KOENIG & BAUER

On Future Track

Annual Report 2019

Koenig & Bauer Group

in €m	2018	**2019**	Change in %
Order intake	1,222.0	**1,141.3**	-6.6
Order backlog at 31.12.	610.9	**533.7**	-12.6
Revenue	1,226.0	**1,218.5**	-0.6
Sales by region (in %)			
Germany	13.9	**15.4**	10.8
Rest of Europe	33.8	**33.2**	-1.8
North America	14.8	**12.6**	-14.9
Asia/Pacific	25.3	**26.1**	3.2
Africa/Latin America	12.2	**12.7**	4.1
Earnings before interest and taxes (EBIT)	87.4	**56.0**	-35.9
EBIT margin (in %)	7.1	**4.6**	-35.2
Earnings before taxes (EBT)	83.9	**49.8**	-40.6
EBT margin (in %)	6.8	**4.1**	-39.7
Net profit	64.0	**38.4**	-40.0
Balance sheet total	1,178.3	**1,343.1**	14.0
Intangible assets, property, plant and equipment	293.0	**361.0**	23.2
Equity	453.4	**460.4**	1.5
Equity ratio (in %)	38.5	**34.3**	-10.9
Cash flows from operating activities	66.3	**-7.9**	-111.9
Investment in intangible assets, property, plant and equipment	50.5	**104.9**	107.7
Depreciation on intangible assets, property, plant and equipment	28.9	**33.6**	16.3
Payroll: annual average	5,644	**5,763**	2.1
Earnings per share in €	3.86	**2.31**	-40.2
Dividend per share in €	1.00	**–**	-100.0

Key figures

#1

in cardboard, banknote, metal decorating and glass direct printing

The Koenig & Bauer Group is a customer-centric partner to the international printing and converting industry with annual revenue of over €1.2 billion and 5,800 employees. We are the global market and technology leader in security printing and in growing packaging printing markets. Throughout our 202-year history, we have been driven by innovation and technological progress. Systematically oriented to meeting customer requirements, our hightech printing presses and systems permit highly efficient printing, finishing and postpress processes. Our services cover a wide range of customer-oriented offerings including networked printing.

Sheetfed

- Sheetfed offset and digital printing
- Finishing and postpress solutions
- Flatbed and rotary die-cutters
- Folder gluers
- Workflow and logistics solutions
- Services

Digital & Web

- Digital and offset webfed presses
- Flexo presses for flexible packaging
- Flexo and digital printing on corrugated board
- Workflow and logistics solutions
- Services

Special

- Solutions for banknote and security printing
- Special equipment for metal decorating
- Industrial marking and coding systems
- Glass and hollow container decorating
- Services

Segments

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with numerous product innovations for printing and converting companies around the world

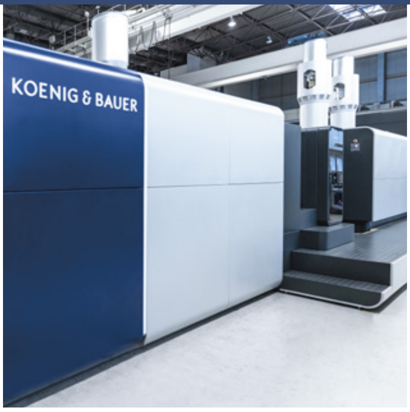
New customer-centric offers providing users with tangible added value

Fully automated printshop workflow from creation of the jobs in the MIS, via printing and finishing through to costing analysis

Increased efficiency, excellent quality and greater transparency through networked **solutions based on digital transformation**

Packaging solutions from a single supplier for the printing, die-cutting and gluing of folding cartons

Koenig & Bauer covers the entire process chain in folding carton production, enabling an end-to-end printshop workflow from initial job creation in the management information system (MIS), via printing and die-cutting to folding and gluing. Through developments of our own, acquisitions and cooperation agreements, we have established ourselves as a one-stop-shop partner in this growth market. In addition to Rapida sheetfed offset presses, the comprehensive portfolio includes also flatbed die-cutters such as the Ipress 106 K PRO from Iberica, folder gluers such as the Omega Allpro 110 from Duran and the rotary die-cutter Rapida RDC 106.



Digital sheetfed printing for the folding carton market with the VariJET 106

In a joint venture with Durst, we are working on the VariJET 106 press for digital folding carton printing with a high degree of user orientation and tangible added value for the customer. Alongside high quality standards, we want to offer them an attractive total cost of ownership. There is a place for digital printing above all in versioning applications such as special promotions and customised or seasonal packaging, as well as for ultra-short runs. The VariJET 106 integrates inkjet technology into the platform of the high-performance Rapida 106 press. The hybrid printing system pairs the benefits of inkjet printing with the broad spectrum of inline finishing and conversion solutions accompanying sheetfed offset. Single and multiple coatings, cold foil transfer and die-cutting will be possible as inline processes. The modern design language and structured colour contrasts of this innovative digital press have already convinced the international jury of the iF Design Award, which named the VariJET 106 a gold award winner in the discipline Product Design.

Networked printshop workflows and Rapida LiveApps

End-to-end printshop workflows with interfaces to management information systems (MIS) such as Optimus Dash visualise the entire process and value chain of commercial or packaging production and enable company processes to be controlled in real time. The benefits to be derived, besides perfect communication between all involved departments, include lean management practices, the identification of optimisation potential and a clear cost focus. The Rapida LiveApps literally place modern tools for press control and stores management in the hands of the printer. The full scope of press functions can be controlled through the ErgoTronicApp. The operator can call up all relevant information on a mobile device, for example job data, production times, press status messages and maintenance reminders, including help texts describing the tasks to be completed. In this sense, the ErgoTronicApp becomes a mobile console. With the ProductionApp, on the other hand, it is possible to manage store room inventories and track consumables batches. Even retrospectively, the app provides a precise overview of which print jobs were produced with which batches of substrates, inks and other consumables.

Industrial digital printing for decors and beverage cartons with the RotaJET

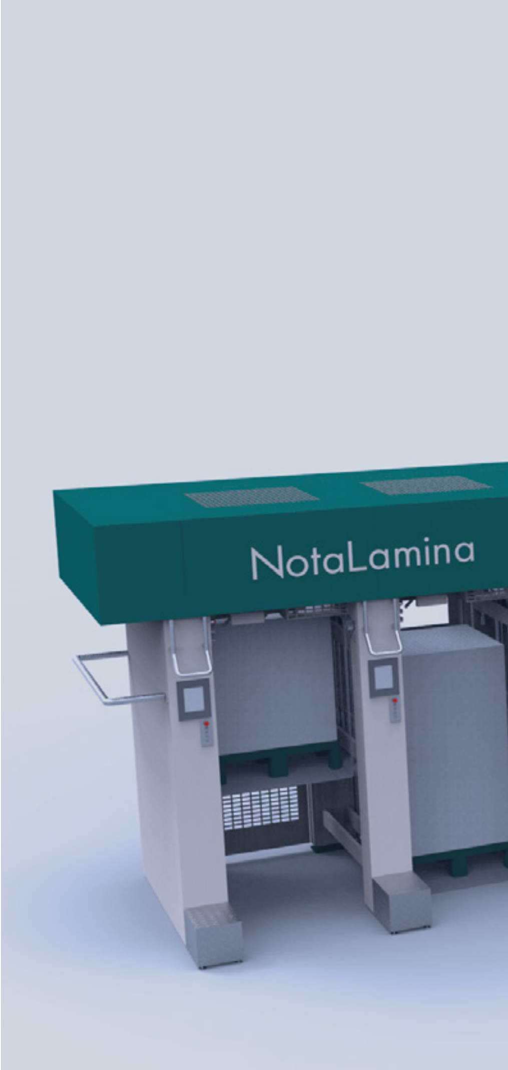
The RotaJET series ranks among the top class in industrial inkjet printing presses and is one of the most high-performing digital press series on the market. The system processes a great variety of different substrates, including difficult-to-print materials such as decors. Designed for decor printing and similar applications, the RotaJET addresses also growth areas in the packaging industry, for example the printing of beverage cartons. The trends towards smaller order volumes, individualised products and fast-time-to-market production are driving a structural shift from the currently predominant gravure and flexo technologies to digital printing, and encouraging the furniture and flooring industries to establish their own digital printing capacities. Accordingly, we view recent orders for our mature and high-quality digital solution for decor printing as an indicator of great revenue and earnings potential. This applies similarly to the field of digital beverage carton printing after receiving a key order from Tetra Pak. A large-format RotaJET is to be installed at the Tetra Pak converting plant in Denton (Texas/USA). Field testing of the digitally printed carton packages is expected to begin in mid-2020.

The new digital corrugated post-printer CorruJET

Based upon extensive experience gained with the digital web press RotaJET, the CorruJET was developed specifically for the corrugated industry. The new sheetfed press is a high-performance solution for top-quality digital post-printing on corrugated board. For all those working with large-format corrugated sheets, it represents a unique overall concept combining implementation of the latest technologies and functionalities with simple and intuitive handling. The first CorruJET is in production in the new digital print centre of the well-known corrugated packaging company Kolb in Memmingen/Germany. Koenig & Bauer has brought the CorruJET 170 into the joint venture Koenig & Bauer Durst, to which Durst has contributed its successful SPC 130. With these two presses, the joint venture can point to a unique portfolio for digital direct printing on corrugated board, because no other manufacturer is in a position to offer digital systems for both format classes. And as soon as development of the VariJET 106 is completed, Koenig & Bauer Durst will be adding another all-rounder to its line-up.

Brand new CorruCUT represents a quantum leap in quality and performance

The CorruCUT has been designed for the high-performance production of rotary die-cut corrugated boxes in ultimate flexo post-printing quality. Incorporating a host of innovative technologies and new functions, it combines high print and die-cutting quality with precision and market-leading performance. Following a testing phase of the prototype with numerous unique features at our site, the prestigious pilot customer and development partner Klingele approved the ordered CorruCUT after a demanding factory acceptance test in July 2019. The press went into production at Klingele's Delmenhorst plant near Bremen in November 2019, and has been in two-shift operation since the beginning of February 2020. The engineering design, the print and die-cutting quality, the high production speeds and the implementation of the operating concept have not only impressed Klingele, but have also received very positive feedback from visitors from the corrugated board industry worldwide. One revolutionary feature is the vacuum-belt feeder without infeed shaft, which guarantees precise and damage-free feeding of the corrugated sheets. Sheet guiding based on a continuous vacuum transport system ensures a stable passage through the press and perfect register over the entire printing process. Alongside state-of-the-art servo direct drives providing for maximum register accuracy in multi-colour printing, the sheet cleaning facility for dust-free quality printing results is a further highlight. An ergonomic solution for anilox roller exchange ensures maximum ease of operation. The top vacuum stacker is also an entirely new design and incorporates innovative approaches to waste disposal (zero defect concept).



Newly developed Evo XC for flexible packaging printing

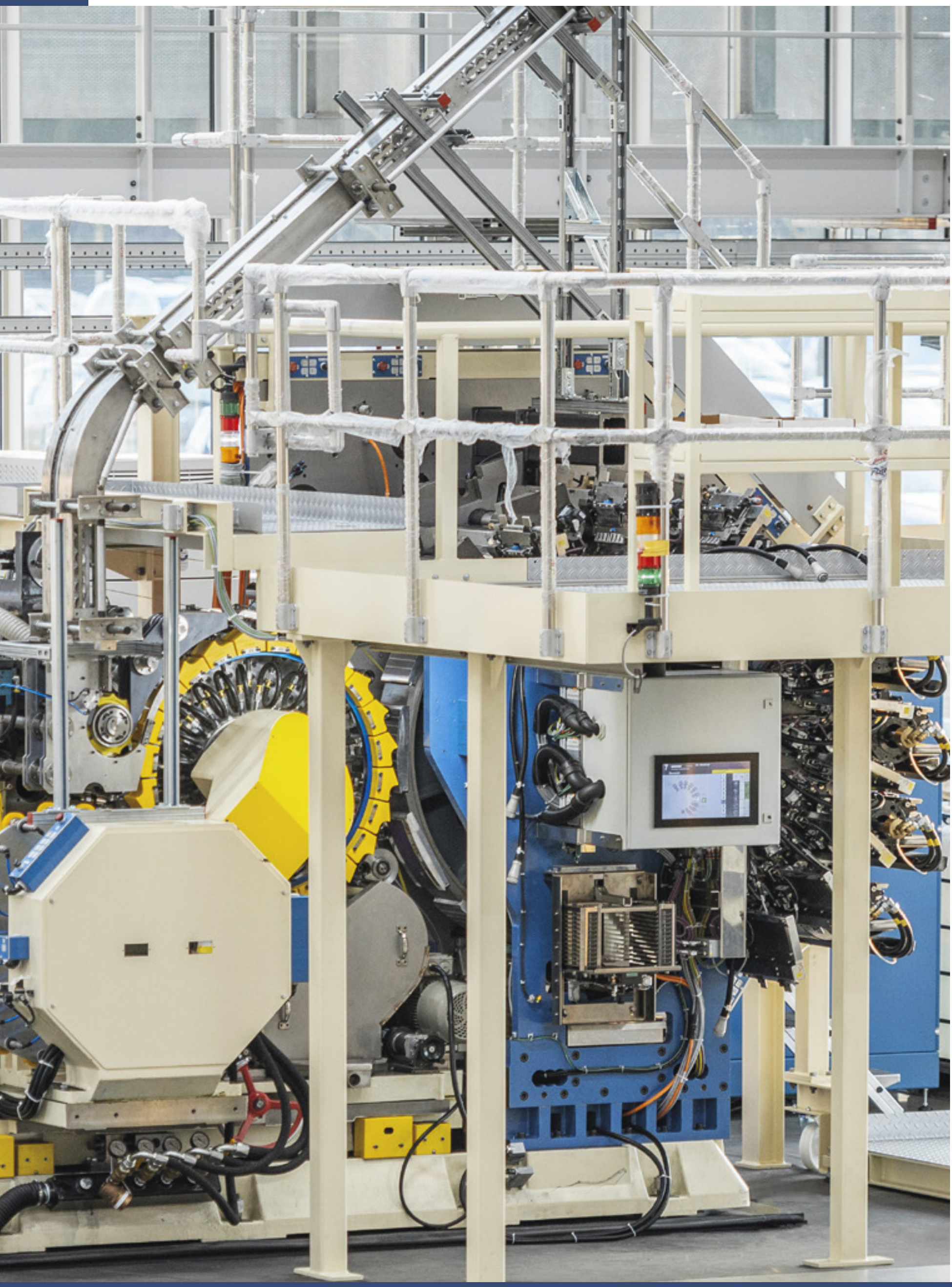
The compact Evo XC was designed for maximum operator friendliness in short run production and delighted visitors at the K trade fair in Düsseldorf in October 2019. With the smallest footprint in the industry, this highly productive CI flexo press delivers outstanding print quality on flexible packaging materials such as foil and paper, and enables cost-effective printing with environment-friendly water-based inks on both paper and plastic films. The press also incorporates innovative technologies for efficient drying and energy recovery during production.

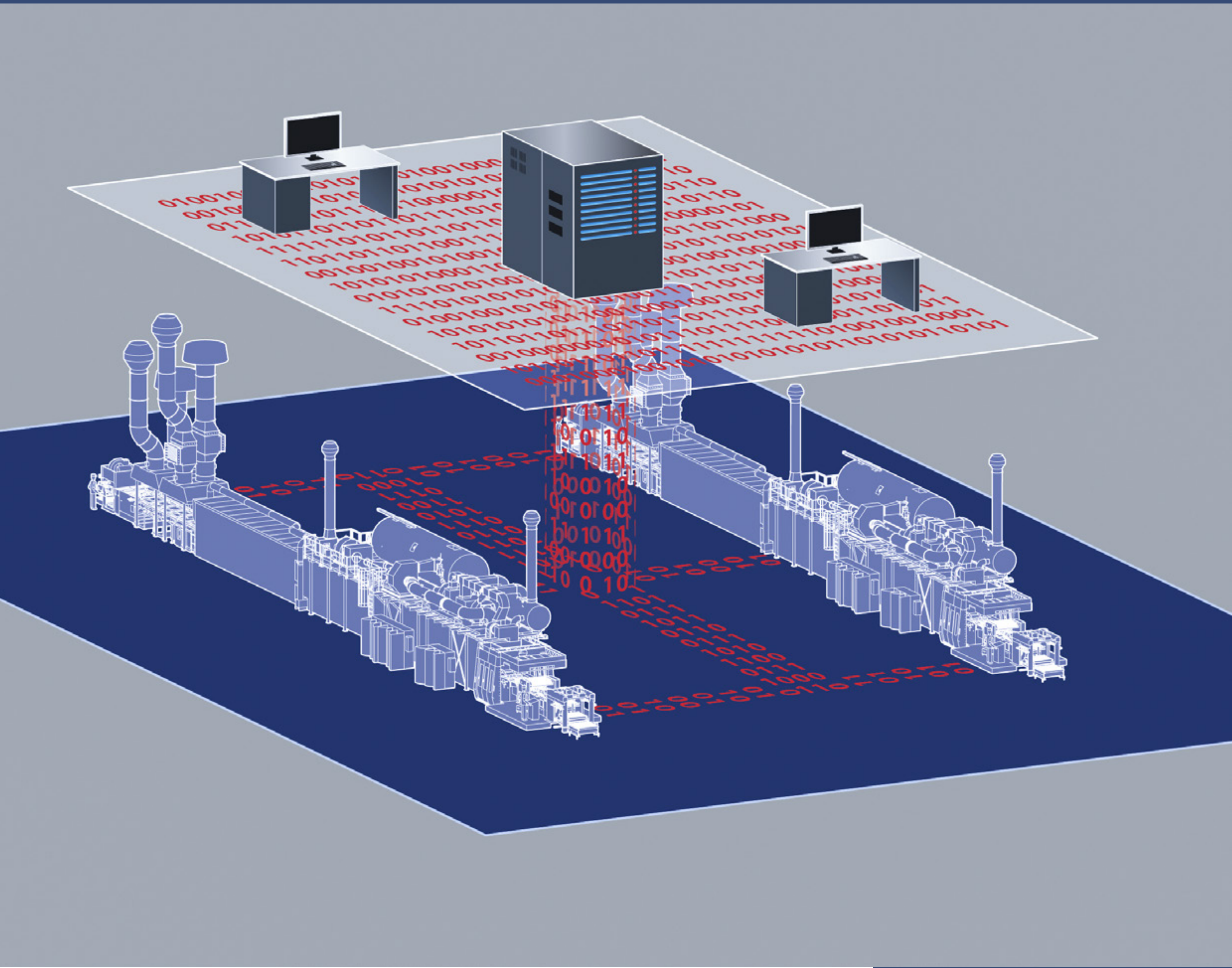
EverFit and NotaLamina extend the lifespan of banknotes

The life expectancy of banknotes is a key parameter for the smooth and economical management of money circulation. As contamination and loss of colour are the most frequent reasons for banknotes being withdrawn from circulation, central banks are placing an ever stronger focus on technologies to improve the resistance of banknotes to soiling and abrasion. The sheetfed machine NotaLamina developed in cooperation with Banque de France incorporates a brand new technology by the name of EverFit, which provides for a protective polymer film to be laminated to both sides of fully printed sheets in a hot-stamping process. The further processing steps such as cutting then follow as usual.

CS MetalCan for 2-piece beverage can decorating

The newly developed CS MetalCan has several important advantages in the decoration of 2-piece beverage cans. Alongside high production speeds and print quality, it offers considerable productivity benefits, above all through increased automation and drastically reduced make-ready times of just a few minutes. Thanks to the keyless inking technology and direct drives, the highly efficient CS MetalCan comes into stable colour in next to no time and produces significantly less waste. The perfect interaction of all components enables highly profitable and reliable beverage can decoration.





ModEX – the first step towards a smart coating line

The modular data exchange system ModEX opens up new possibilities for the networked, automated operation of coating lines in metal decoration. Besides lowering production costs, the system serves to increase the available production time per year. On the basis of run length information supplied to ModEX by the customer's planning system, the production of each job is started and stopped automatically. If a double or triple stacker is installed, ModEX even switches the stacking box automatically. Other tasks handled automatically through communication with the customer system include the adjustment of different machine components to new parameters and the documentation of production data. Further ModEX modules are currently under development.

Premiere for the APL Robotman at FachPack

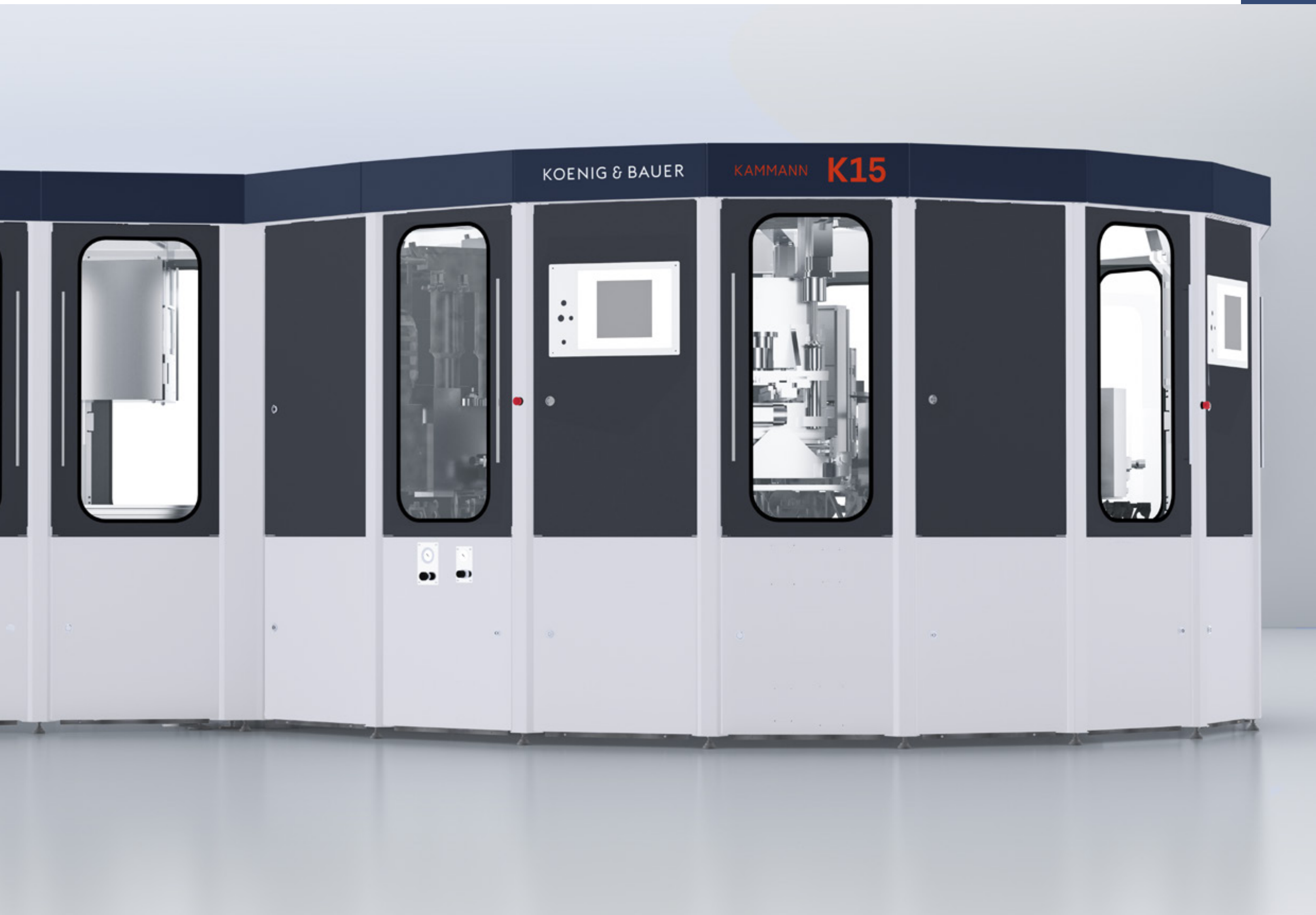
The print & apply labeller APL Robotman was presented for the first time at the trade fair for packaging, processes and technology in Nuremberg in September 2019. Fitted with a collaborative robot arm, it enables individual labels to be applied in places which could previously only be reached by hand. With this highly automated labelling system, we are expanding our product portfolio for an interesting but previously untapped market segment and strengthening our market position significantly in the field of tertiary packaging.

New coding laser series SPA specifically for the food and consumer goods industries

Laser coding is an ideal technology for permanent, i.e. absolutely smudge- and abrasion-proof marking during the production process. The newly developed coding laser series SPA requires only a minimum of maintenance, is absolutely reliable in operation and offers a perfect space-saving solution with an attractive price-performance ratio for practically every application. The simple integration and fast printing speeds contribute to high productivity.

Fully automatic universal decorating machine platform of the latest generation

The innovative K15 family incorporates the latest generation of servo drive technology to facilitate high-quality decoration of the most varied product forms (round, oval, square, flat and even with handles). Various types of decoration, such as screen printing, digital printing, hot stamping and labelling, can be realised within the K15 and can even be combined during a single machine pass. Further groundbreaking features of the machine platform include camera-based registration, LED curing and optimisations for faster job changes. An initial development study presented at the K trade fair also pointed to a future solution for digital foiling, an innovative form of embossing for plastic articles which seeks to combine the benefits of digital print with foil application.



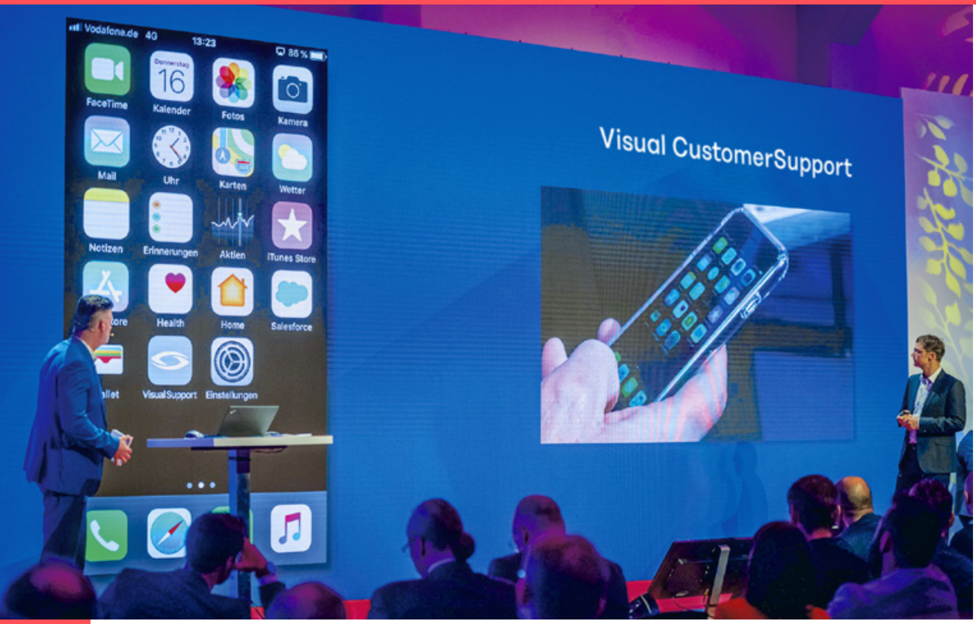
On future track

with innovative, customer-centric services combining digital data and creative approaches

New digital services make use of press performance data and log files

Webshop and customer community offer entirely new platforms for contact with Koenig & Bauer

Our customers benefit from digi-tal transformation through the **enhanced performance and availability** of their machines



Improved remote maintenance communication with PressCall and Visual CustomerSupport

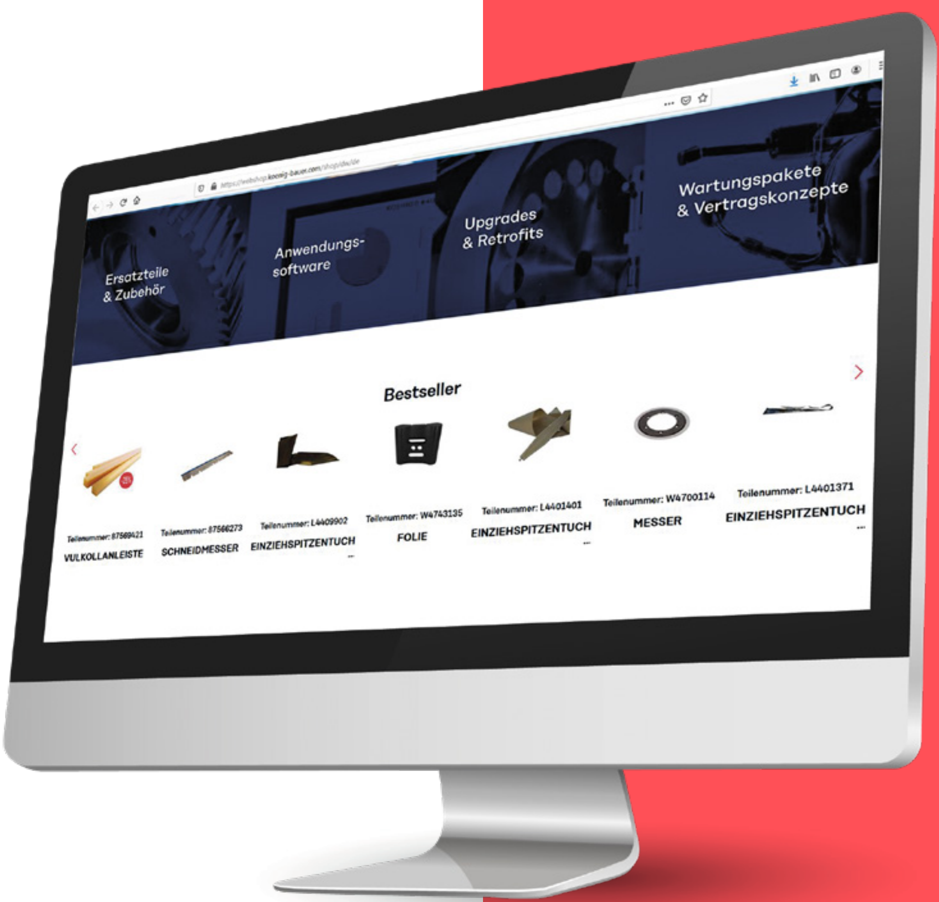
With PressCall, all relevant information is sent directly to the hotline technician at the press of a button on the console. Communication is optimised and there are no delays due to language barriers. A customer ticket is automatically created in the customer relationship management system (CRM). Solution-finding becomes faster and more efficient, reducing downtime and increasing availability accordingly. Visual Customer-Support further simplifies communication and raises cooperation between customer and service department to a new level, also independently of remote maintenance. Photos, video clips, audio and commenting functions via a mobile device allow more precise description of the current situation at the press. In this way, Visual CustomerSupport extends the functionality of remote maintenance to include assistance in case of process-related or mechanical problems. Everything is documented in the service module of the CRM platform Salesforce, and full information is thus available to all involved persons and departments.

Performance Report and Press Inspection Report offer professional evaluations of press data

A Performance Report presents key performance indicators for the installed presses in clearly structured graphical form and provides a quick overview of all relevant production data at a glance. In addition, the performance data can be compared both internally and externally with other presses used in a comparable manner – all anonymously, of course. This helps to reveal potential for optimisation, reduces unplanned downtimes and enables maintenance work to be planned in advance. Performance and availability are improved. Users with a remote maintenance contract receive performance reports on a monthly basis. A Press Inspection Report presents the results of a press inspection in a similarly structured summary. The user is informed of any potential for technical improvement and can see at a glance the reasons for recommended maintenance work, including the expected duration. The necessary measures are also prioritised in accordance with the possible impact on press availability and the urgency of replacement for individual spare parts.

