**6.3**	**0.4**	**22.6**	**14.5**	**7.8**	**0.3**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €3.9m (previous year: €4.1m) were carried in the income statement. Commitments from operating leases were stated at the minimum lease payments.

Investment plans included commitments to invest in property, plant and equipment to the value of €3.5m (previous year: €2.7m).

Contingent liabilities

These comprised contingencies totalling €50.1m (previous year: €52.3m) from financial guarantees, primarily relating to repurchase obligations to lessors and banks. The guaranteed repurchase price decreased over the term of the repurchase obligation.

Provisions totalling €5.8m (previous year: €5.7.m) were created for existing risks that were not classified as minor.

(I) Explanatory Notes to the Income Statement

(14) Revenue

Revenue from the sale of machinery came to €858.8m (previous year: €1,073.9m), other sales totalled €240.9m (€220m).

Construction contract revenue totalled €106.9m (previous year: €173.8m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €207.3m (€367.2m).

Since the date of the initial consolidation KBA-Kammann GmbH disclosed revenue of €13.5m and net profit of €0.8m. Flexotecnica S.p.A. in Italy posted revenue of €4m and a net loss of €0.6m.

Further details can be found in Segment Information, Note (K).

(15) Expenses by function

Cost of sales

Cost of sales included €1m (previous year: €0.9m) in subsidies for apprentice training, job promotion and contract development projects.

Manufacturing costs for construction contract projects still in progress on the balance sheet date amounted to €190.1m (previous year: €352.9m).

Research and development costs

Research and development costs before special items rose slightly by €2.3m.

Government research grants for expenses already incurred were recognised at the time of approval, reducing research and development costs by €0.4m (previous year: €0.3m).

Distribution costs and administrative expenses

Due to a decline in deliveries and lower marketing expenses compared to 2012, the year of Drupa, **distribution costs** before special items fell by €26.9m compared to the previous year.

Administrative expenses fell by €5.6m before special items to €78.9m. This includes €1.4m in transaction costs for company acquisitions.

(16) Expenses by nature

Material costs

in €m	2012	**2013**
Cost of raw materials, consumables, supplies and purchased goods	507.2	429.4
Cost of purchased services	114.6	76.5
	621.8	**505.9**

Personnel costs

in €m	2012*	**2013**
Wages and salaries	333.8	432.1
Social security and other benefits	61.3	60.4
Pensions	6.9	8.5
	402.0	**501.0**
Average payroll		
- wage-earning industrial staff	3,345	3,274
- salaried office staff	2,556	2,594
- apprentices/students	371	389
	6,272	**6,257**

* amended

Reimbursements from the Federal Employment Agency for social security expenses relating to short-time work reduced personnel expenses by €0.3m (previous year: €0.2m).

(17) Other operating income and expenses

in €m	2012	**2013**
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	0.7	1.5
Foreign currency gains	8.6	5.0
Currency measurement	4.1	4.9
Reversal of write-downs	2.8	4.4
Sundry other operating income	20.0	14.2
	36.2	**30.0**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–1.9	–1.3
Foreign currency losses	–9.6	–5.2
Currency measurement	–2.3	–4.7
Creation of write-downs	–19.2	–17.2
Sundry other operating expenses	–23.1	–13.6
	–56.1	**–42.0**
Other operating income and expenses	**–19.9**	**–12.0**

Sundry other operating income included €8.3m (previous year: €9.9m) from the reversal of sales-related provisions. It also included insurance and compensation claims and other refunds.

Sundry other operating expenses included the loss of receivables outstanding, customer credit notes and warranty claims.

(18) Special Items

Under the title Fit@All the management board developed a comprehensive restructuring concept for the realignment of the group and to strengthen the company's profitability and competitiveness in the long-term. This led to impairments on intangible assets, property, plant and equipment of €28.7m (previous year: €27.1m) as well as on inventories of €7.1m. Provisions totalling €114.8m were made for personnel and other measures connected to the planned restructuring of the Group. Further special items affect allowances on receivables from non-consolidated sales subsidiaries and on assets held for sale worth €4.6m.

(19) Financial result

in €m	2012*	**2013**
Other financial results		
Impairments in investments	–1.7	–
	–1.7	**–**
Interest income/expense		
Other interest and similar income	3.6	3.2
- of which affiliates	(–)	(0.3)
Other interest and similar expenses	–11.9	–10.6
- from pension obligations	(–5.6)	(–5.0)
	–8.3	**–7.4**
Financial result	**–10.0**	**–7.4**

* amended

(20) Income taxes

in €m	2012*	2013
Earnings before taxes	**3.7**	**–138.1**
Group tax rate	30.0 %	30.0 %
Expected taxes	**–1.1**	**41.4**
Tax effects from		
- variances due to different tax rates	7.6	11.5
- tax-free earnings	0.3	0.1
- write-downs	–9.6	–69.2
- decreases and increases	–1.3	–0.6
- other	0.8	1.2
Income tax	**–3.3**	**–15.6**

in €m	2012*	2013
Actual tax expense	–6.6	–3.9
Prior-period income taxes	–0.3	–0.2
Deferred taxes from loss carryforwards	–9.2	–7.7
Deferred tax income from temporary differences	12.8	–3.8
	–3.3	**–15.6**

* amended

The use of previously unrecognised tax losses relating to subsidiaries as well as previously unrecognised temporary differences reduces the actual tax expense by €1m (previous year: €0.8m).

