Consolidated Financial Statements 2009

KBA
Koenig & Bauer Group

At a Glance

KBA Group in Figures

€m	2005	2006	2007	2008	**2009**
Order intake	1,768.9	1,649.7	1,546.9	1,241.5	883.9
Sales	1,621.0	1,741.9	1,703.7	1,531.9	1,050.4
Order backlog at 31.12.	1,040.9	948.7	791.9	501.5	335.0
Operating profit/loss	33.3	46.2	65.7	–79.9*	8.7
Earnings before taxes	25.8	47.4	63.2	–87.1	2.7
Net profit/loss	18.5	34.3	49.0	–101.0	6.6
Balance sheet total	1,395.1	1,394.2	1,366.6	1,181.4	1,060.4
Intangible assets, property, plant and equipment	270.3	293.1	290.3	254.5	259.8
Equity (excluding dividend payment)	441.5	468.1	505.3	411.1	419.8
Investment in intangible assets, property, plant and equipment	39.5	54.3	50.7	52.4	30.2
Depreciation on intangible assets, property, plant and equipment	40.5	41.9	50.2	88.6	30.3
Payroll: annual average	7,882	8,269	8,250	8,052	7,327
Cash flows from operating activities	174.6	90.0	21.3	34.6	29.6
Dividend per share in €	0.40	0.50	0.60	–	–

* including €93.3m restructuring charge

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Major Events in 2009

January: The Main-Post media group in Würzburg continues its equipment upgrade with a further 32-page version of our highly advanced, ultra-compact Commander CT.

February: Two Rapida 106 eight-colour perfector presses with DriveTronic SPC dedicated drives for the plate cylinders come on stream at Indonesian market leader PT Gramedia Printing Group in Jakarta, raising the profile of our medium-format makeready world champion in the high-growth Asia-Pacific region.

March: Bucking a crisis in the North American newspaper market, Canadian printing and media major Transcontinental orders four compact triple-width Commander CT presses with thermal dryers for production plants in Calgary, Toronto and Vancouver.

April: A special 605 x 750mm (23.81 x 29.53in) version of the Rapida 75 launched at Drupa makes its successful debut at Imprimerie Vincent Printing in Quebec, Canada. Printers in the USA, Europe, the Middle East and China also opt for this new B2 press with reduced energy consumption and compact footprint.

May: Even in the midst of a global recession China continues to function as an engine for growth, and demand is brisk at the China Print trade fair in Beijing. The 20 presses ordered range from our half-size Rapida 75 and medium-format Rapida 105 and 106 to our large-format Rapida 142 and Rapida 162a.

June: The Al Bayan trade and media group in Riyadh, Saudi-Arabia, signs up for the world's biggest sheetfed offset press to date – an 8B (73in) Rapida 185 with seven inking units, two coaters and three dryers. Shipment is scheduled for March 2010 following an open house.

From left to right:
In autumn 2009 a multi-unit 6/2 Commander CT rolled into action at the *Daily News* in New York
A new flying job change capability for our Rapida 106 is a world first in sheetfed offset
Open house celebrating the first KBA commercial web press at Brazilian market leader Editora Abril in São Paulo

July: Our new Flying JobChange module, which makes litho competitive with digital print for ultra-short runs by virtually eliminating changeover times, celebrates its world debut on a Rapida 106 at AZ Druck und Datentechnik in Kempten, Germany.

August: The global economic crisis leaves its mark on the printing press sector. KBA's half-yearly report reveals a 31% plunge in orders and sales compared to 2008, and a pre-tax loss of €47.4m. However, the cost savings delivered by a radical realignment of Group activities are already working their way through to the bottom line.

September: A 7B (64in) Rapida 162a eight-colour press demonstrates 4/4 perfecting at an open house in Radebeul, underscoring KBA's historic edge as the only vendor of large-format perfectors.

October: The biggest of seven 4/1 Prisma press lines ordered by Diligent Media Corporation and DB Corporation, two enterprises owned by Indian media major Dainik Bhaskar Group, goes live in Ahmedabad. This and further Prisma presses in Bangalore and Jaipur print a Hindi newspaper, *Dainik Bhaskar*, an English-language daily, *DNA*, and many other titles.

November: KBA returns to profit in the third quarter, just twelve months after the financial crisis came to a head. A big triple-wide Commander CT press line launches into operation at the *Daily News* in New York.

December: The 1,000th large-format Rapida press to leave the production line is officially inaugurated at the Wustermark production plant of longstanding KBA customer Druckhaus Berlin-Mitte. At the end of a traumatic year for the world economy KBA is the only major press manufacturer to post a modest pre-tax profit, largely thanks to rigorous restructuring.

From left to right:
The 1,000th large-format Rapida to leave the production line was officially inaugurated in December 2009 at Druckhaus Berlin-Mitte
The biggest of seven Prisma presses for an English-language title, *DNA*, was brought on line in Ahmedabad, northern India
The B2 (29in) Rapida 75 launched by KBA-Grafitec at Drupa 2008 found many satisfied customers

Foreword

Eighteen months after the financial crisis came to a head in September 2008, impelling structural changes in the print media arena, the global repercussions are still impacting on order books and balance sheets in the export-driven press engineering industry. The dependence of newspapers, magazines and other print media on an ebbing stream of advertising revenue, young people's preference for a global information platform in the form of the internet, and the surfeit of print and digital data to which modern-day society is exposed pose additional challenges for many of our customers and thus for us as their suppliers. Reports of a precipitous decline in orders and sales, heavy losses, short-time work, potential mergers and job cuts dominated the headlines in 2009, defining the media image of an industry that had previously enjoyed decades of outstanding success in the international arena.

Koenig & Bauer management board (l-r):
Helge Hansen
(president),
Claus Bolza-Schünemann
(deputy president),
Christoph Müller,
Ralf Sammeck

Koenig & Bauer did not escape the negative consequences of this tectonic shift in its markets. In less than two years the Group order backlog shrank from €800m to €335m, sales plunged from €1.7bn to less than €1.1bn and the Group payroll was slashed from around 8,250 to fewer than 7,000. No enterprise can simply shrug off reversals of such magnitude in so brief a period of time. Nonetheless, we have come through the crisis in better financial shape than many others. One reason for this is that during the good years management had carefully monitored expenditure and set aside undistributed profits in order to make provision for the lean times that typically follow in a cyclical sector such as mechanical engineering.

By autumn 2008 the sheer scale of the slump in demand and market prospects had made a total restructuring of our production plants and organisation an economic imperative, and adequate provision was made in the annual accounts. A raft of initiatives was launched early in 2009 and implemented at a commensurate pace. Without such a prompt response we could not have cut material and labour costs by well over €100m and moved rapidly back into the black. While short-time work was a boon, savings in material and other costs were even greater.

Although we have made considerable headway in adjusting capacity to new market realities, we have not finished yet. In 2009 we focussed on our sheetfed division and diverse subsidiaries, but now further adjustments must be made at some of our web press production plants. These are currently being discussed with union and works representatives, and will be implemented at the earliest opportunity. By the end of 2010 there will be several hundred fewer employees on the Group payroll. The object of these initiatives is to make KBA profitable again on a sustainable basis in a diminished market with smaller business volumes. It is in the interests of our shareholders, customers and employees alike for us to generate by our own efforts the income needed to pay an appropriate level of interest on the capital invested, fund essential innovations and investments, provide staff training and secure the long-term employment of the pared-down workforce.

A radical realignment is painful for all those concerned: the employees and families directly affected by redundancies, the management board and executives who must make and implement the difficult decisions involved, and the shareholders who must finance such measures. It is therefore all the more important to ensure that conditions are equal for all the players in the sector and that essential adjustments are not impeded by politically opportunistic government intervention that flies in the face of market principles. With state aid there is a real risk that public money will help to preserve capacities and structures that are no longer appropriate. Nor does it encourage recipients to exercise greater discipline with regard to costs and pricing. What is more, it distorts competition among suppliers bidding for contracts. In the long term, this is detrimental to customers' interests.

We are therefore all the more delighted to report that last year, despite a big drop in sales, we posted a profit after tax with no external support whatsoever. At present this is a rare achievement in our sector. Equally significant is the fact that throughout 2009 we preserved liquidity with no new bank loans, maintained a positive net financial position from one month to the next and even managed to reduce our relatively low level of debt still further. KBA may be smaller, but it remains solidly financed and stable, yet flexible and innovative.

Management is well aware that downsizing alone is not a sustainable long-term strategy. And while the world's first and oldest press manufacturer will wholeheartedly pursue its traditional core business of creating cutting-edge press technology, as KBA enters its 193rd year we anticipate limited growth in the print media arena over the long horizon. We are therefore contemplating a new line of business that will help offset cyclical fluctuations in the press market and allow us to exploit additional growth potential at our production plants in the medium term. Our high level of engineering competence and formidable experience in international markets furnish a sound basis for expanding our portfolio with products offering good prospects with regard to both earnings and employment. The move could well take the form of an alliance or acquisition. Contacts with potential partners have already been established and the necessary financial reserves are in place. The first concrete decisions will probably be made towards the middle of the year.

Whilst there are early indications of a mild uplift in demand, the world economy remains fragile, and this is reflected in the export-driven automotive and engineering industries. With so many imponderables still impacting on the print media sector and the international marketplace, 2010 is sure to bring forth further major challenges. But markets permitting, and provided the current financial and economic instability produces no additional setbacks, we are hopeful of achieving a modest improvement in Group sales and profits for the year. A more detailed projection will be issued once the figures for the first quarter are available.

On behalf of the management board I would like to thank you, our shareholders, for your confidence in and loyalty to our common enterprise, KBA. Many thanks, too, to all our customers worldwide for their interest and faith in our products and services. And a big thank-you to all our executives and staff for the active contribution they have made towards achieving our joint objectives despite the personal constraints imposed by the current economic situation.

Würzburg, 25 March 2010
Koenig & Bauer Management Board

Helge Hansen
President and CEO

Supervisory Board Report

Dieter Rampl
Chairman, Koenig & Bauer AG

In the 2009 business year the supervisory board and its committees fulfilled their legal and statutory obligations with the utmost vigilance, monitoring the activities of the Koenig & Bauer management board on an ongoing basis while providing support and guidance. The members of the supervisory board were closely involved in all executive decision-making processes of any import. Board resolutions were passed only after rigorous scrutiny and debate.

A total of four supervisory board meetings were held, with KBA management providing a comprehensive report on the performance, financial position and earnings of the Parent and the Group, individual business operations and major subsidiaries. Along with fundamental matters of corporate policy and planning the prime focus was on market-related issues, structural changes, competition, future prospects and the Group's strategic development. Other items included investment, human resources, potential new business lines, risk and compliance.

The meeting in March revolved around the financial statements for 2008 and a complete realignment of corporate planning for the years 2009 to 2011. As capacity in the printing press sector continued to outstrip utilisation levels following the global crisis, the board discussed in detail and approved a radical restructuring programme proposed by Helge Hansen, the new president and CEO following the resignation of Albrecht Bolza-Schünemann. The management and supervisory boards unanimously agreed that, in view of developments in the media marketplace and advances in printing technology, an adjustment in capacity to a smaller market volume was essential if the Group's existence was to be secured in the long term.

Immediately prior to the AGM on 18 June the supervisory board was given a detailed briefing on current business conditions, progress to date in restructuring, particularly of the sheetfed division, and initial successes in cutting costs. The board also approved proposed changes in the remits of the individual members of the management board.

With investment in big web press installations virtually at a standstill and medium-term sales prospects dimmed, the need for a further reduction in web press production capacity topped the agenda at the September meeting. Management and the supervisory board also discussed potential new business lines for KBA and approved the appointment of a supervisory board committee on strategic development. It was agreed that the committee should draw up concrete recommendations for further action and submit them at the supervisory board's plenary session.

The strategy committee convened for the first time shortly before the supervisory board's November meeting and examined in detail management's submissions on business potential in digital printing, packaging, water conditioning and thermal solar technology. The agenda at the subsequent supervisory board meeting included the current business situation and market conditions, management's status report on restructuring, corporate planning to 2012 and strategic issues. The 2010 investment plan submitted by management was approved.

In addition to co-ordinating the work of the various committees I held regular interplenary meetings with the management board. Throughout the year the challenging market environment caused me to focus with even greater intensity on the monitory and advisory functions pertaining to my position as chairman. Helge Hansen provided regular updates on business data, realignment and major pending decisions.

To enhance its efficiency the Koenig & Bauer supervisory board has set up four committees whose task is to formulate supervisory board resolutions and any issues that are to be raised at plenary sessions. The human resources (executive) and audit committees convened a number of times. The newly appointed strategy committee convened once. Despite Group-wide redundancies the mediation committee appointed under section 27 (3) of the Law on Codetermination did not need to convene in 2009.

In a session on 24 March 2010 the audit committee reviewed the financial statements and management reports, with the auditors summarising the results of their audit and providing further information upon request. Prior to this the supervisory board had been represented at a meeting between management and the auditors on 2 March 2010. Other items included the interim reports, the monitoring of auditor independence and efficiency, risk management and compliance with the Corporate Governance Code.

A number of personnel issues occupied the executive committee. Dr Frank Junker, head of sheetfed production in Radebeul since 1990 and Group executive vice-president for sheetfed production since 1998, retired in September after 50 years of service. From 2004 to 2008 he was also responsible for production and materials management at KBA's web press production plants in Würzburg, Trennfeld and Frankenthal. We wish to thank Dr Junker for the longstanding and successful contribution he made to the good of the company, and wish him all the best for the future.

Koenig & Bauer's compliance with the German Corporate Governance Code was a major focus of the supervisory board. The amendments published on 18 June 2009 were carefully appraised by the supervisory board, the implementation of the new recommendations at the Parent were discussed and rules of procedure revised accordingly. KBA broadly complies with the Code and in February 2010 the supervisory and management boards duly issued an updated declaration of compliance as per section 161 of German Company Law. There were no conflicts of interest among members of the supervisory and management boards.

The financial statements, management reports and method of accounting for Koenig & Bauer and for the KBA Group to 31 December 2009 were examined by PricewaterhouseCoopers and awarded the auditor's certificate unreservedly (*see page 100*). The auditors confirmed that a risk management system conforming to statutory regulations is in place. The statements, reports and auditors' reports for the Parent and the Group were distributed to the members of the supervisory board well in advance. The results of the audit committee's scrutiny were imparted to the supervisory board and approved. After conducting its own review the supervisory board raised no objections to the year-end financial statements and management report for the Parent. At a meeting on 25 March 2010 these were discussed and officially approved in the form submitted by the management board, as were the financial statements and management report for the Group.

The supervisory board wishes to thank the members of the KBA management board, all Group employees and their elected representatives for the dedication and constructive support they have shown in what was an exceptionally challenging year.

Würzburg, 25 March 2010
Koenig & Bauer AG
Supervisory Board

Dieter Rampl
Chairman

Management Report

All Out Print Communications in Woodridge, Illinois, produces imaginative packaging and displays on two large-format Rapidas (pictured here) and a Genius 52UV

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Share Capital, Executive Bodies and Approved Capital Initiatives

On 31 December 2009 the Parent Company's share capital was valued at €42,707,737.80, divided among 16,426,053 bearer shares with a nominal value of €2.60 apiece. In accordance with section 12 (7) of the articles of association, every no-par share conveys a voting right. There are no restrictions on voting rights, the transfer of shares or special rights imparting powers of control. Employee shares are subject to a three-year disposal ban, but enjoy all other rights. To our knowledge the only shareholders with an equity holding of more than 10% are Spanish investment company Bestinver Gestión in Madrid (13.6%) and MKB Holding in Vienna (10.3%).

Members of the management board are appointed and dismissed, and amendments made to the articles of association, in accordance with statutory regulations (sections 84, 85 and 179 of German Stock Corporation Law and section 31 of the Law on Codetermination). Under section 17 of the articles of association the supervisory board may amend the articles to conform with resolutions passed by the AGM, in this case relating to the utilisation of authorised capital.