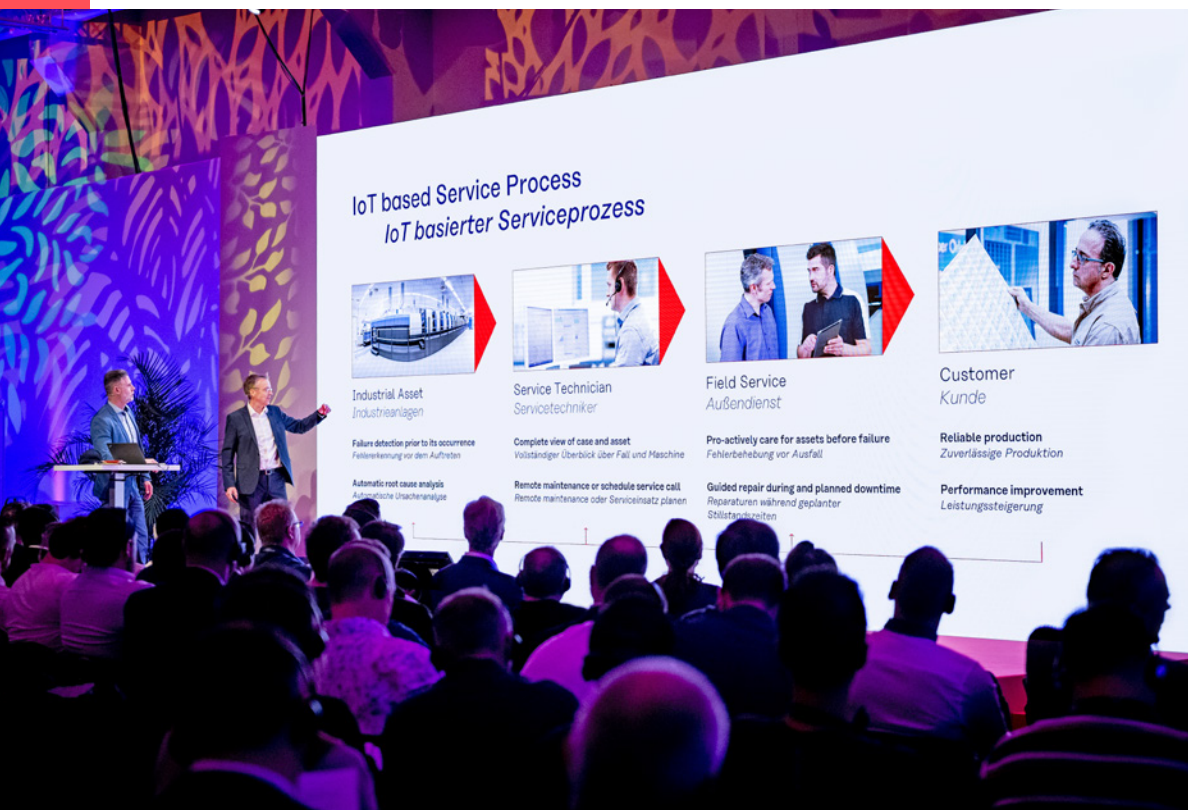
Customer-oriented and efficient webshop

A webshop for spare parts, consumables and services realises numerous benefits for our customers via the constantly growing internet sales channel. The shop can be used on PCs as well as on all common mobile devices thanks to its clearly structured and user-friendly navigation. A shopping cart function includes an option to mark consumables and parts subject to wear and tear for repeated ordering at regular intervals. An availability indicator is another very useful feature for customers to optimise their purchasing planning and warehouse management.



Predictive maintenance creates added value

With the predictive maintenance that Koenig & Bauer successfully uses for customers, disruptions in everyday business operations can be foreseen in good time before they affect print production or even result in machine downtime. If the data from a press indicate the pending failure of a back-up battery, for example, replacement can be coordinated in good time. This spares the user an annoying data loss and there is no need to spend time re-entering the stored press settings. In addition to avoiding unplanned downtimes, automated data analyses using artificial intelligence methods enable predictive maintenance of the machines during planned downtimes.



Digital services and customer community under one roof

To provide a central point of contact for all digital service offers, Koenig & Bauer has set up a customer community portal. Here, users can create new tickets, view existing tickets and performance reports, and make use of many other data-driven services. In this way, users and manufacturer have access to identical data at all times and can base their cooperation decisions on the same information status. Taking into account the feedback from users, the customer community undergoes permanent further development, gradually expanding the scope of functionality into a joint platform for customers, suppliers and manufacturers.

On
future track

with digital processes and solutions for Group-wide networking

Automation and digitisation strategy leads to increased productivity, greater economic efficiency and quality enhancements

Optimised and transparent business processes with **end-to-end digital solutions**

Development of new **data-driven services and business strategies** based on the integration of data from sales, service and marketing

Group-wide networking in the office world with G Suite

With the introduction of Google's cloud-based G Suite at the beginning of 2020, Koenig & Bauer has rolled out what could be described as a minor revolution at every PC workplace. Most employees already know the simple and user-friendly Google applications through their private use, and now our entire business e-mail traffic is to be handled via the Google e-mail service Gmail. The remaining Google applications will be available for use on an optional basis. Through the switch to this modern office solution, which is already practice-proven in many other industrial companies, workplaces across the Group have become even more closely networked. E-mail and calendar functions, word processing, spreadsheet calculations, presentations, video conferences and much more besides – all on a single platform, from everywhere in the world. With this new collaboration tool, employees at all the Group's global locations can enjoy uncomplicated and even more efficient cooperation both with their colleagues elsewhere in the Group and with external partners. In the G Suite, a single click already suffices to share a file with a colleague at another location. Complicated e-mail exchanges to synchronise file versions are rendered superfluous. By choosing the G Suite, the oldest printing press manufacturer in the world has placed its faith in the world's most innovative tool for enhanced collaboration and productivity in the office environment.

Efficient Group processes with SAP S/4HANA

The Group's IT systems, which have to date been characterised by a diversity of individual in-house developments, are to be switched successively to the SAP system S/4HANA by 2021. Once the cornerstones of the comprehensive, Group-wide SAP project had been determined, an intensive detailed concept phase led to the elaboration of standard solutions which are suitable for use across all business units. The switch to SAP is to be realised gradually at the various Group locations. The first ERP system went live at the Koenig & Bauer AG holding in the fourth quarter of 2017. The SAP launch in the large business unit – Koenig & Bauer Industrial, including the foundry Koenig & Bauer Gießerei – followed in the first half of 2018. The rollout at the remaining Group locations will be accomplished in further steps by 2021.

In addition, the SAP software SuccessFactors is used for the training management system Koenig & Bauer Campus and for the digital job applications management. Via corresponding self-service functions, the internally used solution offers employees a very efficient tool through which to submit holiday requests or timesheets for mobile working, for example.

Salesforce platform as an innovative CRM solution

Koenig & Bauer has been using the internationally leading software platform Salesforce for its customer relationship management (CRM) for ten years. In the meantime, the implementation at Koenig & Bauer has reached a level of maturity which many international experts across all industrial branches view as exemplary. While the early phases concentrated on a multi-faceted 360-degree perspective on the customer's activities, alongside globally harmonised processes in sales, service and marketing, today's approach is significantly broader. Networking of the installed machines and – subject to the consent of the customer – automatic recording of performance and sensor data for evaluation and presentation in the CRM system open the door to completely new forms of collaboration with the customers. The transparency realised by making available actual performance data permits staff at Koenig & Bauer to assume the role of a trusted advisor to the customer. With this support, the customer can work even more profitably by further enhancing press performance. Sensor data from the machines are evaluated using methods of artificial intelligence and enable emerging faults to be detected automatically before they result in unplanned downtimes. Service tickets are created fully automatically in CRM, where they are assigned to the relevant experts for fast processing. Service technicians at the local branch offices receive all information necessary for fast rectification of the technical problem via a mobile device. The user is kept similarly informed on the current status of his service ticket through the customer community portal and can also communicate directly with the service department.

Dear shareholders, ladies and gentlemen,

With our strategic focus on the growth market of packaging, we are on track to reduce the dependency on politically volatile and lumpy security printing business by increasing revenue and earnings in this area. Our service initiative launched in 2016 is already bearing fruit. The service revenue share increased significantly from 25.9% in the previous year to 28.2% despite the declining development at Digital & Web due to press shutdowns and printing plant closures in newspaper and commercial printing.

The reduction of the revenue and earnings guidance for 2019 on 20 December 2019, after not all expected orders were placed in security printing and metal decorating, underlines the necessity of the rapid implementation of this strategy. As planned, massive investments were made in the development of new products, but successes can only be achieved incrementally and not as quickly as aimed.

The end markets we address are fundamentally intact with packaging printing showing good structural growth. However, growth requires normal business years. Due to the increasing economic uncertainty, we decided to invest significantly in reducing manufacturing costs and to join forces more strongly within the Group. With these measures, we aim to position ourselves to a greater extent independent of the economy and more competitively for the future.

In view of the high dynamics of change in the sector, we are joining forces within the Koenig & Bauer Group and positioning ourselves competitively for the future.

With the Performance 2024 programme, we are currently targeting reducing costs by over €70m by 2024 with one-off costs of €30m to €40m. We expect the package of measures to be expanded further. The focus of the various projects aimed at optimising Group-wide structures and processes is on considerably reducing manufacturing costs to achieve a significant improvement in the earnings situation in the new machine business. This includes design-to-cost projects, purchasing optimisations and to some extent production relocations. Bundling tasks as shared services as well as the reduction of holding costs and SG&A expenses are also on the agenda. In addition to the cost-cutting projects, the efficiency programme aims to reduce throughput times in assembly and accelerate customer acceptance. In addition to shorter delivery times, this will lead to a drop in working capital and a cash flow improvement.

Moreover, we work with further activities and a sophisticated controlling of all measures with permanent monitoring on the significant reduction in working capital. We see considerable potential for improvement, particularly in security printing in terms of inventories and receivables through optimised sales control and stepping up export financing. The comprehensive package of measures also aims at a more even distribution of revenue over the year in the Sheetfed segment. The significant capital lock-up resulting from a major order in banknote printing will remain in place until the project is completed in the third quarter of 2020.

The innovations and the further development of our broad product portfolio are progressing well. Through the acquisition of Iberica and Duran, the joint venture with Durst as well as various partnerships in the software field, our portfolio for packaging printing markets was expanded further. Following a testing phase of the CorruCUT sheetfed flexo press for analogue direct printing on corrugated board, having been newly developed with a number of unique features, the prestigious pilot customer and development partner Klingele accepted the machine after a demanding factory acceptance test. The machine is now producing in two shifts at the Klingele plant in Delmenhorst near Bremen, Germany. The follow-up order from corrugated board printer Thimm Packaging Systems for a CorruFLEX is particularly gratifying. After the sixth press sale for digital decor printing and the key order from Tetra Pak for digital full-colour beverage carton printing, our mature and high-quality RotaJET digital printing platform is also developing positively. The most recent acquisition of Duran's folder gluer business has been successful with orders received in the last few months. We have also made good progress in the joint venture with inkjet pioneer Durst in digital folding carton and corrugated board printing. The VariJET 106 for digital folding carton printing has already been awarded a prize by the jury of the iF Design Awards for its form and design. In addition to recognition of the Rapida LiveApps with the Intertech Technology Award, the AR data glasses with the Technical Innovation Award from the Flexographic Technical Association and the RotaJET with the German Design Award, we also received the German Brand Award for our brand management in the engineering sector. In banknote printing, we are working on a new, scalable generation of machines that can serve both the basic requirements and the highest technical challenges from a modular system.

In addition to the progress made in our IT projects, including the further rollout of the SAP ERP system and of Salesforce in the Group, we were able to set visible signs with construction activities. The campus in Würzburg has been dedicated to customer training and internal training. Our expanded Customer Experience Center in Radebeul is nearing completion. For folding carton producers, we can now provide live demonstrations of integrated solutions from a single source for printing, die-cutting and gluing. Koenig & Bauer Kammann began moving into its new plant in Löhne at the beginning of October 2019 while the plant was still in operation. By the end of February 2020, the former site in Bad Oeynhausen had been completely vacated and the relocation carried out without any delivery delays.

Not all expected orders in security printing and metal decorating were awarded in 2019, therefore order intake and order backlog of €1,141.3m and €533.7m respectively were below the figures for the prior year favoured by a major Egyptian order. Group revenue reached the level of the prior year with €1,218.5m. Earnings were burdened by high investments in the growth offensive 2023. Approximately half of the growth-related expenses of around €50m budgeted for 2019 to 2021 was incurred in the reporting year. While a lack of profit contributions due to delayed or shifted contract closings and higher costs in order processing further reduced earnings, one-time income had a positive effect. On balance, a margin of 4.6% was achieved with EBIT of €56m. For 2019, we had targeted an EBIT margin of around 6% and organic revenue growth of around 4%. In view of the significantly increased uncertainties caused by the corona crisis, the Management Board and Supervisory Board will propose to the annual general meeting to suspend the dividend payment for the financial year 2019 and to carry forward the retained profit generated by the holding company Koenig & Bauer AG to new account. The fundamental policy of distributing 15% to 35% of Group net profit remains unaffected.

Even before the outbreak of the coronavirus, global economic conditions were demanding. Given the daily worsening global economic situation due to the coronavirus, the impact on our Company and the achievement of our planning are currently completely open. For 2020, we are planning to achieve a largely stable Group revenue compared to the previous year and the prior year's EBIT level without the around €10m in special expenses from the efficiency programme. Dealing with the possible consequences of the corona crisis is currently a top priority.

Under the guiding principle „We print your world", our new image campaign conveys the diversity of print products: Koenig & Bauer combines ink and substrates, substrates and technologies, technologies and people. We would like to thank our customers, shareholders, suppliers and all our business partners for their confidence in Koenig & Bauer. The Management Board would also like to thank all managers and employees for their commitment and their ideas to the benefit of the Company.

Würzburg, 18 March 2020
Koenig & Bauer AG Management Board

Claus Bolza-Schünemann
President and CEO

Ralf Sammeck
Management Board member for the Sheetfed segment

Dr Mathias Dähn
CFO

Claus Bolza-Schünemann
President and CEO

Christoph Müller
Management Board member for the Digital & Web segment

Dr Andreas Pleßke
Management Board member for the Special segment

Dear shareholders,

In financial year 2019, the particular focus of the Supervisory Board's activities was on strategic issues as well as on enhancing the Group's operating profitability and performance. The Supervisory Board also dealt in detail with the development of business and earnings, the financial position and Management Board matters and discussed business policy, the competitive situation, risk management, compliance and the development of the Group, including investments. The necessary resolutions were passed following careful examination and intensive consultation.

In the year under review, the Supervisory Board again received timely, regular and comprehensive information from the Management Board on all matters of significant importance to the Company. This was done both in the meetings themselves, via telephone and in writing. In addition, the Supervisory Board was updated on an ongoing basis with regard to the development of the Company's key figures.

The Supervisory Board performed its duties with great care in accordance with the law, the articles of association and the rules of procedure. It convened a total of ten times in fiscal year 2019. The chairs of the Supervisory Board committees regularly reported to the plenary session on the content and recommendations of the committee meetings. There were again no conflicts of interest to report concerning the members of the Supervisory Board in the past financial year. Individual participation in the Supervisory Board and committee meetings is summarised in the following overview:

Name	Member since	Total meetings (10)	Personnel committee (4)	Audit committee (4)	Strategy committee (2)	Nomination committee (2)	Total attendance
Professor Raimund Klinkner, chairman (since 22 May 2019)	2018	10/10	2/4	–	1/2	–	100%
Dr Martin Hoyos, chairman (until 22 May 2019)	2013	4/10	2/4	2/4	–	2/2	100%
Gottfried Weippert, deputy chairman	2001	10/10	4/4	4/4	2/2	–	100%
Dagmar Rehm, deputy chairman	2014	10/10	4/4	4/4	–	2/2	100%
Julia Cuntz	2016	9/10	–	–	–	–	90%
Carsten Dentler	2017	9/10	–	–	1/2	–	83%
Marc Dotterweich	2015	10/10	–	4/4	–	–	100%
Matthias Hatschek	2006	10/10	–	–	2/2	2/2	100%
Christopher Kessler	2016	9/10	–	–	2/2	–	92%
Professor Gisela Lanza	2015	10/10	–	–	2/2	–	100%
Dr Johannes Liechtenstein	22 May 2019	6/10	–	2/4	–	–	100%
Walther Mann	2006	10/10	–	–	2/2	–	100%
Simone Walter	2016	10/10	–	–	–	–	100%

In the course of the year under review, there was one contract extension in the Management Board and the following personnel changes in the Supervisory Board: The Management Board contract with Claus Bolza-Schünemann was extended until 31 December 2020. Following the court appointment on 19 November 2018, the annual general meeting on 22 May 2019 elected me, Professor Raimund Klinkner, to the Supervisory Board as a shareholder representative. In addition to the extension of the mandate of Dagmar Rehm, the shareholders' meeting appointed Dr Johannes Liechtenstein successor of shareholder representative Dr Martin Hoyos. Dagmar Rehm and Dr Johannes Liechtenstein have extensive knowledge in the areas of accounting, auditing and internal control systems. After reached the age limit specified in the rules of procedure of the Supervisory Board and in the articles of association of Koenig & Bauer AG, Dr Hoyos retired from the Board at the close of the annual general meeting on 22 May 2019. At the subsequent constituent meeting of the Supervisory Board, my person, Professor Raimund Klinkner, was elected Chairman of the Supervisory Board and of the personnel, nomination and mediation committees. Dagmar Rehm and Professor Gisela Lanza were confirmed in their positions as chairwomen of the audit and strategy committees. Changes in the composition of the committees were also resolved. The composition of the committees is presented in detail on the Company's website. The members of the Supervisory Board receive appropriate support from the Company in their inauguration as well as with training and further education measures. The Supervisory Board is kept informed and trained on an ongoing basis by an external legal advisor in the event of legal changes and amendments to the German Corporate Governance Code. In addition to the further training courses offered by the trade unions and the DGB educational institution, employee representatives can take advantage of the specialist conferences for training and further education offered by the Hans Böckler Foundation.

At the extraordinary Supervisory Board meeting on 24 January 2019 the committee approved the dividend proposal for the 2018 financial year and corporate planning 2019 and agreed to include an age limit for members of the Management and Supervisory Boards in the articles of association of Koenig & Bauer AG. The Management Board informed the Supervisory Board of the status of various activities aimed at optimising the production area. In addition to compliance topics, the nomination committee's candidate proposals for the Supervisory Board election at the next annual general meeting were discussed for succession reasons.

The particular focus of the Supervisory Board was on enhancing the Koenig & Bauer Group's operating profitability and performance.

On 20 March 2019 the Supervisory Board dealt in detail with the annual financial statements for Koenig & Bauer AG and the Group as of 31 December 2018, the corresponding audit reports, the combined management report and non-financial Group report. The agenda for the annual general meeting, with the various proposed resolutions on the appropriation of retained profit, the election of Supervisory Board members and statutory auditors, amendments to the articles of association and the Integrity 2023 initiative with the associated release from liability, was approved. The Management Board reported on the current status in the production area and on Koenig & Bauer Kammann's new construction project. Other strategic topics on the agenda included the acquisition of the Swedish All-Print Holding AB by the subsidiary Koenig & Bauer Coding.

A telephone conference was held on 2 May 2019 on the Q1 figures. The focus of the Supervisory Board meeting on 21 May 2019 was on preparation of the annual general meeting which was held the following day. The current forecast for 2019 and personnel matters were also on the agenda. In addition, the results of the efficiency review of the Supervisory Board were discussed and optimisation measures were defined at one of the subsequent meetings. The efficiency review of the Supervisory Board is conducted internally every year using a catalogue of questions drawn up with external help and which has since been further developed.

In a closed meeting of the Supervisory Board on 30 June 2019, the key issues to be addressed in the next twelve months were defined and prioritised. The Group figures for the first half of the year together with the corresponding report and the updated forecast for 2019 were discussed at the regular Supervisory Board meeting on 31 July 2019. Personnel as well as Management Board matters were on the agenda. At a strategy day of the Supervisory Board on 15 October 2019 the board members discussed in detail the strategic topics and optimisation projects. The strategy work is to be pursued on an ongoing basis and a special strategy day is to be held annually.

In addition to the Q3 report, the Management Board explained the current forecast for 2019 in detail at the Supervisory Board meeting on 6 November 2019. The Management Board also reported on the Group's planned efficiency programme Performance 2024 and the status of Koenig & Bauer Kammann's new construction project. In addition to personnel matters, the Supervisory Board discussed in detail the changes that will result from the revised Corporate Governance Code and the Act Implementing the Second Shareholder Rights Directive (ARUG II). In a conference call on 18 December 2019, the Management Board provided information on the status of the Group-wide Performance 2024 efficiency programme. Other items on the agenda included personnel and strategy topics.

Much of the Supervisory Board's work is performed by its various committees. Five committees assist the Supervisory Board in the performance of its duties by preparing the resolutions to be passed by the Supervisory Board and the matters to be discussed in the plenary sessions. The audit and personnel committee each convened four times while the strategy and nomination committee each met twice. Once again, there was no necessity for the mediation committee appointed under section 27 (3) of the Codetermination Act to convene in 2019.

In addition to the quarterly reports, one of the main tasks of the audit committee was to comprehensively review the annual financial statements of Koenig & Bauer AG and consolidated financial statements as well as the combined management report, the non-financial Group report and the corresponding audit reports. During the discussion of the annual financial statements, the representatives of the statutory auditor reported to the committee on the results of their audit and were available to answer any questions and for detailed discussion of various matters. The audit committee prepared the approval and adoption of the annual financial statements by the Supervisory Board and evaluated the proposal for the election of the auditor for the 2019 financial year. It monitored the independence of the auditor and obtained their declaration of independence. A particular focus in the year under review was the intensive monitoring of the tendering and selection process for the auditor of the annual financial statements and consolidated financial statements for the 2020 financial year in accordance with the EU Directive on Auditors. During a two-day event, the short-listed audit firms presented themselves to the audit committee one after the other. The audit committee reviewed the non-auditing activities performed by the statutory auditor on a quarterly basis. Other topics discussed at the committee meetings included the compliance and risk management system, the risk situation in the Group, internal auditing and export control, and the definition of the focal points of the audit. In addition, the committee received comprehensive and regular updates on the status of the SAP migration. The Chief Executive Officer and the Chief Financial Officer regularly attended the meetings of the audit committee.

In the year under review, Management Board matters dominated the meetings of the personnel committee. The nomination committee prepared the candidate recommendations to the full Supervisory Board for the Supervisory Board election at the next annual general meeting for succession reasons. At its meetings, the strategy committee was continuously informed by the Management Board about current market developments. Its discussions and analyses also included the projects pursued by the Management Board in products, processes, personnel and management development for the sustainable development and future orientation of the Group. The strategy committee also supported recent acquisitions and their integration into the Group.

Professor Raimund Klinkner
Chairman of the Supervisory Board

The Supervisory Board regularly monitors the application and further development of corporate governance rules in the Company, in particular the implementation of the code's recommendations. In the corporate governance report found on pages 33 onwards of the annual report, the activities of the Supervisory Board with regard to the declaration of compliance in accordance with section 161 of the German Stock Corporation Act are described.

At its meeting on 18 March 2020 the Supervisory Board, after hearing from the auditors, conducting its own careful examination and intensive discussion, approved the Koenig & Bauer AG annual financial statements and the consolidated financial statements of the Koenig & Bauer Group as of 31 December 2019, including the combined management report and separate non-financial Group report, all prepared by the Management Board. The annual financial statements of Koenig & Bauer AG are thus adopted in accordance with section 172 of the German Stock Corporation Act. The resolutions were prepared by the audit committee. The chairwoman of the audit committee provided the Supervisory Board with detailed information on the results of the intensive review and the conclusions as well as on discussions with the auditors and the Management Board. The auditors reported in detail to the Supervisory Board on their audit procedures and findings and were available to answer any additional questions. KPMG Bayerische Treuhandgesellschaft AG in Nuremberg issued unqualified audit certificates for both financial statements including the combined management report. In addition, the separate non-financial Group report was subjected by KPMG to a limited assurance review.

The Supervisory Board, as was the case with the audit committee, approved the results of the audit based on its own review. Neither body raised any objections to the consolidated financial statements, the Koenig & Bauer AG annual financial statements, the combined management report and the non-financial Group report for the 2019 financial year.

The statutory auditor also confirmed that the Management Board had established a risk early detection system meeting the requirements of section 91 (2) of the German Stock Corporation Act. The information and monitoring system, which is appropriate and meets the requirements of the Company, appears suitable in terms of its design and actual operation for the early detection of developments that could endanger the Company's continued existence. No significant weaknesses in the internal control system or the early risk detection system were reported.

The Supervisory Board thanks all employees, the Management Board, all executives and employee representatives in the Group for their great commitment to our Company in 2019. Our thanks also go out to our shareholders for their trust in the Company despite the disappointing development of the share price. Special thanks goes out to Dr Martin Hoyos for his dedicated commitment in the Supervisory Board and for the professional leadership. As chairman of the Supervisory Board, Dr Hoyos supported the successful implementation of the Fit@All restructuring programme with a tremendous level of expertise, high commitment and particular determination, and provided major impetus for the Koenig & Bauer Group's strategic development.

Würzburg, 18 March 2020
Koenig & Bauer AG Supervisory Board

Professor Raimund Klinkner
Chairman of the Supervisory Board

Corporate governance report

Good corporate governance firmly established

Corporate Governance stands for responsible, transparent corporate management and control that is oriented toward long-term value creation. We are convinced that good corporate governance is a key component of sustainable business success and that it strengthens the confidence that our shareholders, business partners, employees and the financial markets have in our Company. Important principles of good corporate governance and supervision have been firmly anchored in the Koenig & Bauer Group. We regard integrity and compliance in business dealings as indispensable and pursue a zero tolerance policy. Corporate compliance is not only a duty and responsibility, it is also a business opportunity that we intend to take advantage of. Capital is consistently deployed in line with strategic targets and expected returns. The management of each segment and each independently operating business unit is responsible for achievement of defined goals that include revenue and EBIT. Ongoing losses are not accepted and the divisional organisation structure effectively prevents any cross-subsidisation.

Compliance management system meets strictest standards

The established compliance management system is subjected to a continuous review and development process. Using a regular updating of the risk situation along with feedback and questions from the departments, the system was fine-tuned, organised more effectively and sustainably anchored in the Company. The regular communication with employees and executives as well as the strong commitment of company management to compliance (tone from the top) has led to a deepening of the compliance culture in our Group. The corporate compliance manual issued throughout the entire Group combines the code of conduct, compliance rules and the most important Group guidelines in a single document. The manual is currently available in nine languages and has been distributed to all employees around the world via executives and the compliance officers. As part of the defined update cycle, the manual was completely revised in 2019 and adapted to changes in the legal situation, jurisdiction and best practices. The compliance rules, which have been expanded to include additional Group guidelines, illustrate and reinforce compliance with the rules in a wide range of everyday business situations. Guidelines, work instructions and processes are created as needed and make it easier for employees to apply compliance requirements in their daily work.

We ensure comprehensive awareness of compliance matters and secure application of the standards through training measures and internal communication supported by the Group-wide intranet. Following the introduction of the Koenig & Bauer Campus training management system based on SuccessFactors in the largest Group companies and its gradual implementation in all subsidiaries, efficient and effective management of internally developed and externally purchased learning content in accordance with employees' areas of activity is ensured. The software solution facilitates reporting differentiated by defined compliance-related key performance indicators (KPIs). More than 3,500 employees are currently reached through the Koenig & Bauer Campus. Classroom training courses are also offered.

Strong commitment to compliance

The Chief Financial Officer is responsible for the compliance management system, which is implemented and controlled throughout the Group by the Group Compliance Officer. All Koenig & Bauer AG subsidiaries have designated contact persons to answer questions on compliance or to communicate compliance-related matters. Compliance officers have been appointed at the segment level and compliance operatives named at the individual companies. In addition, we have established compliance officers with special responsibility for relevant topics, such as occupational safety and environmental protection, who manage their areas of responsibility independently and competently on the basis of their specific expertise. Beyond their duties in implementing and monitoring standards, processes and reporting at the subsidiaries, the local compliance officers and operatives have a special function as a direct contact and advisor for local staff for compliance-related matters. We have also established a central export control unit at Koenig & Bauer AG to meet increased requirements in this area. A Group-wide whistleblower system was established as a channel for gaining swift and direct information on possible breaches of the law, regulations and internal rules, allowing employees to report any suspicious activities in confidence. However, employees can still turn to the trusted internal third parties known to them at their companies, the central compliance organisation or management at any level.

In addition to permanently improving our compliance management system, we are committed to advancing the international compliance culture and, in particular, to combating corruption and other unfair business practices worldwide. Established for this purpose in 2017, the KBA-NotaSys Integrity Fund has been endowed with CHF5m. Currently, it is funding 17 projects which have been submitted by universities, associations or institutes and are considered by the Fund Board to have a lasting positive influence on international compliance culture. Project participants include Transparency International, the German Compliance Institute (DICO), the German Institute for Efficiency Assessment (DIEP) as well as various Swiss and German universities. Of particular importance for us is the joint initiative of the Banknote Ethics Initiative and the Basel Institute on Governance to establish Integrity Pacts, which contain agreements between customers and suppliers defining principles of compliance and transparency in public procurement processes. Using these instruments, we want to protect companies that have adopted a zero-tolerance approach to corruption from disadvantages compared to companies that have lower compliance standards. To this end, numerous discussions were held in 2019 with high-ranking representatives of public authorities and those responsible for the purchasing departments of public authorities in countries that are categorised as critical on the Corruption Perceptions Index (CPI). Additional integrity rules could be included in the tender conditions.

The declaration of compliance is online under www.koenig-bauer.com/en/investor-relations/corporate-governance/declaration-of-compliance/

The Integrity 2023 initiative, which was additionally established in the year under review, aims to promote compliance and integrity within the Koenig & Bauer Group over the next five years and to establish a comprehensive dialogue among experts. Research projects on compliance prevention will be supported and if possible, an award programme to support proposals for compliance prevention will be launched.

Declaration of compliance in accordance with section 161 of the German Stock Corporation Act

The Management Board and Supervisory Board of Koenig & Bauer AG issued a declaration of compliance on the basis of the current version of the German Corporate Governance Code in February 2020. This declaration as well as the declarations for earlier years are available publicly on our website.

On the basis of the Code dated 16 December 2019 there are the following exceptions. The current Management Board contracts, which run until the end of 2020 and 2023/2024 respectively, are generally based on the Management Board remuneration system approved by the annual general meeting on 9 May 2018 with 99.2% of the votes. In this currently applicable Management Board remuneration system, the new Code recommendations under section G. I. Remuneration of the Management Board and especially under G.1 (remuneration system with determination of a maximum remuneration), G.3 (external relative comparison with a peer group to be disclosed), G.4 (internal relative comparison with senior management and workforce), G.7 (orientation of performance criteria for all variable remuneration components not only on operational but also on strategic objectives), G.10 (predominantly share-based granting of variable remuneration amounts) and G.11 (malus and clawback rules for variable remuneration in the event of extraordinary developments) are not or not fully complied with. Before new Management Board contracts are concluded or renewed, an adjustment to the Management Board remuneration system in line with the Code shall be discussed and resolved by the Supervisory Board.

Composition of the Supervisory Board

Pursuant to the Code, the Supervisory Board has defined specific goals for its composition. In addition to management experience, an international background and strategic competence, the Supervisory Board considers expertise in the following areas to be necessary for the due and proper performance of its duties as prescribed by law, the Company's articles of incorporation and the rules of procedure: finance/accounting/auditing, procurement/production/assembly, markets/product/communications, law/corporate governance, IT systems/digitalisation and sustainability. The competence matrix devised for the Supervisory Board in its entirety confirms that as a whole it possesses the necessary knowledge, capabilities and experience for the due and proper performance of its duties. Diversity has also been duly allowed for as a further criterion. As separate fulfilment by the shareholder and employee representatives has been agreed upon, the proportion of women required by the Act on the Equal Participation of Women and Men in Executive Positions in Private and Public Sector has been achieved. Moreover, with the inclusion of Carsten Dentler, Professor Raimund Klinkner, Professor Gisela Lanza, Dr Johannes Liechtenstein and Dagmar Rehm on the Supervisory Board, it believes that it has an appropriate number of independent shareholder representatives. Matthias Hatschek has been a member of the Supervisory Board as shareholder representative for more than 13 years. He is a minority shareholder in MKB Holding GmbH, which is the owner of AlternInvest GmbH in Vienna, Austria. AlternInvest GmbH holds a significant portion of share capital of 10.2%.

There were no conflicts of interest among the Supervisory Board and Management Board members in the reporting year. The members of the Management Board and Supervisory Board are obligated to immediately disclose to the Supervisory Board any conflicts of interest arising from significant transactions or contracts with the Company.

Comprehensive expertise and professional experience

Koenig & Bauer shares

Economic worries and industry news weigh on share price development

Despite the economic slowdown caused by trade conflicts and barriers, the DAX had risen by 25.5% by the end of December compared with the prior year closing price. The SDAX was up 31.6% in this period. Stock markets were supported by the central banks through a renewed easing of monetary policy as well as by a relaxation of trade tensions.