The payment of a dividend to Parent company shareholders had no impact on income taxes. The recognised goodwill is non-tax-deductible.

(21) Earnings per share

	2012*	2013
Group profit/loss for the period in €m	0.4	–153.7
Weighted average of ordinary shares issued	16,485,953	16,503,691
Earnings per share in €	**0.03**	**–9.31**

* amended

The increase in the weighted average of ordinary shares issued resulted from the issue of 20,420 employee shares in the first quarter of 2013 and the issue of 18,410 employee shares in the fourth quarter of 2013. In 2012 no employee shares were issued. There was no dilution of earnings per share.

(J) Explanatory Notes to the Cash Flow Statement

The cash flow statement as per IAS 7 shows how Group funds changed as a result of cash inflows and outflows from operating, investing and financing activities.

Cash flows from operating activities were adjusted for currency translation effects. Funds totalling €185.4m (previous year: €206.3m) included cash and cash equivalents. €9.1m was spent on company acquisitions and payment was settled in full. This was offset by cash and cash equivalents of €0.4m. The acquired assets include intangible assets of €5.2m, property, plant and equipment of €5.6m, deferred tax assets of €2.9m, other non-current assets of €0.5m, inventories of €16.6m, trade receivables of €7.1m and other current assets of €2.2m. The acquired gross value of trade receivables stood at €7.8m. The acquired debts comprise non-current other provisions of €1.8m, deferred tax liabilities of €2.2m, other non-current liabilities of €0.3m, trade payables of €8.7m, bank loans and other current financial payables of €9.9m, other current liabilities of €10.5m, and remaining current liabilities of €0.9m.

(K) Segment Information

Business segments

In accordance with IFRS 8 segment information for the KBA Group distinguishes between the two business segments web and special presses, and sheetfed offset presses.

The business segment web and special presses encompasses newspaper, commercial, digital, banknote and security presses, systems for industrial coding as well as presses for the direct decoration of glass and flexible packaging. The business segment sheetfed offset presses constitutes commercial, book, poster, packaging and metal-decorating presses and also presses for printing on film and electronic data storage devices.

Segment information was based on the same accounting and consolidation procedures as the consolidated financial statements. Internal Group transactions contained in the segment result (operating profit/loss) were classed as arm's length transactions.

Inter-segment sales and other reconciliation effects between the two business segments were of minor significance.

in €m	Web and special presses		Sheetfed offset presses		Group	
	2012*	**2013**	2012*	**2013**	2012*	**2013**
Revenue	650.7	527.8	643.2	571.9	1,293.9	1,099.7
Operating profit/loss before special items	52.3	32.9	–11.5	–8.4	40.8	24.5
Operating profit/loss after special items	52.3	–53.1	–38.6	–77.6	13.7	–130.7
Depreciation	19.5	16.5	18.3	13.7	37.8	30.2
Major non-cash expenses	57.4	139.8	43.0	77.7	100.4	217.5
Capital investments	12.9	18.7	20.1	13.6	33.0	32.3

* amended

Geographical breakdown

The geographical regions were defined according to their significance for Group income. Reconciliation related to non-current financial assets and deferred tax assets.

in €m	Revenue		Capital investments		Non-current assets	
	2012	**2013**	2012	**2013**	2012*	**2013**
Germany	152.1	197.0	23.0	24.4	153.1	152.5
Rest of Europe	395.9	331.0	9.6	7.4	88.5	65.3
North America	134.1	140.5	0.2	0.2	1.0	0.8
China	178.7	134.9	0.2	0.3	0.5	9.4
Rest of Asia/Pacific	134.1	166.1	–	–	–	–
Africa/Latin America	299.0	130.2	–	–	–	–
Reconciliation	–	–	–	–	69.3	44.1
Group	**1,293.9**	**1,099.7**	**33.0**	**32.3**	**312.4**	**272.1**

* amended

(L) Notes to Section 285 no. 17 HGB

The auditors, KPMG Bayerische Treuhandgesellschaft, received €0.4m remuneration for their auditing services. This includes the annual and Group audit for 2013.