Under the compensation system currently in force all the members of the Koenig & Bauer management board draw a basic salary plus a bonus calculated solely on annual profit. Supervisory board remuneration is laid down in section 11 of the articles of association, which specifies a basic collective total of €100,000 per year. The supervisory board also receives a variable component comprising 5% of the dividend sum less 4% of equity capital. Fixed and variable remuneration for the individual members is calculated according to their responsibilities and committee activities. Share options and other share-based benefits form no part of board remuneration.

Employee shares from authorised capital

With the supervisory board's approval, the management board continued our employee share scheme using the €15,281,830.20 of share capital remaining from an increase approved by the shareholders' meeting on 22 June 2006. At the beginning of 2009 €1,306,830.20 or 502,627 new shares were available. Koenig & Bauer employees were offered blocks of 20 no-par bearer shares at a preferential price of €5.59 per share. Almost 40% of the workforce took advantage of this scheme, signing up for 38,920 shares. The shares were issued on 29 September, with pre-emption rights disbarred under section 4 (3) of the articles of association. At the end of the year the remaining authorised capital came to €15,180,638.20 or 5,838,707 no-par shares, and may be drawn on until 21 June 2011. 463,707 shares are still available for issue to employees, who since 2002 have purchased 426,053 company shares, or 2.6% of our subscribed capital.

The advanced level of automation displayed by modern-day printing presses would be impossible without electronics

Authorisation to repurchase shares
The AGM on 18 June 2009 also authorised the management board to buy and sell company shares, disbarring all pre-emption rights, up to a maximum of 10% of the equity capital of €42,606,545.80. This authorisation, which is valid until 17 December 2010, is purely a contingency measure permitting Koenig & Bauer to repurchase shares at short notice and use them as a negotiating tool for acquisitions of other companies or shareholdings. No shares had been repurchased by 31 December 2009.

Disclosures under section 315 (4) 8 and 9 of the HGB
Koenig & Bauer has entered no basic agreements governing a change in control or the acquisition of control in the event of a takeover bid, nor do any compensation agreements exist for such a contingency with either the members of the management board or the workforce.

Business Environment and Activities

Innovative press technology for core and niche markets

Established almost 193 years ago, the Parent company is the nucleus of a German press engineering industry that still dominates the global marketplace. The origins of all major German press manufacturers date back to the secularised monastery in Zell, near Würzburg, where Koenig & Bauer was established in 1817. Listed on the Munich and Frankfurt stock exchanges since 1985, and on the SDAX for the past six years, KBA has the broadest product range of all major suppliers to the print media industry.

Multi-unit web presses – most of them customised – for newspaper and commercial printers dominate the production schedule at our Würzburg headquarters and our factories in Frankenthal and Trennfeld. Sheetfed presses for printing books, packaging and commercials are built by our Radebeul facility and our Czech subsidiary KBA-Grafitec. Our subsidiaries in Germany and Austria make specialised equipment for niche applications such as security printing, metal decorating, UV printing and industrial coding. Our extensive portfolio and highly diversified systems competence are what set us apart from our competitors.

In addition to our core business with innovative press technology we are pursuing high-potential, high-growth ventures outside the print media industry. These may take the form of alliances or acquisitions, and we are currently evaluating and negotiating a number of options. With our manifold engineering skills, modern manufacturing plants and a wealth of experience in international markets we are well equipped to expand our remit.

In the Group financial statements a distinction is made between our batch-based sheetfed business and our web and special press business, which has longer production cycles and is more individual. Following the market slump, sales of web and special presses accounted for more than 50% of the Group total in 2009.

The Main-Post media group in Würzburg recently put a highly automated KBA Commander CT compact press into operation

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KBA

KBA is an international player whose exports routinely generate over 80% of Group output. This means that the global economy has a defining impact on sales and profits. As a direct result of the economic downturn sales in many parts of Europe and in the USA, two historically key markets for German press manufacturers, have slowed, while those in regions less affected – the Far East, Middle East and Latin America – have risen. Although our traditional markets will recover once the recession has passed, in the long term we see growth opportunities shifting to densely populated threshold countries such as China and India, to Southeast Asia and to Latin America, particularly Brazil.

International Group Organisation and Financial Controls

Planning beyond the next quarter

The causes and consequences of today's financial and economic malaise demonstrate once again that a business strategy informed by quarterly performance and short-term effects on the stock exchange does not create enduring shareholder value but rather raises the level of risk to which the company and shareholders are exposed. The print media industry is no exception. In a cyclical business like mechanical engineering it is also in shareholders' interests if provision for lean times is made during times of plenty. That is why boosting the share price by repurchasing shares and paying out generous dividends, with the concomitant risk of higher gearing or even insolvency in the event of a market collapse like the one just lately experienced, has never been a business policy at Koenig & Bauer.

While some shareholders are keen to reap the fastest possible return in terms of value and dividend from their investment in the company, for many others a corporate strategy predicated on reliability and sustainability is equally important, along with risk containment and prudence in husbanding the capital at our disposal. Over the past ten years such values have lapsed all too often into obscurity. Our commitment is unwavering and KBA management preserves vital transparency in all its internal and external business activities. We firmly believe that, in the capital-goods industry, sound business practices based on long-term returns are the only way to forge lasting bonds with customers, suppliers, staff and shareholders.

The current economic climate and developments in the media arena have accelerated the ongoing structural transition in the print sector, and players must urgently adjust to far-reaching market changes. Against this backdrop there was simply no viable alternative to the capacity, cost and personnel cuts implemented in 2009 and continued in 2010. Wherever possible, items previously outsourced were manufactured in-house and labour flexibility enhanced with short-time models. This helped to raise utilisation levels and balance fluctuations in certain areas. But short-time work is a temporary measure, not a long-term solution. Our goal is therefore to conclude the capacity adjustment before this option expires.

We deploy corporate control mechanisms based on key economic parameters. Turbulence in financial markets last year caused us to refine still further the parameters and systems supporting complex, integrated business plans. Further steps were also taken to involve Group subsidiaries more closely in these plans and to improve routine reporting procedures.

In 2009 the downward pressure on prices and margins that is never totally absent in a transparent sector such as ours was exacerbated by a huge capacity overhang. Stock clearances by our competitors at knock-down prices also had a detrimental impact on the prices of both new and second-hand equipment. The situation was not improved by the state aid accorded to individual market players.

We made considerable progress in paring our cost base, adjusting break-even thresholds and realigning our organisational structure with a market that had contracted more or less overnight. Despite a slump in Group sales of many hundreds of millions of euros, we succeeded in posting a modest pre-tax profit solely by drawing on our internal resources. Management continues to pursue the adopted course with unabated speed and determination both at the Parent and in the Group.

Customer satisfaction, personnel development, continuous innovation and an enduring commitment to product quality, conservation and social responsibility, both internal and external, are central pillars of our

corporate philosophy. This is reflected in our extensive staff training programme, our suggestion scheme, the active engagement of employees in quality and environmental management, our annual employee share scheme and our sponsorship of independent environmental awards, cultural events, social initiatives and other activities.

Global Operations

Lean, efficient, well-organised

Friedrich Koenig and Andreas Bauer were active abroad even before they founded the company. In fact it was in London that they developed the first steam-driven cylinder press 200 years ago, during the early stages of the industrial revolution and 360 years after Gutenberg had invented the hand press. Back in the nineteenth century Koenig & Bauer sold more presses abroad than in the domestic market, and the same still applies. Exports accounted for three-quarters of our annual sales long before globalisation had become a buzzword. As the world economic balance has shifted, overseas markets have steadily gained in significance.

We have sales and service subsidiaries in nineteen countries Europe, the Americas, Asia and Australia. Elsewhere KBA is represented by dedicated agencies, many of long standing. Our global sales and service organisation is continually adapted to address regional developments and changing customer demands, while remaining lean and efficient. This philosophy has served us well in the current recession.

KBA has factories at various locations in Germany and other European countries. To improve plant utilisation levels in the present market environment we have substantially increased the proportion of mechanical components manufactured within the Group.

Early last summer our US subsidiary KBA North America completed the relocation of its headquarters from Williston (Vermont) to Dallas/Fort Worth airport (Texas), which has better transport links and is closer to customers. A spare-parts store and service facility that had been set up nearby some years earlier was also transferred to the new site. With investment by US printers largely at a standstill since 2007 and the economy in recession, KBA (NA) saw its order intake and business volume contract in 2009. A reorganisation failed to avert a loss, but further initiatives were launched whose implementation this year is expected to deliver an improved result.

At our Austrian subsidiary, KBA-Mödling, a reduction in the volume of aggregates for our main sheetfed facility in Radebeul also caused a substantial drop in sales. However, deliveries and services for our web and special press division helped boost plant utilisation levels and generate a profit. The closure of a plant in Ternitz that chromium-plates impression cylinders was averted by insourcing a higher volume of work.

Persistent slack demand also impacted on sales by our Czech subsidiary KBA-Grafitec, a specialist manufacturer of small-format Rapida presses based in Dobruska. A major cause, alongside the fragile economy and banks' reluctance to extend credit lines, was a surge in competition from digital printing systems. While the influx of new orders picked up strongly in the second six months, sales fell short of the prior-year level. As a result KBA-Grafitec, which is consolidated in the sheetfed division, posted a small loss in 2009. Remedial action has been initiated which is expected to move the company back into the black by the end of this year.

In 2009 the global slump finally put an end to years of growth at KBA-Metronic. Sales of UV presses for printing on plastic, film and digital data storage media declined in line with customers' plant utilisation levels, but sales of digital and analogue coding systems for industrial enterprises revived in the third and fourth quarters. However, overall sales were well below the prior-year figure, resulting in a loss. A raft of measures for restoring KBA-Metronic's earning power was discussed with management and should lead to a balanced result this year.

Stuttgart-based KBA-MetalPrint, the market leader in metal-decorating presses and a strong contender in thermal air-purification systems, was hit even harder. The volume of new orders and shipments was well below the satisfactory level of 2008 and the company incurred a heavy loss. In late summer negotiations were initiated with employee and union representatives on the remedial

action needed to address fundamental changes in the market, but no agreement had been reached by the end of the year.

Our small Dutch subsidiary Holland Graphic Occasions (HGO) in Wieringerwerf, which deals in second-hand presses, posted a balanced result.

Business was stable at our Lausanne-based subsidiary KBA-GIORI, the global market leader in banknote and security presses, and the company made a healthy profit.

Together our two consolidated sales subsidiaries, KBA-FRANCE and KBA (UK), more or less broke even, but whereas sales were up in France they plunged in the UK.

Purchasing, Production and Organisation

Lean processes and structures

An economic downturn creates a buyers' market where suppliers must offer a favourable price, fast turnaround and premium quality, with the occasional non-standard specification thrown in for good measure. This is why a lean, efficient organisation with streamlined workflows and cost structures is a primary focus at KBA. And notwithstanding the constraints imposed by short-time work both within the Group and at our subcontractors, we boosted our competitiveness last year by maintaining a high level of manufacturing and assembly line flexibility. With our existing high-tech manufacturing facilities often running at well below maximum capacity, investment in plant and equipment last year was largely confined to urgent replacements. Strategic purchasing concentrated on ensuring the timely delivery of materials to minimise the amount of capital tied up at any one time. In manufacturing, logistics, assembly and service our foremost objectives were to cut costs, lead times and capital-intensive inventories.

In-house manufacture boosts plant utilisation

In 2009 stocks were adjusted to the smaller volume of incoming orders, outsourcing was reined in and more manufacturing and assembling work was brought in-house. The result was a big increase in plant utilisation levels, particularly in the foundry and the frame manufacturing and sheet-metal producing sections. As procurement volumes and batch sizes diminished, savings were sought elsewhere. Sustained cost reductions were achieved by increasing standardisation, conducting tough negotiations with suppliers and harmonising Group-wide framework agreements. The quality delivered by our network of suppliers was improved still further by accrediting our existing suppliers and recruiting new ones both at home and abroad. This process was supported by a polyglot electronic purchasing system.

Enhancing flexibility

While investment in plant and equipment was lower than in previous years, it did extend to shortening makeready and processing times and expanding our manufacturing range. The commissioning of a second double-column milling centre for large components at our Würzburg plant has enabled us to process the subframes of our large-format sheetfed offset presses. A new-generation die-cutter has enhanced the flexibility of our sheet metal production line. A new superpolyamide coating line for long, heavy rollers was added in Frankenthal, where all the rollers for KBA presses are made. Investment projects in Radebeul related to a new universal machining centre and a more productive one-stop machining unit for complex components.

Effective IT tools

Group IT systems are monitored and updated on an ongoing basis so as to ensure the security and efficiency of our business processes and communications structures. Our remote maintenance and diagnostics service for web presses has been upgraded to broadband, which is much faster, more secure and technologically more advanced. In 2009 we opened our global remote servicing network to accredited suppliers, enabling them to access customer subassemblies securely via the internet and provide a rapid, on-demand response. To comply with more rigorous legal regulations relating to technical documentation, and to

Powerful milling centre for large components
at our production plant in Würzburg

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reduce costs, an XML-based content management software system was introduced for all KBA web, sheet and security presses. Modularised and standardised procedures streamline the entire workflow from the creation and translation of instruction manuals and technical documentation to their publication and distribution.

Research and Development

Innovating while cutting costs

Although our R&D budget did not escape the knock-on effects of the economic and financial crash, innovation in diverse aspects of printing technology remained a key corporate focus. Alongside enhancements to existing products our engineers are constantly driving new advances, and in trade circles KBA is considered the foremost innovator among press manufacturers. Last year this was confirmed once again by our impressive performance in various patent statistics. In the Patent Scorecard™ for heavy industrial equipment in the USA, published in the January 2009 issue of the *Wall Street Journal*, KBA ranked an outstanding seventh, and was the only German press manufacturer featured in the top 50. In the patent rankings published in September 2009 and January 2010 we outperformed not only our closest competitors but also a phalanx of prominent European machine and plant manufacturers. And in the list of the 50 most active patent applicants in 2008, issued by the German Patent and Trademark Office (DPMA) in the first quarter of 2009, KBA was ranked top among press manufacturers and 25th overall, with 191 patents published.

Automated paper and plate logistics systems, automatic tagging of faulty sheets immediately after impression, and automatic plate recognition and preregister setting during automatic plate infeed were just some of the many new features for sheetfed, web and special presses that reached fruition in 2009.

The world's biggest sheetfed offset press, a twelve-unit Rapida 185 destined for Saudi media group Al Bayan, pictured in the Radebeul assembly hall

Other innovations with a broader topical relevance included more energy-efficient drying systems for sheetfed coater presses, the dramatic minimisation of job-changeover times and new materials for print finishing. The current climate debate is shifting the focus to environmental issues and the conservation of resources in the printing process. Our commitment dates back ten years or more, when we launched the first eco-certified Rapida sheetfed press and started developing new concepts and presses for greener, waterless offset.

A good example of our innovative power is KBA Flying JobChange, a world first in sheetfed offset. This unique capability was unveiled last summer on a Rapida 106 medium-format press at a printing plant in Germany. Printing units not required for the current production run can be prepared for the next job more or less automatically, without stopping the press, and subsequently re-engaged at the touch of a button. Cutting job-changeover time to a matter of seconds boosts press productivity and cost efficiency, particularly when printing multiple short runs, and thus makes offset much more competitive with digital systems.

Web press research and development in 2009 concentrated largely on our compact newspaper presses, the Cortina and Commander CT. Alongside higher automation the primary strengths of our waterless Cortina are its print quality and much greener technology. The benefits of this compact platform were also compellingly confirmed at the *Main-Post* in Würzburg and, towards the end of the year, at the *Daily News* in New York, where Commander CT wet offset presses demonstrated their superb print quality, high-speed job changes and user-friendly operation. A contract for four triple-width Commander CT press lines equipped with hot-air dryers was placed in spring 2009 by Montreal-based Canadian print and media major Transcontinental.

Further advances in sheetfed and web press technology and niche applications are currently in the pipeline and will attain market maturity sometime this year or in the run-up to Drupa 2012. The Group subsidiaries responsible for security press technology are working with their usual intensity on new features to improve counterfeit protection. Our other manufacturing subsidiaries, KBA-Grafitec,

KBA-Metronic and KBA-MetalPrint, are also busy developing new products.