Another share price drop in March 2020 due to uncertainties caused by the coronavirus

As with other capital goods companies, fears of recession were the main factor weighing on the price of Koenig & Bauer shares. In addition, bad news from the industry led to a sharp drop in the share price. After reaching a high for the year of €48.04 on 18 March, the share price decreased to as low as €26.50 on 23 December following a reduction of the revenue and earnings guidance for 2019. On 30 December, our share price closed at €27.94 in Xetra trading, 23.5% below the 2018 year-end price. With our efficiency programme Performance 2024, we are working intensively on sustainably strengthening our earnings and financial power and are firmly convinced that this will also be reflected in the valuation of our Company. The long-term growth drivers for our packaging and industrial printing business are intact.

Intensive dialogue with the capital market

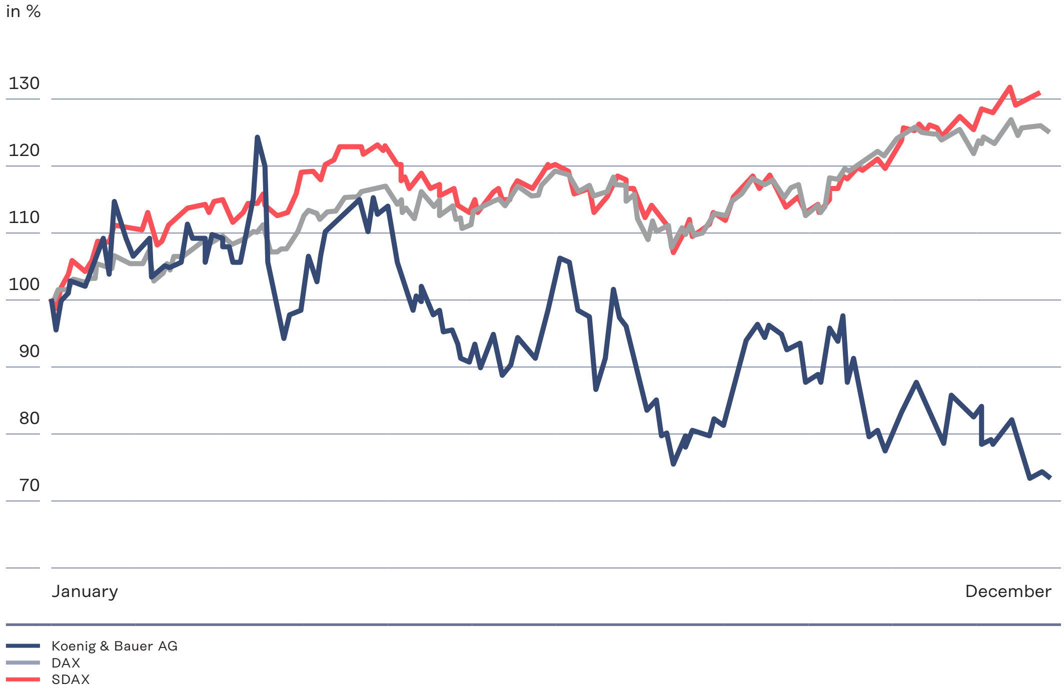
In addition to regular talks with financial analysts, many one-on-ones and telephone conferences were held with shareholders and investors. The Chief Financial Officer represented Koenig & Bauer at numerous capital market conferences. We attended the Oddo BHF Forum in Lyon and the German Corporate Conference organised by Kepler Cheuvreux/Unicredit in Frankfurt in January, the Oddo BHF German Conference in Frankfurt in February and the Bankhaus Lampe Germany Conference in Baden-Baden in April. In May, we took part in the Stockpicker Summit from Hauck & Aufhäuser in Madrid and in the Berenberg Conference USA in New York. After the Warburg Highlights in Hamburg in June, the autumn season commenced in September with the J.P. Morgan Cazenove Small/Mid Cap Conference in London and the Baader and Berenberg/Goldman Sachs conferences in Munich. The Berenberg Madrid seminar in October was followed by the Eigenkapitalforum in Frankfurt in November. We visited numerous investors at roadshows in Chicago, Dublin, London, Montreal, Paris, New York, Toronto and Warsaw. The annual general meeting forms a traditional component of our communications with the shareholders. Held on 22 May 2019 at the Vogel Convention Center (VCC) in Würzburg, last year's annual general meeting was attended by around 400 shareholders, representing 66% of the Company's capital. We keep shareholders and the general public posted on key developments and dates via our website. Financial information, quarterly and annual reports, presentations and press releases can be accessed there at all times.

Listing in Prime Standard

Koenig & Bauer shares are listed in the SDAX, Deutsche Börse's small cap index. Numerous banks and brokers actively cover Koenig & Bauer and regularly publish analyses and sector studies. At the start of 2020, five analysts rated our share a buy. Two analysts issued a hold recommendation and one a sell recommendation on the basis of their models and assumptions.

More information under www.koenig-bauer.com/en/investor-relations/

Performance of the share 2019



Koenig & Bauer share performance indicators

in €	2018	2019
Earnings per share	3.86	**2.31**
High for the year	78.70	**48.04**
Low for the year	35.68	**26.50**
Closing price	36.50	**27.94**
Market capitalisation in €m	603.2	**461.7**
Cash flow per share	4.01	**-0.48**
Dividend	1.00	**–**

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Combined management report

Combined management report

Corporate structures

Company structure and business activity

Solution provider for printing and finishing

The Koenig & Bauer Group is a technology company that can look back on a history spanning 202 years with core activities in packaging, security, industrial, commercial and publication printing. The current focus is on entering markets of the future which include corrugated board, digital decor and beverage carton printing as well as 2-piece beverage can decorating. Comprehensive expertise gained from addressing many sub-markets provides a sound foundation for innovations and new applications in the growing packaging printing markets.

Innovative system solutions

The core competence of this well-established company is technologically innovative system solutions tailored to customer requirements which enable highly-efficient and economical printing, finishing and postpress processes. High-tech sheetfed and web printing presses use nearly all customary analogue and digital printing technologies to apply the ink efficiently and precisely on a wide range of substrates. In addition to the comprehensive services, the development, manufacturing and worldwide sales of our sheetfed and web offset, flexo and digital printing presses, flatbed and rotary die-cutters, folder gluers and special systems for security printing, metal and glass/hollow container decorating and marking and coding are important components of our business model.

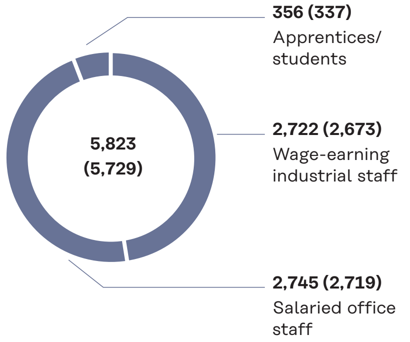
Global presence

The Koenig & Bauer Group is active in nearly every country in the world. The current export ratio is 84.6%. In recent years, the sales and service presence in markets of the future have been expanded. These include growth markets on the fringes of Europe and in Asia. Through the subsidiary Koenig & Bauer LATAM, a comprehensive sales and service organisation was established throughout Latin America.

Decentralised organisation with a holding company structure

The Koenig & Bauer Group is composed of Koenig & Bauer AG as the holding company and its subsidiaries (see list in the notes to the consolidated financial statements). As of 1 January 2019, the domestic and foreign subsidiaries that mostly offer sales and service functions for several segments are no longer allocated to the largest segment Sheetfed but are now spread across the segments according to their activities. At the end of 2019, the Koenig & Bauer Group had 5,823 employees. This is an increase of 94 over the previous year (31 December 2018: 5,729). There were increases in personnel in the services and IT area as well as for new applications for the packaging markets.

Workforce as of 31 December 2019



Business activities in the Sheetfed, Digital & Web and Special segments

Segments: Sheetfed, Digital & Web, Special

Sheetfed, the segment with the highest revenue, offers a broad range of sheetfed offset presses for packaging and commercial printing from half to large formats together with quality measurement and control systems, workflow and logistics solutions. In addition to the various finishing modules, the portfolio also includes equipment for postpress processing of printing products such as rotary and flatbed die-cutters and folder gluers. The range of digital service products will be expanded as a complement to the more conventional services.

In the Digital & Web segment, business activities with digital and offset web presses as well as with flexo presses for flexible packaging printing and systems for flexo and digital printing on corrugated board will be reported. In addition to the HP press for digital pre-prints of corrugated liners, the digital printing activities comprise the RotaJET platform for decor and beverage carton printing and the CorruJET sheetfed press for direct printing on corrugated board. We are addressing large markets with the CorruFLEX and CorruCUT sheetfed flexo presses (the latter with a rotary die-cutter) for direct printing on corrugated board and the flexo presses for printing flexible packaging. Sales from new offset presses for newspaper printing represent only 18.8% of segment revenue and 2.5% of Group revenue. Nearly half of segment revenue is accounted for by spare parts and services with a downward tendency in newspaper printing machines.

The Special segment is made up of special presses for banknote and security printing and systems for industrial marking and coding as well as special systems for metal and direct glass/hollow container decorating. This is supplemented by comprehensive services. Koenig & Bauer Industrial AG & Co. KG is a production service provider for the business units operating in the market.

Planning, control and monitoring

Comprehensive instruments for efficient Group planning and controlling

The established business management system with granulated cost-accounting provides management with valid and reliable numerical data with minimum delay for operational controlling, efficient monitoring and strategic management of the Group and the segments. In addition to central Group controlling for overarching Group and segment management, the business units which operate independently on the market have access to controlling resources with a high degree of expertise.

Regular strategy and finance reviews

The controlling instruments include the annual integrated corporate budget planning, supplemented by upstream high-level business planning. The planning horizon was expanded from three to five years. This enables efficient control of the efficiency programme Performance 2024 and the growth offensive 2023. The budgets prepared by the Group and the segments are based on detailed income statements, balance sheets and cash flow statements for all consolidated Group companies, prepared on a monthly basis in the first year. At the same time as the quarterly financial statements and again shortly before the end of the year, updated forecasts for the current year are prepared on the basis of the reported figures. Scenario analyses simulate different market and cost parameters on a case-by-case basis.

Detailed monthly reporting tracks the current business and earnings situation as well as trends in net working capital. Comprehensive service reporting permits efficient coordination of service activities. Weekly 13-week and monthly 12-month roll-over liquidity previews with cash management provide an accurate view of the financial situation. Regular reviews by Group management with the responsible segment managers addressing strategic matters as well as the economic and financial situation, current trends and forecasts supplement ongoing deviation analysis by controlling. In the event of any negative deviation, measures are immediately defined in order to counteract quickly and in a targeted manner. Systematic implementation of the measures is tracked by close monitoring. Opportunities and risks are detected at an early stage by means of a rollover budget, forecast and reporting process. The necessary decisions can be made at an early stage on the basis of this comprehensive assessment of Group and segment performance.

The Koenig & Bauer Group uses revenue and the EBIT margin calculated in accordance with the International Financial Reporting Standards (IFRS) applied in the EU as its main target and management indicators. In addition to these main financial performance indicators, management reporting also tracks order intake, order backlog and service business indicators. Changes in capital employed is monitored using the “average net working capital as a percentage of revenue” indicator. It is calculated on the basis of averages by deducting trade payables to third parties and customer prepayments from inventories, prepayments made towards inventories and trade receivables from third parties.

Target agreements providing for variable remuneration components tied to Group, segment and personal goals for the year for all executives and non-tariff employees help to encourage motivation and commitment towards achieving the Company’s targets.

Orderly accounting through internal monitoring

The internal control system for the accounting process encompasses all principles, methods and measures within the Koenig & Bauer Group for ensuring effective, economical and proper accounting in accordance with all applicable legal requirements. Guidelines and work instructions supplement the organisational and control structures.

In addition to accounting for the holding company and a number of affiliated companies, Koenig & Bauer AG holds responsibility for Group accounting and controlling as well as Group compliance/internal auditing, corporate finance/treasury, taxes and human resources/training. The individual Group companies have their own controlling, human resources and compliance functions and in some cases also their own accounting. The responsibilities are clearly assigned with an unambiguous separation of functions in the units involved in the accounting process. All departments involved in the accounting process have the appropriate resources. The allocation of appropriate rights ensures that the IT systems used for financial and payroll accounting are protected from unauthorised access.

The IT environment, which has previously been characterised by proprietary developments, is gradually being migrated to the SAP system widely used in the machinery and plant engineering sector. Following comprehensive planning of the enterprise-wide SAP project and an intensive period of fine-tuning, the staggered roll-out is currently underway. After the migration to the ERP system at the holding company Koenig & Bauer AG and the large business unit Koenig & Bauer Industrial together with Koenig & Bauer Gießerei, the roll-out will gradually take place at other Group companies until 2021.

Group accounting is performed on a monthly basis using a consolidation programme. Meticulous checks are performed on a quarterly basis. Accounting and measurement guidelines ensure that the principles defined by the International Accounting Standards Board (IASB) are uniformly applied. The risk management manual defines the process for identifying risks and the procedure for disclosing reportable risks. This ensures early detection of any risks at Koenig & Bauer AG and its subsidiaries and notification of the Management Board. The guidelines are regularly updated and expanded.

Random samples as well as manual or physical checks are performed to prevent any errors or omissions in accounting data. This includes annual inventory counts and work on the annual financial statements as well as asset counts in certain intervals. In addition, specially programmed plausibility checks are performed. The double sign-off principle is applied to all material transactions. Regular training and independent monitoring ensure that the consolidated financial statements comply with all applicable rules. Significant accounting-related processes and areas undergo analytical reviews particularly by internal auditing and controlling. The efficacy of the controls is verified by means of automated input, output and processing checks. External experts are also consulted where necessary, e.g. in the measurement of pension obligations.

Units granting approval are also separated from the units executing the transaction in question. In addition, write and read rights are assigned. There is a strict functional separation in the entry of transactions. Granulated requisitioning powers and access restrictions are applied to employees with respect to the IT applications. Individual employees in the functional areas do not have access rights to the complete accounting process level (incoming goods, inventories, invoice checking, payment approval, remittance).

Efficient control system

The defined principles, methods and measures ensure that financial reporting complies with the statutory requirements.

Research and development

Increasing customer benefit is a top priority

In addition to the numerous product innovations and enhanced solutions with a focus on packaging and industrial printing, new customer-centric digital services are the focal points of Koenig & Bauer's research and development activities. Customised, networked solutions are designed to enhance customers' competitiveness by improving quality, productivity and transparency. Group research and development expenses amounted to 3.1% of revenue in 2019 (previous year: 3.6%). In addition, development costs amounting to 1.8% of revenue were capitalised (2018: 0.9%).

Focus on packaging and industrial printing

Modern technologies such as artificial intelligence with learning algorithms, connected customer and Internet of Things (IoT) are used for the range of innovations in the product and service areas. Predictive maintenance is used to increase plant availability. Large volumes of data can be recorded with artificial intelligence and evaluated with speed and precision. From the data streams, procedures can be used to select normal behaviour from the overall data and predict malfunctions before they affect print production or potentially lead to press failures. With the IoT-based service process, defects and their causes are automatically analysed at the presses before they occur.

In addition to this information on the current defect, the service manager can access the press and service history with the ServiceApp on the mobile device. On this basis, remote maintenance and potential service calls for things like the timely replacement of parts and components are planned and carried out by the technician on site. In addition to calculable downtimes for service calls, the user benefits from reliable production and productivity enhancements.

Business report

Economic environment

In January 2020, the International Monetary Fund (IMF) quantified its growth estimate for global gross domestic product in 2019 at 2.9%. In addition to the lower global economic growth, a variety of uncertainties dampened investment sentiment in a number of industries and impaired demand for capital goods. According to publications from the German Mechanical and Plant Engineering Association (VDMA), new orders for machinery and equipment in 2019 were 9% lower than in the previous year in the sector as a whole in real terms. Despite structural declines in commercial printing, the 6.2% drop in the printing press sector was less severe as a result of robust demand in packaging printing.

Group order intake

in €m	2018	2019
Sheetfed	574.3	**625.3**
Digital & Web	176.6	**144.9**
Special	505.1	**406.7**
Reconciliation	-34.0	**-35.6**
Total	**1,222.0**	**1,141.3**

Group revenue

in €m	2018	2019
Sheetfed	615.9	**631.8**
Digital & Web	153.3	**164.6**
Special	491.5	**463.9**
Reconciliation	-34.7	**-41.8**
Total	**1,226.0**	**1,218.5**

Business performance

Margin quality is a top priority

Koenig & Bauer was able to increase its order intake for folding carton and glass direct printing as well as with die-cutters. In security printing and metal decorating, it was not possible to book all originally expected projects in the fourth quarter due to delayed project closings. In flexible packaging printing, current environmental discussions concerning plastic packaging led to the shifting of investment decisions. With strict pricing discipline, the sometimes massive concessions from the competition led in some cases to order losses. At €1,141.3m, Group order intake was 6.6% below the previous year's figure of €1,222m, which was boosted by a major order in security printing.

At €1,218.5m, Group revenue was on a par with the previous year (2018: €1,226m). Strong domestic business reduced the export ratio from 86.1% to 84.6%. While the share of European countries outside Germany remained with 33.2% at the previous year's level (33.8%), the share for North America fell from 14.8% to 12.6%. The proportion of revenue generated in the Asia-Pacific region increased from 25.3% to 26.1%, mainly as a result of higher deliveries to China. Latin America and Africa accounted for 12.7% of Group revenue (2018: 12.2%).

Please see for the publications mentioned www.imf.org and www.vdma.org

Geographical breakdown of revenue

in %	2018	2019
Germany	13.9	**15.4**
Rest of Europe	33.8	**33.2**
North America	14.8	**12.6**
Asia/Pacific	25.3	**26.1**
Africa/Latin America	12.2	**12.7**

At €533.7m, Group order backlog as of 31 December 2019 was lower than at the end of 2018 (€610.9m) as a result of the huge security printing order booked in the second quarter of 2018.

Group order backlog

in €m	2018	2019
Sheetfed	189.9	**183.4**
Digital & Web	85.8	**66.1**
Special	344.5	**287.3**
Reconciliation	-9.3	**-3.1**
Total	**610.9**	**533.7**

Earnings, finances and assets

Earnings

Earnings influenced by growth-related expenses and special items

In addition to the planned expenses for the growth offensive 2023, earnings were burdened by a lack of profit contributions due to delayed or shifted contract closings, unexpected project expenses for the major security printing order, higher quality and order processing costs and negative product mix effects. One-time income from a property sale and from the reversal of provisions due to lower legal risks had a positive effect. The service business, which expanded to 28.2% of revenue (previous year: 25.9%) despite the downward trend in Digital & Web, is the Group's main source of profit. With the Performance 2024 efficiency programme, intensive efforts are underway to improve the earnings situation in the new press business.

Performance 2024 for operational margin improvement

EBIT margin of 4.6%

Due to the product mix and higher cost of sales, gross profit amounted to €312.9m (2018: €355.6m). Accordingly, the gross margin was 25.7% after 29% in the prior year. With Group earnings before interest, taxes, depreciation and amortisation (EBITDA) of €89.6m, an EBITDA margin of 7.4% was achieved (2018: €112.3m and 9.2% respectively). In addition to capitalised development costs of €21.7m (2018: €11.3m), R&D expenses amounted to €37.5m (2018: €44.3m). Distribution costs increased from €138.8m to €151.3m due to higher delivery costs and wages and administrative expenses also rose from €94.2m to €103.4m. The above-mentioned one-time income was decisive for the clearly positive balance of other income and expenses of €35.3m (2018: €9.1m). With EBIT of €56m (2018: €87.4m), a margin of 4.6% was achieved (previous year: 7.1%).

The interest result of –€6.2m (2018: –€3.5m) led to Group earnings before taxes (EBT) of €49.8m, compared with €83.9m in the previous year. Income taxes came to –€11.4m. The higher tax expense in 2018 of –€19.9m was primarily influenced by the consumption of deferred tax assets on loss carry-forwards. At €38.4m (2018: €64m), Group net profit translates into earnings per share of €2.31 in 2019 (previous year: €3.86).

Group income statement

% of revenue	2018	2019
Cost of sales	-71.0	**-74.3**
Research and development costs	-3.6	**-3.1**
Distribution costs	-11.3	**-12.4**
Administrative expenses	-7.7	**-8.5**
Other income/expenses	+0.7	**+2.9**
Interest result	-0.3	**-0.5**
Income taxes	-1.6	**-0.9**
Net profit	+5.2	**+3.2**

Finances

High investment activities and one-time effects burden cash flow

In addition to the high investment expenditures and the dividend payment, cash flows were influenced by two significant one-time effects. Following completion of the self-disclosure proceedings in connection with shortcomings in corruption prevention at the Swiss subsidiary KBA-NotaSys SA, cash flow was burdened by a payment in the amount of CHF30m to the Swiss Office of the Attorney General for the agreed skimming of profits. An additional significant capital lock-up resulted from the major Egyptian order in banknote printing through the contract assets realised less prepayments. At the end of December 2019, the resulting cash burden amounted to €18.3m. Higher inventories also contributed to the increase in average net working capital in relation to revenue from 28.2% in the prior year to 33.4%. Accordingly, cash flows from operating activities of –€7.9m and free cash flow of –€52.3m were below the prior-year figures (€66.3m and –€19.5m respectively).

Cash flows from financing activities came to €101m as compared to €16m in the previous year. At the end of December 2019, cash and cash equivalents stood at €191m (31 December 2018: €142m). Adjusted for bank loans of €199.3m (see notes for more details), the net financial position came to –€8.3m (2018: €67.6m). The Group has access to syndicated credit lines provided by a consortium of renowned banks with a total volume of €400m. The syndicated financing, consisting of a guarantee facility and a revolving credit line of €200m each, has a term until December 2024. The Group-wide financing framework also includes additional bilateral credit lines on a significant scale.

Equity ratio of 34.3%

Despite the Group net profit of €38.4m, the dividend distribution of €16.5m and the increase in pension provisions (+€12.9m) following the cut in the discount rate for domestic pensions from 1.9% to 1.2% only led to a slight increase in equity to €460.4m (31 December 2018: €453.4m). This translates into a reduced equity ratio of 34.3% relative to the increased balance sheet total (2018: 38.5%).

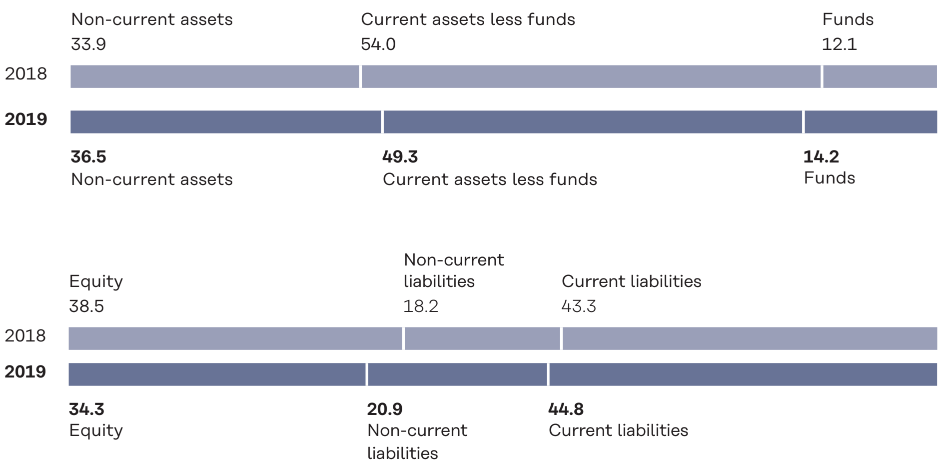
34.3%
equity ratio

Lower other provisions

While other provisions decreased by €45.2m, bank loans and other financial liabilities increased by €155.5m, primarily as a result of the utilisation of credit lines. The decline in customer prepayments from €111.1m to €96.2m contributed to the €11.5m decrease in other liabilities. On balance, current and non-current liabilities rose to €882.7m over the previous year (€724.9m).

Group assets and capital structure

in %



Assets

Strong balance sheet

Investments in the future

In the reporting period, extensive investments were made in the expansion of the Customer Experience Center in the Radebeul plant, in plant development with the new campus in Würzburg and the new Kammann operating facility. In addition to further efficiency enhancements in production, investment projects included new demonstration presses in the customer centres, implementation of the ERP system from SAP and other IT projects. Total investment volume was €104.9m (2018: €50.5m). In relation to revenue, the investment ratio was 8.6% following a figure of 4.1% in the prior year. With depreciation standing at €33.6m (2018: €28.9m), a capital spending ratio of 312.2% (previous year: 174.7%) was recorded. On top of the high level of investment in construction projects, the IFRS 16 standard on the capitalisation of leases, applicable from 1 January 2019, contributed to the increase in property, plant and equipment from €208.9m to €245.6m. Property, plant and equipment are covered by equity of 187.5% (2018: 217%). Capitalisation of SAP software and development costs led to an increase in intangible assets from €84.1m to €115.4m. In addition, deferred tax assets rose from €79.5m to €106.4m, while investments and other financial receivables fell from €26m to €22.5m. Overall, non-current assets rose from €399.8m to €490.8m.

The increase in current assets from €778.5m in the previous year to €852.3m was due to higher cash and cash equivalents, inventories and other assets. On the other hand, trade receivables were reduced. The Koenig & Bauer Group's balance sheet total at 31 December 2019 rose to €1,343.1m. This figure was thus €164.8m above the prior-year figure of €1,178.3m.

Summary of the economic situation

The growth strategy in structurally and sustainably growing packaging printing markets was consistently followed with great determination and a high level of investment. As planned, corresponding growth expenses led to a burden on Group EBIT. In a significantly more challenging global economic environment in the second half of 2019, achievement of the revenue and earnings targets for 2019 was negatively impacted by a lack of profit contributions as a result of delayed or postponed order closings as well as higher costs in order processing. Compared to the targeted organic revenue growth of around 4% and an EBIT margin of around 6%, an EBIT margin of

4.6% was achieved on revenue at the previous year's level. In addition to the current high level of capital expenditure, cash flows were burdened by the major order from Egypt and completion of the Swiss self-disclosure proceedings. We have a good level of internal liquidity from our operating business that we intend to increase successively by optimising working capital. The long-term credit facility syndicated by renowned banks is strengthening the Group's stability and creates the financial scope for utilising strategic options. In terms of balance sheet ratios, the Koenig & Bauer Group is well-positioned with an equity ratio of 34.3%. Overall, the economic situation of our Group is considered solid.

Segment performance

8.9% higher order intake in Sheetfed

In addition to the strong service business, more orders for large- and medium-format presses led to growth in order intake in the Sheetfed segment of 8.9% to €625.3m (2018: €574.3m). Robust demand from the packaging sector, considerable success with extensively equipped commercial printing presses and the folder gluers added in the course of the Duran acquisition contributed to this above-average growth in orders. Compared to 2018 (€615.9m), revenue increased by 2.6% to €631.8m. The slightly lower order backlog of €183.4m compared to the previous year (€189.9m) remained at a good level. Due to the product and regional mix, higher order processing costs, EBIT of €19.4m was below the figure from the prior year (€35.4m).

Robust demand from the packaging sector

Revenue up in Digital & Web

In Digital & Web, order intake of €144.9m was 18% below the prior-year's figure of €176.6m. In addition to the shrinking service business with web offset presses, lower orders in flexible packaging printing were the main reason for this decline. The public discussion about the sustainability of plastic packaging slowed the foil printer's investment activities. While new business for the HP press for digital pre-prints of corrugated liners remained low, follow-up orders for digital decor and analogue corrugated printing could only be finalised after the end of the financial year. The decor printer Interprint ordered its third RotaJET system and the corrugated board printer Thimm Packaging Systems opted for a CorruFLEX. Revenue increased by 7.4% from €153.3m to €164.6m. On balance, the order backlog decreased from €85.8m to €66.1m at the end of 2019. The EBIT of –€16.5m (previous year: –€10.2m) was burdened by high market-entry and growth-related expenses as well as the negative result in flexible packaging printing.

Good order backlog in security printing

In the Special segment, order intake of €406.7m was below the prior-year's figure of €505.1m, which was impacted by a major order in security printing. Orders of this scope are unusual, even in security printing. In a highly-competitive environment, we were not able to succeed in all security printing tender awards, but were nonetheless able to win important orders. Following strong metal decorating orders in recent years, demand for large-scale systems for 3-piece can decorating calmed. In marking and coding, customers in the automotive sector are holding back their orders. By contrast, we were able to achieve significant order growth in glass and hollow container decorating. After €491.5m in the previous year, revenue of €463.9m was achieved. Order backlog at the end of 2019 was €287.3m (31 December 2018: €344.5m). As a result of the lower revenue, product mix and unexpected project expenses for the major security printing order, EBIT amounted to €43.9m after €48.2m in the previous year, despite the one-time income from a property sale and from the reversal of provisions due to lower legal risks.

Risk report

Group-wide risk early detection system

Risks arise from insufficient knowledge of all factors that influence the occurrence of an event with a possibly negative impact. All business activity entails risks that may have an adverse effect on the definition and achievement of targets. At the same time, entrepreneurial activity means consciously accepting risks to take advantage of opportunities for enhancing enterprise value. Risks that are not detected, considered and addressed can endanger the successful development of the Company.

High level of transparency

The Management Board has implemented a Group-wide system for identifying and managing risks so that management is able to respond to the current risk situation by taking early and appropriate measures. This system ensures that possible risks to business performance are detected at an early stage and their extent shown transparently. In addition to reporting critical market and corporate developments together with their possible impact on the Company's results of earnings, financial and asset position, the risk management system encourages general risk awareness.

In addition to the identification and evaluation of risks that have an impact on the results of earnings, financial and asset position, the Group-wide risk management system systematically identifies those risks which Koenig & Bauer causes, supports or tolerates in the environment or the general public.

Established risk management process

In addition to the production units, the risk early detection system covers the main sales and service companies. Koenig & Bauer's risk management structure is made up of the central risk coordination unit which reports to the Chief Financial Officer. The risk owners at the operating units perform semi-annual local risk inventories and submit corresponding reports. Management of the operating unit in question then reviews the reports for any omissions and evaluates the risks.

A bottom-up approach is applied in which possible risks are reported to the responsible executives combined with a top-down approach comprising a list of assumed basic risk defined by the Group. In addition, the owners of the main strategic projects and value-creation processes are responsible for monitoring project and process risks.

The Group-wide risk manual documents the instruments and reporting paths. The Koenig & Bauer Group's risk management system is based on the provisions of German company law and the German Accounting Standards as well as the principles and models of the Institute of Internal Auditors (IIA) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Systematic approach to risks generates a high degree of transparency for forward-looking, target-oriented action

For the purposes of more accurate coordination of risk-avoidance and mitigation measures, risk is calculated as a negative deviation from an expected figure. This approach systematically records risks that are already included in corporate planning as well as additional latent risks that are not expressly accounted for.

Risks are reduced in a net view by the already established risk-mitigation measures and then quantified on the basis of comprehensibly described scenarios in accordance with the probability of occurrence and potential impact on Group net profit. The underlying assessment period extends to the end of the year following the reporting year. A standardised approach is applied to achieve a systematic and uniform appraisal and evaluation of risks. Quantitative or qualitative risks which either individually or together with other similar risks exceed a value of €0.5m and a probability of 10% are reported to the Management Board. These risks are sorted according to the following matrix and classified as low, moderate or significant.

In addition to monthly Group reporting, the system is supplemented with the established and additionally enhanced operational management elements. These particularly include regular financial reviews. The plans are reviewed during the year on the basis of controlling forecasts. In the event of any actual or expected deviations, suitable precautions and countermeasures are defined with minimum delay and implemented by management.

Semi-annual risk inventory

The risk early detection system installed by the Management Board is reviewed annually by the audit committee of the Supervisory Board and is also reviewed by the statutory auditor in accordance with statutory requirements. Internal auditing oversees the reporting process and checks it for plausibility.

Description of risks

The following section describes the material risks to which the Group is exposed. In the absence of any indication to the contrary, they are equally relevant for all segments. Group reporting assigns risks to the following categories: business risks, financial risks, operating risks and other risks. The order in which risks are described within the individual categories reflects the potential impact of the risk on the Group's performance. Risks with a higher potential impact are described before those with a lower impact.

Risk matrix

Effect on Group net profit					
Very high >€20m	moderate	moderate	significant	significant	
High >€10m-€20m	moderate	moderate	moderate	significant	
Medium >€5m-€10m	low	moderate	moderate	moderate	
Low >€0.5m-€5m	low	low	moderate	moderate	
	Unlikely 10-24%	More unlikely than not 25-49%	Possible 50-75%	Probable >75%	Probability

Business risks

Sector risks

Moderate sector risks

The industry environment may exert strain on demand for our products and services as well as our business performance through their impact on the climate for capital spending and the scope that our customers have for new investments. A changing order behaviour of our customers can impact the development in individual business areas to different extents, up to endangering their existence. Given the structural change occurring in the printing industry, we expect the number of printing companies to continue declining, accompanied by an increase in the size of individual companies.