(M) Related Party Disclosures

Related parties as defined by IAS 24 are all non-consolidated affiliates, interests (see Note (2)) and members of the management and supervisory boards.

Business transactions with related entities resulted essentially from deliveries to and services for our sales and service subsidiaries, which as intermediaries disclosed receivables and revenue of roughly the same amount from customers. The same conditions applied as for arm's length transactions. For terms to maturity see Notes (2) and (10).

in €m	2012	**2013**
Other current financial receivables at 31.12.	1.5	5.6
Trade receivables at 31.12.	21.0	15.1
Trade payables at 31.12.	0.8	1.0
Revenue	29.1	26.2

Management board remuneration totalled €1.8m (previous year: €1.6m), with the fixed portion representing €1.8m (€1.6m). The variable portion was based on net profit.

Pension provisions were increased by €0.5m (previous year: €0.3m) for the current service cost. Remuneration for former members and their survivors stood at €1.2m (€1.2m). Supervisory board remuneration totalled €0.3m (€0.4m), of which €0.3m (€0.3m) was fixed.

In accordance with the guidelines stated in IAS 19 (revised) €25.9m (previous year: €25.2m) was set aside for pension claims by active and retired members of the management board, and their survivors. The individual compensation specified by section 314 (1) 6 of the German Commercial Code was omitted as per section 314 (2) in conjunction with section 286 (5).

At 31 December 2013 members of the management board held 2.7% and members of the supervisory board 0.1% of Koenig & Bauer's share capital, giving a total of 2.8%.

Supervisory Board

Dr Martin Hoyos (since 14.10.2013)**
Chairman (since 07.03.2014)
Independent corporate consultant
Vienna, Austria

Heinz-Joachim Neubürger
(from 13.06.2013 until 25.02.2014)
Chairman (from 09.10.2013 until 25.02.2014)
Independent corporate consultant
London, United Kingdom

Dieter Rampl (until 26.09.2013)
Chairman
Banker
Munich

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert
Deputy chairman
Business economist
Würzburg

Willi Eisele* (from 14.01.2014)**
Representative of IG Metall
Dresden

Michael Gasbarri*
Lathe operator
Frankenthal

Matthias Hatschek
Entrepreneur
St Martin, Austria

Günter Hoetzl* (until 31.12.2013)
Representative of IG Metall
Hofheim

Dr Hermann Jung (until 13.06.2013)
Member of the management board, Voith GmbH
Heidenheim

Baldwin Knauf
Deputy chairman of the shareholders' committee,
Knauf Gips KG
Iphofen

Walther Mann*
Representative of IG Metall
Würzburg

Klaus Schmidt*
Director Corporate Communications, KBA
Hettstadt

Claus Weihmann*
Gear grinder
Radebeul

Professor Horst Peter Wölfel
Department of Structural Dynamics (ret.)
Technical University Darmstadt
Würzburg

* workforce representative
** appointed by the register court

Committees

Mediation committee as per section 27(3) of the Law on Codetermination
Dr Martin Hoyos (from 07.03.2014)
Heinz-Joachim Neubürger (from 26.09.2013 until 25.02.2014)
Dieter Rampl (until 26.09.2013)
Klaus Schmidt
Gottfried Weippert
Professor Horst Peter Wölfel

Human Resources Committee
Dr Martin Hoyos (from 07.03.2014)
Heinz-Joachim Neubürger (from 26.09.2013 until 25.02.2014)
Dieter Rampl (until 26.09.2013)
Reinhart Siewert
Gottfried Weippert

Financial Audit Committee
Reinhart Siewert
Dieter Rampl (until 26.09.2013)
Dr Martin Hoyos (from 28.10.2013 until 07.03.2014)
Claus Weihmann
Gottfried Weippert

Strategy Committee
Reinhart Siewert
Dr Hermann Jung (until 13.06.2013)
Heinz-Joachim Neubürger (from 26.09.2013 until 25.02.2014)
Klaus Schmidt
Gottfried Weippert

Nomination Committee
Heinz-Joachim Neubürger (from 26.09.2013 until 25.02.2014)
Dieter Rampl (until 26.09.2013)
Reinhart Siewert
Baldwin Knauf
Dr Hermann Jung (until 13.06.2013)
Dr Martin Hoyos (from 28.01.2014)

Management Board

Claus Bolza-Schünemann
President and CEO
Human resources, legal affairs and insurance
Würzburg

Dr Axel Kaufmann
Deputy president
CFO
Munich

Michael Kummert
Executive vice-president production, purchasing and logistics
Höchberg