While the challenging market environment demands absolute cost discipline in every aspect of our organisation, product and process innovations are vital to the survival of German press manufacturers faced with mounting competition from low-wage countries such as China or India. Including customer-specific innovations, the KBA Group spent almost 5% of total turnover on R&D in 2009.

Market and Industry Environment

Economic recession and shifting media arena mar investment climate

Their dependence on advertising revenue means that press vendors serving the print media industry are heavily exposed to the vagaries of business cycles, and the current economic fragility is renewed proof. The impact on the press engineering industry, with its focus on exports, has been exacerbated by shifts in media markets which the crisis has hastened. According to the German Machinery and Plant Manufacturers' Association (VDMA), the volume of incoming orders has plunged by 38% compared to 2008, with huge variations among the 30 sectors. While demand appears to have bottomed out since mid-2009, there is still no sign of a stable upturn. Unfulfilled productivity potential and widespread uncertainty among decision-makers regarding future economic and media trends are acting as a brake on investment.

In search of profitable business models

The fundamental changes that the internet has wrought in the media landscape are prompting printers and publishers to seek out different, more profitable business lines. While offset is still the dominant process, prospects for growth have been dimmed in some sectors (outdoor advertising, displays) by the rapid expansion of digital print, and in others (newspapers, magazines) by increased usage of the internet as a vehicle for advertising and for disseminating or accessing information. The situation is compounded by the fact that many printing plants lack an adequate equity base, banks are unwilling to extend credit lines, and the volume of print work being put out to tender is no longer enough to support all the players. This in turn is sparking price wars on many fronts and consolidation within the sector. Press manufacturers are themselves contributing to this contraction in market volume by developing ever more powerful presses.

In 2009 China was the only major growth market for KBA and, indeed, for the entire German engineering industry. Business was also good in the Middle East and certain Latin American countries. In major key markets such as the USA, the EU and the rest of Europe, however, demand and thus the volume of new orders were well below normal, with little change anticipated in 2010. Even if business picks up strongly in the second half-year the total investment volume will still be more than 20% down on 2008.

Slack demand, thin order books

With demand muted in virtually every sector of the print industry throughout the year, the Group order intake dropped to €883.9m, 28.8% below the 2008 figure of €1,241.5m. At almost 40% the shortfall in the engineering industry as a whole was even more pronounced.

A big contract from Canada and orders from China, Latin America, Germany and other European countries initially helped to slow the decline in orders for web and special presses. But in the second six months the reluctance of printers to invest in web presses became more pronounced, and demand for commercial presses plunged even more steeply than in the equally weak newspaper sector. Against fierce competition KBA maintained its high global market share of 40% for newspaper presses, but slack demand in international markets reduced our share of the commercial web press market to less than 10%.

The economic recession also took its toll on KBA-Metronic, which posted a slide in orders, particularly for UV presses. However, the order intake remained stable at the subsidiaries involved in the production of security presses. The volume of new orders for web and special presses shrank by a disproportionate 34.8% to €419.3m (2008: €643m).

Our sheetfed division told a different tale. Following a customarily weak first quarter, between April and October

the volume of new press orders for all formats stabilised at a relatively satisfactory level considering market conditions, but slowed again towards the end of the year. Sales of second-hand presses climbed by 45%. However, sales by KBA-MetalPrint, our specialist subsidiary for metal-decorating presses, were lower. At €464.6m the total volume of sheetfed orders booked was 22.4% down on the prior-year figure of €598.5m.

Investment in new plant and machinery remain glacial from late summer 2008 until the end of 2009, and the KBA Group suffered along with the rest of the engineering industry. As a result the Group order backlog in 2009 tumbled to €335m from €501.5m a year earlier and €791.9m at the end of 2007. The smallest Group backlog for more than twenty years, it underscores the extent to which the ongoing recession and structural upheaval have stifled demand. Web and special presses accounted for €242.8m of the backlog, sheetfed presses for €92.2m.

Group business operations: order intake / sales / order backlog

in €m	2008	**2009**
Order intake	1,241.5	883.9
sheetfed offset presses	598.5	464.6
web and special presses	643.0	419.3
Sales	1,531.9	1,050.4
sheetfed offset presses	714.2	478.7
web and special presses	817.7	571.7
Order backlog	501.5	335.0
sheetfed offset presses	106.3	92.2
web and special presses	395.2	242.8

Earnings, Finances and Assets

Earnings

Systematic realignment accelerates turnaround

A precipitous decline in demand was followed by a 31.4% plunge in Group sales from €1,531.9m the previous year to €1,050.4m. Earnings were hit both by lower profit contributions and by the costs associated with poor levels of capacity utilisation. Excess capacity in the sector and undercutting amongst competitors impacted on prices and delivery conditions. Nonetheless, the prompt implementation of a restructuring package enabled us to post a pre-tax profit (EBT) of €2.7m, following a loss of €87.1m in 2008.

More sheetfed sales in second half-year

Although our sheetfed division steadily boosted revenues in the course of the year, and increased its share of the (much diminished) global sheetfed market to 16%, its annual sales of €478.7m were 33% down on the 2008 figure of €714.2m, reducing its contribution to the Group total from 46.6% in 2008 to 45.6%.

The 1,000th large-format Rapida press from the series that has proven so popular the world over rolled off the production line last year and was installed in the autumn at longstanding KBA customer Druckhaus Berlin-Mitte. The market and technology leader in large format, KBA sets the pace in this sector. In superlarge format, too, we are the defining force, as further sales last year of eight-colour perfector versions testified. A contract for the biggest sheetfed offset press line to date, a twelve-unit Rapida 185 for sheets measuring 1,300 x 1,850mm (51.18 x 72.83in) was placed by Saudi-Arabian trade and media group Al Bayan. We are hopeful that this ground-breaking installation will enable us to boost sales in the high-growth packaging sector. KBA also reaffirmed its reputation as an engine for innovation in the popular medium format with a new flying job change capability for our makeready world champion, the Rapida 106.

Following a temporary lull, in the second six months orders from packaging and display printers picked up again across the board. Being less cyclical, this sector is a key focus of sheetfed activity. In small format the second half-year saw a substantial rise in shipments of and orders for the Performa 66 and, more particularly, the Rapida 75. The first perfector versions of the Rapida 75 were shipped to the Netherlands and Switzerland. The recession also hit sales of KBA-MetalPrint's metal-decorating presses and its other products. However, the number of new bookings increased in the final four months, as did shipments of Metalstar presses.

Web and special presses generate over 50% of Group sales

Last year web and special presses generated 54.4% of Group sales, up from 53.4% in 2008. While the total for this division dropped by 30.1% to €571.7m (2008: €817.7m), sales in the German press engineering industry as a whole plunged even further, by an average of 36%.

Highly automated, ultra-compact Cortina and Commander CT newspaper presses were installed at *Le Figaro* in Paris, the *Daily News* in New York and at Germany's *Südkurier* in Constance, *Main-Post* in Würzburg and *Straubinger Tagblatt* in Straubing. Other press types came on stream in Australia, China, Italy, Denmark and the Czech Republic, but the total number was far smaller than in previous years. Investment was even more sluggish in web presses for printing commercial products, magazines, catalogues and books. Beside Italy most shipments went to Latin America and China, where print markets are still expanding. The biggest media group in Latin America inaugurated a 48-page press line in São Paulo.

Widespread slump in European markets

As economic output waned in Germany, domestic sales plummeted by 30.9% from €235.5m to €162.8m. However, since many export markets were even weaker, the proportion of domestic to total Group sales remained steady at 15.5% (15.4% in 2008), which meant that the export level was also virtually unchanged at 84.5% (2008: 84.6%). The picture in Europe was more dichotomous. Relatively firm sales in France, Switzerland, Scandinavia and the Benelux states contrasted sharply with a recession-induced collapse in demand among printers in the UK, southern and eastern Europe. Deliveries to the rest of Europe more than halved, from €786.8m in 2008 to €378.4m. As a result the proportion of Group sales generated in Europe nosedived from 51.4% to just 36% – well below the average for what is one of our core markets.

Sustained growth in China

Once again the Asia/Pacific markets ranked second only to Europe in their significance for the Group, generating 22.5% of total sales compared to 17.7% in 2008. Brisk demand from China, where our sheetfed division recorded its most successful year to date, contributed to total revenues of €235.7m (2008: €271.5m).

Still no recovery in North America

North America, which for many years had been a prime market for German press manufacturers, still showed no sign of a perceptible upturn. The installation of a single multi-unit web press line in New York lifted sales from €144.8m in 2008 to €146.4m, increasing the proportion of total Group sales from 9.4% to 13.9%.

Group orders

in €m

	Sheet offset presses	Web and special presses	Total
2008	598.5	643.0	1,241.5
2009	**464.6**	**419.3**	**883.9**

Group sales

in €m

	Sheet offset presses	Web and special presses	Total
2008	714.2	817.7	1,531.9
2009	**478.7**	**571.7**	**1,050.4**

Group backlog

in €m

	Sheet offset presses	Web and special presses	Total
2008	106.3	395.2	501.5
2009	**92.2**	**242.8**	**335.0**

Above-average performance in Latin America and Africa

The threshold markets of Latin America and Africa profited in the sales rankings from weak sales in other regions and from the shipment of several web presses to Brazil, Ecuador, Mexico, Kenya and Sudan. These, together with sheetfed sales, pushed up the regional total by 36.2% to €127.1m (2008: €93.3m) or 12.1% of Group sales, not far off the figure for North America.

Cost savings boost gross profit margin

The cost of sales came to €831.7m (2008: €1,246.9m), or 79.2% of total Group sales, against 81.4% in 2008. Gross profit declined from €285m to €218.7m. However, lower costs and a higher proportion of more profitable niche products in our sales mix raised our gross profit margin from 18.6% to 20.8%. Since restructuring activities at our sheetfed division took precedence in 2009, savings delivered by the scheduled realignment of our web press facilities will not be reflected in profit margins until later this year.

Big improvement in operating result

Excluding costs relating to the customer-specific product development typically associated with the manufacture of big web presses, research and development costs came to €46.1m, just €8.1m below the prior-year figure of €54.2m. Notwithstanding the added expense of the Drupa trade fair, distribution costs fell from €161.1m to €127m due to a drop in shipments. General administrative expenses, which included a substantial outlay on additional control instruments, actually sank from €89.4m to €86.4m. Other operating expenses, which had jumped to €115.7m the previous year as provisions were made for restructuring, almost halved to €60.1m.

Cost-cutting measures helped transform an operating loss of €79.9m in 2008 into an operating profit of €8.7m. In view of the unfavourable market conditions prevailing and the far-reaching changes implemented throughout the Group, this was no mean feat and compares well with the rest of the sector. At €40.8m EBITDA was also much higher than in the previous year (€8m).

Even though price erosion and dwindling volumes in the web press sector impinged on profitability, our web and special press division followed up its fine performance in 2008 (€108.5m) with a profit of €31.8m. Once again, service activities and niche products made a signal contribution. Poor levels of plant utilisation early in the year, pricing pressures and a time-lag in cost savings until the second six months resulted in a scheduled loss by the sheetfed division of €23.1m – which, however, was lower than the loss of €188.4m incurred in 2008. Conditions will improve further this year as the benefits of restructuring measures are reflected in the bottom line.

Net Group profit approaches €7m

Lower customer down payments and interest rates trimmed interest income from €7.9m to €5m, while a reduction in bank debts by our subsidiaries whittled down interest expense from €14.4m to €12.8m, giving a financial loss of €6m (2008: a loss of €7.2m). However, rigorous cutbacks enabled us to transform a pre-tax loss of €87.1m into a modest profit (EBT) of €2.7m.

We posted a net Group profit after tax of €6.6m (2008: €101m loss) and earnings per share of 41 cents (2008: –€6.18). But in view of the continuing economic instability the management and supervisory boards will table a motion at the AGM to forego the payment of a dividend.

Above: The KBA stand at the PRINT 09 international trade fair in Chicago

Below: For KBA, the China Print trade fair which took place in Beijing last May was an outstanding success

Finances

Financing secured for a further two years

In addition to mitigating currency and interest rate risks, for which purpose the Group treasury unit deploys a number of instruments (*see management report, pages 39-40*), safeguarding liquidity is a primary and ongoing objective of our financial management activities as a means of maintaining our financial and entrepreneurial flexibility. In 2009 we achieved this objective in a turbulent market environment. And with business volumes much diminished, making the most of our working capital is equally important. Our capital requirements in 2009 were met purely by cash flows from operating activities. In fact a positive cash flow and sound financial position even allowed us to scale back our external funding commitments substantially, and only limited use was made of pre-secured credit lines for guaranteeing prepayments. Domestic banks have provided credit lines totalling some €100m for cash uses and/or sureties to cover our projected financing requirements up to March 2012.

Positive cash flow

Prepayments fell from €140.5m to €104.4m in line with the smaller volume of web press orders, and provisions also fell. Even so, cash inflows from operating activities remained relatively high (€29.6m against €34.6m in 2008) thanks to a reduction in working capital. After deducting outflows for investing activities the free cash flow improved from –€9.9m in 2008 to €4.9m. Cash outflows from financing activities, which mainly comprised the repayment of loans, came to €14.4m (2008: €28.9m).

High net liquidity

At the end of December liquid assets totalled €76.1m (31.12.2008: €85.8m). Bank loans were reduced from €63.2m to €48.3m (*cf pages 88-89*). At €27.8m (2008: €22.6m) our net financial position was well above the average for the engineering industry.

Equity ratio of almost 40%

The issue of employee shares increased share capital to €42.7m and the share premium to €87m. Together with the net profit posted at the end of the year this raised total equity by €8.7m to €419.8m (2008: €411.1m). The ratio of equity to the smaller balance sheet total climbed to 39.6% (2008: 34.8%), which was also well above the industry average.

Big reduction in liabilities

A drop of €38.3m in other liabilities and of €14.9m in bank loans slashed current and non-current liabilities by €129.7m to €640.6m (2008: €770.3m). Progress in restructuring the sheetfed division, and a reduction in sales-related obligations, trimmed other provisions from €275.7m to €212.9m. Pension provisions eased up from €102.3m to €103.7m. Our debt-to-equity ratio sank from 187.4% to 152.6%.

Geographical breakdown of sales

in %	2008	**2009**
Africa/Latin America	6.1	12.1
Asia/Pacific	17.7	22.5
North America	9.4	13.9
Rest of Europe	51.4	36.0
Germany	15.4	15.5

Assets

Sound balance sheet

The Group balance sheet total of €1,060.4m on 31 December was €121m lower than twelve months before (€1,181.4m), largely due to changes in current assets. Inventories decreased by €72.8m, trade receivables by €48.9m. Working capital improved accordingly to €486.9m (2008: €563.5m).

The value of non-current assets rose to €315.9m (2008: €305.3m). Fixed assets were worth €234.6m (2008: €227.8m). The ratio of equity capital to fixed assets was 178.9%. With capacity standing idle, in 2009 we pared investment in property, plant and equipment from €49.8m to €28.9m. The main items are described on page 22. Including investment in intangible assets this represented 2.9% of sales (2008: 3.4%). With depreciation at €30.3m (2008: €88.6m) the investment rate soared from 59.1% to 99.7%.

Group income statement

as % of sales	2008	**2009**
Cost of sales	–81.4	–79.2
Research and development costs	–3.5	–4.4
Distribution costs	–10.5	–12.1
Administrative expenses	–5.8	–8.2
Other income/expenses	–3.9	4.7
Financial result	–0.5	–0.6
Income taxes	–0.9	0.4
Net profit/loss	–6.6	0.6

Summary of Earnings, Finances and Assets

In a troubled market climate KBA moved up the ranks in 2009 to become the second largest vendor of sheetfed presses worldwide

KBA responded to the most dramatic slump in demand for many decades with a radical cost-cutting programme and corporate realignment aimed at safeguarding the Group's economic stability in the long term. Projected savings of more than €580m by 2012, and capacity adjustments to accommodate a smaller market volume, will lower the breakeven point in both of our business divisions, enabling us to operate at a profit in a diminished market. With little prospect of an imminent upturn in the sector we set about streamlining our human resources, IT, purchasing, engineering and accounting departments. This plan of action will be extended to other departments and completed by the end of 2010.