We address these risks by clearly focusing our product portfolio on the growth market packaging and, in this regard, benefit from higher packaging volumes worldwide through increasing consumption, booming online trade and the growing world population. Industrial applications such as digital decor printing are among the further focal points of our growth strategy. One main task is to continue shifting our range towards these markets of the future through new products and applications. In addition to the die-cutters and gluing machines for folding box production, various machines for printing corrugated board, beverage cartons and cans, flexible packaging as well as glass and other hollow containers have been added. By widening our footprint, we will be able to reduce the effects of fluctuation in individual applications.

In security printing, we are constantly developing the know-how that has been built up over decades with innovations and competitive differentiators in the area of security features. The customer structure is dominated by government bodies tied by mostly political decisions. This impairs forward visibility in security printing business, something that gives rise to corresponding capacity and financial risks. There has been a fundamental change in the market environment in the wake of heightened competition and the now predominant use of public tender processes by our customers. In addition to optimising our operations and lowering our costs, we are addressing these specific market conditions in the security printing market by launching new products, introducing innovative security features and expanding our service business for the large installed printing press base. Despite the moderate growth expected in global banknote production over the next few years, our large share of the market limits the scope for any increase in revenue from printing presses.

Our competitors in the sheetfed offset and security printing business often grant considerable price concessions. We consider this to be problematic if the production costs are not covered. We reject such practices as we see long-term disadvantages for innovation power of the industry. At the same time, such conduct makes it more difficult for us to achieve the targets we have defined for order intake and project profitability. The Koenig & Bauer Group pursues a strategy of boosting its competitiveness and profitability on a sustained basis by offering customers bespoke solutions and by simultaneously continuing to optimise structures and production costs. By actively presenting and communicating the technical advantages of our products and services for customers, we are able to secure reasonable premiums on our prices. At the same time, clear sales targets and ongoing checks support efforts to ensure sustainable pricing for new and used presses.

In summary, the sector risks are considered moderate in light of the measures that have already been taken to address them.

Macroeconomic and economic risks

Our business is influenced by underlying conditions in the global economy. Political decisions and policy changes, trade conflicts and barriers as well as the exchange rate of the euro against other key currencies may impair sales of our products, reduce our capacity utilisation and exert an adverse effect on our forecasts and budgets.

Trade barriers, high debt levels in many economies and uncertainties caused by the coronavirus have increased the risks to global economic growth. As a result of these developments, there are significant risks to the Koenig & Bauer Group's future business development.

We mitigate sales risks arising from regional fluctuations in demand by continually optimising our international sales and service network in the markets of the future. Further sales and earnings potential is offered by the service initiative that we are systematically pursuing.

Financial risks

Risks from measurement of assets and liabilities

Management has discretionary powers in the application of accounting and valuation methods. Future developments must be estimated if no market prices are available for the measurement of assets and liabilities. Generally speaking, there is therefore the risk of valuation adjustments becoming necessary in subsequent financial years. Due to the high volume of goods and services exchanged within the Group, we see moderate risks in the determination of taxable profits through a subsequent correction of transfer prices by the tax authorities despite worldwide tax advice and close cooperation with the responsible tax authorities.

Counterparty and country risks

We monitor risks from receivables particularly closely. The high values of individual projects with public-sector customers may yield risks for Koenig & Bauer, particularly in security printing.

Printing companies also continue to face considerable obstacles in obtaining credit-based finance for capital spending projects as loans are only granted subject to a relatively high risk premium in this sector. In line with customary market practice, Koenig & Bauer has therefore to offer the customers in the Sheetfed segment in particular support in financing their machine investments. In these cases, we work, for example, with banks or leasing companies with which we agree on customer specific risk participation on a case-by-case basis.

Significant economic risks

Credit checks of our business partners or creditworthiness reviews in the case of any financing risk are the basis of our actions. Standard measures for the hedging of possible payment defaults include state export credit insurance as well as requests for predelivery collateral. After delivery, we retain the ownership rights pending full payment. Proactive receivables management at individual project level ensures an appropriate response to counterparty and country risks. Sufficient allowances or provisions have been recognised to cover potential defaults, repurchasing obligations and the returns of used presses. There is no customer or regional clustering of credit risks. Management receives regular evaluations of risks such as receivables by maturity and regions or repurchasing obligations. This makes it possible to detect any risk concentration at an early stage and to take suitable precautions. In view of the measures that have been taken and expected market trends, we consider this risk to be moderate.

Interest and exchange rate risks

Exchange-rate fluctuations and interest-rate changes may expose the Koenig & Bauer Group to financial risks. Koenig & Bauer holds financial instruments whose fair value and the resultant cash flows are influenced by market interest rates. In selected cases, we make use of derivative financial instruments to hedge the interest rate risk. The notes to the consolidated financial statements set out the type, extent and market value of the financial instruments used. We currently consider exchange-rate fluctuations to pose only a low risk as invoices are mostly issued in euros and in view of the financial instruments used.

Low exchange rate risks

Liquidity risks

Liquidity risks relate to the danger of not being able to meet existing payment obligations on time due to insufficient cash and cash equivalents or exhausted credit lines. The financing of possible major customer projects as well as targeted revenue growth require a sufficient liquidity framework. Koenig & Bauer generates financial resources mainly from customer payments. In addition, the Group has access to syndicated financing from guarantee and revolving credit lines. Payments are made primarily to finance current operations and most capital expenditure, and to pre-finance working capital. The guarantee facilities are required as collateral for advance payments by our customers, among other things.

We ensure that liquidity risks are covered by rolling, Group-wide liquidity planning. A daily liquidity status report tracks and measures the short-term solvency of the holding company and the subsidiaries. In addition to Group-wide cash management, a weekly updated Group liquidity and finance plan is prepared complete with reports for medium-term liquidity management. This roll-over planning system covers a period of twelve months. No risks are seen here as incoming and outgoing payments are monitored on an ongoing basis. In addition to the syndicated credit lines with long-term maturities provided by a consortium of renowned banks, the Group-wide financing framework includes additional bilateral credit lines on a significant scale. Using the financial resources available to it, the Group is able to bridge any unexpected fluctuation in cash flows.

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Operating risks

Development risks

Koenig & Bauer regularly invests substantially in the development of improved or entirely new products and processes in order to preserve its competitiveness, satisfy market requirements and gain new customers. This leads to risks with respect to technical implementation and feasibility as well as ultimate market acceptance of the new or enhanced products. In particular, there is a risk that it may not be possible for the expenses incurred to be recouped from sales of the products and services developed, thus adversely affecting the return on investment. We address these risks through relevant analyses of market needs prior to commencement of development work and by executing marketing activities to accompany the product launch. Necessary impairments are undertaken for capitalised development costs that are not considered recoverable. Technical risks are reduced by means of comprehensive project and quality management as well as field-testing with beta users. As a result of the recent markedly accelerated entry into new products and markets and despite the risk-reducing measures described, we currently consider the risks arising from this to be significant.

Production risks

Inadequate quality, rejects and missing parts can lead to risks in construction, production and assembly. A temporary surge in demand may cause delays in the delivery of individual components. A delivery delay or contractual non-compliance for which Koenig & Bauer is responsible may result in contract penalties or customer credits, thus reducing margins. The ability to sustainably lower the quality costs of our technically complex products exerts considerable influence on our earnings. We have local quality assurance departments at all plants and relevant business units. Continuous quality controls based on standardised processes systematically analyse sources of error and optimise production processes. Internal schedule management is based on regular scheduling coordination and our reporting system. Cost control and management entails regular cost reports, which are based on our cost accounting system together with structured processes for planning, forecasting and variance analysis. To optimise the entire supply chain for a sustainable reduction in delivery times, we are working on operational and strategic adjustments to the internal production network to reduce costs and throughput times and to increase productivity. In the light of all the precautions that are in place, we consider exposure to production risks to be moderate.

Significant development risks

Human resource risks

Our success hinges materially on motivated and highly qualified engineers, specialists and executives. In the current job market, we are exposed to the risk of losing or failing to find qualified employees and of being unable to build up a suitable group of management trainees. We address this risk by providing appealing, family-friendly jobs, the long-term commitment of employees, trainee and further education programs together with long-term development plans for young professionals and managers. At the same time, we are working on our external presentation to improve the way in which we are perceived as an attractive and innovative employer. In addition, the non-German production, service and sales companies, whose growth potential is regularly reviewed, have access to specialists in the international job markets.

We apply flexible instruments such as working time accounts, the use of leased employees or short-time work to address our customers' demands for short delivery times and to temporarily cushion any fluctuation in capacity utilisation in our plants. If our employees are unwilling to accept flexible working hours or overtime, there is a risk of failing to execute customer orders within the defined period and, hence, of losing orders or of experiencing delivery delays.

Taking into account the measures initiated and the current situation in the labour market, we assess the risk as moderate.

Planning, control and monitoring

Our Group targets and annual budgets are based on assumptions that are subject to uncertainty. For the purposes of sales planning, volumes with corresponding margins are defined as the basis for the Companies' capacity and resource planning. Among other things, cost budgets include expected increases in wages and material costs as well as the savings achieved as a result of continuous improvement measures or special projects. In addition to continuous observation and analysis of our business environment, we address this risk by regularly reviewing our budgets when preparing forecasts and by controlling our operating business efficiently together with strategic projects.

Short-term fluctuations in capacity utilisation at our plants due to volatile incoming orders may have a negative impact on profitability. Accordingly, we regularly review the necessary production capacities and coordinate them as far as possible with short-term sales planning. We also use work-time flexibility tools and leased employees to adapt our capacities dynamically to the order situation.

We see a moderate risk of the assumptions underlying plans failing to eventuate in the expected form or of the savings potential factored into our budgets not being achieved in full.

IT risks

Moderate IT risks

As a result of the Group-wide implementation of the SAP ERP system, the Koenig & Bauer Group is exposed to risks with regard to the smooth running of future business processes. To limit these IT risks, Koenig & Bauer uses the services of reputable software consultants and has established a SAP project group. If the replacement of the legacy systems and simultaneous installation of the new ERP software is not on schedule and without disruptions, restrictions in operations or additional costs of the SAP implementation project could have a significant financial impact. To reduce the risks, implementation in the operating companies will be carried out successively and on the basis of a uniform platform. In view of the successful system changeover in the first three companies, experience from similar complex projects and extensive involvement of external experts, we consider the IT risks to be moderate.

Procurement and logistics risks

Procurement risks cannot be completely ruled out due to demand-related supply bottlenecks for components and input materials, delivery failures, quality problems and unforeseen price increases imposed by our suppliers. In the absence of alternative options, short-term shortfalls in supplies may lead to production stoppages and delays in our own deliveries with negative effects on capacity utilisation and earnings.

In addition to strict supplier management, we address the procurement risks by means of ongoing market observation, in which we monitor delivery quality, reliability and the economic situation of our main suppliers. In the case of single-source suppliers, we pay particular attention to ensuring that back-up solutions are in place. We manufacture strategic components and supply-critical parts ourselves or procure them through long-term supplier relationships. We counter price risks by means of Group-wide commodity group management with bundling of purchasing volumes and long-term supply contracts. We currently do not expect any significant price increases within the framework of existing supplier relationships. Through close cooperation and regular supplier audits, we continuously improve the quality of the parts supplied. The quality and return rates recorded in the course of supplier management are within the range of our expectations. Taking into account the measures described, we therefore assess procurement risks as moderate.

Customer focus

Our end markets demand a high degree of innovation and increasingly customised solutions. The requirements and preferences of our customers are subject to constant change. It is therefore critically important to identify technical developments and customer requirements and to ensure that our product portfolio, services and sales structures are geared toward them in good time. There is a moderate risk of lost revenue if changing customer requirements are not promptly identified or not reflected in Group-wide processes.

Infrastructure and litigation risks

The risk of a business interruption cannot be fully ruled out. Delays in production due to failures or interruptions of individual means of production or technical infrastructure can have an adverse effect on production efficiency as well as a significantly negative impact on our business. We therefore regularly evaluate and audit our production sites together with an external consultant and cover risks from property damage and fire, business interruption, business and product liability using local insurance policies. Within the scope of our maintenance management, we analyse possible weaknesses and enhance the availability and operational safety of our machines through preventive measures. This allows us to limit unscheduled breakdowns and plant shutdowns as well as the associated costs. Overall, we consider infrastructure and litigation risks to be low.

Takeovers and alliances

In the course of our strategic development in markets of the future, takeovers and alliances may be necessary. Such transactions can involve considerable acquisition and follow-up costs and therefore require careful advance analysis, often with support from external experts. The objective of such activities and expenses is an appropriate level of profitability with a forward-looking product portfolio. We consider the risk that these activities could result in expenses not foreseen in the analyses carried out to be low. This also applies to the risk that the planned positive effects on the business result cannot be achieved or cannot be achieved within the planned time frame.

Other risks

Legal risks

Koenig & Bauer is subject to a wide range of legal and statutory regulations. The negative outcome of legal disputes or failure to comply with regulatory requirements can lead to significant financial damage, such as fines or damage to the Company’s reputation. We therefore continuously record and analyse existing and pending litigation, assess its legal and financial implications and establish appropriate provisions in the balance sheet if an obligation is probable. The measurement of these provisions, for legal cases for example, involves a considerable amount of estimation. They are continuously reviewed in quarterly litigation reports and adjusted in good time in the event of any changes. The Group is not involved in any litigation or administrative proceedings with a material impact on its overall economic position. Generally speaking, we consider the risk of litigation and administrative proceedings having a negative impact to be moderate, although legal risks in the risk exposure of globally operating machinery engineering companies generally has a certain weight. We address this risk by using standard contracts and by obtaining comprehensive legal advice from internal and external experts on non-standard business transactions. Furthermore, the established compliance management system has been designed to recognise legal risks at an early stage and to address them with counter measures.

Moderate to low other risks

Group-wide risk situation

Disasters and force majeure

Koenig & Bauer is also exposed to risks associated with natural and environmental disasters, social tensions, epidemics or pandemics. Such events, which can occur anywhere in the world, can affect our business activities, including in the performance of contracts already concluded. In such cases, our contracts generally contain appropriate clauses that exclude our liability in cases of force majeure. Similarly, such events can make it difficult or impossible to complete new business transactions, with corresponding losses in revenue and earnings. In addition, direct damage caused by possible natural and environmental disasters, such as damage caused by the elements, is covered by insurance policies to the extent possible and economically reasonable. We currently see moderate risk of damage caused by force majeure or disasters.

Damage to the Company's reputation

In the technically demanding capital goods business there is always the latent risk of barely quantifiable harm to the Company's image arising in the event of quality problems, breaches of industrial property rights or similar situations. Currently, we do not see any risks from damage to the Company's reputation.

Summary of risk situation

As compared with the previous year, the Company-wide risk situation of the Koenig & Bauer Group has worsened slightly. Changes in the risk profile result for the most part from the current economic situation and the recent strong push to enter new products and markets.

Despite the economic and political uncertainties, we currently do not see any risks that either individually or cumulatively could jeopardise the Koenig & Bauer Group's going-concern status. Our extended product range for growth markets, the expansion of service business, our strong market position and financial stability place a cap on risk potential.

With our ongoing efforts to optimise risk management, risk awareness in the Koenig & Bauer Group has continuously improved. In particular, there is heightened consciousness of the need to address risks, their potential impact and relevant counter-measures. More detailed and comprehensive risk reporting improves the scope for tracking risk-mitigation precautions and for encouraging a responsible approach to opportunities and risks within the Company on a sustained basis.

This risk report is necessarily based on available information as well as expectations and estimates believed to be true at the time of reporting and refer to future trends. It is not possible to exclude other or additional risks which may have an influence of the Group but are currently not known or believed to be significant. Moreover, risks may change during the forecast period, resulting in a significant discrepancy in the estimate presented here.

Outlook and opportunities

Group targets for 2020

In mid-February 2020, the International Monetary Fund (IMF) lowered its 2020 growth forecast for the global economy published at the beginning of the year by 0.1% to 3.2% due to the effects of the coronavirus. Further economic forecasts were quickly revised downwards. In its forecast published at the beginning of March, the Organisation for Economic Co-operation and Development (OECD) expects global economic growth to halve in 2020 to only 1.5% if the situation with the coronavirus does not improve. Even if the global print production volume continues to grow at an above-average rate in the packaging sector, these uncertainties may at least temporarily dampen the investment climate. In the assessment of the VDMA, this uncertainty on the part of customers is causing problems for German mechanical and plant engineering companies – in addition to the structural change in the automotive sector.

Even before the outbreak of the coronavirus, global economic conditions were demanding. Given the daily worsening global economic situation due to the coronavirus, the impact on our Company and the achievement of our planning are currently completely open. For 2020, we are planning to achieve a largely stable Group revenue compared to the previous year and the prior year's EBIT level without the around €10m in special expenses from the efficiency programme. Dealing with the possible consequences of the corona crisis is currently a top priority.

Through further optimisation of working capital and a lower investment volume, the Management Board expects an improved cash flow development in 2020 despite the liquidity burdens from the Performance 2024 efficiency programme. The liquidity relief from the major Egyptian order in banknote printing will take place after the project is completed in the third quarter of 2020.

Future opportunities in packaging and industrial printing

With the product innovations and enhanced solutions, Koenig & Bauer intends to actively take advantage of current market opportunities in corrugated board, folding carton, 2-piece can, marking and coding, glass direct, digital decor and beverage carton printing, for rotary and flatbed die-cutters and folder gluers. A particular focus is on structurally and sustainably growing packaging printing, which is growing in line with the development of global gross domestic product (GDP) and the world population. In addition to the global increase in consumption, packaging use is benefiting from booming online trade, smaller sizes due to a greater number of single households, and stricter regulations. New online markets for food are also stimulating packaging consumption. According to various industry studies, global packaging printing is growing at an average annual rate of around 4% with higher growth rates for corrugated packaging. For Koenig & Bauer, packaging printing markets for food, beverages and medicines are particularly attractive because they are less sensitive to economic cycles. Alongside the rising requirements of brand owners with respect to quality, flexibility, cost efficiency and delivery times, trends in favour of more complex, colourful and environmentally-friendly packaging will stimulate capital spending by packaging printers. Packaging is increasingly becoming a brand ambassador and a fixed component of the product experience. In this regard, unboxing fosters the shopping and brand experience. With its comprehensive portfolio of proven, new and further developed products, Koenig & Bauer intends to participate in this growth in the packaging markets and further expand its already strong position in the diverse packaging market.

Analogue technologies such as flexo, offset and screen printing dominate global packaging printing. For reasons related to cost, productivity and quality, digital processes such as inkjet printing will only be successful in industrially oriented packaging printing for applications that are economically viable for customers.

Please see for the publications mentioned www.imf.org and www.oecd.org

Technically and economically convincing digital printing solutions offer good market opportunities for business models specialising in small print runs, greater personalisation and versioning, higher format flexibility and other advantages. For direct printing on corrugated and metal sheets as well as on hollow containers made of glass, plastic and metal, Koenig & Bauer has developed digital and hybrid printing solutions with added value for the customers. A large-scale inkjet system is being produced in cooperation with HP for digital pre-prints of corrugated liners. Following the most recent RotaJET orders, Koenig & Bauer sees considerable revenue and earnings potential for its mature and high-quality digital printing solution as a result of the structural change that is becoming increasingly apparent in decor printing. This applies simultaneously to digital full-colour beverage carton printing following the key contract from Tetra Pak.

Service business in security printing creates stability

Due to the good project pipeline, Koenig & Bauer expects stable press business in security printing. In view of the intense competition, the newly developed and innovative security features serve as a key differentiator and unique selling point. Global banknote production continues to grow moderately despite the increasing spread of digital payment methods. Due to increasing prosperity and growing populations in emerging countries with high cash ratios combined with widespread scepticism toward electronic payments, no trend reversal is expected in the medium term. In addition to the intensive work on new products and security features, the service business for the large installed press base is being systematically expanded, a situation that will continue in the medium to long term even with weaker new press business and make a good contribution to the Group's earnings. The influence of the volatile security printing business will be reduced as the share of packaging in Group revenue continues to rise.

Mid-term target:
>7%
EBIT margin

Restrained development in the media-related print areas

Koenig & Bauer anticipates stable development in sheetfed offset presses for commercial printing. The global book market is proving stable to slightly growing. The share of the book market accounted for by e-books is now stagnating at 22% in the USA and 16% in Germany. In the case of web offset presses for newspaper and commercial printing, in addition to the shrinking new press business, a decline in the service business is expected due to a further increase in press shutdowns and printing plant closures.

Mid-term targets

In normal economic years, management aims to grow revenue by around 4% together with sales of new and enhanced products. The Performance 2024 efficiency programme targets to improve operating earnings to the EBIT margin level of over 7% in the medium-term that has already been achieved in the Group. Our further goals include a dividend ratio of 15–35% of Group net profit, an equity ratio of over 45%, a target corridor for net working capital of 20–25% of revenue, and a share of 30% in total revenue for service business.

Legal information and compensation report

The share capital of Koenig & Bauer AG, Würzburg, stood at €42,964,435.80 as of 31 December 2019, divided into 16,524,783 bearer shares with a nominal value of €2.60 each. In accordance with article 14.7 of the articles of association, each share has one vote at the annual general meeting. There are no restrictions on voting rights or the transfer of shares and no special rights imparting powers of control. To our knowledge, AlternInvest GmbH in Vienna, Austria and Universal-Investment-Gesellschaft mit beschränkter Haftung in Frankfurt am Main, Germany hold over 10% of share capital, each with 10.2%. Further institutional and private investors have shareholdings of between 3% and 6% in Koenig & Bauer AG and account for a total of around 20% of the share capital.

Executive bodies

As of 31 December 2019, the shares held by the boards of Koenig & Bauer AG came to 5.09% of its share capital. The members of the Management Board held 5.08% (Claus Bolza-Schünemann 5.07%) and the members of the Supervisory Board 0.01%.

The appointment and dismissal of the members of the Management Board and amendments to the articles of association comply with statutory regulations (sections 84, 85, 179 of the German Stock Corporation Act, section 31 of the German Codetermination Act). In accordance with article 10.2 of the articles of association, the Supervisory Board may pass resolutions to amend the articles of association provided that such amendments concern only the wording. This authorisation particularly applies to the utilisation of authorised capital.

In accordance with the Act on the Equal Participation of Women and Men in Executive Positions in Private and Public Sector, the Management Board and the Supervisory Board have defined target gender quotas. The Supervisory Board's gender quota for female members of the Management Board is still 0%. The 17% proportion of women at the first management level beneath the Management Board and 7% at the second management level beneath the Management Board is to be retained until 31 December 2022 at least in accordance with a resolution of the Management Board. For the composition of the Management Board, the Supervisory Board pays close to diversity, as does the Management Board in the filling of management positions. In cases in which female and male candidates have comparable qualifications, the proportion of women is to be increased as far as possible when new appointments are made.

17% women's proportion at the first level under the Management Board

Authorised capital and authorisation to purchase shares

On 31 December 2019, the Company had authorised capital of €8,580,000, equivalent to 3,300,000 shares, which may be utilised on or before 22 May 2022. The authorisation granted at the annual general meeting is documented in article 5.3 of the articles of association. Koenig & Bauer AG may utilise up to 10% of the share capital prevailing at that time to acquire and resell treasury stock subject to the exclusion of shareholders' preemptive subscription rights. This authorisation granted by the shareholders expires on 18 May 2021 and allows the Company to offer treasury stock in the purchase of companies or equity interests at short notice. The Company did not hold any treasury stock on 31 December 2019.

Disclosures in accordance with section 315a (1) 8 and 9 of the German Commercial Code

Koenig & Bauer AG has not entered into any material agreements or special arrangements governing a change in or acquisition of control in the event of a takeover bid. Likewise, the Company has not entered into any agreement providing for compensation to be paid to members of the Management Board or employees in such an event.

Compensation report

The compensation report outlines the main features of the remuneration system for the members of the Management Board and explains the structure and amount of remuneration for the members of the Management Board and the Supervisory Board.

Supervisory Board remuneration

The articles of incorporation can be found at www.koenig-bauer.com/de/investor-relations/corporate-governance/satzung/

The remuneration of the Supervisory Board is determined by article 13 of the articles of association. In addition to an attendance fee and reimbursement of out-of-pocket expenses, each member receives fixed annual remuneration of €35,000. The chairman receives double this amount and his deputies one-and-a-half times this amount. The chairman and the members of the audit committee receive €11,250 and €7,500 respectively, the strategy committee €9,375 and €6,250 respectively and the nomination committee €4,625 and €3,750 respectively per year. Members of the other committees do not receive any separate remuneration. Activities on the committees of the Supervisory Board are remunerated once. If a member sits on several committees, he or she receives the amount for the committee with the highest remuneration. A D&O liability insurance with a policy excess of €2,500 exists for the members of the Supervisory Board. The total remuneration paid to the Supervisory Board in 2019 was €0.6m (previous year: €0.4m) and breaks down as follows for the members of the Supervisory Board:

	2018				2019			
in €	Base compen-sation[1]	Additional compen-sation[1] for committee work	Meeting attendance fee	Total	Base compen-sation[1]	Additional compen-sation[1] for committee work	Meeting attendance fee	Total
Professor Raimund Klinkner	2,334	–	–	**2,334**	54,416	3,646	1,750	**59,812**
Dr Martin Hoyos	56,000	6,000	1,000	**63,000**	29,167	3,125	750	**33,042**
Gottfried Weippert	42,000	6,000	1,250	**49,250**	52,500	6,250	1,750	**60,500**
Dagmar Rehm	42,000	9,000	1,250	**52,250**	52,500	11,250	1,750	**65,500**
Julia Cuntz	28,000	–	1,000	**29,000**	35,000	–	1,250	**36,250**
Carsten Dentler	28,000	5,000	1,250	**34,250**	35,000	6,250	1,500	**42,750**
Marc Dotterweich	28,000	6,000	1,250	**35,250**	35,000	7,500	1,750	**44,250**
Matthias Hatschek	28,000	5,000	1,250	**34,250**	35,000	6,250	1,750	**43,000**
Christopher Kessler	28,000	5,000	1,250	**34,250**	35,000	6,250	1,500	**42,750**
Professor Gisela Lanza	28,000	7,500	1,250	**36,750**	35,000	9,375	1,750	**46,125**
Dr Johannes Liechtenstein	–	–	–	**–**	17,500	4,375	750	**22,625**
Walther Mann	28,000	5,000	1,250	**34,250**	35,000	6,250	1,750	**43,000**
Dr Andreas Pleßke	14,000	–	500	**14,500**	–	–	–	**–**
Simone Walter	28,000	–	1,250	**29,250**	35,000	–	1,750	**36,750**
Total	**380,334**	**54,500**	**13,750**	**448,584**	**486,083**	**70,521**	**19,750**	**576,354**

[1] The base and additional compensation is calculated on the basis of the members' function and length of service on the Supervisory Board (see page 122 in the notes).

Management Board remuneration

The total remuneration of the members of the Board of Management, which is determined individually by area of responsibility, is made up of a fixed monthly salary, a one-year and a multi-year variable remuneration. The Supervisory Board can decide on a special remuneration for extraordinary performance.

For Dr Mathias Dähn, Christopher Müller, Dr Andreas Pleßke and Ralf Sammeck, the following rules apply for the one-year and multi-year variable remuneration:

The one-year variable remuneration depends on the Company's business performance in the current year (reference year) and is measured using the EBIT margin. The target is defined as 60% of the fixed remuneration, which may increase to up to 90% in the event of excess achievement (150% of the target bonus). An EBIT margin of at least 3.6% must be achieved in 2019 for payment of 50% of the target bonus to be made. The target bonus is paid out if the EBIT margin reaches 4.6%. The target is capped at 150% for an EBIT margin of 5.6%. The budget approved by the Supervisory Board forms the target for 100% achievement. The bonuses for the segment Management Boards are measured on the basis of 50% of the Group EBIT margin and 50% of the EBIT margin of the relevant segment. For Dr Pleßke, the segment components are measured on the basis of the achievement of specific agreed targets which were determined together with the Supervisory Board within the scope of his responsibility for the Special segment.

The multi-year variable remuneration depends on the Company's business performance in the reference year and the following two years and is measured according to the EBIT margin. It is not paid out until after the annual general meeting at which the annual financial statements for the final year in this period are approved. The target is defined as 65% of the fixed remuneration, which may increase to up to 130% in the event of excess achievement (200% of the target bonus). The tranches for 2019 to 2021 are paid out if the average EBIT margin over the three-year period is 4.5% or higher, commencing with 50% of the target. The target (100%) is paid out if the average EBIT margin reaches 5.5%. It is capped at 200% of the target for an average EBIT margin of 7.5%. The Supervisory Board determines the targets for the future reference years and the following two years on an annual basis. For the bonus, the Supervisory Board passed the resolution of 100% target achievement on 17 February 2020. In the case of the multi-year variable remuneration, there is no separate segment view, meaning that only Group EBIT is applicable.

Deviating from this, the EBT for the financial year 2019 is decisive for President and CEO Claus Bolza-Schünemann for both the short-term bonus and the long-term bonus. Payment of the long-term bonus is made in three successive years under certain assumptions e.g. an annual rising EBT.

Other compensation paid to the Management Board includes retirement benefits and the costs of fringe benefits such as the provision of a company car. The Koenig & Bauer Group does not currently have any share-option plans or other share-based remuneration schemes. The pension scheme is based on externally concluded reinsurance with annual additions and adjustments. For the CEO, there is a fixed pension entitlement. In accordance with the guidelines stated in IAS 19, the present values of the defined benefit obligations at the end of 2019 to Claus Bolza-Schünemann were €6,072,065 (€5,336,007), to Dr Mathias Dähn €4,114,301 (€3,233,594), to Christoph Müller €4,201,562 (€3,480,314), to Dr Andreas Pleßke €885,799 (€758,338) and to Ralf Sammeck €3,968,992 (€3,099,474). The previous year's figures are given in brackets.

One-year and multi-year variable remuneration

In the event of the premature termination of the contracts by the Company, the following arrangements for termination benefits apply. If the service contract has a remaining duration of two or more years, the termination benefits are capped at an amount equalling two annual salaries. The annual salary comprises the fixed remuneration plus fringe benefits, the target defined for one-year remuneration and the service cost. If the service contract has a remaining term of less than two years, the two annual salaries are paid on a prorated basis for the remaining period of the contract.

The members of the Management Board received the compensation set out below in 2019 (individualised figures):

Benefits granted

in €	Claus Bolza-Schünemann CEO 2018[2]	2019	2019 (Min)	2019 (Max)	Dr Mathias Dähn CFO 2018[2]	2019	2019 (Min)	2019 (Max)
Non-performance-based components								
Fixed compensation	450,000	490,000	490,000	490,000	480,000	480,000	480,000	480,000
Fringe benefits[1]	22,737	23,503	23,503	23,503	37,114	38,033	38,033	38,033
Total	**472,737**	**513,503**	**513,503**	**513,503**	**517,114**	**518,033**	**518,033**	**518,033**
Performance-based components								
One-year variable compensation	450,000	490,000	0	490,000	288,000	288,000	0	432,000
Multi-year variable compensation								
Plan description FY 2018 (Period payment 2019–21)	450,000	–			–	–		
Plan description FY 2019 (Period payment 2020–22)	–	490,000	0	490,000	–	–		
Plan description FY 2018 (Period payment 2021)	–	–			312,000	–		
Plan description FY 2019 (Period payment 2022)	–	–			–	312,000	0	624,000
Total	**1,372,737**	**1,493,503**	**513,503**	**1,493,503**	**1,117,114**	**1,118,033**	**518,033**	**1,574,033**
Service cost	158,914	168,511	168,511	168,511	129,904	124,786	124,786	124,786
Total compensation	**1,531,651**	**1,662,014**	**682,014**	**1,662,014**	**1,247,018**	**1,242,819**	**642,819**	**1,698,819**

[1] Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars, contributions toward the cost of insurance, the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations.
[2] The previous year's figures have been adjusted.

The following table shows the amounts accrued in 2019 from fixed compensation, fringe benefits, one-year variable remuneration and multi-year variable remuneration broken down by the individual year of receipt as well as retirement benefit expenses.