Christoph Müller
Executive vice-president for web press product house
Würzburg

Ralf Sammeck
Executive vice-president for sheetfed offset product house
Radebeul

Other positions held by members of the Koenig & Bauer supervisory board

	Member of the supervisory board at:
Dr Martin Hoyos Chairman (from 07.03.2014)	AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands Curanum AG, Munich, Germany CAG Holding GmbH, Marktl, Austria Prinzhorn Holding GmbH, Wiener Neudorf, Austria
Heinz-Joachim Neubürger (until 25.02.2014)	Deutsche Börse AG, Frankfurt, Germany Hamburg Trust Real Estate Investment Management GmbH, Hamburg, Germany
Dieter Rampl (until 26.09.2013)	FC Bayern München AG, Munich, Germany KKR Management LLC, New York, USA Mediobanca S.p.A., Milan, Italy
Reinhart Siewert Deputy chairman	Bank Schilling & Co. AG, Hammelburg, Germany KBA-Mödling AG, Mödling, Austria
Dr Hermann Jung (until 13.06.2013)	Dachser GmbH & Co. KG, Kempten, Germany Talanx AG, Hannover, Germany HDI V.a.G., Hannover, Germany
Baldwin Knauf	Knauf Gruppe, Iphofen, Germany
Günter Hoetzl (until 31.12.2013)	Tyco Electronics AMP GmbH, Speyer, Germany
Walther Mann	Braun GmbH, Marktheidenfeld, Germany
Klaus Schmidt	KBA-MePrint AG, Veitshöchheim, Germany KBA-Metronic GmbH, Veitshöchheim, Germany KBA CEE Sp. z o.o., Warsaw, Poland

Other information

A declaration of compliance was issued in accordance with section 161 of German Company Law and made permanently accessible under www.kba.com/en/investor/corporate_governance.html .

Würzburg, 20 March 2014
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Axel Kaufmann
Deputy president

Michael Kummert

Christoph Müller

Ralf Sammeck

Auditor's Report

We have audited the consolidated financial statements prepared by KOENIG & BAUER Aktiengesellschaft, Würzburg, comprising the Group Balance Sheet, the group income statement, the statement of comprehensive group income, the statement of changes in group equity, the group cashflow statement and notes, together with the group management report for the business year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch „German Commercial Code"] are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Nuremberg, 20 March 2014

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[Original German version signed by:]

Janz	Dr Kelle
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Würzburg, 20 March 2014
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Axel Kaufmann
Deputy president

Michael Kummert

Christoph Müller

Ralf Sammeck

Balance Sheet for Koenig & Bauer AG to 31 December 2013

under the German Commercial Code (HGB)

Assets in €m	31.12.2012	**31.12.2013**
Non-current assets		
Intangible assets	0.7	5.4
Property, plant and equipment	112.1	107.1
Financial assets	62.5	55.7
	175.3	**168.2**
Current assets		
Inventories less payments received	37.4	57.1
Trade receivables	123.1	71.3
Other receivables and assets	121.0	107.5
Securities	26.3	–
Cash and cash equivalents	91.5	93.4
	399.3	**329.3**
Prepayments	**0.7**	**1.4**
Positive difference from asset allocation	**–**	**1.8**
	575.3	**500.7**

Equity and liabilities in €m	31.12.2012	**31.12.2013**
Equity		
Share capital	42.9	43.0
Share premium	87.3	87.5
Reserves	105.9	105.9
Net loss (profit in previous year)	6.6	–122.0
	242.7	**114.4**
Special items with equity portion	**3.6**	**3.3**
Provisions		
Pension and similar provisions	70.0	75.0
Tax provisions	1.6	1.5
Other provisions	168.7	211.8
	240.3	**288.3**
Liabilities		
Bank loans	7.8	–
Trade payables	36.9	46.9
Other liabilities	44.0	47.8
	88.7	**94.7**
	575.3	**500.7**

Income Statement for Koenig & Bauer AG for 2013

under the German Commercial Code (HGB)

in €m	2012	**2013**
Revenue	970.9	768.8
Cost of sales	–819.1	–638.4
Gross profit	**151.8**	**130.4**
Distribution costs	–67.5	–56.7
Administrative expenses	–37.3	–34.0
Other operating income	24.2	21.4
Other operating expenses	–68.5	–86.8
Loss from operations	**2.7**	**–25.7**
Financial result	0.8	24.9
Profit/loss from ordinary activities	**3.5**	**–0.8**
Extraordinary loss	–1.4	–121.0
Earnings before taxes	**2.1**	**–121.8**
Income taxes	–0.2	–0.2
Net losss (profit in previous year)	**1.9**	**–122.0**
Profit carried forward	11.3	–
Transfer to other reserves	–6.6	–
Net loss (retained earnings in previous year)	**6.6**	**–122.0**

Key Financial Dates

Interim report on 1st quarter 2014
9 May 2014

Koenig & Bauer Annual General Meeting
28 May 2014
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2014
12 August 2014

Interim report on 3rd quarter 2014
11 November 2014

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Consolidated Financial Statements

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