We are aiming to consolidate our strong position in the global market and if possible expand it still further through market-driven innovation, cutting-edge products and efficiency gains in sales, engineering, manufacture, assembly and after-sales service. A positive cash flow and a solid financial position allowed us to fund investments from our own resources and reduce our low level of bank debts still further. This compares well with the rest of our sector – as does our level of net liquidity and equity ratio, which even after eighteen months of recession are still above average. Our net financial position and balance-sheet structure remain exceptionally sound.

Group assets and capital structure

Assets in %

	Non-current assets	Current assets less funds	Funds
2008	25.8	66.9	7.3
2009	**29.8**	**63.0**	**7.2**

Equity and liabilities in %

	Equity	Non-current liabilities	Current liabilities
2008	34.8	20.8	44.4
2009	**39.6**	**19.0**	**41.4**

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Supplementary Statement

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

In 2009 a slump in advertising revenues and a shifting media landscape impacted on demand for the big web presses produced in Würzburg

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Risk Management and Internal Monitoring System

Effective structures and processes

The purpose of our early warning system is to support timely intervention by flagging and quantifying with a high degree of transparency potential risks arising from our corporate activities. A consequence of changes in the regulations governing management reports is that the risks and opportunities associated with the economy, the print media industry, the market and KBA products are no longer discussed in this section but in the chapter on outlook and opportunities (*see pages 44-46*). In view of our solid capital base and low leverage we currently perceive no risks that could pose an existential threat to the KBA Group.

Risk may be defined as a negative deviation from an established business plan. Imponderables are captured, assessed, categorised and reported in accordance with standard Group-wide practice. Management is then responsible for taking the appropriate action.

Timely detection

Our risk management organisation comprises a central risk co-ordination unit answerable directly to the president and CEO, and dedicated risk managers whose job is to assess the probability of potential risks within their remit and to alert management if the value at risk exceeds a predefined threshold. In accordance with the procedures laid down, all manufacturing affiliates must submit individual half-yearly risk reports which are passed on to the management board after being collated, quantified and classified by severity. Group-wide business planning and internal reviewing procedures, the monthly reports automatically generated by our management information system and the ad hoc reports triggered when thresholds are exceeded are all part of our systematic approach. The communication channels in place support the early detection of incipient risks.

The timely detection procedures specified in the risk manual and approved by the management board are monitored independently once a year by specially appointed personnel. The early warning system is discussed in detail by the supervisory board's audit committee and monitored annually by the auditors in accordance with statutory regulations.

Screening for potential risks on a six-monthly basis improves the accuracy of our planning procedures, enhances the transparency of uncertain events and heightens our risk awareness in general. It enables us to detect potential risks to Group earnings, finances and assets in good time and thus institute prompt countermeasures.

Financial instruments deployed

The financial risks to which the Group is exposed mainly comprise credit, liquidity, currency and pricing risks. The type and scope of the mechanisms used to contain financial risks are detailed in the Notes. At present we perceive no major country-, counterparty- or shareholder-related risks.

Competence is key:
Kenyan printers attending a training course in Würzburg

In this context foreign currency risks primarily relate to balance sheet items and pending transactions, with the emphasis on dollar-denominated transactions and receivables. Foreign currency transactions are hedged and risks minimised by our treasury unit in tandem with our sales teams. As well as hedging major contracts we also micro-hedge foreign-currency contracts for batch-produced machinery using currency options and future exchange transactions. Our operating units are expressly forbidden to make speculative loans, transactions or investments in foreign-currency funds. Our treasury unit assesses foreign-currency risks by calculating the value of the unhedged portion using a sensitivity analysis based on a fluctuation of ±5% in the relative value of the euro. More detailed figures can be found in the Notes.

Framework agreements negotiated by our purchasing department form the basis for calculating profit margins on major fixed-price contracts. The impact of fluctuations in the cost of raw materials can be offset by inserting escalation clauses in customer contracts. Having said that, commodity prices have eased in the wake of the global recession.

However, the financial meltdown has seriously impaired access to money and capital markets. Interest on savings has been cut and bigger risk premiums demanded for loans. While this means that our exposure to interest-related risk has risen, in view of our solid financial structure it is still deemed low.

We offer prospective customers a choice of financing options and in certain cases can also provide leasing companies with collateral for the projects they are financing. This, combined with the monitoring of customer accounts down to individual project level, enables us to reduce bad-debt risks to a minimum. Customer creditworthiness is reviewed and collateral called in prior to shipment, and after shipment ownership is transferred only when full payment has been made. On top of this, credit checks are routinely carried out on new customers. Adequate adjustment or provision is made for potential bad debts. At present there are no discernible customer-specific or geographical concentrations of credit risks.

The liquidity of the Parent and its subsidiaries is monitored and managed with the aid of daily status assessments. Since the crisis broke we have increased the frequency of our liquidity planning and reporting to weekly for the Parent and monthly for the Group. Our banks also receive more regular updates. Incoming and outgoing payments are monitored continually by the competent units. Cash management techniques include finely tuned liquidity and financial planning and Group-wide cash clearing.

In order to balance future fluctuations in cash flows with existing credit lines and sureties, these must first be adjusted to projected market rates. Changes in banks' credit practices have made it harder to secure long-term interest rates. This is because the risks associated with structured securities have forced banks to shorten their balance sheets. In view of the current widespread volatility we subject our existing credit lines and anticipated liquidity levels to regular scrutiny based on a range of scenarios, with contingency plans for each scenario. Since our existing credit lines are perfectly adequate we foresee no difficulty in balancing the imponderable fluctuations in our cash flow.

Internal monitoring ensures orderly accounting

Our internal system for monitoring our accounting practices encompasses principles and measures for safeguarding their efficacy, efficiency and compliance. These comprise organisational and monitoring structures supported by work instructions and directives.

The Parent and its subsidiaries all have their own accounting departments whose structural organisation ensures that their various functions – controlling, payroll management and accounting, financing, internal and Group accounting and internal auditing – are kept separate and distinct.

The standardised IT systems (SAP) used for financial and payroll accounting are protected against unauthorised access. Consolidation software is used to compile the Group accounts, and these are carefully checked against the subsidiaries' accounts on a quarterly basis. Group-wide planning, forecasting and early warning procedures, together with risk management, reporting, accounting and evaluation principles, ensure the necessary transparency.

The integrity and accuracy of accounting data are monitored regularly using random sampling and software-

aided comparisons in conjunction with manual or physical inspections that include inventories of stock, property, plant and equipment, the validation of debit and credit accounts and sundry other tasks associated with the year-end financial statements. Training in the preparation of such statements, independent supervision and the four-eyes principle ensure that our Group financial statements and management report comply with the pertinent regulations. Fundamental accounting-specific procedures are subjected to analytical scrutiny by our internal auditing department etc. The efficiency of these checks and balances is safeguarded by automated input, output and processing controls.

Authorising and implementing bodies are segregated as a matter of principle. Read/write authorisation is controlled in all systems. There is a strict separation of functions relating to the posting of business transactions. Staff access to IT applications is also controlled and authorisation restricted. No individual members of staff have access to the entire process level of the accounting software (goods reception, additions to stock, invoice auditing, release and transfer of payments), ensuring that the organisational firewalls that have been put in place cannot be breached.

The supervisory board's audit committee monitors accounting practices, the efficacy of the internal monitoring, risk management and auditing systems and the end-of-year audit. The functionality of the internal systems for monitoring our accounting practices is subjected to random checks by our auditors as part of the annual audit.

Outlook and Opportunities

No sign of a sustained recovery

The financial and economic crisis has not yet been overcome. And while there are some indications that the historic collapse of the past two years will be succeeded in 2010 by moderate growth both in the German economy and worldwide, a sustained global recovery looks ever more uncertain as government fiscal stimulus packages are phased out, unemployment continues to rise and consumption flags. The economic projections issued by individual institutes vary as wildly as do fluctuations in demand. At the end of January the International Monetary Fund (IMF) predicted an increase of 1.5% in Germany's gross domestic product and 3.9% growth in GDP worldwide in 2010. Be that as it may, national and international economic output will fail to attain the levels of 2008.

A business bulletin issued in February by the VDMA (German Machinery and Plant Manufacturers' Association) revealed that the volume of contracts awarded to the engineering industry in 2009 was 38% below the corresponding figure for 2008, and real production 25% below. With order backlogs drastically diminished there is little prospect of any fundamental improvement.

Waiting for the upturn

In 2009 production of printing machinery in Germany slumped by 35%, the volume of new orders by 41%. This was the steepest decline in sixty years, and no more than a modest lift in new orders and sales is anticipated in 2010. Investment in new kit has stabilised, but at a much lower level than before and with major regional and seasonal fluctuations. While the situation is sure to improve again, a reversal of the current trend is unlikely until major markets like the EU, USA and Asia experience a vigorous upturn. Strong growth in China is not enough, on its own, to offset in full a lack of demand in other parts of the world. Although a higher percentage of contracts will be processed in 2010 than in the poor previous year, intermittent periods of underemployment and short-time work among suppliers and at many printing plants will continue to plague the industry. Muted market prospects have therefore been factored into our corporate planning for this year and the next so as to mitigate economic risks.

Prices and margins under pressure

Huge capacity overhangs among vendors have heightened the pressure on prices and margins, while selective state aid has distorted competition. We seek to contain market-related financial risks by clearly stipulating the conditions for booking orders, pricing new presses and repurchasing used ones, and by observing strict rules for customer financing. At the same time we maintain our focus on trimming manufacturing and overhead costs. To avoid tying up capital unnecessarily in large inventories we also have strict rules governing the manufacturing release for new contracts.

Hoping for an imminent upturn: there is a close correlation between investment in big web presses and global economic performance

Exports aided by realistic valuation of the euro

The movement of the euro against the US dollar and Japanese yen has had a big impact on the competitiveness and sales prospects of German press manufacturers in key export markets like North America, China and the Middle East. Japanese manufacturers, whose export strategies have long relied on the price advantage associated with a perennial undervaluation of the yen, had trouble coping with its rising strength in 2009 and ceded market share. In view of the huge deficits facing southern EU states, and the European Central Bank's cautious interest policy, the euro is unlikely to regain lost ground any time soon. Sales-related currency risks are extensively hedged (*see pages 39-40*). Having said that, protectionist tendencies in certain countries and a more restrictive growth policy in China may eventually act as a brake on exports. The obstacles facing the print media industry in financing investment are substantial, and tighter banking regulations governing capital adequacy will certainly not make them any easier to surmount. Little change is anticipated in the cost of materials and other purchased goods in 2010.

Printing press sector must consolidate

Excess capacity and a need to consolidate are evident in a number of exporting sectors, and the printing press industry, like the automotive industry, is one of them. While the volume of print in high-growth threshold economies such as China, India, Brazil, Indonesia and Turkey will expand rapidly in line with prosperity, the situation is very different in developed economies, where per capita print consumption is already high and populations are stagnating or declining. It is now generally acknowledged that the world market for conventional printing technology (offset, flexo, screen, gravure) is unlikely to regain the high levels of previous years.

From a peak of more than €9bn in 2005 the global market volume for presses dwindled to less than €4bn in 2009 and is not expected to climb above €6.5bn or €7bn when the present economic challenges have been overcome. There are a number of reasons for this: the spread of online and mobile services for information and advertising, the enhanced productivity of offset presses, the increased popularity of digital print and ongoing consolidation in the print media industry. In high-growth regions like China and India domestic competitors have already cornered the market in budget-priced products.

Although German press manufacturers have stepped up their activities in high-growth markets, if they are to operate sustainably at a profit in a smaller market they have simply no alternative but to downsize capacity within the sector as a whole in line with market realities. Mergers and government subsidies alone are not the solution.

Realignment well received

KBA made provision for the necessary restructuring in the 2008 accounts and set about adjusting capacities and processes at the sheetfed division in Radebeul and some subsidiaries last year. A 25% contraction, while painful, was unavoidable and will be completed with the expiry of short-time work at the end of this year. We should then be able to operate from a permanently lower cost basis. Because phased retirement schemes extend over a period of years, and in some cases the legal period of notice given is also relatively long, personnel figures at the end of 2009 did not reflect the full reduction. Even so, in the course of the year the Group payroll shrank by around 1,000 to just under 7,000, and the number of employees will fall still further in 2010. All expenses relating to capacity adjustments were included in the 2008 and 2009 accounts.

Now ranked second in sheetfed offset

The sheetfed market, which is the biggest sector for presses, remained volatile. Following a strong revival in the summer months, the volume of new orders ebbed in the fourth quarter and the first two months of 2010. The time-consuming clarification of project funding frequently caused protracted delays in booking new orders. Although printers of packaging, one of our core markets, showed a marked reluctance to invest in new kit, we largely achieved our sales targets and gained ground against domestic and foreign rivals who were even worse affected by the collapse in demand. Thanks to our innovative technology – and brisk business in China – we became the second-biggest manufacturer of sheetfed presses in Germany. If the market revives as anticipated our sheetfed division is targeting a modest increase in sales and an improved result in 2010.

Media transition inhibits demand for web presses

Sales of newspaper and commercial web presses were battered by diminished advertising revenues, poor levels of plant utilisation, financing issues and publishers' focus on online activities in their search for profitable business lines. Global investment in new newspaper and commercial presses, at well under one billion euros, was less than half the figure for 2007. Based on known projects we anticipate a modest lift in our web press business this year. Sales of and earnings from security presses, UV presses and industrial coding systems, which are also included in our web and special press division, are expected to remain stable at a healthy level.

While niche markets were unable to compensate in full for imploding demand in our mainstream markets, we believe that the unique diversity of our product mix is a major advantage over more monolithic serial manufacturers in terms of risk diversification and synergies.

Balanced result from smaller business volume

Group sales last year plunged by 31% to less than €1.1bn and the Group payroll was reduced to fewer than 7,000. Nevertheless we managed to post a modest pre-tax profit and make full provision for the restructuring measures scheduled in 2010, and for other risks. Unlike many other players in the sector, since the crisis came to a head in September 2008 we have shored up our liquidity without drawing on state aid or raising additional loans. KBA may be smaller, but remains a solidly financed, stable and innovative partner to the global print media industry.

Diversification a logical move

Even in a market that is no longer expanding continuously and universally it is possible to make a profit if processes and capacities are adjusted accordingly. More limited growth prospects notwithstanding, press technology and its manifold facets will remain our core business for the foreseeable future. However, downsizing alone is not a sustainable long-term strategy. The management board and a dedicated workgroup are therefore busy screening other market sectors that offer sound prospects for earnings and growth as a means of balancing cyclical fluctuations in our core market while progressively exploiting additional revenue and development potential. Our highly trained engineers and technical staff, our wide-ranging experience in the global marketplace, our outstanding image and healthy finances furnish a sound basis for such a move. Initial decisions can be expected by the middle of the year.

Prospects for 2010: steady sales and positive result

With the psychology of the moment playing a major role in today's economy, all projections are inevitably of a highly tentative nature. While international investment in printing presses no longer declined over the past few months, neither did it rise. At present capacity bottlenecks are rarely the reason for new investment, and as banks and leasing companies continue to exercise the utmost caution, financing remains an obstacle for many firms. As a result many potential investors have adopted a watching brief.

Most new contracts were for replacements or upgrades to boost productivity and cut costs. The volume of incoming orders for both sheetfed and web presses in the first two months of the year was roughly on a par with the previous year. This is historically a slow period for sheetfed business because small to mid-size enterprises tend to wait for the annual results before investing in new kit. In the web press market, securing funding for some of the foreign contracts signed at the end of 2009 delayed their entry in the order books.

A much-reduced backlog and slow start to the year notwithstanding, we are targeting a modest increase in Group sales in 2010. Management is also aiming for a higher pre-tax profit than in 2009, although it will be smaller than in previous years as unfavourable market conditions and continued restructuring impact on the bottom line. In view of the present volatility we see little sense in attempting a more detailed prognosis until the interim report for the first three months is issued in mid-May.