Allocation

in €	Claus Bolza-Schünemann CEO 2018[3]	2019	Dr Mathias Dähn CFO 2018[3]	2019
Non-performance-based components				
Fixed compensation	450,000	490,000	480,000	480,000
Fringe benefits[1]	22,737	23,503	37,114	38,033
Total	**472,737**	**513,503**	**517,114**	**518,033**
Performance-based components				
One-year variable compensation	450,000	490,000	374,400	288,000
Multi-year variable compensation				
Plan description FY 2016 (Period payment 2017–19)	135,000	–	105,000	–
Plan description FY 2017 (Period payment 2018–20)	135,000	135,000	–	–
Plan description FY 2018 (Period payment 2019–21)	180,000	135,000	–	–
Plan description FY 2019 (Period payment 2020–22)	–	196,000	–	–
Plan description FY 2017 (Period payment 2020)	–	–	–	456,612
Plan description FY 2018 (Period payment 2021)	–	–	–	–
Total[2]	**1,372,737**	**1,469,503**	**996,514**	**1,262,645**
Service	158,914	168,511	129,904	124,786
Total compensation	**1,531,651**	**1,638,014**	**1,126,418**	**1,387,431**

[1] Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars, contributions toward the cost of insurance, the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations.
[2] The remuneration components shown above also represent the total remuneration to be specified in individualised form in accordance with commercial law in the 2019 financial year and in the previous year.
[3] The previous year's figures have been adjusted.

	Christoph Müller Board member Digital & Web segment				Dr Andreas Pleßke Board member Special segment				Ralf Sammeck Board member Sheetfed segment			
	2018[2]	**2019**	**2019 (Min)**	**2019 (Max)**	2018[2]	**2019**	**2019 (Min)**	**2019 (Max)**	2018[2]	**2019**	**2019 (Min)**	**2019 (Max)**
	440,004	480,000	480,000	480,000	412,500	480,000	480,000	480,000	459,996	480,000	480,000	480,000
	23,793	24,541	24,541	24,541	3,401	27,508	27,508	27,508	22,928	25,812	25,812	25,812
	463,797	**504,541**	**504,541**	**504,541**	**415,901**	**507,508**	**507,508**	**507,508**	**482,924**	**505,812**	**505,812**	**505,812**
	264,000	288,000	0	432,000	147,500	138,000	0	282,000	276,000	288,000	0	432,000
	–	–			–	–			–	–		
	–	–			–	–			–	–		
	286,000	–			24,375	–			299,000	–		
	–	312,000	0	624,000	–	312,000	0	624,000	–	312,000	0	624,000
	1,013,797	**1,104,541**	**504,541**	**1,560,541**	**587,776**	**957,508**	**507,508**	**1,413,508**	**1,057,924**	**1,105,812**	**505,812**	**1,561,812**
	127,907	125,960	125,960	125,960	758,338	112,390	112,390	112,390	161,284	164,371	164,371	164,371
	1,141,704	**1,230,501**	**630,501**	**1,686,501**	**1,346,114**	**1,069,898**	**619,898**	**1,525,898**	**1,219,208**	**1,270,183**	**670,183**	**1,726,183**

Contrary to the multi-year variable remuneration granted for 2019 described above, this table shows the actual value of the multi-year variable remuneration granted in previous years and accrued in 2019.

	Christoph Müller Board member Digital & Web segment				Dr Andreas Pleßke Board member Special segment				Ralf Sammeck Board member Sheetfed segment			
	2018[3]	**2019**			2018[3]	**2019**			2018[3]	**2019**		
	440,004	480,000			412,500	480,000			459,996	480,000		
	23,793	24,541			3,401	27,508			22,928	25,812		
	463,797	**504,541**			**415,901**	**507,508**			**482,924**	**505,812**		
	171,600	288,000			150,875	138,000			317,400	288,000		
	63,126	–			–	–			92,400	–		
	–	–			–	–			–	–		
	–	–			–	–			–	–		
	–	–			–	–			–	–		
	–	418,561			–	–			–	437,586		
	–	–			–	–			–	–		
	698,523	**1,211,102**			**566,776**	**645,508**			**892,724**	**1,231,398**		
	127,907	125,960			758,338	112,390			161,284	164,371		
	826,430	**1,337,062**			**1,325,114**	**757,898**			**1,054,008**	**1,395,769**		

Koenig & Bauer AG (notes according to the German Commercial Code)

The annual financial statements of Koenig & Bauer AG are prepared in accordance with the provisions of the German Commercial Code (HGB).

Koenig & Bauer Group holding company

As the holding company, Koenig & Bauer does not engage in any operating business but provides central and strategic services for the Group. Central functions for the Koenig & Bauer Group include business development, central marketing/corporate communications, compliance/internal auditing, controlling, Group accounting, human resources, innovation promotion, investor relations, IT, legal and insurance, patent/licensing and taxes. In addition, Koenig & Bauer AG provides IT hardware and operates the computer centre for Group tasks and grants licences and brand rights to the subsidiaries. It had 296 employees excluding apprentices on the reporting date (previous year: 284).

In addition to revenue from the services recharged to the operating Group companies and the fees for the use of licences and brand rights, Koenig & Bauer AG's business performance depends on the dividend income and profit transfers received from the subsidiaries and, hence, their business performance. The direct and indirect investments held by Koenig & Bauer AG are shown in a list in the notes to the consolidated financial statements. The economic environment in which Koenig & Bauer AG operates is essentially the same as the Group's as described in detail in the business report.

Earnings

At €86.7m, revenue reached nearly the level of the previous year (€86.8m). It chiefly comprised income from transfer pricing for shared services provided by Koenig & Bauer AG for the operating Group companies and fees for the utilisation of licences and brand rights as well as land and buildings. Compared to the previous year (€27.4m), gross profit decreased to €23m. The main reason was higher cost of sales from increased IT expenses. The gross margin was 26.5%, following 31.6% in the prior year. The general administrative expenses fell from €35.5m to €26.8m. The prior-year figure was burdened by high expenses for pensions in connection with the external funding of a part of the pension provisions. The balance of other operating income and expenses of –€6m (2018: –€1.5m) is mainly influenced by an impairment of current assets. Including dividends, profit transfers from some subsidiaries and the assumption of losses, income from investments amounted to €22m (2018: €32.5m). With an interest result of –€3m at the previous year's level (–€3.1m), the tax expense for 2019 was €0.8m (2018: €3.3m). On balance, this resulted in net profit for the year of €8.3m (2018: €16.5m), which corresponds to the retained profit.

Assets and finances

As of 31 December 2019, Koenig & Bauer AG's balance sheet total stood at €589.4m, up from €515.6m in the previous year. Non-current assets increased as a result of investments in IT and construction projects from €292.1m to €312.4m. While financial assets fell slightly from €192.8m to €191.9m, intangible assets were up from €21.8m to €31.2m and property plant and equipment from €77.5m to €89.3m. In 2019, a sum of €29.8m was invested in intangible assets and property plant and equipment (2018: €17.1m). This was countered by depreciation of €8.7m (previous year: €7.8m).

Higher other assets of €187m (2018: €118.9m) and an increase in cash and cash equivalents to €60.3m (2018: €42.3m) contributed to the rise in current assets from €218.6m to €274.3m. Trade receivables from affiliated companies fell from €57.2m in the previous year to €26.9m.

Receivables from affiliated companies and other assets resulted for the most part from the offsetting of deliveries and services within the Group as well as from dividends and loan claims.

At the end of financial year 2019, equity amounted to €252.7m (31 December 2018: €260.9m). This translates into an equity ratio of 42.9% relative to the increased balance sheet total (2018: 50.6%).

Provisions fell from €112.5m in the previous year to €101.6m. While pension provisions showed a slight increase from €77.5m to €78.5m, other provisions decreased from €25m to €23.1m. It was possible to reverse tax provisions of €10m which were included in the previous year. From liabilities of €233.6m (2018: €140.4m), a major portion of €180m (2018: €65m) is due to banks. In addition to the reduced liabilities to affiliated companies from €63.3m to €9.3m, other liabilities of €40.8m (previous year: €6.2m) result mainly from internal Group finance arrangements.

Risk report

Koenig & Bauer AG is exposed to the risks of its subsidiaries. The extent of such exposure depends on the size of its share in the respective company. Reference should be made to the Group's risk report on pages 50 onwards for further information. In addition, strain may arise from the contingent liabilities in existence between Koenig & Bauer AG and its subsidiaries.

Outlook and opportunities

Koenig & Bauer AG's future economic performance is closely linked to the Group's operating performance. Details of the outlook and our plans for our operating business can be found in the outlook and opportunities report on pages 59 onwards.

Corporate governance statement pursuant to section 289f of the German Commercial Code

The corporate governance statement in accordance with section 289f of the German Commercial Code along with declarations from previous years has been published on the Company's website. The corporate structures section contains a description of the internal control system.

The corporate governance statement is online in German at www.koenig-bauer.com/de/investor-relations/corporate-governance/erklaerung-zur-unternehmensfuehrung/

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Non-financial Group report

Non-financial Group report

Sustainable products and manufacturing processes

Growing environmental awareness in large parts of the world as a result of the current climate debate is increasingly bringing the issue of sustainability into focus for companies, while active environmental and climate protection is demanded more by customers and the public. Koenig & Bauer meets the responsibility it has for the environment and society – a responsibility that is anchored in its company targets – through its sustained commitment to resource-sparing and emission-reduced products and manufacturing processes together with the support for social and cultural concerns. As part of the product portfolio, ecological printing technology with environmentally friendly substrates and consumables aims to reduce CO_2, noise, dust and odour emissions, and opens up new growth opportunities for Koenig & Bauer under these changed framework conditions.

Selected disclosure option

Koenig & Bauer publishes the disclosures on non-financial aspects required under sections 315c/289c of the German Commercial Code in this separate non-financial Group report which is not part of the combined management report. The two separate reports with the auditor's report and audit note are disclosed in the "Bundesanzeiger".

Business model and materiality analysis

The Koenig & Bauer Group's business model is described in the combined management report. Responsibility for the topic of sustainability, including the non-financial reporting on the legally required focus topics lies with the Management Board at Koenig & Bauer. The risk inventory conducted at the end of 2019 has not identified any material risks in our business activities, business relations, business processes from procurement via production to sales and service as well as with our products and services which are highly likely to exert a severely adverse impact on the key non-financial aspects.

A materiality analysis was conducted to define the main aspects of the non-financial Group report. The main sections are based on the legally required topics specified in the CSR Directive Implementation Act, namely environmental, employee and social matters, commitment to human rights and combatting corruption and bribery matters. Within these five main aspects, as a preliminary step, a comprehensive list of non-financial matters potentially of relevance for customers, employees, investors and other business partners was prepared. In addition to the Sustainability Reporting Standards of the Global Reporting Initiative (GRI), the standards for quality (DIN EN ISO 9001:2015), environment (DIN EN ISO 14001:2015), energy management (DIN EN ISO 50001:2018) as well as health and occupational safety (ISO 45001:2018) all served as guidelines in the preparation of the long list.

On the basis of this long list, a workshop was held in late 2018 to identify the non-financial issues that are material to our business activities and relationships, products and services within the five main aspects. Workshop participants included experts from the fields of occupational safety/health/environment, facility management, engineering, research & development, procurement, compliance & internal auditing and corporate accounting. Using a scale from 0 (not significant) to 10 (very significant), the workshop participants assessed the individual issues on the list in the light of two points of view: in terms of their significance for the aspects and for the Company's earnings, finances and assets. A short list was then prepared setting out all the issues for which all workshop participants had awarded an average score of at least 5 in the two materiality parameters. Environmental matters cover our operational environmental and energy management as well as ecological printing technology including the environmental impact of the products. In addition to the Company's appeal as an employer, recruiting and professional training for young skilled staff, personnel development as well as occupational health and safety are among the key topics of the employee-related matters. The social matters considered to be material were social commitment and high product quality for greater on-site and process safety in printing operations of the customers. While the prevention of human rights violations was considered material under the main aspect of the commitment to human rights, the Group-wide implemented compliance management system is essential under the main aspect of combating corruption and bribery matters. A survey conducted among workshop participants at the beginning of 2020 confirmed these non-financial issues of importance to Koenig & Bauer and did not reveal any new aspects to be reported. The focus of the further discussion is on the Group's two main production sites, Würzburg and Radebeul. References to the Group are duly designated as such.

Environmental matters

In addition to promoting ecological printing technology, environmental aspects and compliance with high quality and safety standards are taken into account as far as possible along the entire value chain from the product idea, purchasing, production and installation of the machines. Even at the development and design stage, activities are aimed at energy and resource efficiency in the manufacturing and operation of printing presses and finishing equipment. A further focus is placed on minimising noise, dust, odour and CO_2 emissions during the production and utilisation of the presses as well as the use of environment-friendly substrates and consumables in the printing, finishing and postpress processing phases.

Operational environmental and energy management

The production plants in Radebeul and Würzburg hold DIN EN ISO 9001:2015 and DIN EN ISO 14001:2015 quality and environment certificates. In addition, the foundry in Würzburg operates an energy management system that has been certified in accordance with DIN EN ISO 50001:2018. A constant focus of efforts is the minimisation of energy and resource consumption in production as well as emissions at the workplaces. With the heat recovery system at the foundry, use is made of the heat generated by the oven, sand-cooling and hall exhaust air to heat the buildings in Würzburg. Dedusting, extraction and solvent distillation plants as well as improved sound insulation in the production and assembly halls reduce workplace emissions. The detailed waste statistics provide information on the type and quantity of waste produced. The remeltable metal waste produced in metal cutting activities in Würzburg serves as an important raw material for the foundry. In Radebeul, compensation is received from the disposal company for the remeltable metal waste. The following table provides an overview of electricity, natural gas, district heating and water consumption in 2019 compared with the previous year, as well as waste volumes.

Quality and environment certificates

	2018			2019		
	Würzburg	Radebeul	**Total**	Würzburg	Radebeul	**Total**
Electricity	24,497,316 kWh	15,035,201 kWh	**39,532,517 kWh**	21,907,181 kWh	13,950,369 kWh	**35,857,550 kWh**
Gas	10,638,899 kWh	–	**10,638,899 kWh**	11,015,388 kWh	–	**11,015,388 kWh**
District heat	–	10,826,030 kWh	**10,826,030 kWh**	–	9,167,710 kWh	**9,167,710 kWh**
Water	30,749 m³	22,170 m³	**52,919 m³**	32,320 m³	20,368 m³	**52,688 m³**
Waste	5,380 t	5,517 t	**10,897 t**	4,302 t	5,363 t	**9,665 t**

For location-based emission factors please see www.bdew.de/media/documents/20190808_Bundesdeutscher-Strommix-2018.pdf

On the basis of these consumption figures, the Scope 1 emissions increased to 2,026.4 t CO_2e (2018: 1,957.1 t CO_2e). The Scope 2 emissions decreased location-based from 19,226.1 t CO_2e in the previous year to 16,814.6 t CO_2e in the reporting period and market-based from 22,415.1 t CO_2e to 17,122.1 t CO_2e.

Ecological printing technology

With the new and enhanced products, the focus is on energy-saving technologies to lower CO_2 emissions in printing. For the drying process, which is one of the most energy-intensive areas, Koenig & Bauer has various energy-saving alternatives in its portfolio. Customers can select the VisuEnergy energy management system to achieve greater energy efficiency in printing operations. Through continuous analyses and systematic improvement measures that include both training and increasing the awareness of employees, it is possible to lower energy costs permanently by using the available energy efficiently. Comprehensive support for the customer ranges from system and requirements analysis through to energy consulting – all of which stretches from the planning phase of a machine investment to efficient production. In addition to technical solutions and systems for harnessing the potential for saving energy, ongoing efforts are undertaken to permanently minimise emissions. Low-alcohol or alcohol-free offset printing, reduced use of powder, biodegradable dampening solution additives, minimisation of noise, dust, odour and CO_2 emissions as well as ink mist are just a few of examples. Product users can choose from various equipment options to achieve these goals. The migration-harmless inks used in the production of food packaging can be processed on Koenig & Bauer machines without issues. The new developments in digital and analogue corrugated direct printing use water-based inks even in the flexo printing process.

With Climate-Partner, Koenig & Bauer has a competent partner at its side for climate-neutral printing. With the footprint manager on Climate-Partner's online portal, it is possible to calculate in detail CO_2 emissions from printing and, at click of a button, to neutralise them by funding climate protection projects. More than 20 certified climate protection projects meeting various internationally acknowledged standards such as Gold Standard, VCS and Social Carbon are available. The participating printing companies can utilise the "climate-neutral printing" label as a competitive differentiator.

Employee matters

Attracting qualified, creative, committed and loyal employees has a significant influence on the economic success of the Company. With their ability to develop innovative solutions for meeting customers' requirements, to build high-tech premium-quality machinery and to provide comprehensive services, employees generate sustained value for the Company. In addition to ensuring appealing and family-friendly jobs, the human resources strategy concentrates on recruiting young professionals and executives and developing, motivating and bonding employees. A wide range of measures, such as the early involvement of young skilled workers in projects, help the workforce to develop their performance potential, which also increases their job satisfaction and productivity and fosters an innovative spirit.

Attractive employer

Koenig & Bauer provides its employees with modern workplaces, mobile working, flexitime and working time accounts. In the case of mobile work, employees can carry out their official work with mobile devices outside the company, provided that the activity carried out permits this. The scope of mobile work is limited to 20% of monthly individually-required working time. With the advancement of new printing technologies in its extensive research and development activities and entering structurally growing packaging printing markets, Koenig & Bauer offers its workforce interesting fields of activity and excellent development opportunities. Special offers such as part-time models and holiday care help working mothers and fathers reconcile work and family life. Koenig & Bauer has been a member of the Würzburg region's Family and Work Alliance since 2006. The proportion of part-time employees in the Group rose from 3.2% in the previous year to 3.6%. The child care centre adjacent to the Company premises in Radebeul enjoys a high degree of acceptance by employees as it is aligned to working hours. The children's and young people's day held at the Würzburg plant on Repentance Day, which was a school holiday, attracted 95 children of employees, proving to be a great success again. The annual children's Christmas party in Radebeul organised in cooperation with the kindergarten as well as the Advent church service in Würzburg for all active and former employees followed by a Christmas party and a visit by Santa Claus for the little ones are very popular year for year.

As with many other machinery engineering companies, Koenig & Bauer has a relatively small proportion of women in the Group compared to other sectors with 14.1% (previous year: 13.9%). Various activities aim to increase the proportion of female technicians. With more highly qualified female employees, we also expect to be able to increase the proportion of women in management positions through internal promotions as well as external appointments. At 17%, we have already achieved a proportion of women at the first management level beneath the Management Board that is above average.

In addition to a low fluctuation rate, the average length of service of 19.5 years (previous year: 19.2 years) at the Company's sites in Radebeul and Würzburg is a good indicator of employee loyalty at Koenig & Bauer. 123 career anniversaries were celebrated at the two large Group sites in 2019. 50 were able to look back on 40 years of service, while 73 had been with the Company for 25 years. Of the 3,193 employees in Radebeul and Würzburg, 21.3% are aged under 35 years. 50.7% are between 35 and 55 years old and 28% are over 55 years.

Trainee ratio of 6.1%

Recruiting and professionally qualifying talented young staff

Using proven instruments and new personnel marketing measures, Koenig & Bauer is always successful in recruiting junior staff. Interested parties can use social media to get an idea of exactly how an internship could look or the training content and methods. In addition to the participation in vocational training fairs, open days were held at the training centres and career information days. The vocational training department in Radebeul works with numerous schools in the region to inform them at an early stage of the training available at the plant. The Koenig & Bauer summer camp in Radebeul provides a voluntary career experience opportunity for schoolchildren during the first two weeks of the summer holidays. The Company's own vocational training school in Würzburg, which was founded 151 years ago, also takes advantage of the good contacts with schools in the region. In addition to informational events at the schools and an information week in the vocational school, parent evenings, pupil internships and plant tours offer the ideal prerequisites for an early career orientation of school leavers. All internships are designed to encourage school students to try things out for themselves and to become acquainted with the career training offered by the Company. Many of them have then gone on to opt for a career with Koenig & Bauer. Some students write their theses or do internships or practical semesters at Koenig & Bauer to start their careers. Placements for undergraduates are offered in almost all parts of the Company to acquaint them with the world of Koenig & Bauer printing presses.

As of 31 December 2019, the number of apprentices and internships in the Group was 356, above the prior year figure of 337. Accordingly, the trainee ratio within the Group increased to 6.1 % (2018: 5.9 %). In the year under review, 80 young people began their industrial-technical or commercial apprenticeships at the Group's sites. The diverse professions that require training ranges from mechatronics technicians to industrial and machining mechanics and industrial business management assistants. As in the previous years, prospective mechatronics technicians are the largest share of the apprentices. One third of the future skilled workers will qualify in this occupational profile. In addition, several students started dual studies in electrical engineering and mechanical engineering, and are completing their practical phase at the Company. 52 apprentices at the two major plants in Radebeul and Würzburg successfully sat for their final exams at the chambers of industry and commerce. In addition to outstanding degrees, good to very good examination results prove the acknowledged high quality of the training institutions. In the construction and machining mechanic careers, this year's chamber winners from the Würzburg-Schweinfurt Chamber of Industry and Commerce came from the Würzburg vocational school. An industrial mechanic and a mechatronics technician from the Radebeul plant were honoured as the best young skilled workers in Saxony in the categories industrial electrical and metalworking professions. Koenig & Bauer Radebeul has been on the list of training companies awarded by the Saxon metal and electrical industry for the 20th time and thus more often than any other member company. A mechatronics technician from Koenig & Bauer MetalPrint in Stuttgart achieved overall examination results well above the state and national average. The percentage of apprentices given permanent employment contracts at the Würzburg and Radebeul locations was 92 %.

Outstanding degrees

Systematic personnel development

The established personnel development programme is a Group-wide system for the structured advancement of employees that defines target-oriented methods for the various hierarchical levels. Development assessments are used to appraise managers and young talents externally. This is followed by an internal process in which the immediate supervisors draw up competence profiles on the basis of the results gained. To ensure a neutral view, managing directors and divisional managers, as a next step, assess the managers and junior managers from their business units in calibration workshops. A comprehensive competence matrix is available in a database for the group of people assessed. From this circle, high potentials are identified in the subsequent coordination rounds for each business unit with the members of the Management Board and the managing directors according to the criteria of age, languages, internationality, depth of leadership, specialist knowledge (technical/commercial skills), curriculum vitae, mobility/willingness to change and skills/potential, and individual development plans with further training measures are drawn up. The employee appraisals requested by the works council, in which employees and their line managers talk about their current views and goals, offer the possibility of direct feedback in both directions. In addition, experienced executives with many years of service are also offered training in various areas such as leadership, team building and conflict management. The one-year Junior Management Programme (JuMP) with participants aged from their early 20s and 30 years aims to systematically prepare junior staff for management tasks. Participants in the third round, launched in 2019 and conducted entirely in English, come from Group sites in China, the USA, Switzerland, Sweden and Germany. In addition to the technical learning modules, the young talents work on practical projects from everyday business life.

With the Koenig & Bauer Campus learning management system, a modern platform for education and training was established within the Group. All employees worldwide have access to the online catalogue via a personal profile, in which they can view all training courses available to them. In addition to classic face-to-face training, the education catalogue also includes online and blended learning applications. Each employee can independently register for the compulsory training courses and apply for voluntary offerings set out in this catalogue. Line managers can confirm the request for training directly in the system with a click of the mouse. The system documents the training history for each employee. It sends out reminders for training and informs supervisors to register employees for training measures.

In 2018, following the successful introduction of the human resources development programme across the Group, our training scheme was certified in accordance with DIN ISO 29990:2010 to meet the quality criteria of the Excellence Model.

Occupational health and safety

The occupational health and safety standards at the production plants in Würzburg and Radebeul are certified in accordance with DIN ISO 45001:2018. Various measures are aimed at further improvements in occupational safety and ergonomics. Regular checks and consultations are held to monitor compliance with health and safety regulations and recommendations are also made for optimising work processes. By avoiding non-ergonomic movements and heavy lifting, it is possible to minimise illness and accidents. The hazard assessments are updated regularly. Ongoing instructions and training are intended to raise awareness among employees for any dangers that could arise. In order to increase work safety, additional investments are made in appropriate equipment. In the Radebeul machine maintenance department, this included hoists for different loads and requirements.

At the workplaces in Würzburg and Radebeul, there were 15.7 accidents per 1 million working hours in the reporting period (2018: 15.2) with a downtime of the regular workforce of one day and more. Extensive analyses of these incidents are performed as a basis for defining preventive measures for reducing accidents at work. The monthly report on accident frequency rates by business unit and department enables targeted counter-measures. Potential hazards are addressed and highlighted in special monthly campaigns.

Workplace health promotion and preventive care

Particular importance is also attached to workplace health promotion and preventive care at Koenig & Bauer. Many activities were performed by the Company health insurance fund Koenig & Bauer BKK, which is organised as an independent entity under public law, for its 9,409 members and the 2,677 family members. In one-on-ones and training sessions, employees are encouraged to take responsibility for their own health and to work on a health-conscious basis. As was the case in earlier years, the courses for our apprentices take place with a health promotion programme tailored for their needs – a programme that was supplemented in the reporting year with the topics addiction prevention and noise as well as the associated noise-induced hearing loss. In addition to nutrition consulting, numerous preventive examinations such as skin and back screenings for early detection of diseases were offered at our plants. The “Let’s cycle to work” campaign was again a great success. The diverse range of offerings from the Company health insurance fund also includes occupational health management. Implemented at the sites in Würzburg and Radebeul, the “BGM-innovativ” programme is intended for employees suffering from musculoskeletal conditions. The objective is to provide coordinated care for at-risk and inflicted employees in order to avoid chronic illness, shorten the duration of illness and absences and to maintain permanent employability. Health and team spirit are encouraged by company sports days and by inviting employees to participate in company runs.

Social matters

As one of the pioneers in corporate social policy, Koenig & Bauer is committed to its responsibility for society and supports social and cultural projects. Even before the introduction of state social security legislation in Germany, the Company had already established the precursor of a company health insurance fund in 1855. Founded in 1873, the fund for invalidity, widow and orphan benefits continues to exist to this very day.

Social commitment

Social responsibility

In addition to the various voluntary activities of managers and employees at the Chambers of Industry and Commerce and Chambers of Crafts and as jurors at the labour courts, the Company's social commitment also includes monetary and material donations for social and cultural projects. Management decides on the projects to be supported on a case-by-case basis. Together with Würzburg-based printing and media companies, Koenig & Bauer once again staged a charity concert in November 2019. The event proceeds of €40,000 are divided equally among four regional projects. Specifically, the donation will be used to purchase a new call system for people with disabilities at the Kilianshof residential home in Würzburg and new playground equipment at the St. Stephan day-care centre. General support is provided for the Johanniskirche funding association for the tower renovation of the memorial site and the Wildwasser association, which advises and cares for victims of sexual violence. Koenig & Bauer Würzburg and Radebeul support the Rosenkavaliere donors' circle as diamond (from €24,000) and silver contributions (€3,000 to €7,999), which was founded as a pioneering model of civic commitment to the theatre in Würzburg.

High product quality for greater on-site and process safety in printing operations

The quality of the products and services is a high priority for Koenig & Bauer. Reflecting this, the quality management system aims to continuously meet the highest quality standards in the production and assembly of the customised, innovative and complex products. Quality management systems at the major production plants in Radebeul and Würzburg, at the Sheetfed business unit in Radebeul, at the Security business unit at the three locations in Würzburg, Lausanne and Mödling as well as at the Coding business unit in Veitshöchheim are certified in accordance with DIN EN ISO 9001:2015. Product development is carried out in close contact with customers in order to achieve measurable added value for them. The focus is on work and process safety, reliability, user-friendliness and a high level of automation.

Committed to human rights and high working standards

In its role as an employer as well as a supplier and buyer of products and services, Koenig & Bauer is committed to protecting human rights and views this as a core element of responsible corporate management. One guideline for Company policy is the United Nations Guiding Principles on Business and Human Rights ("protect, respect and remedy"). By including human rights principles in purchasing conditions and consistently taking them into account in all essential business activities, business partners are also encouraged to recognise and respect human rights. Purchasing terms and conditions also require external business partners to respect labour rights and comply with labour laws. The code of conduct for suppliers included in the terms and conditions of purchase also stipulates the observance of statutory and contractual quality and safety standards as well as environmental requirements particularly in connection with the use and processing of hazardous substances. Our suppliers undertake to avoid any form of discrimination and particularly also to refrain from using child labour. Group-wide, careful attention is given to the implementation of good working conditions together with high health and safety standards, equal opportunities and protection against all forms of discrimination.

Combatting corruption and anti-bribery

With our Group-wide compliance management system, the basis for ensuring that our business practices satisfy high compliance and integrity standards has been created. This involves comprehensive guidelines and processes for safeguarding compliance and integrity in our business activities. Further details of the compliance management system, which is regularly reviewed and continuously updated, can be found in the corporate governance report.

The comprehensive compliance and integrity standards can only unleash their full effect if they are known to and observed by employees. To this end, 13 online training courses on the most important topics of compliance and the Code of Conduct are currently available throughout the Group. The training is offered in several languages and must be completed by all new employees. The Koenig & Bauer Campus training management system based on SuccessFactors automatically ensures that training courses are carried out within the cycles determined according to risk criteria for the specific position of the employee. Adherence with these requirements is monitored by regular reminders, escalation processes, as well as the human resources department and compliance organisation. Following the initial assignment of online training via the Koenig & Bauer Campus, more than 3,000 employees underwent compliance training. In addition to Koenig & Bauer Kammann, subsidiaries in the USA and China were linked to Koenig & Bauer Campus in 2019, thus giving them access to compliance training. Within the scope of the repetition cycle, training and so-called refreshers are assigned to relevant employees. Those local branches that are not connected to the Campus were given training content through the Koenig & Bauer Intranet. The monitoring of training is conducted by the local compliance officers, in some cases using their own learning management systems. 368 employees were also given in-depth and needs-specific training in face-to-face courses at various locations (for example at Koenig & Bauer Duran in Istanbul). In addition to the topics of the code of business conduct, anti-corruption, antitrust and competition law, foreign trade law were a focus of the online and classroom training.

Comprehensive compliance and integrity standards

The ongoing analysis of possible compliance risks provides a basis for continuing to live up to the high standards of compliance and integrity in the future. The analyses conducted in 2019 did not indicate the existence of any new compliance risks, nor were any compliance breaches confirmed.

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Group financial statements

Group balance sheet to 31 December 2019

in €m	Note	31.12.2018[1]	31.12.2019
Assets			
Non-current assets			
Intangible assets	(G) (1)	84.1	115.4
Property, plant and equipment	(G) (1)	208.9	245.6
Investments and other financial receivables	(G) (2)	26.0	22.5
Other assets	(G) (2)	1.3	0.9
Deferred tax assets	(G) (6)	79.5	106.4
		399.8	**490.8**
Current assets			
Inventories	(G) (3)	265.7	292.6
Trade receivables	(G) (2)	156.0	140.6
Other financial receivables	(G) (2)	13.7	15.5
Other assets	(G) (2)	178.2	198.4
Current tax assets		6.6	9.4
Securities	(G) (4)	16.3	4.8
Cash and cash equivalents	(G) (5)	142.0	191.0
		778.5	**852.3**
		1,178.3	**1,343.1**
Equity and liabilities			
Equity	(G) (7)		
Share capital		43.0	43.0
Share premium		87.5	87.5
Reserves		322.0	328.7
Equity attributable to owners of the Parent		**452.5**	**459.2**
Equity attributable to non-controlling interests		0.9	1.2
		453.4	**460.4**
Liabilities			
Non-current liabilities			
Pension provisions and similar obligations	(G) (8)	152.6	165.5
Other provisions	(G) (9)	20.9	23.7
Bank loans and other financial payables	(G) (10)	6.4	32.2
Other liabilities	(G) (10)	0.9	6.3
Deferred tax liabilities	(G) (6)	33.9	53.2
		214.7	**280.9**
Current liabilities			
Other provisions	(G) (9)	138.0	90.0
Trade payables	(G) (10)	82.5	110.0
Bank loans and other financial payables	(G) (10)	142.2	271.9
Other liabilities	(G) (10)	135.6	118.7
Current tax liabilities		11.9	11.2
		510.2	**601.8**
		1,178.3	**1,343.1**

[1] Under the modified retrospective method, the figures for the previous year were not adjusted when IFRS 16 was applied for the first time.

Group income statement 2019

in €m	Note	2018[1]	2019
Revenue	(H) (15)	1,226.0	1,218.5
Cost of sales	(H) (16)	-870.4	-905.6
Gross profit		**355.6**	**312.9**
Research and development costs	(H) (16)	-44.3	-37.5
Distribution costs	(H) (16)	-138.8	-151.3
Administrative expenses	(H) (16)	-94.2	-103.4
Other operating income	(H) (18)	29.5	47.7
Other operating expenses	(H) (18)	-26.2	-21.0
Impairment gains and losses on financial assets	(H) (18)	6.4	7.9
Other financial results	(H) (19)	-0.6	0.7
Earnings before interest and taxes (EBIT)		**87.4**	**56.0**
Other interest and similar income		1.4	1.1
Other interest and similar expenses		-4.9	-7.3
Interest result	(H) (19)	**-3.5**	**-6.2**
Earnings before taxes (EBT)		**83.9**	**49.8**
Income tax expense	(H) (20)	-19.9	-11.4
Net profit		**64.0**	**38.4**
of which			
attributable to owners of the Parent		63.8	38.1
attributable to non-controlling interests		0.2	0.3
Earnings per share (in €, basic/dilutive)	(H) (21)	**3.86**	**2.31**

[1] Under the modified retrospective method, the figures for the previous year were not adjusted when IFRS 16 was applied for the first time.

Statement of comprehensive Group income 2019

in €m	2018	**2019**
Net profit	**64.0**	**38.4**
Items to be reclassified to consolidated profit or loss		
Foreign currency translation	0.8	0.7
Measurement of derivatives	-4.2	-0.7
Deferred taxes	0.8	0.2
	-2.6	**0.2**
Items not to be reclassified to consolidated profit or loss		
Defined benefit plans	-19.0	-19.9
Deferred taxes	4.1	5.2
	-14.9	**-14.7**
Losses recognised directly in equity	**-17.5**	**-14.5**
Total comprehensive income	**46.5**	**23.9**
of which		
attributable to owners of the Parent	46.3	23.6
attributable to non-controlling interests	0.2	0.3

For further information see explanatory Note (G) (7).

Statement of changes in Group equity 2019

in €m	Share capital	Share premium	Reserves: Recognised in equity: Defined benefit plans	Primary financial instru-ments	Deriva-tives	Exchange diffe-rences	Deferred taxes	Other	**Equity attr. to owners**	Equity attr. to non-con-trolling interests	**Total**
1 January 2018	**43.0**	**87.5**	**-95.1**	**4.0**	**2.9**	**3.1**	**20.7**	**357.9**	**424.0**	**–**	**424.0**
Changes in accordance with IFRS 9	–	–	–	-4.0	–	–	1.1	3.4	**0.5**	–	**0.5**
Changes in accordance with IFRS 15	–	–	–	–	–	–	–	-4.0	**-4.0**	–	**-4.0**
1 January 2018 adjusted	**43.0**	**87.5**	**-95.1**	**–**	**2.9**	**3.1**	**21.8**	**357.3**	**420.5**	**–**	**420.5**
Net profit	–	–	–	–	–	–	–	63.8	**63.8**	0.2	**64.0**
Gains/losses recognised directly in equity	–	–	-19.0	–	-4.2	0.8	4.9	–	**-17.5**	–	**-17.5**
Total com-prehensive income	**–**	**–**	**-19.0**	**–**	**-4.2**	**0.8**	**4.9**	**63.8**	**46.3**	**0.2**	**46.5**
Dividend	–	–	–	–	–	–	–	-14.9	**-14.9**	–	**-14.9**
Other	–	–	0.1	–	–	–	0.1	0.4	**0.6**	0.7	**1.3**
31 December 2018	**43.0**	**87.5**	**-114.0**	**–**	**-1.3**	**3.9**	**26.8**	**406.6**	**452.5**	**0.9**	**453.4**
1 January 2019	**43.0**	**87.5**	**-114.0**	**–**	**-1.3**	**3.9**	**26.8**	**406.6**	**452.5**	**0.9**	**453.4**
Changes in accordance with IFRS 16	–	–	–	–	–	–	–	-0.1	**-0.1**	–	**-0.1**
1 January 2019 adjusted	**43.0**	**87.5**	**-114.0**	**–**	**-1.3**	**3.9**	**26.8**	**406.5**	**452.4**	**0.9**	**453.3**
Net profit	–	–	–	–	–	–	–	38.1	**38.1**	0.3	**38.4**
Gains/losses recognised directly in equity	–	–	-19.9	–	-0.7	0.7	5.4	–	**-14.5**	–	**-14.5**
Total com-prehensive income	**–**	**–**	**-19.9**	**–**	**-0.7**	**0.7**	**5.4**	**38.1**	**23.6**	**0.3**	**23.9**
Dividend	–	–	–	–	–	–	–	-16.5	**-16.5**	–	**-16.5**
Other	–	–	–	–	0.1	–	-0.2	-0.2	**-0.3**	–	**-0.3**
31 December 2019	**43.0**	**87.5**	**-133.9**	**–**	**-1.9**	**4.6**	**32.0**	**427.9**	**459.2**	**1.2**	**460.4**

For further information see explanatory Note (G) (7).

Group cash flow statement 2019

in €m	Note	2018	2019
Earnings before taxes		83.9	49.8
Appreciation/depreciation on intangible assets, property, plant and equipment	**(F)**	24.9	33.6
Currency measurement	**(H) (18)**	-2.3	5.4
Non-cash interest income/expense		3.5	4.8
Other non-cash income/expenses		-6.6	-18.9
Gross cash flow		**103.4**	**74.7**
Changes in inventories		-7.9	-25.2
Changes in receivables and other assets		16.6	-1.3
Changes in other provisions		-13.5	-45.5
Changes in payables and other liabilities		-26.8	7.8
Interest received		0.6	0.4
Interest paid		-0.7	-1.8
Income tax paid		-9.3	-17.3
Income tax refunded		3.9	0.3
Cash flows from operating activities		**66.3**	**-7.9**
Proceeds from the disposal of intangible assets, property, plant and equipment		10.0	47.6
Payments for investment in intangible assets, property, plant and equipment		-49.9	-89.3
Proceeds from the disposal of investments		–	3.9
Payments for investments		-40.2	-6.7
Payments for the acquisition of consolidated companies		-6.0	–
Dividends received		0.3	0.1
Cash flows from investing activities		**-85.8**	**-44.4**
Free cash flow		**-19.5**	**-52.3**
Proceeds from loans		65.4	125.7
Repayment of loans		-34.0	-0.8
Payments for lease liabilities (2018: Changes in liabilities under finance leases)		-0.5	-7.3
Changes in equity attr. to non-controlling interests		-0.1	0.3
Other changes in equity		0.1	-0.4
Dividends paid		-14.9	-16.5
Cash flows from financing activities		**16.0**	**101.0**
Change in funds		**-3.5**	**48.7**
Effect of changes in exchange rates		0.7	0.3
Effect of changes in consolidated companies		2.4	–
Funds at beginning of period		142.4	142.0
Funds at end of period	**(G) (5)**	**142.0**	**191.0**

For further information see explanatory Note (I).

Notes to the Group financial statements

(A) Preliminary remarks

The Koenig & Bauer Group (the "Group") develops, assembles and sells sheetfed and web offset, flexo, and digital presses, flatbed/rotary die cutters, folding-box gluing lines and special equipment for security, metal decorating, glass and hollow container printing and marking and coding together with comprehensive services. The Parent, Koenig & Bauer AG at Friedrich-Koenig-Str. 4, 97080 Würzburg, Germany, is a public limited company under German law, listed in the commercial register at the local court, Würzburg, under HR B-No. 109. The consolidated financial statements include the Parent and all consolidated affiliates.

Consolidated financial statements for the Parent to 31 December 2019 were prepared in accordance with section 315a of the HGB (German Commercial Code), as was a combined 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 18 March 2020 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 2019 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 2019.

IAS 19	Amendment to IAS 19 – Amendment, curtailment or settlement of a plan
IAS 28	Amendment to IAS 28 – Long-term interests in associates and joint ventures
IFRS 9	Amendment to IFRS 9 – Prepayment features with negative compensation
IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
Sundry	Improvements to IFRS (2015 - 2017) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

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

Amendment to IAS 19 – Amendment, curtailment or settlement of a plan

The amendment to IAS 19 clarifies that in the event of any changes, curtailments or settlements of pension plans, current service cost and interest cost must be recognised from that date on the basis of updated assumptions. This did not result in any material changes to the Koenig & Bauer AG consolidated financial statements.

IAS 28: Amendment to IAS 28 – Long-term interests in associates and joint ventures

The amendment to IAS 28 clarifies that IFRS 9 is also to be applied to shares in associated companies and joint ventures accounted for using the equity method. This did not result in any changes for the 2019 financial year.

Amendment to IFRS 9 – Prepayment features with negative compensation

In the future, prepayment features with negative compensation may only be recognised at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss if certain conditions are met. This change has no material impact on the consolidated financial statements of Koenig & Bauer AG.

IFRS 16: Leases

IFRS 16 essentially governs the recognition and measurement of agreements that contain a lease and replaces the existing regulations IAS 17 – Leases, IFRIC 4 – Determining whether an arrangement contains a lease as well as SIC-15 – Operating leases: incentives and SIC-27 – Assessing the substance of transactions involving the legal form of a lease. Koenig & Bauer applied IFRS 16 for the first time from 1 January 2019 using the modified retrospective method and recognised the cumulative adjustment amounts in reserves as of 1 January 2019. Comparative information has not been adjusted, but continues to be presented in accordance with IAS 17 and IFRIC 4.

The **definition of a lease** in IFRIC 4 – determining whether an arrangement contains a lease was replaced by the definition in IFRS 16. This regulates whether an arrangement is or contains a lease when an agreement begins.

Leases in which Koenig & Bauer is the **lessee** include contracts for the lease of property, production facilities, vehicles and IT equipment. Depending on whether the Group as lessee bears the main risks and opportunities, the lease was previously classified as a finance lease or an operating lease. In the case of finance leases, the assets and liabilities of the lease were shown in the balance sheet. Where leases were classified as operating leases, the lease instalments were recognised as an expense in profit or loss on a straight-line basis over the term of the lease. Assets or liabilities were only reported in the balance sheet if there were timing differences between the actual lease payments and the expenses recorded. In contrast, in accordance with IFRS 16, the lease is generally accounted for as a right-of-use asset and as a lease liability on the commencement date of the lease. Scheduled straight-line depreciation for right-of-use assets and interest expenses for lease liabilities are recognised in the income statement.

Leases in which the Group is the lessee and which were previously classified as finance leases were recognised at their carrying amounts in accordance with IAS 17 as of 1 January 2019.

The first-time application of IFRS 16 had no material impact on leases where Koenig & Bauer is the **lessor.**

The effects of the implementation of IFRS 16 on the consolidated balance sheet at 1 January 2019 are shown in the following table. Please refer to Note (G) (13) for details of the impact of the amendments to IFRS 16 on the consolidated income statement for the 2019 financial year.

Group balance sheet as of 1 January 2019

in €m	Effects of changes in accordance with IFRS 16
Assets	
Rights-of-use – intangible assets	0.7
Rights-of-use – property, plant and equipment	11.3
Equity and liabilities	
Reserves	-0.1
Lease liabilities	12.1

Koenig & Bauer has made use of the following simplification rules in the **transition** to IFRS 16 as of 1 January 2019.

- Leases with a term of less than 12 months are recognised neither as rights of use nor as lease liabilities.
- Leases of assets of minor value (<5,000 USD) are recognised neither as rights of use nor as lease liabilities.
- The accounting treatment of leases classified as finance leases under IAS 17 is continued unchanged.
- IFRS 16 was only applied to agreements that were previously identified as leases or rental agreements in accordance with IAS 17 and IFRIC 4.

The incremental borrowing rate as of 1 January 2019 was used to discount the liabilities from operating leases. The weighted average interest rate is 1.2%. Further effects of the first-time application of IFRS 16 are shown in the following table.

in €m	Effects of changes in accordance with IFRS 16
Other financial commitments as of 31 December 2018	**12.6**
Discounted with the incremental borrowing rate as of 1 January 2019	-0.3
Leases for low-value assets	-0.3
Leases with a term to maturity < 12 months as of 1 January 2019	-1.4
Other	1.5
Lease liabilities as of 1 January 2019	**12.1**

IFRIC 23: Uncertainty over income tax treatments

To supplement IAS 12, IFRIC 23 clarifies the tax treatment of matters depending on future recognition by the tax authorities or tax courts. It does not have any significant impact on the consolidated financial statements of Koenig & Bauer AG.

Sundry improvements to IFRS (2015 – 2017)

The annual improvements (2015 – 2017) concern IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments to IFRS 3 and IFRS 11 clarify the measurement of a share in a joint venture when control or shared management is gained. IAS 12 clarifies the treatment of the income tax consequences of dividend payments, while IAS 23 provides a more precise definition of the determination of the borrowing cost rate for acquiring qualifying assets. For financial year 2019, this did not result in any significant changes.

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

		Application from financial year
IAS 1/ IAS 8	Amendments to IAS 1 and IAS 8 – Definition of material	2020
IFRS 10/ IAS 28	Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture	open
IFRS 3	Amendment to IFRS 3 – Definition of a business	2020
IFRS 9/ IAS 39/ IFRS 7	Amendments to IFRS 9, IAS 39 and IFRIC 7 – IBOR reform	2020
IFRS 17	Insurance contracts	2021
Conceptual framework	Changes to references to conceptual framework	2020

The amendments to IAS 1 and IAS 8 and the amendments to the references to the Framework have so far been adopted by the EU as part of the endorsement process. The issues regulated in IFRS 17 are not relevant to the business activities of the companies included in the consolidated financial statements.

The Koenig & Bauer Group does not intend to early adopt any new or amended standards or interpretations including the Framework. The effects on the consolidated financial statements are currently being reviewed, but no material changes are expected unless they are explained in more detail.

Amendments to IAS 1 and IAS 8 – definition of material

The terms “materiality of financial statement information” previously used in the Framework, IAS 1 and IAS 8 and IFRS Practice Statement 2 have been standardised and defined more precisely by these amendments.

Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture

To eliminate any inconsistency between IFRS 10 and IAS 28 on the disposal or contribution of assets to associates or joint ventures, future gains or losses should be recognised only if the assets disposed of or contributed constitute a business as defined in IFRS 3. Otherwise, gains or losses may only be recognised on a pro rata basis. This may result in changes for Koenig & Bauer if corresponding transactions occur.

Amendment to IFRS 3 – Definition of a business

The amendment to IFRS 3 clarifies the concept of a business as a group of activities and assets that includes at least one input and a substantial process that together contribute significantly to generating output. In this context, the term “output” is used to refer in particular to the provision of goods and services to customers; the previous reference to cost reductions no longer applies. In addition, an optional concentration test will facilitate the identification of business operations in the future.

Amendments to IFRS 9, IAS 39 and IFRIC 7 – IBOR reform

As expected, forthcoming changes in reference interest rates as part of the IBOR reform will lead to a termination of the hedging relationship for many hedge accounting relationships. Various exceptions will allow the accounting treatment of existing hedge accounting relationships to be retained over the course of a transitional period.

Changes to references to conceptual framework

The revision of the conceptual framework by the IASB has resulted in a restructuring of the existing sections and the addition of individual sections such as “The reporting entity”, “Presentation and disclosure” and “Derecognition”. Changes to the content concern, for example, the elimination of the distinction between income, gains and revenues. As a result of these changes, the references to the framework have been adapted in various standards.

(C) Accounting policies

The financial statements for Koenig & Bauer AG and its domestic and foreign subsidiaries were prepared 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 financial assets and derivative financial instruments, which are measured at fair value through profit and loss. Changes in the value of equity instruments are recognised in other comprehensive income.

In the process of applying the entity’s accounting policies management makes various judgements, essentially on the categorisation of the financial assets measured at amortised cost.

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 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 five-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.

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

Other significant estimates relate to the following matters, which are explained in more detail under the individual items of the balance sheet:

- Recognition and measurement of product development costs
- Goodwill measurement
- Useful lives of intangible assets and property, plant and equipment
- Measurement of the impairment of financial assets
- Recognition and measurement of other provisions
- Recognition and measurement of pension provisions and similar obligations
- Recognition and measurement of deferred tax assets

Intangible assets

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

Development costs for new or significantly improved products are capitalised at cost if the technical feasibility, an intention to sell and the existence of a market can be demonstrated, the attributed expenditure measured reliably, adequate development and marketing resources are available and future economic benefits probable. From the time of marketability of the affected product, the capitalized development costs are depreciated on a straight-line basis over their projected useful life and tested for impairment anually. Adequate allowance is made for future market trends. Research costs and non-capitalised development costs are recognised as an expense as they arise.

Property, plant and equipment

Items of property, plant and equipment are 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 is treated as a separate depreciable asset (component recognition). Manufacturing costs for self-constructed plant and equipment include an appropriate proportion of production overheads, material and labour costs. Where borrowing costs are directly attributable to a qualifying asset they are 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 are capitalised and written down over the individual useful life. Replaced items are de-recognised accordingly. Costs for maintenance and repairs are also recognised as an expense.

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

Grants

Government grants reduce the cost of assets and are 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

Until 31 December 2018, in accordance with IAS 17 leases under which Koenig & Bauer, as the **lessee,** bears the significant risks and rewards, were disclosed as finance leases under intangible assets or property, plant and equipment upon conclusion of the lease. 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 Group as the **lessor** transfers 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.

Since 1 January 2019, a determination is generally made at the beginning of an contract whether the agreement contains a lease. To this end, the lessor must transfer to the lessee the right of use for a clearly specified asset for a specified period of time in return for payment of a fee. Non-lease components are separated from the lease components at the inception of the agreement and recognised as an expense.

As **lessee,** Koenig & Bauer recognises a right-of-use asset in intangible assets and property, plant and equipment and a lease liability in other financial liabilities on the commencement date of the lease. The right-of-use asset is measured at cost, whereby this corresponds to the present value of the lease liabilities at the commencement date plus initial direct costs, any lease payments already made before the commencement date and the present value of estimated costs at the end of the term, minus lease incentives received. The lease liability is recognised at the present value of the lease payments not yet made at that date, comprising fixed and variable lease instalments, expected payments from residual value guarantees and the exercise price of purchase options if there is sufficient certainty that they will be exercised. Discounting is based on the underlying interest rate for the lease or, if this is not known, the lessee's incremental borrowing rate. The incremental borrowing rate is determined using various external sources and adjusted to the economic environment and the term of the respective lease agreement.

In subsequent measurement, the right-of-use asset is amortised on a straight-line basis until the end of the lease term. In the case of lease agreements with transfer of ownership or the probable exercise of a purchase option, the right-of-use asset is depreciated until the end of the expected useful life. If there is an indication that the right-of-use asset may be impaired, an impairment test is carried out in accordance with IAS 36. If necessary, an impairment loss is recognised or, if the reason for the impairment no longer applies, the impairment loss is reversed. The lease liability is measured at amortised cost using the effective interest method. In the event of contractual changes that may result from a change in the assessment of residual value guarantees, purchase or extension options or changes in future lease payments, the lease is remeasured.

Lease payments from short-term leases as well as leases for a low-value asset are recognised as lease expenses over the term of the agreement with an effect on income.

As the **lessor,** Koenig & Bauer assesses the lease at inception on the basis of certain criteria, such as the lease term, the present value of the minimum lease payments or the likely exercise of purchase options, to determine if the lease transfers all significant risks and rewards to the lessee. If this is the case, the present value of the minimum lease payments is recognised as a lease receivable under other financial receivables and subsequently measured at amortised cost using the effective interest method. If these conditions are not met, the lease instalments received are recognised as a profit.

Depreciation

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

	Years
Industrial property rights and similar rights	3 to 12
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

In the case of intangible assets and property, plant and equipment, the determination of the economic useful lives is subject to management's assessment. Any change in the economic useful lives may result in an increase or decrease of systematic straight-line depreciation.

If there is any indication that intangible assets, property, plant and equipment might be impaired or that the reason for such an impairment might have become obsolete these assets are tested for impairment on the balance sheet date as per IAS 36. The recoverable amount is 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 five-year integrated detailed plan approved by the management at the time when the impairment test is valid. Further details can be found in the Group Management Report on page 42. The perpetual annuity for cash flows which surpass the planning period is calculated using a growth rate of 0.8%. Where the recoverable amount is lower than the carrying amount the difference is disclosed as an impairment loss. If the reason for an impairment no longer applies, an adjustment in the allowance account is made, up to the amortised cost of acquisition or manufacture.

Depreciation on and impairments in intangible assets, property, plant and equipment are disclosed under the individual functions, reversals of impairment losses are disclosed as other operating income.

Goodwill is tested for impairment annually and attributed to the cash-generating units. Where the recoverable amount exceeds the carrying amount (goodwill included) of the cash-generating unit, the unit is defined as unimpaired. Where the carrying amount exceeds the value in use, an impairment adjustment to the lower market value is 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 is higher. The cash flow forecast based on the management's integrated five-year detailed planning together with a subsequent perpetual annuity 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 a 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, impairments and impairment reversals under IAS 36 are disclosed under "Changes in Intangible Assets, Property, Plant and Equipment".

Financial assets

If contractual claims exist, financial assets are recognised at fair value upon initial recognition and are accounted for on the settlement date.

For the purposes subsequent measurement in accordance with IFRS 9 financial assets are classified as “measured at amortised cost”, “measured at fair value through other comprehensive income (FVOCI)” or “measured at fair value through profit or loss (FVTPL)”. The allocation of a financial instrument to one of these three categories depends on the Group’s business model and the characteristics of the instrument in question. The business model is determined on a portfolio basis in the light of past experience and the management strategy for the future, taking into account the risks associated with financial assets. The analysis of the product features includes an assessment of whether contractually agreed cash flows are solely payments of principal and interest.

A financial asset is measured **at amortised cost** using the effective interest method if it is held as part of a business model whose objective it is to collect the contractual cash flows and the terms of the contract result in solely payments of principal and interest. Any changes are recognised in profit or loss.

The **FVOCI** category includes financial assets held within a business model whose objective is both to collect the contractual cash flows and to sell those assets, provided that the terms of the contract result in solely payments of principal and interest. They are remeasured on the basis of their fair value. In the case of equity instruments, dividends are recognised in profit or loss, while other net gains or losses are recognised in other comprehensive income. They are not recycled to the income statement.

All other assets are measured at fair value through profit and loss **(FVTPL)**. Interest income, dividends and other net gains or losses are recognised through profit and loss.

Shares in affiliated, non-consolidated companies are reported under **financial investments** and classified as “FVOCI” . As their business individually and in sum is not material for the Group and the fair presentation of financial position, liquidity and capital resources, and profitability, they are measured at cost. Loans are measured at amortised cost.

Financial investments accounted for using the equity method are measured **FVTPL** at fair value.

Other financial receivables include derivative financial instruments in the FVTPL category that are carried at fair value and receivables from lease agreements measured at their present value. Miscellaneous other financial receivables are measured at amortised cost.

Trade receivables are measured at amortised cost. Non-interest-bearing or low-interest receivables due for settlement in more than one year are discounted.

The **securities** are financial assets in the FVTPL category that are carried at fair value as of the balance sheet date.

Cash and cash equivalents are measured at amortised cost.

They are 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.

Impairment gains and losses are recognised on financial assets measured at amortised cost and for contract assets in an amount equalling the expected credit loss, provided that the credit risk has increased significantly since initial recognition. In the case of receivables and contract assets, this involves checking on each balance sheet date whether there has been any impairment of creditworthiness and whether the credit risk has thus increased significantly. Both quantitative and qualitative information and analyses such as the length of time overdue, the nature and duration of financial difficulties or the geographical location are taken into account and forward-looking assessments are made on the basis of past experience. If an account is past due by more than 90 days, this is considered to be objective evidence that the credit quality of an asset is impaired.

If the creditworthiness of an asset is impaired, the expected credit losses are recognised as a loss allowance over the entire term of the financial asset.

If the credit risk has increased significantly since initial recognition, but there is no impairment of creditworthiness, the possible payment defaults over the entire term are taken into account as a loss allowance. In the case of trade receivables and contract assets, expected credit losses are measured on the basis of a loss allowance matrix. For each business segment, the historical default probabilities of the last three years are used as a basis and adjusted to the current economic conditions using scaling factors.

All other financial assets are adjusted by the amount of the expected credit loss that may be incurred within 12 months of the balance sheet date.

The loss allowance model described in IFRS 9 requires discretionary decisions in forecasting the development of future economic conditions. However, the assumptions made are subject to uncertainty, as Koenig & Bauer can only partially influence future business developments.

Derivatives

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

Changes in fair value are reported in net profit or loss where no hedge accounting is used.

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

The 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 50 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 are 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 are directly attributable to a qualifying asset they are capitalised as part of the cost of that asset. The cost of inventories that cannot be measured on an item-by-item basis is calculated using the weighted average cost formula.

Inventories whose net realisable value on the balance sheet date were lower than cost, for example due to damage, impaired marketability or prolonged storage, are 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.

Equity

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

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

Reserves encompass 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 include 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 are measured using the projected unit credit method described in IAS 19, based on actuarial reports that recognise the present and potential benefits known on the balance sheet date, and include 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 present value of the liability. The interest of the market value of plan assets is calculated with the discount rate of the pension obligation.

If the pension plans are not fully reinsured, the measurement of the retirement benefit obligations is subject to actuarial risks such as longevity risk, the risk of salary increases and interest rate risk. Market price risks exist in particular in connection with plan assets. In the case of Swiss pension funds, there is also the risk of an obligation to make additional contributions in the event of underfunding, i.e. if the benefit obligations exceed the plan assets, there is an obligation to contribute funding.

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

Provisions are recognised for the **realignment** of the Group as soon as management has developed and approved a programme to improve the Group's profitability and competitiveness through capacity and structural adjustments and the measures have been publicly announced. Provisions are estimated on the basis of the planned programs, taking into account past experience. For this purpose, the assessments of both management and external experts are used. If changes occur as a result of new findings or agreements, the amount of the provisions is duly adjusted.

The recognition of provisions for **warranties and goodwill gestures** results from statutory, contractual or individual obligations to customers for reworking, replacement deliveries and compensation payments. A lump-sum provision is recognised as a percentage of average sales in recent years on the basis of past experience. In addition, concrete and expected individual facts are allowed for.

In the prior year, provisions for obligations from **self disclosure proceedings in Switzerland** included the Group's provisions for the transfer of profits from a voluntary disclosure procedure concluded in the 2018 financial year in Switzerland due to shortcomings in the prevention of corruption, related legal and tax advisory services and other expected obligations.

Financial payables

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

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

Other financial liabilities include derivative financial instruments with a negative fair value assigned to the FVTPL category and measured at fair value. Lease liabilities are recognised at their present value.

Income taxes

Deferred tax assets and liabilities are recognised on temporary differences between IFRS and tax bases for Group enterprises, and on consolidation measures. Differences are calculated using the liability method specified in IAS 12, and only tax-relevant temporary differences are taken into account. Deferred tax assets include temporary differences as well as claims to future tax reductions arising from the anticipated use of existing tax loss carryforwards, where this use is probable or verified by convincing substantial evidence. Where the use is improbable, an impairment is disclosed. Deferred tax assets are calculated on the basis of 5-year corporate planning and the expected impact on earnings of taxable temporary differences. However, the assumptions made with regard to the future taxable income available for the utilisation of deferred tax assets are subject to uncertainties.

The tax rates used to calculate deferred taxes were the national rates applicable or notified on the balance sheet date, and ranged from 14% to 30%. The effect of changes in tax rates on deferred taxes is reported when such changes are published.

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

Actual income taxes are determined and recognised on the basis of the respective tax results and taking into account national regulations, provided that their tax recognition is probable. On the other hand, if there are uncertainties regarding the recognition, a tax liability is created in the amount of the best possible estimate of the expected tax payment. Tax receivables from uncertain tax positions are only recognised if they are likely to be realised. The assumptions and decisions made are reviewed on each balance sheet date and adjusted if necessary based on new knowledge.

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.

Revenue

In the case of the sale of standardised **new or used machines,** the transfer of control after delivery and assembly occurs upon the customer’s readiness for production. If the assembly element of the performance obligation is not significant, control is transferred upon delivery of the press. The invoice is issued at the time of the transfer of control. In addition to individual contractual agreements, payments by the customer are usually staggered and are often divided into a prepayment, a payment at the time of delivery and a final payment after acceptance of the press. Revenue is recognised when a customer gains control of the presses and the significant risks and rewards of ownership have been transferred, neither a right of disposal nor effective control remains with Koenig & Bauer and it is probable that the economic benefits associated with the transaction will flow to the Company.

In the case of **customer-specific production,** control is transferred to the customer over the period in which the performance is completed. The project-specific payment terms usually provide for a prepayment and other progress billings staggered over the term.

Revenue from customer-specific production is recognised over the period in which the service is provided in accordance with IFRS 15, provided that the product has no alternative use for the Company and the Company has a legal claim to payment for the services already provided. The progress made towards complete satisfaction of a performance obligation is measured on an input basis, whereby the progress of work is determined as the ratio of the costs incurred to the calculated contract costs.

In the case of **spare parts and consumables,** control generally passes to the customer upon delivery of the products. The invoice is issued at the same time, the payment period is usually up to 30 days. Revenue is recognised when the invoice is issued to the customer.

The provision of **services** mainly comprises maintenance, repairs, consulting and similar services. Control passes to the customer and the invoice is issued when the service has been rendered. Service contracts are usually due for immediate payment, the maximum payment period is usually 30 days. In the case of service agreements, the transaction price is allocated to individual service components. Revenue is recognised when the individual service components have been fulfilled.

Price reductions, cash discounts, bonuses and volume rebates granted are recognised at their expected value if an adjustment to the transaction price is probable.

The performance obligations for products and services rendered and invoiced to the customer are recognised under trade receivables to the extent that there is an unconditional right to consideration. Where products and services have been transferred to a customer but the Group does not yet have a contractual right to payment, the contingent consideration receivable is recognised within contract assets. Contract assets are reclassified as trade receivables as soon as there is an unconditional legal claim to payment; they are reported under other assets.

Prepayments received include the Company's obligations to transfer goods and services to customers for whom a payment has already been made.

Other income

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

Expenses by function

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

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

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

Administrative expenses include the amortisation of goodwill.

Wherever possible, income and expenses are attributed to their respective functions; those that cannot be attributed are 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 41 (previous year: 39) companies.

Altogether 27 (previous year: 24) subsidiaries are excluded from the consolidated financial statements since they are of minor significance to the Group's financial position and performance.

Consolidation principles

On the date on which control is obtained the capital consolidation of affiliates and the disclosure of business combinations entails 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 are allocated to the subsidiary's assets and liabilities. Contingent liabilities are offset against equity, and any excess of cost over the amounts allocated is recognised as goodwill. Goodwill generated prior to 1 January 1995 remains netted against reserves as permitted by IAS 22. Negative goodwill is immediately disclosed as other administrative expenses.

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

(E) Foreign currency translation

The financial statements of consolidated companies prepared in a foreign currency are 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 normally the same as their local currency. In the consolidated financial statements their assets and liabilities are 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 are 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 are translated at the closing rate on the date of the initial consolidation. In subsequent periods goodwill is translated at the closing rate on the balance sheet date.