The biggest newspaper web press to leave the production line in 2009 – a 6/2 KBA Commander CT – has since gone live at the *Daily News* in New York amidst the crisis in the US newspaper industry

DMG
SIEMENS 840D powerline

Human Resources and Welfare

Focus on payroll adjustments and staff skill

For manufacturers of technologically sophisticated printing presses, employee skills and dedication are valuable assets in the global arena. So while circumstances compelled us to trim our workforce, we continued to invest heavily in personnel training.

With the press sector showing no sign of recovery, most of the employees at our production plants were kept on short time for the entire year. Even so, the need to adjust to a shrinking market obliged us to reduce the Group payroll by 869 to 6,969 (31.12.2008: 7,838). Although this was largely achieved through phased retirement plans, natural attrition and voluntary redundancy schemes to minimise the social impact, compulsory lay-offs could not be avoided.

Ongoing structural changes in the print media industry, uninspiring growth prospects and the knowledge that the short-time option is limited to two years at a time and expires at the end of 2010 left management with no other choice. In view of the dramatic slide in sales over the past two years the necessary staff cuts, which are painful for all concerned, will continue until the end of 2010. Once all the restructuring measures have been implemented we are targeting a total Group workforce of around 6,000.

No compromise on vocational and advanced training

While the measures currently being implemented will make KBA smaller and leaner, no compromises have been made on maintaining staff skills. As in the previous year, the number of apprentices and student trainees in the KBA Group was a respectable 5.8% of the workforce. Although the absolute figure, at 407, was lower (2008: 455), it is still above average for an industrial enterprise of this size. And despite the troubled business environment the Parent still took on 80 new apprentices, offering them the opportunity to qualify in a choice of ten occupations with sound prospects for the future. It also continued to provide practical training for students at vocational colleges. Our ongoing aim is fill positions with highly skilled staff from within the Group. In this respect nothing has changed since the Koenig & Bauer in-house vocational training school was established in Würzburg over 140 years ago.

Highly skilled women in typical male occupations have long been the norm at KBA

100 apprentices passed the qualifying examinations set by the Chambers of Industry and Commerce. Once again, several of these were regional best in their chosen field. Our Radebeul operation received recognition from the Dresden Chamber of Industry and Commerce for producing one or more regional champions every year for the past ten years. A junior enterprise set up by the industrial and commercial apprentices at our main plant in Würzburg to manufacture and sell consumer goods to members of staff helps deepen their knowledge of business and economics.

We attract young people to careers in industry through diverse activities that include a Girls' Day and a technology camp for girls, and open days at our vocational school. Over 200 pupils and students gained work experience at our German production plants through trial training courses and industrial placements. In April our Benno Bolza Foundation awarded scholarships to eight engineering science students for theses and dissertations of outstanding merit on press engineering and printing technology. We also awarded undergraduate and postgraduate grants as a means of nurturing the engineering professions essential to our long-term survival.

Short time was used to maintain and expand employee skills. Alongside seminars on specific technical aspects we provided courses on new products, externally sourced components and foreign languages.

Saving money through staff ingenuity

Despite the various incentives offered, last year the in-house suggestion scheme attracted far fewer submissions than in 2008 (415 compared to 1,714), largely due to short-time work. Even so, the proposals put forward delivered sizeable cost savings and helped us optimise various products and processes.

A pioneer of health care

Founded 155 years ago, the KBA health-insurance scheme is now an independent enterprise. Once again it offered its 9,611 full and 3,282 family members a number of incentives promoting a healthy lifestyle and preventive care alongside its standard range of services.

We help parents combine a family with a career by offering part-time contracts, working closely with nearby child-care centres and organising activity days for employees' children. In association with the Alliance for the Family we held our second open day in Würzburg for the children of employees at our Trennfeld factory. 180 children of different ages took part.

High level of staff loyalty

131 employees at the Parent were awarded long-service bonuses: 88 for 25 years, 39 for 40 years and four for 50 years of service. We wish to thank them all for their loyalty and dedication.

The printing-unit assembly line at our sheetfed plant in Radebeul

Group payroll on 31 December

	Salaried office staff	Wage-earning industrial staff	Apprentices/students	Total
2008	3,086	4,297	455	7,838
2009	**2,791**	**3,771**	**407**	**6,969**

sn•x

Sustainability Report

Focus on climate and energy efficiency

Sustainability was a priority at Koenig & Bauer long before the current debate on carbon emissions and soaring energy prices. In production we are permanently seeking to reduce our environmental footprint whilst complying with the highest quality and safety standards. Enhancing energy efficiency, conserving resources and cutting emissions have long been key criteria in developing new products and improving existing ones. Our commitment goes beyond climate protection: we also fulfil our obligation to society by supporting a range of social and cultural activities.

Eco-friendly, safe production

Last year we implemented a number of initiatives aimed at cutting energy consumption, noise and carbon emissions in the production halls. Work safety and workflow ergonomics were improved by measuring emissions and providing the appropriate training and instructions for the staff concerned. Compliance with environmental guidelines and industrial safety regulations is monitored on a permanent basis.

Quality-driven customer satisfaction

We also focussed heavily on product quality as part of our ongoing goal of safeguarding customer satisfaction in the long term. Pre-shipment function and software testing of web press subassemblies was greatly expanded, while new designs and features were subjected to intensive pre-production screening procedures. The test schedules for internally manufactured parts and assembled components are systematically updated as a matter of routine. The procedures for assuring the consistently high quality of bought-in parts were also expanded.

Carbon-reduced print production

Climate-friendly print production is fast becoming a central issue for the print media industry and its customers. As a supplier to the sector KBA has established an outstanding reputation in this field dating back to our early commitment in the 1990s to ecological waterless offset and sheetfed presses with reduced emissions certified by an independent body.

Users of our compact, dampener-free Cortina web presses won a string of environmental awards in 2009 and exploited its unique features to expand their business among conservation-minded print buyers. KBA-Metronic's small-format Genius 52UV sheetfed press, which is also waterless and keyless, offers a similar potential for raising users' green profile. Waterless offset minimises print waste, eliminates the need for eco-sensitive dampening additives and reduces the consumption of cleaning agents and washes. Our commitment to more ecological print production has prompted us to sponsor a number of environmental awards.

One example of our efforts last year to enhance energy efficiency and eliminate carbon emissions is the new generation of KBA VariDry^{BLUE} dryers we developed for large-format Rapida presses. The recovery and multiple reutilisation of the heat generated during the drying process can halve power consumption without impairing output or production speed. Since dryers account for as much as 40% of the total power consumed by such a press the gains can be substantial. And reducing power consumption automatically reduces carbon emissions. Similar gains can be achieved with web presses by fitting regenerative braking systems at the reelstands, whereby the energy generated when slowing the heavy reels is fed back into the power circuit.

Our compact and environmentally friendly waterless Genius 52UV can print on a wide range of different substrates

Commitment to society

An industrial enterprise with a regional and international reach is expected to fulfil certain social and cultural obligations. An example of this in 2009 was the dome built by the apprentices at our Würzburg plant for an observatory at the Friedrich Koenig grammar school in Würzburg. Our longstanding sponsorship of the Bach Festival in Würzburg is another example. Together with other print and media enterprises in the area we also organise annual benefit concerts in aid of scientific projects and charity work. The proceeds from the fourth such event, in November 2009, went to cancer research at the paediatric clinic attached to Würzburg University.

Other Reports

Competition in the commercial web press market is fierce. Our response is to maximise productivity and minimise costs

KBA

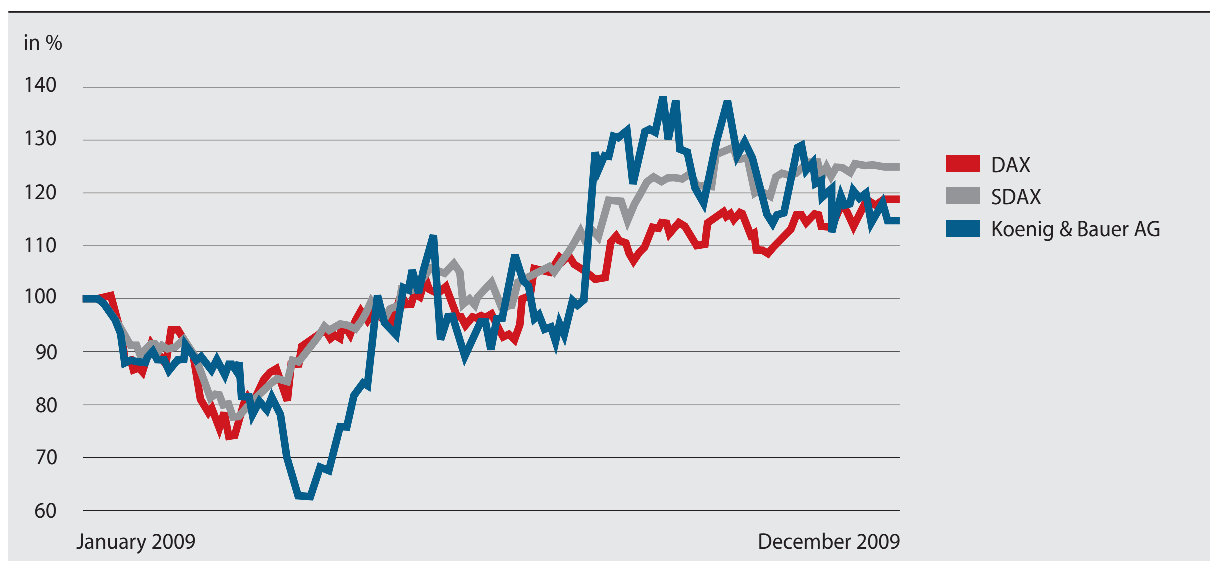
KBA Shares

Gain in value over 2008 following fluctuations

When stock markets the world over tumbled in the wake of the financial crisis that broke in September 2008, share prices in export-intensive sectors were among those hardest hit. And the new year brought scant relief as negative reports continued to undermine confidence in the economy. Nor did publicly quoted press manufacturers escape unscathed. On the contrary: their efforts to weather the market slump were further hampered by the structural changes that have been rapidly gathering momentum in the graphic arts industry in recent years driven by the growth of e-media and digital printing.

After opening at €9.67 our share price steadily declined in the first few months of 2009, reaching an all-time low of €6.15 on 9 April. Later that month it lifted above €8 again as the market was encouraged by the cost-cutting programme and Group realignment we had announced. By the beginning of June, news of the rapid implementation of restructuring measures at our sheetfed division had boosted the share price to €11.30, but it subsequently slipped to €8.75 following negative reports from the print media sector. The improved earnings and sheetfed orders posted in the half-yearly results prompted a strong recovery aided by a more favourable market climate, and on 18 September KBA shares reached a high for the year of €13.70. They then fluctuated in price between €11 and €13.60 before closing at €11.40 on 30 December, 15.2% up on the previous year. During that same period the SDAX gained 26.7% and the DAX 23.8%. This price volatility continued within similar bounds in the first two months of 2010.

Performance of KBA shares in 2009



Intensive dialogue with investors

We pursue a policy of open, timely and intensive communications with capital markets. Around 700 shareholders attended our AGM at the Vogel Convention Center in Würzburg on 18 June 2009, and we maintain close contacts with major shareholders, potential investors from home and abroad, financial analysts and business journalists. Individual interviews, conference calls and our annual investor and analyst conference, which last year was held in Frankfurt in mid-November, provide a regular forum for exchanging information. The transparency demanded with regard to Group business activities, prospects and market conditions is preserved by the publication of detailed financial statements on a quarterly and annual basis. Analysts and investors alike make brisk use of the information and data provided on our website. As a small-cap enterprise KBA is fully compliant with the international transparency obligations imposed by our listing in the Prime Standard segment of the German stock exchange.

Analysts appraisals largely positive

The performance of the Koenig & Bauer Group is regularly evaluated by large numbers of analysts. Initially, influenced by the challenges confronting the sector, their appraisals were cautious, but as the year progressed they took a more optimistic view and in the four months to January adjusted their recommendations accordingly. Management's swift and resolute action in realigning Group activities to market realities was reflected both in the financial figures disclosed and in comparative figures for the sector. Most analysts also acknowledged management's pursuit of additional business lines offering potential for growth and earnings. Around 45% of the analysts appraising KBA and other enterprises in the industry recommend buying and just as many recommend holding our shares.

Key data on ordinary shares

	2008	**2009**
Earnings per share	€ –6.18	€ 0.41
Price-earnings ratio	–	27.8
Highest price	€ 22.13	€ 13.70
Lowest price	€ 7.73	€ 6.15
Closing price	€ 9.90	€ 11.40
Market capitalisation in €m	162.2	187.3
Cash flow per share	€ 2.11	€ 1.81
Dividend	–	–

Corporate Governance

Sustainable development a primary objective

Reliability, responsibility, determination and transparency in achieving our goals are fundamental principles of management at Koenig & Bauer, and both our corporate culture and business strategy are predicated on sustainable development. For our shareholders we strive to achieve a suitable dividend and stable growth in shareholder value over the long horizon. For our customers we aspire to be an innovative and reliable partner, for our employees a caring employer keen to help them advance and for the public a company deeply engaged in cultural, social and environmental activities. KBA's long-term survival and independence are core objectives.

Koenig & Bauer is fully committed to the standards promoting accounting transparency and responsible management summarised in the German Corporate Governance Code first issued in 2002 and last amended in June 2009. The Government Commission's recommendations of 18 June 2009 relating to the Code are implemented with very few exceptions (*see below*), as are the voluntary provisions.

Disclosure of board compensation

Pursuant to section 286 (5) of the German Commercial Code (HGB) on the disclosure of management board compensation, at the Koenig & Bauer AGM on 22 June 2006 a resolution was passed to forego until 2011 the disclosure of individual board members' compensation and the details required in section 314 (1) 6a articles 5 to 9 of the HGB. A similar decision was made in respect of supervisory board compensation (provision 5.4.6).

We believe that the customary breakdown into fixed and variable elements for each of the two boards is perfectly adequate and, together with the compensation system detailed on page 17, furnishes our shareholders with sufficient information for assessing the propriety of the remuneration given. Share options and other derivatives have hitherto formed no part of such remuneration, and there are no plans for them to do so in the future.

At present the policy excess borne by members of the supervisory board for D&O liability insurance is lower than is recommended in provision 3.8 of the Code. A proposed adjustment in the supervisory board remuneration system in 2010 will include a higher excess.

Management board compensation in 2009, and pension provisions for active and retired members of the board, are disclosed in the Notes on page 96. As in 2008, compensation for the supervisory board totalled €0.1m, all of it fixed.

Nomination committee

Under provision 5.3.3 of the Code, in addition to existing committees the supervisory board must appoint a nomination committee composed solely of shareholder representatives whose brief is to recommend suitable candidates for nomination by the supervisory board at the shareholders' meeting. This committee will be appointed in 2010 in preparation for new supervisory board elections scheduled for 2011.

Management and supervisory board shareholdings

At the end of December 2009 members of the management board owned 2.6% of equity capital, members of the supervisory board 2.3%. Since we feel that such a broad disclosure is sufficient to meet shareholders' justifiable need for information, the figures for individual board members (provision 6.6) were not disclosed.

Non-minor shareholdings

Provision 7.1.4 of the Code states that the company shall publish a list of major affiliates together with their operating result in the past financial year. For competitive reasons the overview provided in the Notes on page 79 lists only the names and headquarters of such companies, the size of the shareholding and the amount of equity.

Since issuing the last declaration of compliance in February 2009 and an addition in April 2009, Koenig & Bauer has complied with the recommendations of the Government Commission on the German Corporate Governance Code, as amended on 6 June 2008, barring the above exceptions under 5.3.3, 5.4.6, 6.6 and 7.1.4. Unusually, the consolidated financial statement for the 2008 business year was made publicly accessible after the recommended 90-day deadline (provision 7.1.2) following a time-consuming strategic realignment necessitated by the financial and economic crisis.

Declaration of compliance on website

The declaration of compliance issued on 19 February 2009 by the Koenig & Bauer supervisory and management boards pursuant to section 161 of the German Stock Corporation Act (AktG) may be accessed on the Group website at http://www.kba.com/en/investor/corporate_governance.html. Amendments will be added in the event of changes being made to the Act.