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

(F) Changes in intangible assets, property, plant and equipment

	Cost								
in €m	01.01.	Changes in accordance with IFRS 16	01.01. adjusted	Group Additions	Additions	Exchange differences	Reclassifications	Disposals	**31.12.**
2018									
Intangible assets									
Industrial property rights and similar rights	48.7	–	–	3.5	6.4	–	4.5	0.2	**62.9**
Goodwill	27.8	–	–	11.2	–	–	–	–	**39.0**
Product development costs	11.6	–	–	–	11.3	–	–	–	**22.9**
Prepayments and assets under construction	6.5	–	–	–	4.1	–	-4.5	–	**6.1**
	94.6	**–**	**–**	**14.7**	**21.8**	**–**	**–**	**0.2**	**130.9**
Property, plant and equipment									
Land and buildings	261.1	–	–	1.0	3.0	0.1	4.4	0.5	**269.1**
Plant and machinery	190.4	–	–	–	5.8	-0.1	5.0	8.8	**192.3**
Other facilities, factory and office equipment	136.5	–	–	0.1	16.1	0.1	1.0	19.9	**133.9**
Prepayments and assets under construction	11.1	–	–	–	3.8	–	-10.4	–	**4.5**
	599.1	**–**	**–**	**1.1**	**28.7**	**0.1**	**–**	**29.2**	**599.8**
	693.7	**–**	**–**	**15.8**	**50.5**	**0.1**	**–**	**29.4**	**730.7**
2019									
Intangible assets									
Industrial property rights and similar rights	62.9	1.4	64.3	–	1.2	–	1.7	0.2	**67.0**
Goodwill	39.0	–	39.0	–	–	–	–	–	**39.0**
Product development costs	22.9	–	22.9	–	21.7	–	–	2.0	**42.6**
Prepayments and assets under construction	6.1	–	6.1	–	11.3	–	-1.7	–	**15.7**
	130.9	**1.4**	**132.3**	**–**	**34.2**	**–**	**–**	**2.2**	**164.3**
Property, plant and equipment									
Land and buildings	269.1	21.7	290.8	–	14.6	0.3	-1.4	29.3	**275.0**
Plant and machinery	192.3	0.1	192.4	–	12.2	0.3	0.1	3.4	**201.6**
Other facilities, factory and office equipment	133.9	7.0	140.9	–	15.4	0.1	2.9	5.9	**153.4**
Prepayments and assets under construction	4.5	–	4.5	–	28.5	–	-1.6	–	**31.4**
	599.8	**28.8**	**628.6**	**–**	**70.7**	**0.7**	**–**	**38.6**	**661.4**
	730.7	**30.2**	**760.9**	**–**	**104.9**	**0.7**	**–**	**40.8**	**825.7**

[1] Reconciliation

Depreciation									Carrying amount	
01.01.	Changes in accordance with IFRS 16	01.01. adjusted	Annual depreciation	Appreciation	Exchange differences	Reclassifications	Disposals	**31.12.**	01.01.	**31.12.**
41.7	–	–	2.1	4.0	–	–	0.2	**39.6**	7.0	**23.3**
0.2	–	–	–	–	–	–	–	**0.2**	27.6	**38.8**
7.0	–	–	–	–	–	–	–	**7.0**	4.6	**15.9**
–	–	–	–	–	–	–	–	**–**	6.5	**6.1**
48.9	**–**	**–**	**2.1**	**4.0**	**–**	**–**	**0.2**	**46.8**	**45.7**	**84.1**
133.9	–	–	6.0	–	0.1	–	0.2	**139.8**	127.2	**129.3**
149.8	–	–	10.3	–	-0.1	–	7.4	**152.6**	40.6	**39.7**
104.8	–	–	10.5	–	0.1	–	16.9	**98.5**	31.7	**35.4**
–	–	–	–	–	–	–	–	**–**	11.1	**4.5**
388.5	**–**	**–**	**26.8**	**–**	**0.1**	**–**	**24.5**	**390.9**	**210.6**	**208.9**
437.4	**–**	**–**	**28.9**	**4.0**[1]	**0.1**	**–**	**24.7**	**437.7**	**256.3**	**293.0**
39.6	0.7	40.3	3.6	–	–	–	0.2	**43.7**	23.3	**23.3**
0.2	–	0.2	–	–	–	–	–	**0.2**	38.8	**38.8**
7.0	–	7.0	–	–	–	–	2.0	**5.0**	15.9	**37.6**
–	–	–	–	–	–	–	–	**–**	6.1	**15.7**
46.8	**0.7**	**47.5**	**3.6**	**–**	**–**	**–**	**2.2**	**48.9**	**84.1**	**115.4**
139.8	14.5	154.3	8.2	–	0.2	–1.2	14.5	**147.0**	129.3	**128.0**
152.6	–	152.6	8.6	–	0.2	–0.1	3.3	**158.0**	39.7	**43.6**
98.5	3.0	101.5	13.2	–	0.1	1.3	5.3	**110.8**	35.4	**42.6**
–	–	–	–	–	–	–	–	**–**	4.5	**31.4**
390.9	**17.5**	**408.4**	**30.0**	**–**	**0.5**	**–**	**23.1**	**415.8**	**208.9**	**245.6**
437.7	**18.2**	**455.9**	**33.6**	**–**	**0.5**	**–**	**25.3**	**464.7**	**293.0**	**361.0**

(G) Explanatory notes to the balance sheet

(1) Intangible assets, property, plant and equipment

Information on the intangible assets and property, plant and equipment contained in leases in accordance with IFRS 16 is provided for leases under Note (G) (13).

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €2.7m (previous year: €3m).

Intangible assets

The additions to industrial property rights and similar rights as well as prepayments made and assets under construction primarily relate to the implementation of the SAP ERP system.

Goodwill is made up as follows:

in €m	31.12.2018	**31.12.2019**
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany	12.6	12.6
Business Unit Security	8.8	8.8
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany	5.4	5.4
Koenig & Bauer Flexotecnica S.p.A., Tavazzano, Italy	0.8	0.8
Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş., Istanbul, Turkey	11.2	11.2
	38.8	**38.8**

The relief-from-royalty method and the multi-period excess earnings method (including for other assets) were used to determine the fair values of acquired intangible assets. The relief-from-royalty method takes account of discounted estimated payments of royalties which would be expected to be saved if the brands and technology were owned by the reporting entity. The multi-period excess earnings method is based on the present value of the expected net cash flow generated by customer relations and order books with the exception of all cash flows linked to supporting assets.

A conditional obligation of Koenig & Bauer to the former shareholders of Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş. for the staggered payment totaling €6m upon achievement of certain EBIT targets for the financial years 2019 to 2022 has been replaced by an agreement for a one-off payment of €2.5m. A further contingent payment of €1.1m (previous year: €1.3m) for the settlement of warranty claims from the period prior to the acquisition of the shares is due to the sellers on a staggered basis until 31 December 2021. A contingent liability from the purchase of €0.7m was settled in the financial year. All obligations are recognised in full.

A further contingent liability of €0.6m (previous year: €0.6m) arose from the acquisition of Koenig & Bauer Iberica S.A. in 2016 for the settlement of warranty claims towards the former shareholders; this amount has been 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
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany	5	9.1%	6.8%
Business Unit Security	5	7.8%	7.1%
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany	5	9.4%	6.8%
Koenig & Bauer Flexotecnica S.p.A., Tavazzano, Italy	5	8.5%	6.9%
Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş., Istanbul, Turkey	5	8.4%	6.9%

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.

(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. Capital share corresponds to the number of voting rights.

Company, location	Capital share in %	Equity in €m
Consolidated affiliates		
Koenig & Bauer Industrial Management GmbH, Würzburg, Germany	100.0	0.1
Koenig & Bauer Industrial AG & Co. KG, Würzburg, Germany	100.0	-41.1[2]
Koenig & Bauer Sheetfed Management GmbH, Radebeul, Germany	100.0	0.0
Koenig & Bauer Sheetfed AG & Co. KG, Radebeul, Germany	100.0	56.8
Koenig & Bauer Digital & Webfed Management GmbH, Würzburg, Germany	100.0	0.1
Koenig & Bauer Digital & Webfed AG & Co. KG, Würzburg, Germany	100.0	-36.7[2]
Koenig & Bauer Security Management GmbH, Würzburg, Germany	100.0	0.0
Koenig & Bauer Security AG & Co. KG, Würzburg, Germany	100.0	38.2
KBA-NotaSys Management GmbH, Würzburg, Germany[1]	100.0	0.1
KBA-NotaSys AG & Co. KG, Würzburg, Germany[1]	100.0	38.0
Koenig & Bauer Finance GmbH, Würzburg, Germany	100.0	0.1
Koenig & Bauer Immobilien GmbH, Würzburg, Germany	100.0	0.1
Koenig & Bauer Gießerei GmbH, Würzburg, Germany[1]	100.0	2.6[3]
Koenig & Bauer FT Engineering GmbH, Frankenthal, Germany	100.0	1.9[3]
Albert-Frankenthal GmbH, Frankenthal, Germany	100.0	1.5[3]
Koenig & Bauer (DE) GmbH, Radebeul, Germany	100.0	0.4[3]
Koenig & Bauer Coding GmbH, Veitshöchheim, Germany	100.0	14.3[3]
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany	100.0	6.1[3]
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany	100.0	2.5
Koenig & Bauer (AT) GmbH, Mödling, Austria[1]	100.0	13.5
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	0.9
Koenig & Bauer (FR) SAS, Tremblay-en-France, France	100.0	3.1[3]
Koenig & Bauer IT S.R.L., Lainate, Italy	100.0	1.7[3]
Koenig & Bauer Flexotecnica S.p.A., Tavazzano, Italy	100.0	0.9[3]
Koenig & Bauer Iberica, S.A., El Prat de Llobregat, Spain	100.0	5.6[3]
Koenig & Bauer (UK) Limited, Watford, UK	100.0	1.1
Koenig & Bauer Grafitec s.r.o., Dobruška, Czech Republic	100.0	20.9
KBA-SWISS HOLDING SA, Lausanne, Switzerland[1]	100.0	52.0[3]
KBA-NotaSys SA, Lausanne, Switzerland[1]	100.0	76.6[3]
KBA-NotaSys International SA, Genf, Switzerland[1]	100.0	0.3[3]
Koenig & Bauer (CH) AG, Höri, Switzerland	100.0	2.1
Koenig & Bauer (CEE) Sp. z o.o., Warsaw, Poland	100.0	2.0
Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş., Istanbul, Turkey	80.0	2.9
Koenig & Bauer (US) Inc., Wilmington, DE, USA	100.0	23.5
Koenig & Bauer LATAM, S.A.P.I. de C.V., Mexico City, Mexico	90.0	1.7
Koenig & Bauer (HK) Co. Limited, Hong Kong, China	100.0	1.8[3]
Koenig & Bauer Printing Machinery (Shanghai) Co., Limited, Shanghai, China	100.0	2.1

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

Company, location	Capital share in %	Equity in €m
Non-consolidated affiliates		
PrintHouseService GmbH, Würzburg, Germany	100.0	0.2[3]
Koenig & Bauer DK A/S, Værløse, Denmark	100.0	-1.0[2, 3]
Koenig & Bauer (RU), LLC, Moscow, Russia	100.0	-1.5[2, 3]
Koenig & Bauer Kammann (US), Inc., Portsmouth, NH, USA[1]	100.0	4.2
Koenig & Bauer (BR) Comércio de Impressoras e Serviços Ltda., São Paulo, Brasil	100.0	-0.6[2, 3]
Koenig & Bauer (SEA) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	1.4
Koenig & Bauer KR Co. Ltd, Goyang-si, South Korea	100.0	0.2
Koenig & Bauer (JP) Co., Ltd, Tokyo, Japan	100.0	-0.5[2]
Koenig & Bauer (AU) Pty Ltd, Mount Waverley, Australia	100.0	0.0
KBA NotaSys India Private Limited, New Delhi, India[1]	100.0	0.8
KBA NOTASYS Egypt LLC, Cairo, Egypt[1]	100.0	0.0[3]
Associates		
Koenig & Bauer Durst GmbH, Würzburg, Germany	50.0	-5.3[2, 3]
Interests		
Koenig & Bauer Leasing GmbH, Bad Homburg, Germany	24.9	0.5[3]

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

Since 17 May 2019, Koenig & Bauer Durst GmbH, Würzburg has been operated as a joint venture between Koenig & Bauer and the Durst Group, with both parent companies each holding a 50% stake. The company is dedicated to the development and marketing of single-pass digital printing systems for the folding carton and corrugated board industry.

Under the terms of the contractual agreement, both parties will provide the joint venture with distribution channels and service capacities and grant limited rights of use to the required intellectual property rights. The financing of ongoing operations is governed by a jointly agreed business plan.

The Group's share in Koenig & Bauer Durst GmbH is presented under **financial investments** in associates and is accounted for using the equity method. Reconciliation of the combined financial information to the carrying amount of the interest in the Group and the Group's share of the profit for the year is presented in the following tables.

in €m	**31.12.2019**
Current assets	0.4
Current liabilities	-5.8
Net assets (100%)	**-5.4**
Group share in net assets (50%)	-2.7
Shares in associates	-0.2
Unrecognised share of net assets	2.9
Financial investments in associates (50%)	**–**

in €m	**2019**
Research and development costs	-5.4
Distribution costs	-0.1
Administrative expenses	-0.2
Earnings (100%)	**-5.7**
Group share of earnings (50%)	-2.9
Unrecognised share of earnings	2.9
Group share of earnings (50%)	**–**

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

in €m	31.12.2018	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2019**	**Term to maturity up to 1 year**	**Term to maturity more than 1 year**
Trade receivables						
from affiliates	13.0	13.0	–	9.7	9.7	–
from associates	–	–	–	1.9	1.9	–
from companies in which interests are held	0.2	0.2	–	–	–	–
from third parties	142.8	137.1	5.7	129.0	125.1	3.9
	156.0	**150.3**	**5.7**	**140.6**	**136.7**	**3.9**
Investments	4.4	–	4.4	6.2	–	6.2
Other financial receivables						
from affiliates	3.2	3.2	–	6.0	6.0	–
derivatives	0.6	0.6	–	0.4	0.4	–
sundry other financial receivables	31.5	9.9	21.6	25.4	9.1	16.3
	39.7	**13.7**	**26.0**	**38.0**	**15.5**	**22.5**
Other assets						
contract assets	142.8	142.8	–	152.1	152.0	0.1
payments for inventories	15.4	15.4	–	14.0	14.0	–
tax receivables	16.7	16.7	–	24.3	24.3	–
prepayments	4.6	3.3	1.3	8.9	8.0	0.9
	179.5	**178.2**	**1.3**	**199.3**	**198.3**	**1.0**
	375.2	**342.2**	**33.0**	**377.9**	**350.5**	**27.4**

In accordance with IFRS 15, **trade receivables** include €27.1m (€19.2m) and **contract assets** include €116.3m (€114.3m) for customer-specific production.

In the previous year, sundry **other financial receivables** included €0.1m customer finance leases due in less than one year totalling €0.1m. Other financial receivables from derivatives are detailed in Note (G) (11).

Miscellaneous other financial assets comprise non-current claims of €15.2m (previous year: €21.2m) held against insurance companies arising from the partial external funding of the company pension scheme in Germany.

(3) Inventories

in €m	31.12.2018	**31.12.2019**
Raw materials, consumables and supplies	109.1	120.7
Work in progress	147.9	162.0
Finished goods and products	8.7	9.9
	265.7	**292.6**

The carrying amount of inventories balanced at net realisable value was €175.9m (previous year: €156.9m). Total value adjustments were increased by €2.6m (previous year: €6.7m reduced).

(4) Securities

These refer to shares in a fund combining stocks and bonds. The market value of the fund was €5.1m (previous year: €16.3m). 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	31.12.2018	**31.12.2019**
Cheques, cash in hand	0.1	0.1
Balances with banks	141.9	190.9
	142.0	**191.0**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

	Deferred tax assets		Deferred tax liabilities	
in €m	31.12.2018	**31.12.2019**	31.12.2018	**31.12.2019**
Assets				
Intangible assets, property, plant and equipment	1.7	1.0	16.5	32.0
Inventories	40.0	44.0	3.2	0.8
Financial receivables and other assets	2.7	3.5	26.4	26.3
Securities	0.3	0.2	0.4	0.5
Equity and liabilities				
Provisions	37.1	42.3	4.2	4.5
Financial payables and other liabilities	5.0	9.6	29.6	39.2
	86.8	**100.6**	**80.3**	**103.3**
Tax loss carryforwards	39.1	55.9	–	–
Offset	-46.4	-50.1	-46.4	-50.1
	79.5	**106.4**	**33.9**	**53.2**
of which current deferred taxes	1.1	3.9	17.1	18.6

At the end of the year there were loss carryforwards totalling €240.2m (previous year: €281.8m) and temporary differences of €20.7m (€20.4m) for which no deferred tax assets were disclosed. Restructuring activities in recent years and other proposed reorganisational measures gave rise to positive earnings projections and the recognition of deferred tax assets totalling €59.1m (€0.5m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €3.9m (previous year: €1.6m), 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 83 and capital management methods on page 47.

Share capital

The Parent's share capital at 31 December 2019 totalled 16,524,783 (previous year: 16,524,783) no-par shares with a nominal value of €2.60. At the annual general meeting held on 23 May 2017, the shareholders authorised the Management Board to increase the Company's subscribed capital by up to €8.6m through the issue of new shares. This authorisation expires on 22 May 2022.

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

Share premium

There was no change to capital reserves compared to the previous year.

Reserves

The use of hedge accounting decreased reserves by €0.1m (previous year: 3m). During completion of the underlying transactions –€0.6m was recognised as an expense (previous year: –€1.2m).

Deferred taxes increased reserves by €5,4m (previous year: €4.9m), with defined benefit pension plans accounting for €5.2m (previous year: €4.1m) and derivatives of €0.2m (€0.8m).

(8) Pension provisions and similar obligations

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

In Germany, the company pension scheme has been converted from a defined benefit obligation with pension benefits which were defined as a fixed amount subject to adjustment rates or which were based on the applicable wage and salary group upon eligibility arising in favour of a defined contribution obligation. Koenig & Bauer provides the participating employees with an initial component for the past service period until 31 December 2016 as well as recurring contributions based on the salary group which are paid into a pension liability insurance scheme together with the contributions made by the employees. The benefits are paid in the form of a monthly pension. Pension liability insurance claims reported within other financial receivables are netted with the retirement benefit provisions after being transferred to the eligible employees. The difference was recognised directly in equity.

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, invalidity 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.

In the financial year, the present value of pension obligations and the fair value of plan assets declined by €22.2m each due to reorganisation measures.

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

The discount rate of 1.2% (previous year: 1.9%) applied in Germany was calculated on the basis of capital market interest rates provided by Heubeck AG. Other European companies use a discount rate of 0.1% to 2.4% (previous year: 0.9% to 3%). Calculations were further based on a pay increase of 1.7% (1.8%) and a fluctuation rate of 2.8% (2.5%). Pension adjustments were calculated at 0.4% (1.4%). 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 fair value of plan assets changed as follows:

	Present value of pension obligations		Fair value of plan assets		Net obligation/ Net asset	
in €m	31.12.2018	**31.12.2019**	31.12.2018	**31.12.2019**	31.12.2018	**31.12.2019**
Status at 01.01.	**327.0**	**294.5**	**-128.6**	**-151.8**	**198.4**	**152.6**
Recognised in profit or loss						
Current service cost	9.4	9.7	–	–	9.4	9.7
Past service cost	7.5	-3.2	–	–	7.5	-3.2
Plan settlements	-49.3	–	40.1	–	-9.2	–
Interest cost/income	4.7	4.6	-2.4	-2.2	2.3	2.4
	-27.7	**11.1**	**37.7**	**-2.2**	**10.0**	**8.9**
Recognised in other comprehensive income						
Actuarial gain/loss						
demographic assumptions	1.6	-11.3	–	–	1.6	-11.3
financial assumptions	-3.0	32.2	0.7	-2.0	-2.3	30.2
experience adjustments	0.6	6.8	6.9	–	7.5	6.8
Other gain/loss	–	–	2.6	1.8	2.6	1.8
Cap due to limitation of net assets	–	–	–	–	9.9	-7.4
	-0.8	**27.7**	**10.2**	**-0.2**	**19.3**	**20.1**
Other						
Contributions paid by employer	–	–	-40.0	-6.9	-40.0	-6.9
Contributions paid by plan beneficiaries	0.3	0.2	-2.9	-2.8	-2.6	-2.6
Benefits paid	-8.2	-29.6	2.8	24.2	-5.4	-5.4
Foreign currency changes	3.9	3.9	-3.0	-2.9	0.9	1.0
Transfers	–	–	-28.0	-3.0	-28.0	-3.0
	-4.0	**-25.5**	**-71.1**	**8.6**	**-75.1**	**-16.9**
Status at 31.12.	**294.5**	**307.8**	**-151.8**	**-145.6**	**152.6**	**164.7**

Pension provisions and similar obligations constituted the following:

in €m	31.12.2018	**31.12.2019**
Present value of non-funded obligations	110.0	121.7
Present value of funded obligations	184.5	186.1
Present value of obligations	**294.5**	**307.8**
Fair value of plan assets	-151.8	-145.6
Cap due to limitation of net assets	9.9	2.5
Net	**152.6**	**164.7**
Pension provisions and similar obligations	152.6	165.5
Net defined benefit asset	–	-0.8

Plan assets comprised €20.3m (previous year: €19.4m) from shares and equity securities, €7.1m (€27.7m) from loans, €6.4m (€14.5m) from cash and cash equivalents, €82.4m (€75.1m) from pension liability insurance, €15.5m (€9.1m) from real estate and €13.9m (€6m) from other assets. All shares, 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 €4.2m (previous year: €1.7m). The anticipated rate of return is 1.5% (previous year: 1.6%), based on returns in previous years.

Plan contributions for 2020 are estimated at €7.7m (previous year: €7.8m).

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:

	Benefit obligation			
	Increase		Decrease	
in €m	31.12.2018	**31.12.2019**	31.12.2018	**31.12.2019**
Discount rate (0.5% change)	-26.2	**-26.3**	30.3	**30.2**
Salary increase rate (0.5% change)	1.6	**1.3**	-1.5	**-1.3**
Pension increase rate (0.5% change)	15.2	**13.9**	-13.8	**-8.7**
Fluctuation rate (0.5% change)	-0.5	**-1.5**	0.5	**0.7**
Life expectancy (1 year change)	8.9	**10.9**	-8.9	**-10.9**

The weighted duration of pension obligations is 19.3 years (previous year: 20.1).

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 €31.5m (previous year: €30.1m).

(9) Other provisions

in €m	01.01.2019	Con-sumption	Reversal	Allocation	Unwind of discount	Exchange differences	Reclassi-fications	**31.12.2019**
Other provisions								
for personnel and social obligations	20.0	13.0	0.8	10.2	0.1	0.1	–	**16.6**
for warranties and goodwill gestures	36.3	13.4	5.0	12.1	–	–	–0.6	**29.4**
for obligations related to sales	18.7	3.0	3.5	8.5	–	–	1.1	**21.8**
for self-disclosure proceedings in Switzerland	42.7	27.7	15.3	–	–	0.3	–	**–**
for sundry obligations	41.2	25.4	1.7	32.1	–	0.2	–0.5	**45.9**
	158.9	**82.5**	**26.3**	**62.9**	**0.1**	**0.6**	**–**	**113.7**
of which								
long-term provisions	20.9							**23.7**
short-term provisions	138.0							**90.0**
	158.9							**113.7**

Provisions for **personnel and social obligations** include provisions for the realignment of the Group as well as long-service benefits, performance-related remuneration and partial retirement credits as far as these were not offset against securities.

Provisions for **obligations related to sales** primarily concern litigation risks and commission obligations. The provisions for **sundry obligations** include performance obligations of €21.1m (€22.3m) as well as professional association contributions, archiving costs and similar obligations.

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

(10) Financial and other liabilities

in €m	31.12.2018	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2019**	**Term to maturity up to 1 year**	**Term to maturity more than 1 year**
Trade payables						
to affiliates	2.4	2.4	–	2.5	2.5	–
to companies in which interests are held	–	–	–	1.6	1.6	–
to others	80.1	80.1	–	105.9	105.5	0.4
	82.5	**82.5**	**–**	**110.0**	**109.6**	**0.4**
Bank loans	74.4	73.4	1.0	199.3	198.4	0.9
Other financial payables						
from derivatives	1.5	1.4	0.1	0.6	0.6	–
sundry	72.7	67.4	5.3	104.2	72.9	31.3
	148.6	**142.2**	**6.4**	**304.1**	**271.9**	**32.2**
Other liabilities						
from payments received from third parties	111.1	111.1	–	96.2	96.2	–
from taxes	16.4	16.4	–	17.1	17.1	–
sundry	9.0	8.1	0.9	11.7	5.4	6.3
	136.5	**135.6**	**0.9**	**125.0**	**118.7**	**6.3**
	367.6	**360.3**	**7.3**	**539.1**	**500.2**	**38.9**

Bank loans were secured by mortgages to the value of €5.6m (previous year: €5.3m) and the assignment of trade receivables totalling €12.8m (€2.8m). The carrying amounts of property, plant and equipment pledged as collateral came to €9m (€8.6m) and of trade receivables €13.8m (€4.3m). 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 Group at the balance sheet date totalled €44.3m (previous year: €110.8m).

Sundry other financial payables included finance leases to the sum of €39m (previous year: €6.9m). Further information on leases is provided under Note (G) (13).

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

	(in accordance with IAS 17)				(in accordance with IFRS 16)			
		Term to maturity				**Term to maturity**		
in €m	31.12.2018	up tp 1 year	1 to 5 years	more than 5 years	**31.12.2019**	**up to 1 year**	**1 to 5 years**	**more than 5 years**
Minimum lease payments	7.2	2.4	4.8	–	39.5	10.1	18.4	11.0
Interest portion	-0.3	-0.2	-0.1	–	-0.5	-0.3	-0.2	–
Present value of finance lease	**6.9**	**2.2**	**4.7**	**–**	**39.0**	**9.8**	**18.2**	**11.0**

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

Furthermore, sundry other financial liabilities in particular comprised Group obligations for outstanding supplier invoices and liabilities to employees for holiday entitlements and overtime.

Other liabilities included payments received of €15.9m (previous year: €16.4m) for construction contracts.

(11) Derivatives

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

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.

	Nominal amount			**Nominal amount**		
in €m	Total 31.12.2018	Term to maturity more than 1 year	Market value 31.12.2018	**Total 31.12.2019**	**Term to maturity more than 1 year**	**Market value 31.12.2019**
Forward contracts	103.9	3.0	-0.7	57.2	–	–
Currency options	10.5	–	-0.1	31.3	–	-0.2
Interest rate hedges	1.0	1.0	-0.1	1.0	–	–
	115.4	**4.0**	**-0.9**	**89.5**	**–**	**-0.2**

Forward contracts with a maturity of up to 6 months (previous year: up to 1.5 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 USD, GBP and JPY. The fair value of forward contracts qualifying as hedges with a nominal amount totalling €57.2m (previous year: €78.8m) was –€0.02m (–€0.7m). In the previous year currency forwards to hedge cash flows denominated in CHF have been executed for CHF 24m.

Short-term currency options are used to hedge delivery and service contracts in USD. In the previous year a currency option has been transacted with a maximum volume of USD 24m and a maturity of up to 1 year.

Interest rate swaps with a maturity of up to 6 months (previous year: 1.5 years) covered subsidiaries' existing interest risk.

(12) Further disclosures on financial instruments

in €m	31.12.2018 Carrying amount	Carrying value: Amortised cost	Carrying value: FVTPL Fair value through profit and loss	Carrying value: FVOCI Fair value through OCI	Carrying value: Fair value hedges	31.12.2018 Fair value
Assets						
Investments and other financial receivables						
interests in affiliates	4.4	–	–	4.4	–	–
other financial receivables from finance leases (in accordance with IAS 17)	0.1	0.1	–	–	–	0.1
other financial receivables from derivatives	0.1	–	0.1	–	–	0.1
other financial receivables from hedge accounting	0.5	–	–	–	0.5[2]	0.5
sundry other financial receivables	34.6	34.6	–	–	–	34.6
	39.7	**34.7**	**0.1**	**4.4**	**0.5**	**35.3**
Trade receivables	136.8	136.8	–	–	–	136.8
Gross amounts due from customers for contract work	19.2	19.2	–	–	–	19.2
Securities	16.3	–	16.3[1]	–	–	16.3
Cash and cash equivalents	142.0	142.0	–	–	–	142.0
	354.0	**332.7**	**16.4**	**4.4**	**0.5**	**349.6**
Liabilities						
Bank loans and other financial payables						
bank loans	74.4	74.4	–	–	–	74.4
other financial payables from finance leases (in accordance with IAS 17)	6.9	6.9	–	–	–	6.7
other financial payables from derivatives	0.3	–	0.3[2]	–	–	0.3
other financial payables from hedge accounting	1.2	–	–	–	1.2[2]	1.2
sundry other financial payables	65.8	65.8	–	–	–	65.8
	148.6	**147.1**	**0.3**	**–**	**1.2**	**148.4**
Trade payables	82.5	82.5	–	–	–	82.5
	231.1	**229.6**	**0.3**	**–**	**1.2**	**230.9**

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

in €m	31.12.2019 Carrying amount	Carrying value: Amortised cost	Carrying value: FVTPL Fair value through profit and loss	Carrying value: FVOCI Fair value through OCI	Carrying value: Fair value hedges	31.12.2019 Fair value
Assets						
Investments and other financial receivables						
interests in affiliates	6.2	–	–	6.2	–	–
lease receivables (in accordance with IFRS 16)	–	–	–	–	–	–
other financial receivables from derivatives	–	–	–	–	–	–
other financial receivables from hedge accounting	0.4	–	–	–	0.4[2]	0.4
sundry other financial receivables	31.4	31.4	–	–	–	31.4
	38.0	**31.4**	**–**	**6.2**	**0.4**	**31.8**
Trade receivables	113.5	113.5	–	–	–	113.5
Gross amounts due from customers for contract work	27.1	27.1	–	–	–	27.1
Securities	4.8	–	4.8[1]	–	–	4.8
Cash and cash equivalents	191.0	191.0	–	–	–	–
	374.4	**363.0**	**4.8**	**6.2**	**0.4**	**177.2**
Liabilities						
Bank loans and other financial payables						
bank loans	199.3	199.3	–	–	–	199.3
lease liabilities (in accordance with IFRS 16)	39.0	39.0	–	–	–	39.0
other financial payables from derivatives	0.2	–	0.2[2]	–	–	0.2
other financial payables from hedge accounting	0.4	–	–	–	0.4[2]	0.4
sundry other financial payables	65.2	65.2	–	–	–	65.2
	304.1	**303.5**	**0.2**	**–**	**0.4**	**304.1**
Trade payables	110.0	110.0	–	–	–	110.0
	414.1	**413.5**	**0.2**	**–**	**0.4**	**414.1**

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

For **interests in affiliates** no prices were quoted in an active market. A fair value is not determined because the non-consolidated subsidiaries are of minor importance to the Group.

The fair value of **other financial receivables/payables from derivatives** was the market value. 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.

The figures disclosed for **securities, cash and cash equivalents** were the quoted market prices.

Lease liabilities 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.

The maximum **credit risk** relating to financial assets corresponded to the carrying amounts, with no perceptible risks relating to financial 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 €209.9m (previous year: €76m) within the next twelve months, €14.5 (€5.4m) in one to three years and €17.9 (€0.6m) in more than three years from now. Additional liquidity will be 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 following chart showing the associated net gains and losses.

			from subsequent measurement			
in €m	**Net gain/loss**	from interest	due to impairment	currency impact	from disposal	Other
2018						
Equity instruments at fair value through other comprehensive income	**0.1**	–	–	–	–	0.1
Debt instruments at fair value through profit and loss	**-1.6**	–	–	-0.9	–	-0.7
Financial assets at amortised cost	**1.0**	-0.5	5.9	–	-4.4	–
Gross amounts due from customers for contract work at amortised cost	**-0.4**	–	-0.4	–	–	–
Financial liabilities at amortised cost	**-0.7**	-0.5	–	-0.2	–	–
	-1.6	**-1.0**	**5.5**	**-1.1**	**-4.4**	**-0.6**
2019						
Equity instruments at fair value through other comprehensive income	**-0.1**	–	–	–	–	-0.1
Debt instruments at fair value through profit and loss	**-0.1**	–	–	-0.9	–	0.8
Financial assets at amortised cost	**-1.2**	-1.9	4.1	1.9	-5.3	–
Gross amounts due from customers for contract work at amortised cost	**-1.2**	–	–	–	-1.2	–
Financial liabilities at amortised cost	**-5.3**	-0.7	–	-4.6	–	–
	-7.9	**-2.6**	**4.1**	**-3.6**	**-6.5**	**0.7**

The credit risk for trade receivables and contract assets is managed by recognising loss allowances in the amount of the expected credit losses over the term. In addition, there are secured assets of €12m (previous year: €12.3m) that are not exposed to any credit risk.

Carrying amount

in €m	Creditworthiness not impaired	Creditworthiness impaired	31.12.2018	Creditworthiness not impaired	Creditworthiness impaired	31.12.2019
Carrying amount						
not overdue	229.1	0.7	229.8	218.8	0.7	219.5
Overdue by 1-30 days	12.0	–	12.0	23.3	–	23.3
Overdue by 31-90 days	8.9	1.0	9.9	11.5	0.2	11.7
Overdue by more than 90 days	20.7	0.9	21.6	13.9	0.7	14.6
Group	**270.7**	**2.6**	**273.3**	**267.5**	**1.6**	**269.1**

The following table presents the impairments of trade receivables and contract assets. Impairments of €2.5m (previous year: €7.5m) have also been recognised on other financial assets.

Impairments

in Mio. €	Creditworthiness not impaired	Creditworthiness impaired	31.12.2018	Creditworthiness not impaired	Creditworthiness impaired	31.12.2019
1. January	**3.1**	**22.4**	**25.5**	**3.2**	**15.9**	**19.1**
Utilised	–	-1.1	-1.1	-0.1	-2.6	-2.7
Reversed	–	-7.8	-7.8	–	-1.9	-1.9
Added	0.1	2.4	2.5	–	1.7	1.7
31. December	**3.2**	**15.9**	**19.1**	**3.1**	**13.1**	**16.2**

Foreign currency risks were assessed using a sensitivity analysis based on the premise that key currencies for the Group fluctuate in value by +/– 5% relative to the Euro. On the balance sheet date the Group was exposed to a foreign currency risk amounting to €59.7m (previous year: €48.9m), primarily relating to the "at amortised cost" category (previous year: "at amortised cost"). The effects of changes in currency exchange rates on equity and the net profit/loss are shown in the following table.

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.

	Equity		Net profit/loss	
in €m	31.12.2018	**31.12.2019**	31.12.2018	**31.12.2019**
Devaluation USD by 5%	1.4	1.3	-0.4	0.5
Revaluation USD by 5%	-2.0	-1.6	-0.1	-0.6
Devaluation CHF by 5%	-0.6	-0.6	-0.1	-0.6
Revaluation CHF by 5%	0.7	0.7	0.1	0.7

(13) Leases

Lease agreements with Koenig & Bauer as lessee relate mainly to the rental of land, business premises and warehouses along with the lease of production facilities and vehicles.

The term of the rental agreements for real estate is 5 to 10 years, usually with the option of extending the agreement at the end of the term. The rental instalments are either regularly adjusted on the basis of price indices or renegotiated in the event of a contract extension. Lease agreements for vehicles are generally concluded for a term of 3 years; these leases were previously accounted for as operating leases in accordance with IAS 17.

Right-of-use assets in connection with lease agreements are reported in intangible assets and property, plant and equipment under Note (F) as follows.

in €m	**Carrying amount 01.01.2019**	Additions	Annual depreciation	Other	**Carrying amount 31.12.2019**
Intangible Assets					
Industrial property rights and similar rights	0.7	–	0.2	–	0.5
	0.7	**–**	**0.2**	**–**	**0.5**
Property, plant and equipment					
Land and buildings	7.2	13.8	2.4	–	18.6
Plant and machinery	0.8	–	0.5	–	0.3
Other facilities, factory and office equipment	5.8	2.8	3.0	–0.1	5.5
	13.8	**16.6**	**5.9**	**–0.1**	**24.4**
	14.5	**16.6**	**6.1**	**–0.1**	**24.9**

Additions to land and buildings include an €11.1m right-of-use asset in a sale and leaseback transaction in Switzerland with a lease term of 10 years and two extension options for 5 years each with identical terms, which can only be exercised by Koenig & Bauer. The Group does not currently expect to exercise the extension options. Koenig & Bauer estimates that the exercise of all uncertain extension options would result in an additional lease liability of €27.8m for the Group.

The amounts recognised in the income statement for leases are summarised in the following table.

in €m	
2018 (in accordance with IAS 17)	
Lease expenses	4.3
Depreciation and amortization	3.0
Interest expenses	0.2
2019 (in accordance with IFRS 16)	
Depreciation and amortization	6.1
Interest expenses	0.3
Short-term leases	1.1
Leases for low-value assets	0.2

(14) Other financial commitments and contingent liabilities

Other financial commitments

		Term to maturity		
in €m	**Other financial commitments**	up to 1 year	1 to 5 years	more than 5 years
31.12.2018				
Commitments from:				
operating leases (in accordance with IAS 17)	**6.5**	3.4	3.1	–
rental (in accordance with IAS 17) and service contracts	**30.4**	12.2	18.0	0.2
investment plans	**2.2**	2.2	–	–
sundry other activities	**6.8**	4.4	2.2	0.2
	45.9	**22.2**	**23.3**	**0.4**
31.12.2019				
Commitments from:				
leases (in accordance with IFRS 16)	**1.5**	0.6	0.9	–
service contracts	**18.9**	8.5	10.3	0.1
investment plans	**1.3**	1.3	–	–
sundry other activities	**1.4**	1.0	0.3	0.1
	23.1	**11.4**	**11.5**	**0.2**

Other financial commitments from leases primarily encompassed leases for low-value assets mainly related to IT equipment. In the previous year, there were operating lease obligations in the IT area and for the vehicle fleet, with extension options at prevailing market conditions. Commitments from leases were stated at the minimum lease payments.

Investment plans included commitments to invest in property, plant and equipment to the value of €1.1m (previous year: €1.6m).

Contingent liabilities

These comprised contingencies totalling €13.7m (previous year: €21.8m) 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 €2m (previous year: €3.1m) were created for existing risks that were not classified as minor.

(H) Explanatory notes to the income statement

(15) Revenue

The Group primarily generated revenue from contracts with customers. Revenue from the sale of presses came to €861.8m (€882.3m) and revenue from other deliveries and services €356.7m (€343.7m). The breakdown by product group is shown in Note (J).

In the year under review, revenue from customer-specific production of €293.3m (€ 256.5m) was recognised; cumulative revenue from orders not yet completed as of the balance sheet date amount to €558.8m (€382.2m).

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

(16) Expenses by function

Cost of sales

The **cost of sales** included product developments of €0.3m (previous year: €0.2m).

Manufacturing costs for construction contract projects still in progress on the balance sheet date amounted to €382.6m (€259.6m).

Research and development costs

At €37.5m, **research and development costs** were below the previous year's figure of €44.3m. This figure includes research grants of €0.4m.

Distribution costs and administrative expenses

Distribution costs increased from €138.8m to €151.3m. At €103.4m, **administrative expenses,** were above the previous year`s figure of €94.2m. This includes an advance of €0.2m (previous year: €0.2m) by the government of Lower Franconia for the vocational training school in Würzburg.

(17) Expenses by nature

Material costs

in €m	2018	2019
Cost of raw materials, consumables, supplies and purchased goods	445.7	465.4
Cost of purchased services	104.4	119.7
	550.1	**585.1**

Personnel costs (in accordance with the overhead cost method)

in €m	2018	2019
Wages and salaries	350.7	369.1
Social security and other benefits	63.5	67.9
Pensions	6.5	5.8
	420.7	**442.8**
Average payroll		
Wage-earning industrial staff	2,661	2,708
Salaried office staff	2,686	2,750
Apprentices/students	297	305
	5,644	**5,763**

(18) Other income and expenses

in €m	2018	2019
Gains from the disposal of intangible, property, plant and equipment assets	6.7	18.9
Foreign currency gains	3.3	4.4
Currency measurement	7.4	–
Sundry other operating income	12.1	24.4
Other operating income	**29.5**	**47.7**
Losses from the disposal of intangible assets, property, plant and equipment	-1.3	-0.3
Foreign currency losses	-9.2	-3.9
Currency measurement	-5.1	-5.3
Sundry other operating expenses	-10.6	-11.5
Other operating expenses	**-26.2**	**-21.0**
Impairment gains and losses on financial assets	**6.4**	**7.9**
Other income and expenses	**9.7**	**34.6**

Gains from the disposal of intangible assets, property, plant and equipment included €18.4m from a real-estate sale and lease back transaction in Switzerland. **Sundry other operating income** included an amount of €17.6m (previous year: €3.9m) from the reversal of provisions. It also comprised insurance and compensation claims and other refunds.

Sundry other operating expenses included customer credit notes, warranty claims and contributions to provisions for legal and sales risks.

Impairment gains and losses on financial assets primarily related to trade receivables and contract assets.

(19) Financial result

in €m	2018	2019
Other financial results		
Income from interests in affiliates	0.1	0.1
Expenses from interests in associates	–	-0.2
Income from other investments	–	0.1
Expenses from securities	-0.7	0.7
	-0.6	**0.7**
Interest income/expense		
Other interest and similar income	1.4	1.1
of which affiliates	(0.1)	(0.1)
Other interest and similar expenses	-4.9	-7.3
from pension obligations	(-2.3)	(-2.4)
	-3.5	**-6.2**
Financial result	**-4.1**	**-5.5**

(20) Income taxes

in €m	2018	2019
Actual tax expense	-5.2	-13.5
Deferred taxes from loss carryforwards	-4.4	16.8
Deferred tax income from temporary differences	-10.5	-14.6
Prior-period income taxes	-0.5	-0.1
Deferred taxes from variances in tax rates	0.7	–
	-19.9	**-11.4**

in €m	2018	2019
Earnings before taxes	**83.9**	**49.8**
Group tax rate	30%	30%
Expected taxes	**-25.2**	**-14.9**
Tax effects from		
variances due to different tax rates	0.9	-1.4
tax-free earnings	0.5	0.1
impairment gains	3.0	5.8
decreases and increases	0.9	-0.4
Other	–	-0.6
Income tax	**-19.9**	**-11.4**

The approach of previously unrecognised tax losses and temporary differences relating to subsidiaries led to deferred tax income of €0.7m (previous year: €0.4m). Their use reduced the actual tax expense by €0.6m (previous year: €6.4m).

The payment of dividends to the shareholders of the parent company did not have any income tax consequences.

(21) Earnings per share

	2018	2019
Net profit attributable to owners of the Parent in €m	63.8	38.1
Weighted average of ordinary shares issued	16,524,783	16,524,783
Earnings per share in €	**3.86**	**2.31**

(I) 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 €191m (previous year: €142m) included cash and cash equivalents.

(J) Segment information

Business segments

In accordance with IFRS 8 segment information for the Group distinguishes between the business segments Sheetfed, Digital & Web and Special.

The **Sheetfed segment** includes sheetfed offset presses for packaging and commercial printing as well as workflow and logistics solutions. The portfolio also includes peripheral equipment for finishing and processing printed products such as rotary/flatbed die cutters and folding-box gluing lines.

Digital and offset web-fed presses for decor, flexible packaging, newspaper and commercial printing are assigned to the **Digital & Web segment**. It also includes flexo presses for flexible packaging as well as presses for flexo and digital printing of corrugated board.

The **Special segment** is made up of special presses for banknote and security printing and systems for industrial marking and coding as well as special systems for direct metal decorating and glass and hollow container printing.

Services are assigned to the respective segment.

Segment information was based on the same accounting and consolidation procedures as the consolidated financial statements. Internal Group transactions contained in the segment result (earnings before interest and taxes (EBIT)) were classed as arm's length transactions.

Intersegment sales and other reconciliation effects between the business segments are contained in the reconciliation.

Beginning in financial year 2019, the domestic and international sales companies previously allocated to the Sheetfed segment were divided among the various segments according to their activities. The previous year has been adjusted accordingly.

	Segments						Reconciliation		Group	
	Sheetfed		Digital & Web		Special					
in €m	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**
Revenue by product group										
Presses	473.9	484.4	62.4	83.6	364.3	322.2	-18.3	-28.4	882.3	861.8
Replacement parts	64.0	69.1	33.9	34.3	50.1	59.2	-6.1	-3.0	141.9	159.6
Service	66.9	75.0	53.1	42.7	63.5	67.7	-7.3	-1.3	176.2	184.1
Other	11.1	3.3	3.9	4.0	13.6	14.8	-3.0	-9.1	25.6	13.0
Revenue	**615.9**	**631.8**	**153.3**	**164.6**	**491.5**	**463.9**	**-34.7**	**-41.8**	**1,226.0**	**1,218.5**
EBIT	35.4	19.4	-10.2	-16.5	48.2	43.9	14.0	9.2	87.4	56.0
Depreciation	12.7	14.8	2.1	1.6	7.0	8.9	7.1	8.3	28.9	33.6
Major non-cash expenses	28.4	24.9	5.3	5.2	21.8	27.0	7.3	5.9	62.8	63.0
Capital investments	16.9	36.1	9.4	7.8	6.8	31.0	17.4	30.0	50.5	104.9

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.

	Revenue		Capital Investments		Non-current assets	
in €m	2018	**2019**	2018	**2019**	2018	**2019**
Germany	170.6	187.8	45.2	74.8	233.9	290.1
Rest of Europe	414.6	404.5	5.1	27.4	56.2	65.1
North America	181.2	153.9	0.1	1.9	0.4	2.0
China	101.0	125.2	0.1	0.4	0.3	0.9
Rest of Asia/Pacific	209.1	193.2	–	0.3	3.5	3.6
Africa/Latin America	149.5	153.9	–	0.1	–	0.2
Reconciliation	–	–	–	–	105.5	128.9
Group	**1,226.0**	**1,218.5**	**50.5**	**104.9**	**399.8**	**490.8**

(K) Notes to section 285 no. 17 HGB

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft has served as auditor for Koenig & Bauer AG since financial year 2010. Dirk Janz and Dr Joachim Schroff have signed as auditors since financial year 2017 and Dr Joachim Schroff as the auditor responsible for the audit of the financial statements since financial year 2019.

The remuneration paid to KPMG Bayerische Treuhand-gesellschaft Aktiengesellschaft in 2019 came to €817 thousand for auditing services, €42 thousand for other attestation services, €75 thousand for tax consulting and €100 thousand for other services.

The auditing fees for KPMG Bayerische Treuhand-gesellschaft AG were primarily for the audit of the consolidated financial statements and the annual financial statements for Koenig & Bauer AG as well as the audit of the annual financial statements of its subsidiaries.

The other attestation services relate to a separate assurance engagement of the non-financial group report and audits under the Renewable Energy Law. Tax consulting services primarily comprise support with transfer pricing matters. Other services mostly involve other matters.

(L) Exemptions in accordance with sections 264b and 264 (3) HGB

The following consolidated subsidiaries applied the simplification options contained in section 264b respectively 264 (3) of the German Commercial Code (HGB) in 2019.

Company/location
Koenig & Bauer Industrial AG & Co. KG, Würzburg, Germany
Koenig & Bauer Sheetfed AG & Co. KG, Radebeul, Germany
Koenig & Bauer Digital & Webfed AG & Co. KG, Würzburg, Germany
KBA-NotaSys AG & Co. KG, Würzburg, Germany
Koenig & Bauer Gießerei GmbH, Würzburg, Germany
Koenig & Bauer (DE) GmbH, Radebeul, Germany
Koenig & Bauer Coding GmbH, Veitshöchheim, Germany
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany

(M) Related party disclosures

Related parties as defined by IAS 24 are all consolidated subsidiaries, non-consolidated affiliates, associates, interests (see Note (G) (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 (G) (2) and (G) (10).

in €m	2018	**2019**
Other current financial receivables at 31.12.	3.2	6.0
Trade receivables at 31.12.	13.2	11.6
Trade payables at 31.12.	2.4	4.1
Revenue	26.7	32.8

Some members of the Supervisory Board also hold positions on the supervisory boards of other companies with which Koenig & Bauer has business relations. Transactions by the Koenig & Bauer Group with these companies are conducted on arm's length terms. They do not affect the independence of the members of the Supervisory Board concerned.

One member of the Supervisory Board acted as an advisor to the Group in the course of the year and received €0.2m for these services.

Short-term management board remuneration totalled €4.6m (previous year: €4.6m), with the fixed portion representing €2.5m (€2.4m). The variable portion was based on net profit. Pension provisions were increased by €0.7m (previous year: €1.3m) for the current service cost.

Provisions of €1.5m (€1.6m) were recognised for remuneration for former members and their survivors. Supervisory board remuneration totalled €0.6m (€0.4m), of which €0.6m (€0.4m) was fixed.

In accordance with the guidelines stated in IAS 19 (revised) €40.2m (previous year: €37.7m) 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 can be found in the management report on page 63 onwards. The management board's total remuneration in accordance with German commercial law corresponds to the short-term benefits mentioned.

At 31 December 2019 members of the management board held 5.08% and members of the supervisory board 0.01% of Koenig & Bauer's share capital, giving a total of 5.09%.

Supervisory Board

Professor Raimund Klinkner
Chairman (since 22 May 2019)
Managing Partner
Institute for Management Excellence GmbH
Gräfelfing, Germany

Dr. Martin Hoyos (until 22 May 2019)
Chairman
Independent corporate consultant
Schwertberg, Austria

Gottfried Weippert[1]
Deputy Chairman
Technician
Eibelstadt, Germany

Dagmar Rehm
Deputy Chairman
CFO juwi AG, Wörrstadt
Langen, Germany

Julia Cuntz[1]
Trade union secretary of IG Metall
Berlin, Germany

Carsten Dentler
Managing Director Palladio Infrastruktur GmbH
Bad Homburg v. d. Höhe, Germany

Marc Dotterweich[1]
Cutting machine operator
Birkenfeld, Germany

Matthias Hatschek
Entrepreneur
St. Martin, Austria

Christopher Kessler[1]
General Counsel Koenig & Bauer AG
Würzburg, Germany

Professor Gisela Lanza
University Professor
Karlsruher Institute of Technology
Karlsruhe, Germany

Dr Johannes Liechtenstein (since 22 May 2019)
CFO Constantia Industries AG
Vienna, Austria

Walther Mann[1]
Consultant
Würzburg, Germany

Simone Walter[1,2]
Head of product development
Koenig & Bauer Coding GmbH
Arnstein, Germany

[1] workforce representative
[2] appointed by the register court

Committees

Mediation committee as per section 27(3)
Professor Raimund Klinkner (chairman)
Matthias Hatschek
Christopher Kessler
Gottfried Weippert

Personnel Committee
Professor Raimund Klinkner (chairman)
Dagmar Rehm
Gottfried Weippert

Financial Audit Committee
Dagmar Rehm (chairman)
Marc Dotterweich
Dr Johannes Liechtenstein
Gottfried Weippert

Strategy Committee
Professor Gisela Lanza (chairman)
Carsten Dentler
Matthias Hatschek
Christopher Kessler
Professor Raimund Klinkner
Walther Mann
Gottfried Weippert

Nomination Committee
Professor Raimund Klinkner (chairman)
Matthias Hatschek
Dagmar Rehm

Committee appointments to 31 December 2019

Management Board

Claus Bolza-Schünemann
President and CEO
Würzburg, Germany

Dr Mathias Dähn
CFO
Krailling, Germany

Christoph Müller
Executive vice-president Digital & Web segment
Würzburg, Germany

Dr Andreas Pleßke
Executive vice-president Special segment
Herrsching am Ammersee, Germany

Ralf Sammeck
Executive vice-president Sheetfed segment
Radebeul, Germany

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

	Member of the supervisory board at:
Professor Raimund Klinkner, Chairman	Terex Corporation, Westport, CT, USA ebm-papst Mulfingen GmbH & Co. KG, Mulfingen, Germany REHAU Verwaltungszentrale AG, Muri near Bern, Switzerland
Dagmar Rehm, Deputy chairman	O'Donovan Consulting AG, Bad Homburg, Germany
Julia Cuntz	KME Germany Beteiligungs GmbH, Osnabrück, Germany
Carsten Dentler	Scope SE & Co. KGaA, Berlin, Germany Scope Management SE, Berlin, Germany
Christopher Kessler	PrintHouseService GmbH, Würzburg, Germany
Professor Gisela Lanza	Mahle GmbH, Stuttgart, Germany ZF Friedrichshafen AG, Friedrichshafen, Germany Hager SE, Blieskastel, Germany
Dr Johannes Liechtenstein	FunderMax Holding AG, Wiener Neudorf, Austria FunderMax GmbH AG, Sankt Veit an der Glan, Austria Isovolta AG, Wiener Neudorf, Austria Argentiera SRL, Donoratico, Italy
Walther Mann	Procter & Gamble Germany GmbH & Co. Operations oHG, Schwalbach am Taunus, Germany

Other information

A declaration of compliance was issued in accordance with section 161 of German Stock Corporation Act and made permanently accessible under http://www.koenig-bauer.com/en/investor-relations/corporate-governance/declaration-of-compliance/

(N) Profit allocation proposal

The annual financial statements of Koenig & Bauer AG have been prepared in accordance with German accounting rules.

In view of the significantly increased uncertainties caused by the corona crisis, the Management Board will propose – with the Supervisory Board's approval – to the annual general meeting to suspend the dividend payment for the financial year 2019 and to carry forward the retained profit of €8,262,391.50 to new account.

(O) Events after the reporting date

Even before the outbreak of the coronavirus, global economic conditions were demanding. Given the daily worsening global economic situation due to the coronavirus, the impact on our Company and the achievement of our planning are currently completely open. For 2020, we are planning to achieve a largely stable Group revenue compared to the previous year and the prior year's EBIT level without the around €10m in special expenses from the efficiency programme. Dealing with the possible consequences of the corona crisis is currently a top priority.

Würzburg, 18 March 2020
Management Board

Claus Bolza-Schünemann
Chairman

Dr Mathias Dähn

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Independent auditor's report

To Koenig & Bauer AG, Würzburg

Report on the audit of the consolidated financial statements and of the Group management report

Opinions

We have audited the consolidated financial statements of Koenig & Bauer AG, Würzburg, and its subsidiaries (the Group), which comprise the group balance sheet as at 31 December 2019, and the consolidated income statement, the statement of comprehensive group income, statement of changes in group equity and the group cash flow statement for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report ("group management report") of Koenig & Bauer AG, Würzburg, for the financial year from 1 January to 31 December 2019.

In accordance with German legal requirements, we have not audited the content of those components of the group management report specified in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Accrual accounting for revenue recognition at a point in time

Please refer to the Section (C) of the notes to the consolidated financial statements for information on the accounting policies applied. Revenues are described in Section (H) (15).

The financial statement risk

The Group's revenues in the 2019 financial year amounted to €1,218,529 thousand. Most of the revenues are generated from the sale of machines.

Koenig & Bauer AG records revenues for certain transactions if it fulfils a performance obligation by transferring a promised asset to a customer. An asset is deemed to be transferred if the customer gains control over this asset.

For machine sales with point-in-time revenue recognition based on the presence of certain indicators, Koenig & Bauer AG has determined that the performance obligation will be fulfilled at the time the machine is transferred to the customer.

Due to the use of various contractual agreements in the different markets and the discretion in determining and evaluating the indicators for assessing the point-in-time revenue recognition, there is a risk of the conclusion that the revenue is incorrectly accrued as of the reporting date.

Our audit approach

We have assessed managements´ interpretation and weighting of the indicators used to assess the point in time when the transfer of control was made based on the Group Accounting Manual.

For revenue cut-off testing, we assessed the design, implementation and effectiveness of the internal controls with regard to order acceptance, goods issue and billing, and in particular the determination and verification of the correct or actual transfer of control.

In addition, we assessed the periodic revenue recognition by comparing the invoices with the associated orders, contracts, external proof of delivery and acceptance reports. The basis for this was initially the amount of sales deliberately selected and for the remaining population selected revenues based on a mathematical-statistical method, which were recorded in a certain period before and after the balance sheet date.

In addition, balance confirmations were obtained for trade receivables that had not yet been settled on the balance sheet date and were selected on the basis of a mathematical-statistical sample. In the absence of feedback on the balance confirmation procedures, alternative audit procedures were carried out by agreeing the sales revenue with the underlying orders, contracts, invoices, proof of delivery and acceptance reports or hourly records as well as the payments received. We checked the credit notes issued after the cut-off date in order to ensure that they were allocated to the sales revenue on an accrual basis.

Our observations

Koenig & Bauer AG's approach to accrual accounting for revenue recognition at a point in time is appropriate.

Recognising deferred tax assets

Please refer to the Section (C) of the notes to the consolidated financial statements for information on the accounting policies applied. Deferred taxes are explained in Section (G) (6). Explanatory notes on income taxes can be found in Section (H) (20) of the notes to the consolidated financial statements.

The financial statement risk

€106.4m in deferred tax assets was recognised as at 31 December 2019, of which €55.9m is attributable to deferred tax assets on tax loss carryforwards.

For the recognition of deferred tax assets, Koenig & Bauer AG assesses to what extent it is probable that current deferred tax assets can be utilised in subsequent reporting periods. Utilising these deferred tax assets requires that sufficient taxable income is generated in future periods. If there is reasonable doubt about the future usability of the deferred tax assets determined, these are not recognised.

The recognition of deferred tax assets depends heavily on estimates and assumptions about the operating performance of local entities and the Group's tax planning and, thus, is subject to significant uncertainty. Moreover, utilising deferred tax assets also depends on the respective tax environment.

Koenig & Bauer AG capitalised €55.9m in deferred tax assets on loss carryforwards in financial year 2019. The Company partially refrained from recognising deferred tax assets for loss carryforwards before 2016 due to insufficient taxable temporary differences and the loss history of the affected group companies. The affected group companies earned taxable profits in the prior financial years and a taxable loss in financial year 2019. According to Koenig & Bauer AG's estimate, the earnings position of the affected companies has improved sustainably so that it is possible to capitalise deferred tax assets on loss carryforwards not yet recognised.

There is the financial statement risk that the assumptions on the future earnings position are not accurate and, thus, the amount of deferred tax assets recognised for unused tax loss carryforwards is inappropriate.

Our audit approach

We involved our tax specialists in the audit to assess the tax matters. We initially critically examined the temporary differences between the IFRS carrying amounts and the respective tax base. Furthermore, we reconciled the loss carryforwards to the tax assessments and the tax calculations for the current financial year, and also assessed off-balance sheet adjustments.

We tested the deferred tax assets for impairment on the basis of internal forecasts prepared by the Company on the future tax income situation, and critically reviewed the underlying assumptions. In this regard, we especially compared the projected future taxable income to the planning prepared by management and adopted by the Supervisory Board and checked this information for consistency. We assessed the appropriateness of the planning using market data and analysts' expectations.

We obtained explanations from the Head of Tax regarding Koenig & Bauer AG's assessment on the sustainable improvement of the earnings position of the group companies with loss carryforwards.

Our observations

Overall, the assumptions underlying the recognition of deferred tax assets for unused tax loss carryforwards are reasonable.

Other information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following components of the group management report, whose content was not audited:

- the corporate governance statement of the company and the group, referred to in the group management report.

The other information also include:

- the separate non-financial group report, together published with the group management report, and

- the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

In accordance with our engagement, we conducted a separate assurance engagement of the separate non-financial group report. Please refer to our assurance report dated 18 March 2020, for information on the nature, scope and findings of this assurance engagement.

Responsibilities of Management and the Supervisory Board for the consolidated financial statements and the Group management report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on 22 May 2019. We were engaged by the Supervisory Board on 1 October 2019. We have been the group auditor of Koenig & Bauer AG without interruption since financial year 2010.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dr Joachim Schroff.

Nuremberg, 18 March 2020

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
[Original German version signed by:]

Janz	Dr Schroff
[German Public Auditor]	[German Public Auditor]

Limited assurance report of the independent auditor regarding the separate non-financial Group report[1]

To the Supervisory Board of Koenig & Bauer AG, Würzburg

We have performed an independent limited assurance engagement on the separate non-financial group report as well as the by reference qualified part of the combined management report "corporate structures and business activity" (further "non-financial group report"), of Koenig & Bauer AG, Würzburg, (further "Koenig & Bauer") according to §§ 315b, 315c in conjunction with 289c to 289e German Commercial Code (HGB) for the period from January 1 to December 31, 2019.

Management's responsibility

The legal representatives of Koenig & Bauer AG are responsible for the preparation of the non-financial group report in accordance with §§ 315b, 315c in conjunction with 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the non-financial group report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the non-financial group report in a way that is free of – intended or unintended – material misstatements.

Independence and quality assurance on the part of the auditing firm

We are independent from the company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's responsibility

Our responsibility is to express a conclusion based on our work performed of the non-financial group report within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the non-financial group report for the period January 1 to December 31, 2019 has not been prepared, in all material respects in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

[1] Our engagement applied to the German version of the separate non-financial group report. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel at group level who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for Koenig & Bauer
- A risk analysis, including a media research, to identify relevant information on Koenig & Bauer's sustainability performance in the reporting period
- Evaluation of the design and implementation of the systems and processes for the collection, processing and control of disclosure on environmental, employee and social matters, respect for human rights as well as combatting corruption and bribery matters, and further matters including the collection and consolidation of quantitative data
- Inquiries of personnel who are responsible for determining disclosures on concepts, due diligence processes, results and risks, the conduction of internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documents
- Analytical evaluation of data and trends of quantitative disclosures which are reported by all sites on group level
- Assessment of local data collection and reporting processes and reliability of reported data via a sampling survey at the sites in Würzburg and Radebeul (Germany)
- Assessment of the overall presentation of the disclosures

Conclusion

Based on the procedures performed and the evidence received to obtain assurance, nothing has come to our attention that causes us to believe that the non-financial group report of Koenig & Bauer for the period from January 1 to December 31, 2019 is not prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

Restriction of use/Clause on general engagement terms

This report is issued for purposes of the Supervisory Board of Koenig & Bauer AG, Würzburg, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Koenig & Bauer AG, Würzburg, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Frankfurt am Main, 18 March 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Glöckner	Brokof
Wirtschaftsprüfer	Wirtschaftsprüferin
[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 combined management report includes a fair view 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, 18 March 2020
Management Board

Claus Bolza-Schünemann
Chairman

Dr Mathias Dähn

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Balance sheet for Koenig & Bauer AG to 31 December 2019

Under the German Commercial Code (HGB)

in €m	31.12.2018	31.12.2019
Assets		
Non-current assets		
Intangible assets	21.8	31.2
Property, plant and equipment	77.5	89.3
Financial assets	192.8	191.9
	292.1	**312.4**
Current assets		
Other receivables and assets	176.3	214.0
Cash and cash equivalents	42.3	60.3
	218.6	**274.3**
Deferred income	**2.4**	**2.5**
Positive difference from asset allocation	**2.5**	**0.2**
	515.6	**589.4**
Equity and liabilities		
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	113.9	113.9
Retained earnings	16.5	8.3
	260.9	**252.7**
Special items with equity portion	**1.8**	**1.5**
Provisions		
Pension and similar provisions	77.5	78.5
Tax provisions	10.0	–
Other provisions	25.0	23.1
	112.5	**101.6**
Liabilities		
Bank loans	65.0	180.0
Trade payables	5.9	3.5
Other liabilities	69.5	50.1
	140.4	**233.6**
	515.6	**589.4**

Income statement for Koenig & Bauer AG 2019

Under the German Commercial Code (HGB)

in €m	2018	**2019**
Revenue	86.8	86.7
Cost of sales	-59.4	-63.7
Gross profit	**27.4**	**23.0**
Administrative expenses	-35.5	-26.8
Other operating income	12.5	6.0
Other operating expenses	-14.0	-12.0
Profit from operations	**-9.6**	**-9.8**
Financial result	29.4	18.9
Income taxes	-3.0	-0.5
Earnings after taxes	**16.8**	**8.6**
Other taxes	-0.3	-0.3
Net profit	**16.5**	**8.3**
Profit carried forward	14.9	16.5
Distribution of profit	-14.9	-16.5
Retained earnings	**16.5**	**8.3**

Key financial dates

Interim report on 1st quarter 2020

7 May 2020

Koenig & Bauer Annual General Meeting

19 May 2020
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2020

29 July 2020

Interim report on 3rd quarter 2020

11 November 2020

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5-year overview

in €m	2015	2016	2017	2018	**2019**
Order intake	1,182.7	1,149.7	1,266.3	1,222.0	**1,141.3**
Order backlog at 31.12.	574.9	557.5	606.2	610.9	**533.7**
Revenue	1,025.1	1,167.1	1,217.6	1,226.0	**1,218.5**
Earnings before interest and taxes (EBIT)	35.9	87.1	81.4	87.4	**56.0**
EBIT margin in %	3.5	7.5	6.7	7.1	**4.6**
Earnings before taxes (EBT)	29.7	81.0	78.5	83.9	**49.8**
EBT margin in %	2.9	6.9	6.4	6.8	**4.1**
Net profit	26.9	82.2	81.1	64.0	**38.4**
Balance sheet total	976.9	1,085.5	1,163.9	1,178.3	**1,343.1**
Intangible assets, property, plant and equipment	224.2	239.5	256.3	293.0	**361.0**
Equity	258.4	337.8	424.0	453.4	**460.4**
Equity ratio in %	26.5	31.1	36.4	38.5	**34.3**
Cash flows from operating activities	-15.3	21.9	23.8	66.3	**-7.9**
Investment in intangible assets, property, plant and equipment	28.4	31.9	50.1	50.5	**104.9**
Depreciation on intangible assets, property, plant and equipment	29.1	27.7	31.0	28.9	**33.6**
Payroll: annual average	5,286	5,287	5,450	5,644	**5,763**
Earnings per share in €	1.62	4.98	4.91	3.86	**2.31**
Dividend per share in €	–	0.50	0.90	1.00	**–**

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