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Group Balance Sheet to 31 December 2009

Assets in €m	Note	31.12.2008	31.12.2009
Non-current assets			
Intangible assets	(1)	26.7	25.2
Property, plant and equipment	(1)	227.8	234.6
Investments and other financial receivables	(2)	23.4	24.4
Other assets	(2)	1.2	–
Deferred tax assets	(6)	26.2	31.7
		305.3	**315.9**
Current assets			
Inventories	(3)	392.3	319.5
Trade receivables	(2)	325.1	276.2
Other financial receivables	(2)	26.6	24.4
Other assets	(2)	32.8	31.6
Current tax assets		2.9	1.1
Securities	(4)	10.6	15.6
Cash and cash equivalents	(5)	85.8	76.1
		876.1	**744.5**
		1,181.4	**1,060.4**

Equity and liabilities in €m	Note	31.12.2008	31.12.2009
Equity	(7)		
Share capital		42.6	42.7
Share premium		86.7	87.0
Reserves		281.8	290.1
Capital attributable to equity holders of the Parent		**411.1**	**419.8**
Liabilities			
Non-current liabilities			
Pension provisions	(8)	102.3	103.7
Other provisions	(9)	89.3	56.0
Bank loans and other financial payables	(10)	28.4	20.6
Other liabilities	(10)	3.4	0.1
Deferred tax liabilities	(6)	22.9	21.0
		246.3	**201.4**
Current liabilities			
Other provisions	(9)	186.4	156.9
Trade payables	(10)	72.1	74.8
Bank loans and other financial payables	(10)	104.5	83.6
Other liabilities	(10)	152.2	117.2
Current tax liabilities		8.8	6.7
		524.0	**439.2**
		1,181.4	**1,060.4**

Group Income Statement

in €m	Note	2008	2009
Revenue	(14)	1,531.9	1,050.4
Cost of sales	(15)	–1,246.9	–831.7
Gross profit		**285.0**	**218.7**
Research and development costs	(15)	–54.2	–46.1
Distribution costs	(15)	–161.1	–127.0
Administrative expenses	(15)	–89.4	–86.4
Other operating income	(17)	55.5	109.6
Other operating expenses	(17)	–115.7	–60.1
Operating profit/loss		**–79.9**	**8.7**
Other financial results		–0.7	1.8
Interest income		7.9	5.0
Interest expense		–14.4	–12.8
Financial result	(18)	**–7.2**	**–6.0**
Earnings before taxes		**–87.1**	**2.7**
Income tax expense	(19)	–13.9	3.9
Profit/loss for the period attributable to equity holders of the Parent		**–101.0**	**6.6**
Earnings per share (in €, basic/dilutive)	(20)	**–6.18**	**0.41**

Statement of Comprehensive Group Income

in €m	2008	2009
Net profit/loss	**–101.0**	**6.6**
Foreign currency translation	7.8	0.3
Measurement of primary financial instruments	0.1	0.3
Measurement of derivatives	–2.0	1.4
Deferred taxes	–1.7	–0.3
Gains recognised directly in equity	**4.2**	**1.7**
Total comprehensive income attributable to equity holders of the Parent	**–96.8**	**8.3**

Statement of Changes in Group Equity

in €m	Share capital	Share premium	Reserves: Recognised in equity	Reserves: Other	**Total**
1 January 2008	**42.5**	**85.9**	**–0.4**	**387.1**	**515.1**
Total net profit/loss	–	–	4.2	–101.0	–96.8
Capital increase from authorised capital	0.1	0.8	–	–	0.9
Dividend	–	–	–	–9.8	–9.8
Other changes	–	–	–	1.7	1.7
31 December 2008	**42.6**	**86.7**	**3.8**	**278.0**	**411.1**
1 January 2009	**42.6**	**86.7**	**3.8**	**278.0**	**411.1**
Total net profit	–	–	1.7	6.6	8.3
Capital increase from authorised capital	0.1	0.3	–	–	0.4
31 December 2009	**42.7**	**87.0**	**5.5**	**284.6**	**419.8**

For further information see explanatory Note (7).

Group Cash Flow Statement

in €m	2008	**2009**
Earnings before taxes	–87.1	2.7
Depreciation on intangible assets, property, plant and equipment	88.6	24.1
Currency measurement	–2.9	–
Non-cash interest income/expense	4.7	6.0
Changes in non-current provisions	–0.2	1.2
Other non-cash income/expenses	–2.0	–1.4
Gross cash flow	**1.1**	**32.6**
Changes in inventories	34.5	76.8
Changes in receivables and other assets	81.8	46.9
Changes in current provisions	12.5	–62.8
Changes in payables and other liabilities	–89.5	–58.0
Interest received	5.8	2.4
Interest paid	–7.6	–4.4
Income tax paid	–4.0	–3.9
Cash flows from operating activities	**34.6**	**29.6**
Proceeds from disposal of intangible assets, property, plant and equipment	7.4	2.8
Payments for investment in intangible assets, property, plant and equipment	–52.4	–30.2
Proceeds from disposal of investments	0.1	0.5
Payments for investments	–0.3	–0.4
Investment subsidies received	0.6	0.6
Dividends received	0.1	2.0
Cash flows from investing activities	**–44.5**	**–24.7**
Free cash flow	**–9.9**	**4.9**
Proceeds from capital contributions	0.9	0.4
Proceeds from loans	13.8	0.2
Repayment of loans	–34.0	–15.0
Other changes in equity	0.2	–
Dividends paid	–9.8	–
Cash flows from financing activities	**–28.9**	**–14.4**
Change in funds	**–38.8**	**–9.5**
Effect of changes in exchange rates	1.4	–0.2
Change in funds	–10.8	–
Funds at beginning of period	134.0	85.8
Funds at end of period	**85.8**	**76.1**

For further information see explanatory Note (I).

Notes to the KBA Group Financial Statements

(A) Preliminary Remarks

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

Consolidated financial statements for the Parent and a Group management report to 31 December 2009 were prepared in accordance with section 315a of the HGB (German Commercial Law) and published online 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 24 March 2010 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 2009 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 2009:

IAS 1	Amendments to IAS 1 Presentation of Financial Statements
IAS 23	Amendments to IAS 23 Borrowing Costs
Sundry amendments resulting from the first annual improvements project	
IFRS 1/IAS 27	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements
IAS 32/IAS 1	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements
IFRS 1	Revisions to IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 2	Amendments to IFRS 2 Share-based Payment: Conditions and Annulment
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures
IFRS 8	Amendments to IAS 14 Segment Reporting
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

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

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

Amendments to IAS 1 Presentation of Financial Statements

Amendments were made to the disclosure of non-owner changes in equity, new terminology was adopted and the Notes expanded.

Amendments to IAS 23 Borrowing Costs

Borrowing costs directly attributable to assets on or after 1 January 2009 must be capitalised as part of the cost of the asset. The option previously exercised by the Group, of recognising borrowing costs directly as an expense, is no longer available. In rare cases this will lead to a change in the valuation of assets.

IFRS 8: Amendments to IAS 14 Segment Reporting

This replaced IAS 14. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker. KBA complies in full, there were merely changes to the Notes.

Amendments resulting from the first annual improvements project

The amendments were issued in two parts: those involving accounting changes for presentation, recognition or measurement purposes (the standards affected are IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41) and those involving terminology or editorial changes with minimal impact on accounting. Individual amendments in part 1 affect the presentation, recognition and/or measurement of the consolidated financial statements, the amendments in part 2 are of minor relevance.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements under IFRS

An obligation under IAS 27 to reduce the cost of an investment when distributing revenue reserves created prior to the date of acquisition was deleted. This amendment is at present irrelevant to Group activities.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

This interpretation explains which risk positions relating to a foreign operation are relevant to a hedging relationship as per IAS 39. It has no impact on KBA.

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

		Date applicable
IFRS 3	Revised IFRS 3 Business combinations	2010
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements	2010
IAS 39	Additions to IAS 39 Financial Instruments: Recognition and Measurement of Eligible Hedged Items	2010
Sundry amendments resulting from the second annual improvements project		2010
IFRS 1	Revised IFRS 1 First-time Adoption of International Financial Reporting Standards	2010
IFRS 1	Revisions to IFRS 1 Additional Exemptions for First-time Adopters	2010
IFRS 1	Revisions to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	2010
IFRS 2	Amendments to IFRS 2 Share-based Payment	2010
IFRIC 17	Distributions of Non-cash Assets to Owners	2010
IFRIC 18	Transfers of Assets from Customers	2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	2011
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation: Classification of rights issues	2011
IAS 24	Amendments to IAS 24 Related Party Disclosures	2011
IFRIC 14	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	2011
IFRS 9	Financial Instruments	2013

IFRIC 17, IFRIC 18, the amendments to IAS 27, IAS 32 and IAS 39, the revised IFRS 1 and IFRS 3 were adopted as part of the EU endorsement process.

The issues treated in the amendments to IAS 24, the revised IFRS 1 and amendments therein, IFRIC 14, IFRIC 17 and IFRIC 18 are irrelevant to the business activities of the entities included in the statements.

Revised IFRS 3 Business combinations and IAS 27 Consolidated and Separate Financial Statements

Significant amendments to these two standards relate to the balance-sheet valuation of minority interests and the booking of changes in the proportion of ownership interest (e.g. successive acquisitions, loss of control), which may on occasions affect recognition and measurement.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement

To simplify the application of the basic principles of IAS 39, the section relating to the designation of a unilateral risk in a hedging item with an option contract was clarified with a clause to the effect that it is now possible to designate only the intrinsic value of an option rather than the value of the option in its entirety comprising intrinsic value and time value. Since the Group has designated no such options, no changes were made in the accounts.

Amendments resulting from the second annual improvements project

The improvements to IFRS serve to clarify existing regulations and eliminate unintended inconsistencies among standards. The standards affected are IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRS 16. The amendments are not expected to have any significant impact on the recognition, measurement and presentation of the consolidated financial statements.

Amendments to IAS 32 Financial Instruments: Presentation: Classification of rights issues

These relate to the accounting treatment for rights issues denominated in a currency other than the functional currency of the issuer. Rights to acquire a fixed number of the entity’s own equity instruments for a fixed price are classified as equity instruments if they are offered to all the existing owners of the same class of the entity’s non-derivative equity instruments. At present this amendment has no relevance for KBA.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This provides guidance on reporting and measuring shares or other equity instruments which are used to fully or partially settle a financial liability (debt for equity swap). It entails no changes for KBA.

Amendments to IFRS 2 Share-based Payment

These clearly state that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction. At present such amendments have no impact on the consolidated accounts.

IFRS 9 Financial Instruments

This standard is the first part of a project to replace IAS 39 and relates to the classification and measurement of financial assets. The existing four measurement categories would be replaced by two: "amortised cost" and "fair value". Whether a financial instrument is measured at amortised cost or fair value depends on the entity's business purpose for holding the instrument, and the nature of the instrument. Fair-value financial assets must basically be recognised at fair value through profit or loss, selected equity instruments may also be recognised in equity. The adoption of IFRS 9 will entail changes in the presentation of Group financial statements but is not expected to have any major impact on recognition and measurement.

(C) Accounting Policies

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

Measurement basis and judgements

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

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

Estimates and assumptions

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

For impairment tests as per IAS 36 a cash-generating unit's future cash flows are calculated using three- or five-year plans. Predictions of future market developments are founded on past experience and plans approved by management. Extrapolations of cash flows beyond the planning period are based on a growth rate of 0% to 0.8%.

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

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

Intangible assets

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

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

Property, plant and equipment

Items of property, plant and equipment were disclosed at cost less depreciation, based on the use to which they are put. Each item with a significant value relative to the total asset value was treated as a separate depreciable asset (component recognition). Manufacturing costs for self-constructed plant and equipment included an appropriate proportion of production overheads, material and labour costs. Where borrowing costs were directly attributable to a qualifying asset they were capitalised as part of the cost of that asset. Subsequent costs associated with the acquisition or replacement of an item of property, plant or equipment were capitalised and written down over the individual useful life. Replaced items were derecognised accordingly. Costs for maintenance and repairs were also recognised as an expense. No land or buildings were held as financial investments as defined in IAS 40.

Grants

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

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

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

Leases

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

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

Depreciation

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

	Years
Industrial property rights and similar rights	3 to 7
Product development costs	4 to 6
Buildings	5 to 40
Plant and machinery	3 to 15
Other facilities, factory and office equipment	2 to 12

If there was any indication that intangible assets, property, plant and equipment might be impaired these assets were tested for impairment on the balance sheet date as per IAS 36. The recoverable amount was defined as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Cash-generating units are the smallest group of units defined by the entity whose products are available for sale on an active market. Where the recoverable amount was lower than the carrying amount the difference was disclosed as an impairment loss. If the reason for an impairment no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

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

Goodwill is tested for impairment annually and attributed to the cash-generating units. 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 of between 7.4% and 8.4% (equivalent to pre-tax interest rates of 7.9% to 11.9%). Where the recoverable amount exceeded the carrying amount (goodwill included) of the cash-generating unit, the unit was defined as unimpaired. Where the carrying amount exceeded the value in use, an impairment adjustment to the lower market value was made by deducting the impairment loss from goodwill and distributing the difference among the unit assets, taking as the lower value limit the recoverable amount of the individual asset or zero, whichever was higher.

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

Financial assets

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

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

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

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

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

Cash and cash equivalents were disclosed under loans and receivables.

Derivatives
In accordance with IAS 39 all instruments such as swaps and future currency contracts were carried at fair value. They were assigned to one of three levels of a fair-value hierarchy defined in IFRS 7, where level 1 refers to quoted prices in active markets for the same instrument (without modification or repackaging); level 2 refers to quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and level 3 refers to valuation techniques for which any significant input is not based on observable market data. The derivatives disclosed in the Group financial statements were classified as level 2.

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

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

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

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

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

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

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

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

These risks are contained by a risk management system. The principles laid down ensure that risk is assessed and documented in accordance with systematic and uniform procedures. Further information can be found on pages 39-41. Derivatives in the form of marketable foreign exchange transactions (forwards, options and swaps) and interest rate hedges were used. Where the conditions defined in IAS 39 for an effective hedging relationship were fulfilled, hedge accounting was used, more specifically cash flow hedges.

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

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

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

Equity

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

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

Reserves encompassed the net profits posted and retained in previous years by consolidated companies, and adjustments arising from the adoption of IFRS, more specifically IFRS 3 in 2004. They also included translation differences relating to the financial statements of foreign entities and to changes in the market value of financial instruments after taxes, where these were not recognised as income or expense.

Pension provisions

Pension provisions were measured using the projected unit credit method described in IAS 19, based on actuarial reports that recognised the present and potential benefits known on the balance sheet date, and included an estimate of anticipated increases in salaries and pensions. Actuarial gains and losses were recognised only where they exceeded a 'corridor' of ±10% of defined-benefit obligations or plan assets (whichever was greater), divided by employees' average remaining years of service.

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

Pensions are partially financed through a funded benefit system. Obligations not covered by fund assets are carried in pension provisions at the value of the net liability.

Other provisions

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

Financial payables

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

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

Deferred taxes

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

The effect of changes in tax rates on deferred taxes was reported when such changes came into force.

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

Non-current assets held for sale

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

Earnings

Earnings were recognised at the fair value of the consideration received or claimed. Revenues from the sale of goods were recognised at the transfer of ownership or passage of risk. Earnings from the rendering of services were recognised on the balance sheet date either in full subsequent to being rendered, or else calculated using the effort-expended method, provided the amount of earnings and costs could be reliably estimated. Price reductions, rebates, bonuses and bulk discounts granted to customers were deducted from revenue.

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

Expenses by function

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

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

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

Administrative expenses included the amortisation of goodwill and negative goodwill.

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

(D) Consolidated Companies and Consolidation Principles

Consolidated companies

In addition to Koenig & Bauer AG, Würzburg, the consolidated financial statements include 12 (previous year: 12) companies.

Altogether 17 (previous year: 16) subsidiaries were excluded from the consolidated financial statements since they were of minor significance to the Group's financial position and performance.

A special fund, classified under IAS 27 and SIC 12 as a special-purpose entity, was not included in the consolidated financial statements since it was also of minor significance to the Group's financial position and performance. It was carried at fair value as an available-for-sale financial instrument under IAS 39.

Consolidation principles

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

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

(E) Foreign Currency Translation

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

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

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

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

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

in €m	Cost					
	01.01.	Additions	Translation differences	Reclassifi-cations	Disposals	**31.12.**
2008						
Intangible assets						
Industrial property rights and similar rights	48.6	2.6	1.0	0.3	2.1	50.4
Goodwill	20.0	–	–	–	–	20.0
Product development costs	5.4	–	–	–	–	5.4
	74.0	**2.6**	**1.0**	**0.3**	**2.1**	**75.8**
Property, plant and equipment						
Land and buildings	223.8	10.8	0.2	0.5	4.9	230.4
Plant and machinery	239.0	10.8	2.8	5.4	4.0	254.0
Other facilities, factory and office equipment	118.6	16.8	0.7	0.8	10.9	126.0
Assets under construction	10.5	15.4	0.7	–7.0	1.2	18.4
	591.9	**53.8**	**4.4**	**–0.3**	**21.0**	**628.8**
	665.9	**56.4**	**5.4**	**–**	**23.1**	**704.6**
2009						
Intangible assets						
Industrial property rights and similar rights	50.4	0.7	–	0.1	0.2	51.0
Goodwill	20.0	–	–	–	–	20.0
Product development costs	5.4	0.6	–	–	–	6.0
	75.8	**1.3**	**–**	**0.1**	**0.2**	**77.0**
Property, plant and equipment						
Land and buildings	230.4	6.4	0.5	15.8	1.8	251.3
Plant and machinery	254.0	8.5	0.2	6.1	1.2	267.6
Other facilities, factory and office equipment	126.0	6.4	–	0.9	8.6	124.7
Assets under construction	18.4	7.6	–0.2	–22.9	–	2.9
	628.8	**28.9**	**0.5**	**–0.1**	**11.6**	**646.5**
	704.6	**30.2**	**0.5**	**–**	**11.8**	**723.5**

[1] Business segment sheetfed offset presses

Depreciation								Carrying amount	
01.01.	Annual depreciation	Impairments	Write-ups	Translation differences	Reclassifi-cations	Disposals	**31.12.**	01.01.	**31.12.**
38.1	4.0	2.4	–	1.1	–	2.1	43.5	10.5	6.9
–	–	0.2	–	–	–	–	0.2	20.0	19.8
3.7	0.8	0.9	–	–	–	–	5.4	1.7	–
41.8	**4.8**	**3.5**	**–**	**1.1**	**–**	**2.1**	**49.1**	**32.2**	**26.7**
79.1	5.8	25.6	–	0.1	–	2.0	108.6	144.7	121.8
173.7	13.9	10.2	–	2.2	–	3.9	196.1	65.3	57.9
81.0	15.3	9.5	–	0.6	–	10.1	96.3	37.6	29.7
–	–	–	–	–	–	–	–	10.5	18.4
333.8	**35.0**	**45.3**	**–**	**2.9**	**–**	**16.0**	**401.0**	**258.1**	**227.8**
375.6	**39.8**	**48.8** [1]	**–**	**4.0**	**–**	**18.1**	**450.1**	**290.3**	**254.5**
43.5	2.6	0.3	–	–	–	0.2	46.2	6.9	4.8
0.2	–	–	–	–	–	–	0.2	19.8	19.8
5.4	–	–	–	–	–	–	5.4	–	0.6
49.1	**2.6**	**0.3**	**–**	**–**	**–**	**0.2**	**51.8**	**26.7**	**25.2**
108.6	5.1	–	3.1	–	–	1.8	108.8	121.8	142.5
196.1	12.2	–	2.4	0.1	–0.2	1.1	204.7	57.9	62.9
96.3	10.1	–	0.7	–	0.2	7.5	98.4	29.7	26.3
–	–	–	–	–	–	–	–	18.4	2.9
401.0	**27.4**	**–**	**6.2**	**0.1**	**–**	**10.4**	**411.9**	**227.8**	**234.6**
450.1	**30.0**	**0.3** [1]	**6.2** [1]	**0.1**	**–**	**10.6**	**463.7**	**254.5**	**259.8**

(G) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

The total includes €3.1m (previous year: €3.2m) for plant and machinery, and €2.2m (€4.2m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €6.4m (previous year: €7.1m).

Intangible assets

Additions to industrial rights and similar rights related to purchased software and licences.

Goodwill

in €m	31.12.2008	**31.12.2009**
Bauer+Kunzi GmbH, Stuttgart, Germany	3.4	3.4
KBA-GIORI S.A., Lausanne, Switzerland	7.2	7.2
KBA-MetalPrint GmbH, Stuttgart, Germany	9.2	9.2
	19.8	**19.8**

Goodwill was tested for impairment on the balance sheet date in accordance with IAS 36. No units would have suffered an impairment of goodwill even if interest rates had been 0.5% higher. In 2008 an impairment of €0.2m was recognised for KBA North America since the carrying amount (including goodwill) exceeded the recoverable amount of the cash-generating unit.

Property, plant and equipment

Additions to property, plant and equipment primarily related to new and replacement plant and machinery.

(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. Statements in foreign currencies show equity translated at the balance sheet date. Equity interest corresponds to the number of voting rights.

Company, location

	Capital share in %	Equity in €m
Consolidated affiliates		
KBA-Metronic AG, Veitshöchheim, Germany	100.0	6.9
Bauer+Kunzi GmbH, Stuttgart, Germany	100.0	0.9
KBA-MetalPrint GmbH, Stuttgart, Germany[1]	100.0	1.7
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	0.4
KBA (UK) Ltd., Watford, UK	100.0	0.1
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	0.7
KBA-Mödling AG, Mödling, Austria	>99.9	35.6
KBA-Le Mont-sur-Lausanne SA, Lausanne, Switzerland	100.0	57.8
KBA-GIORI S.A., Lausanne, Switzerland[1]	100.0	85.9
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	9.7
KBA North America Inc., Wilmington, Delaware, USA	100.0	1.6
Non-consolidated affiliates		
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.7[2]
KBA NORDIC A/S, Herlev, Denmark	100.0	–2.2[2]
KBA-Italia S.p.A., Milan, Italy	100.0	1.4
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	0.4
KBA-Polska Sp. z o.o., Warsaw, Poland	100.0	–0.1[2]
KBA RUS OOO, Moscow, Russia	100.0	0.4
Print Assist AG, Höri, Switzerland[1]	100.0	1.8
KBA (HK) Company Ltd., Hong Kong, China	100.0	0.8
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	0.7
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.9[3]
KBA Complete GmbH, Radebeul, Germany	50.0	0.1[3]
KBA-GIORI India Private Ltd., New Delhi, India[1]	50.0	0.4

[1] Indirect holding
[2] Deficit not covered by equity
[3] Prior-year figures

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

in €m	31.12.2008	Term to maturity		31.12.2009	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade receivables						
- from affiliates	7.9	7.8	0.1	9.7	9.6	0.1
- from companies in which interests are held	3.3	3.3	–	3.7	3.7	–
- from third parties	313.9	288.4	25.5	262.8	223.6	39.2
	325.1	**299.5**	**25.6**	**276.2**	**236.9**	**39.3**
Investments	6.0	–	6.0	5.9	–	5.9
Other financial receivables						
- from affiliates	0.3	0.3	–	0.6	0.6	–
- derivatives	2.1	1.8	0.3	1.0	0.9	0.1
- sundry other financial receivables	41.6	24.5	17.1	41.3	22.9	18.4
	50.0	**26.6**	**23.4**	**48.8**	**24.4**	**24.4**
Other assets						
- payments for inventories	23.4	23.4	–	19.7	19.7	–
- payments for intangible assets, property, plant and equipment	–	–	–	–	–	–
- tax receivables	3.6	3.6	–	7.1	7.1	–
- prepayments	7.0	5.8	1.2	4.8	4.8	–
	34.0	**32.8**	**1.2**	**31.6**	**31.6**	**–**
	409.1	**358.9**	**50.2**	**356.6**	**292.9**	**63.7**

Adopting the percentage of completion method resulted in €26.3m (previous year: €14.9m) being carried in **trade receivables**.

Sundry other financial receivables include €3m (previous year: €4m) from customer finance leases totalling €4m (previous year: €5.1m) and an interest share of €1m (€1.1m), with those due in less than one year representing €2.4m (€2.3m) of a total of €3.2m (€2.9m). The terms to maturity of the remainder were less than five years. Value adjustments of €2.2m (€2.6m) were made for the total lease sum. Other receivables from derivatives are detailed in Note (11).

Value adjustments for financial assets were based on item-by-item risk assessments. Allowance was made for potential credit risks relating to specific loans or countries. As a result of renegotiated conditions, €2.7m (previous year: €2.2m) was no longer overdue or impaired. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2008	31.12.2009
Raw materials, consumables and supplies	75.7	62.3
Work in progress	277.1	211.7
Finished goods and products	39.5	45.5
	392.3	**319.5**

The carrying amount of inventories balanced at net realisable value was €89.5m (previous year: €138.6m). Value adjustments totalling –€2.6m (previous year: €23.4m) were recognised as an expense.

(4) Securities

These refer to shares in a special fund combining stocks and bonds, and in the previous year to fixed-interest securities.

Fixed-interest securities and fund shares were valued the previous year at €3.4m.

The balanced market value of the **special fund** was €15.6m (previous year: €7.2m). This was pledged to employees in order to hedge phased retirement credits.

(5) Cash and cash equivalents

in €m	31.12.2008	31.12.2009
Cheques, cash in hand	0.1	1.1
Balances with banks	85.7	75.0
	85.8	**76.1**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2008	**31.12.2009**	31.12.2008	**31.12.2009**
Assets				
Intangible assets, property, plant and equipment	6.3	1.3	14.7	16.9
Inventories	9.3	15.2	1.0	1.6
Financial receivables and other assets	1.6	0.8	1.7	1.1
Securities, cash and cash equivalents	–	–	0.1	0.2
Equity and liabilities				
Equity	–	–	2.4	2.2
Provisions	18.8	22.5	3.0	0.7
Financial payables and other liabilities	1.4	0.9	13.0	16.0
	37.4	**40.7**	**35.9**	**38.7**
Tax loss carryforwards	1.8	8.2	–	–
Other	–	0.5	–	–
Offset	–13.0	–17.7	–13.0	–17.7
	26.2	**31.7**	**22.9**	**21.0**
- of which current deferred taxes	5.7	10.3	4.3	1.9

Deferred taxes disclosed under equity related to the translation differences carried in equity that arose from consolidation procedures. Deferred taxes recognised in equity totalled €0.3m (previous year: €1.7m).

At the end of the year loss carryforwards for which no deferred tax assets were disclosed totalled €110.7m (previous year: €104.7m), and temporary differences €67.5m (€50.2m). Although the subsidiaries concerned posted a loss for the period, deferred tax assets of €9.7m (€3.1m) were recognised in expectation of a profit.

A deferred tax liability of €1.4m (previous year: €1.5m) on temporary differences in investments was not recognised, since a sale 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 64, capital management methods on page 32.

Share capital

The Parent's share capital at 31 December 2009 totalled 16,426,053 (2008: 16,387,133) no-par shares with a nominal value of €2.60. The 38,920 increase over the previous year represents the issue of employee shares, using part of the €15.6m capital authorised by the shareholders' meeting on 22 June 2006. The remaining €15.2m was authorised until 21 June 2011. Management was further authorised to continue buying back shares up to a maximum of one tenth of the issued capital of €42.6m, with repurchasing to be completed by no later than 17 December 2010, but preferably by the end of the next AGM.

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

Share premium
Our share premium rose by €0.3m compared to the previous year, due to the issue of employee shares.

Reserves
The disclosure of primary financial instruments (securities) increased reserves by €0.3m (previous year: €0.1m).
The use of hedge accounting swelled reserves by €0.6m (previous year: €0.6m). During completion of the underlying transactions €0.8m (previous year: –€2.6m) was recognised as income.
Deferred taxes reduced reserves by €0.3m (previous year: €1.7m), with primary financial instruments accounting for –€0.1m (+€0.1m), derivatives –€0.4m (+€0.6m) and foreign currency translation +€0.2m (–€2.4m)

(8) Pension provisions
The extent of the pension obligation (defined-benefit obligation) was calculated using actuarial methods which necessarily entailed making estimates.
Calculations were based on a discount rate of 4.9% (previous year: 5.7%) in Germany and 5.8% (6.7%) in the UK, a pay increase of 3.9% (4.9%) and a fluctuation rate of 2.4% (2.1%). Pension adjustments were calculated at 2.1% (2.5%). All figures are weighted averages of the assumptions contained in the pension plans. Changes in unspecified actuarial assumptions had a negligible impact on pension obligations.
The present value of pension obligations and the current market value of plan assets changed as follows:

in €m	Present value of obligations		Current market value of plan assets	
	31.12.2008	**31.12.2009**	31.12.2008	**31.12.2009**
Status at 01.01.	**110.2**	**104.8**	**–9.4**	**–8.4**
Current service cost	2.6	2.4	–	–
Interest cost	5.7	5.8	–	–
Actuarial gain/loss	–5.2	7.8	1.1	–0.4
Expected return on plan assets	–	–	–0.4	–0.4
Contributions paid by employer	–	–	–1.0	–0.6
Contributions paid by plan beneficiaries	–	–	–0.1	–0.1
Benefits paid	–7.3	–6.3	0.2	0.2
Foreign currency changes/other changes	–1.2	0.4	1.2	–0.3
Status at 31.12.	**104.8**	**114.9**	**–8.4**	**–10.0**

The following costs and returns were recognised:

in €m	31.12.2008	**31.12.2009**
Current service cost	2.6	2.4
Interest cost	5.7	5.8
Expected return on plan assets	–0.4	–0.4
Cost (+)/return (-) for the year	**7.9**	**7.8**

Pension provisions constituted the following:

in €m	31.12.2008	**31.12.2009**
Present value of non-funded obligations	96.4	104.9
Present value of funded obligations	8.4	10.0
Present value of obligations	**104.8**	**114.9**
Current market value of plan assets	–8.4	–10.0
Current market value of obligations (offset)	**96.4**	**104.9**
Unrecognised actuarial gains/losses	5.9	–1.2
Balance sheet value at 31.12.	**102.3**	**103.7**
- of which pension provisions	102.3	103.7

Plan assets comprised €1.5m (previous year: €1.1m) from life insurance for pension schemes, €3.2m (previous year: €2.3m) from shares and equity securities, €5.2m (€4.9m) from loans and €0.1m (€0.1m) from other assets.

The actual return on plan assets was €0.8m (previous year: –€0.7m). The anticipated rate of return is 4% (previous year: 4%), based on returns in previous years.

Net liability resulted from the present value of obligations less the current market value of plan assets, and during the past four years changed as follows:

in €m	31.12.2006	31.12.2007	31.12.2008	**31.12.2009**
Present value of obligations	127.0	110.2	104.8	114.9
Current market value of plan assets	–8.8	–9.4	–8.4	–10.0
Net liability	**118.2**	**100.8**	**96.4**	**104.9**
Experience adjustments of liabilities			–0.9	–
Experience adjustments of assets			0.9	–0.4

Expenses for defined-contribution plans totalled €37.7m (previous year: €39.6m).

Payments for pension obligations in 2010 have been estimated at €6.7m.

(9) Other provisions

in €m	Status at 01.01.2009	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Reclassifi-cation	**Status at 31.12.2009**
Other provisions							
- for employees	100.2	18.2	42.8	35.4	0.8	3.9	79.3
- for sales	133.4	40.6	25.2	34.9	0.2	–	102.7
- for sundry other purposes	42.1	24.6	2.4	19.7	–	–3.9	30.9
	275.7	**83.4**	**70.4**	**90.0**	**1.0**	**–**	**212.9**
of which							
- long-term provisions	89.3						56.0
- short-term provisions	186.4						156.9
	275.7						**212.9**

Provisions for employees included expenses relating to long-service bonuses and personnel reductions, credits for phased retirement plans and performance bonuses. Sales expenses covered provisions for process risks, warranty and commission obligations. Provisions for sundry other purposes primarily related to liability insurance premiums, restructuring costs and similar obligations.

(10) Financial and other liabilities

in €m	31.12.2008	Term to maturity		**31.12.2009**	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade payables						
- to affiliates	1.2	1.1	0.1	2.6	2.6	–
- to companies in which interests are held	0.1	0.1	–	0.1	0.1	–
- to others	70.8	70.5	0.3	72.1	71.8	0.3
	72.1	**71.7**	**0.4**	**74.8**	**74.5**	**0.3**
Bank loans	63.2	42.5	20.7	48.3	35.3	13.0
Other financial payables						
- from derivatives	3.2	3.1	0.1	0.9	0.8	0.1
- sundry other financial payables	66.5	58.9	7.6	55.0	47.5	7.5
	132.9	**104.5**	**28.4**	**104.2**	**83.6**	**20.6**
Other liabilities						
- from payments received	140.5	137.1	3.4	104.4	104.3	0.1
- from taxes	13.2	13.2	–	11.0	11.0	–
- sundry other liabilities	1.9	1.9	–	1.9	1.9	–
	155.6	**152.2**	**3.4**	**117.3**	**117.2**	**0.1**
	360.6	**328.4**	**32.2**	**296.3**	**275.3**	**21.0**

Bank loans (financial liabilities) were secured by mortgages to the value of €13.3m (previous year: €9.5m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of inventory and trade receivables totalling €7.9m (€12m). The carrying amounts of secured items of property, plant and equipment came to €26.9m (previous year: €11.6m), of trade receivables €24.4m (€12.5m), of inventories €6.3m and of pledged collateral (other financial receivables) €1.1m (€1.1m). Failure to fulfil contractual obligations may result in the seizure of collateral.

Management controls Group liquidity by monitoring and planning the cash flow on an ongoing basis, taking into account agreed credit lines and the maturity structure of financial assets and liabilities.

Lines of credit not drawn down by the KBA Group at the balance sheet date totalled €74.2m (previous year: €138.5m).

Sundry other financial payables included finance leases to the sum of €8.2m (previous year: €10.8m). Standard market conditions apply to renewal and purchase options. Sale and leaseback transactions based on customer financing models were concluded, with liabilities offset against accounts receivable. Turnover was carried upon delivery of the machinery.

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

in €m	31.12.2008	Term to maturity		**31.12.2009**	Term to maturity	
		up to 1 year	1 to 5 years		up to 1 year	1 to 5 years
Minimum lease payments	11.9	3.9	8.0	9.0	2.9	6.1
Interest portion	–1.1	–0.4	–0.7	–0.8	–0.4	–0.4
Present value of finance lease	**10.8**	**3.5**	**7.3**	**8.2**	**2.5**	**5.7**

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

Other liabilities included total payments received of €23.6m (previous year: €35.3m) for construction contracts.

(11) Derivatives

At the end of the year short-term currency options denominated in US dollars were valued at €1.9m (previous year: €13.7m).

Forward contracts with a maturity of up to 1 year (2008: 2 years) were used to hedge the calculation rate of other foreign currency trade contracts. The currencies hedged were primarily US dollars.

Interest rate swaps and cap transactions relating to a sum of €7.7m (previous year: €1.7m) and with a maturity of 4 years cover a subsidiary’s existing interest risk.

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

in €m	Nominal amount Total 31.12.2008	Nominal amount Term to maturity more than 1 year	Market value 31.12.2008	Nominal amount Total **31.12.2009**	Nominal amount Term to maturity more than 1 year	Market value **31.12.2009**
Forward contracts	106.6	7.8	–1.4	36.4	–	0.1
Currency options	21.3	1.9	0.4	1.9	–	–
Interest rate hedges	1.7	1.7	–0.1	7.7	7.7	–0.1
	129.6	**11.4**	**–1.1**	**46.0**	**7.7**	**–**

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

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

(12) Further disclosures on financial instruments

in €m	Carrying amount	of which not impaired, not overdue	of which not impaired, but overdue < 3 months	of which not impaired, but overdue 3-12 months	of which not impaired, but overdue > 12 months	of which impaired
2008						
Loans and receivables	443.0	376.4	34.4	10.4	1.6	20.2
Assets held to maturity	8.0	8.0	–	–	–	–
Assets available for sale	18.4	18.4	–	–	–	–
Financial instruments recognised at fair value	2.1	2.1	–	–	–	–
	471.5	**404.9**	**34.4**	**10.4**	**1.6**	**20.2**
2009						
Loans and receivables	384.5	309.1	31.3	19.4	3.4	21.3
Assets held to maturity	8.3	8.3	–	–	–	–
Assets available for sale	22.9	22.9	–	–	–	–
Financial instruments recognised at fair value	1.0	1.0	–	–	–	–
	416.7	**341.3**	**31.3**	**19.4**	**3.4**	**21.3**

in €m	Category under IAS 39*	31.12.2008 Carrying amount	Carrying value Amortised cost	Carrying value Fair value recognised in profit or loss	Carrying value Fair value recognised in equity	31.12.2008 Fair value
Assets						
Investments and other financial receivables						
- interests in affiliates	afs	5.8	5.8	–	–	–
- loans	lar	0.2	0.2	–	–	0.2
- other financial receivables from derivatives	rafv	2.1	–	2.1	–	2.1
- sundry other financial receivables	htm	8.0	8.0	–	–	8.0
	afs	2.0	–	–	2.0	2.0
	lar	31.9	31.9	–	–	31.9
		50.0	**45.9**	**2.1**	**2.0**	**44.2**
Trade receivables	lar	325.1	325.1	–	–	325.1
Securities	afs	10.6	–	–	10.6	10.6
Cash and cash equivalents	lar	85.8	85.8	–	–	85.8
		471.5	**456.8**	**2.1** [1]	**12.6** [2]	**465.7**
Liabilities						
Bank loans and other financial payables						
- bank loans	ofp	63.2	63.2	–	–	63.2
- other financial payables from finance leases	ofp	10.8	10.8	–	–	10.9
- other financial payables from derivatives	rafv	3.2	–	3.2	–	3.2
- sundry other financial payables	ofp	55.7	55.7	–	–	55.7
		132.9	**129.7**	**3.2**	**–**	**133.0**
Trade payables	ofp	72.1	72.1	–	–	72.1
		205.0	**201.8**	**3.2** [1]	**–**	**205.1**

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

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

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

The fair value of **other financial receivables/payables from derivatives** was the market value. The figures disclosed for **securities, cash and cash equivalents** were the quoted market prices.

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

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

The maximum **credit risk** relating to financial assets corresponded to the carrying amounts.

The **liquidity risk** derived from cash flows comprising contractual payments of interest and capital on bank loans. These will result in a liquidity outflow of €36.8m (previous year: €44.4m) within the next twelve months, €18.9m (€15.2m) in one to three years and in 2008 €10.1m after three years.

31.12.2009	Carrying value			31.12.2009
Carrying amount	Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	Fair value
5.8	5.8	–	–	–
0.1	0.1	–	–	0.1
1.0	–	1.0	–	1.0
8.3	8.3	–	–	8.3
1.5	–	–	1.5	1.5
32.1	32.1	–	–	32.1
48.8	**46.3**	**1.0**	**1.5**	**43.0**
276.2	276.2	–	–	276.2
15.6	–	–	15.6	15.6
76.1	76.1	–	–	76.1
416.7	**398.6**	**1.0** [1]	**17.1** [2]	**410.9**
48.3	48.3	–	–	48.3
8.2	8.2	–	–	8.2
0.9	–	0.9	–	0.9
46.8	46.8	–	–	46.8
104.2	**103.3**	**0.9**	**–**	**104.2**
74.8	74.8	–	–	74.8
179.0	**178.1**	**0.9** [1]	**–**	**179.0**

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

in €m	Net gain/loss	from interest	from subsequent measurement due to impairment	currency impact	at fair value	from disposal	Other
31.12.2008							
Loans and receivables	–31.9	2.1	–26.3	–3.3	–	–4.4	–
Assets available for sale	5.1	4.1	–0.8	1.7	–	–	0.1
Financial instruments recognised at fair value in profit or loss	–2.6	–	–	–5.1	2.5	–	–
Other financial payables	–5.9	–5.6	–	–0.3	–	–	–
	–35.3	**0.6**	**–27.1**	**–7.0**	**2.5**	**–4.4**	**0.1**
31.12.2009							
Loans and receivables	–6.3	4.2	0.5	–0.1	–	–10.9	–
Assets available for sale	2.3	0.3	–0.2	0.2	–	–	2.0
Financial instruments recognised at fair value in profit or loss	–	–0.1	–	0.9	–0.8	–	–
Other financial payables	–5.3	–4.4	–	–0.9	–	–	–
	–9.3	**–**	**0.3**	**0.1**	**–0.8**	**–10.9**	**2.0**

Value adjustments were made of –€5.7m (previous year: €24.1m) on trade receivables, €5.4m (€2.8m) on investments and other financial receivables and in the previous year €0.2m on securities.

Foreign currency risks were assessed using a sensitivity analysis based on the premise that all currencies fluctuate in value by ±5% relative to the euro.

A 5% devaluation in foreign currencies would have increased equity by €0.6m (previous year: €3.9m) and reduced income by €0.4m (previous year: €1.2m) on the balance sheet date, whereas a 5% revaluation would have reduced equity by €0.7m (€4.3m) and increased income by €0.8m (€1.8m).

(13) Other financial commitments and contingent liabilities

Other financial commitments

in €m	31.12.2008	Term to maturity up to 1 year	1 to 5 years	more than 5 years	**31.12.2009**	Term to maturity up to 1 year	1 to 5 years	more than 5 years
Commitments from:								
operating leases	20.6	6.3	13.6	0.7	11.7	4.4	6.0	1.3
leasing and service contracts	11.9	6.7	5.2	–	13.5	5.0	8.5	–
investment plans	6.8	6.8	–	–	0.3	0.3	–	–
sundry other activities	3.8	1.9	1.9	–	0.9	0.9	–	–
	43.1	**21.7**	**20.7**	**0.7**	**26.4**	**10.6**	**14.5**	**1.3**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €6.9m (previous year: €8m) were carried in the income statement. Commitments from operating leases were stated at the minimum lease payments.

Investment plans included commitments to invest in property, plant and equipment to the value of €0.3m (previous year: €6.5m). No investment was made in intangible assets (previous year: €0.3m).

Sundry other commitments were carried at their nominal amount and included payables for repairs.

Contingent liabilities

These comprised contingencies totalling €116m (previous year: €152.7m) from financial guarantees, primarily relating to repurchase obligations to lessors and banks. The guaranteed repurchase price decreased over the term of the repurchase obligation.

Where existing risks were not classified as minor they were recognised in the balance sheet. Otherwise no provisions were created for the contingent liabilities stated.

(H) Explanatory Notes to the Income Statement

(14) Revenue

Construction contract revenue totalled €166.9m (previous year: €203m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €478m (€495m).

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

(15) Expenses by function

Cost of sales

Cost of sales included €0.4m (previous year: €0.4m) in subsidies for apprentice training, job promotion and contract development projects.

Manufacturing costs for construction contract projects still in progress on the balance sheet date amounted to €455.8m (previous year: €458.1m).

Research and development costs

While expenditure on research and development was €8.1m below the prior-year figure, at 4.4% (3.5%) it represented a higher percentage of our reduced Group turnover.

Government research grants for expenses already incurred were recognised at the time of approval, reducing research and development costs by €0.4m (previous year: €0.7m).

Distribution costs and administrative expenses

A decline in sales caused a €34.1m drop in distribution costs. Administrative expenses also fell, but by just €3m.

(16) Expenses by nature

Material costs

in €m	2008	2009
Cost of raw materials, consumables, supplies and purchased goods	680.9	433.3
Cost of purchased services	132.3	84.9
	813.2	**518.2**

Personnel costs

in €m	2008	2009
Wages and salaries	355.4	314.8
Social security and other benefits	69.7	60.4
Pensions	5.2	4.9
	430.3	**380.1**
Average payroll		
- wage-earning industrial staff	4,472	3,985
- salaried office staff	3,171	2,963
- apprentices/students	409	379
	8,052	**7,327**

Reimbursements from the Federal Employment Agency for social security expenses relating to short-time work reduced personnel expenses by €7.3m.

(17) Other operating income and expenses

in €m	2008	2009
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	3.0	2.3
Foreign currency gains	3.0	4.2
Currency measurement	5.2	2.8
Restructuring	16.6	35.1
Reversal of write-downs	8.7	15.1
Sundry other operating income	19.0	50.1
	55.5	**109.6**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–0.7	–0.7
Foreign currency losses	–12.6	–4.1
Currency measurement	–2.3	–2.8
Restructuring	–43.1	–19.7
Creation of write-downs	–35.0	–14.5
Sundry other operating expenses	–22.0	–18.3
	–115.7	**–60.1**
Other operating income and expenses	**–60.2**	**49.5**

In 2008 a restructuring schedule was drawn up for the period from 2009 to 2011 as part of the Group realignment with a smaller market volume. **Restructuring** expenses in 2009 totalled €19.7m (previous year: €43.1m). A decision made in 2008 to close down an auxiliary production plant was re-examined and repealed, resulting in a €6.2m write-up of tangible assets. Other restructuring income came to €28.9m (€16.6m).

Sundry other operating income included €25.2m (previous year: €13m) from the reversal of sales-related provisions and €12.5m from the introduction of a framework tariff agreement at our German operations. It also included insurance and compensation claims and other refunds.

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

(18) Financial result

in €m	2008	2009
Other financial results		
Income from interests in affiliates	0.1	2.0
Impairments in investments and securities	–0.8	–0.2
	–0.7	**1.8**
Interest income/expense		
Other interest and similar income	7.9	5.0
- from affiliates	(0.1)	(–)
Other interest and similar expense	–14.4	–12.8
- from pension obligations	(–5.7)	(–5.8)
	–6.5	**–7.8**
Financial result	**–7.2**	**–6.0**

(19) Income taxes

These mainly comprised the following:

in €m	2008	2009
Actual tax expense	–10.3	–3.7
Deferred taxes from loss carryforwards	–3.6	6.4
Deferred tax income from temporary differences	–	1.2
	–13.9	**3.9**

Other tax effects included €1.2m in refunds unrelated to the accounting period. In 2008 there were €1.9m in payments and €4m in income tax expense, also unrelated to the accounting period.

in €m	2008	2009
Earnings before taxes	**–87.1**	**2.7**
Group tax rate	30.0 %	30.0 %
Expected taxes	**26.1**	**–0.8**
Tax effects from		
- variances due to different tax rates	7.3	11.2
- tax-free earnings	0.7	–1.5
- write-downs	–1.1	–5.8
- non-capitalisation of losses	–39.9	–
- decreases and increases	–1.3	–0.4
- other	–5.7	1.2
Income tax	**–13.9**	**3.9**

(20) Earnings per share

	2008	**2009**
Group profit/loss for the period in €m	–101.0	6.6
Weighted average of ordinary shares issued	16,353,072	16,397,050
Earnings per share in €	**–6.18**	**0.41**

The total number of ordinary shares issued was 38,920 higher than in the previous year following the issue of employee shares in the third quarter. There was no dilution of earnings per share.

(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 and changes in the number of consolidated companies. Funds totalling €76.1m (previous year: €85.8m) included cash and cash equivalents.

Tax expense embraced tax payments of €7.1m (previous year: €8.8m) and refunds of €3.2m (€4.8m).

(J) Segment Information

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

The business segment web and special presses encompasses newspaper, commercial, directory and security presses, industrial ID systems and UV presses for printing electronic data storage media.

The business segment sheetfed offset presses constitutes commercial, book, packaging and metal-decorating presses.

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

There were no inter-segment sales.

Segment assets and liabilities included all assets and liabilities that had contributed to the operating profit generated in the business segment concerned. Segment assets primarily related to intangible assets, property, plant and equipment, inventories, trade receivables and other assets. Segment liabilities basically included other provisions, trade payables and other liabilities.

Reconciliation related to financial assets and liabilities, and consolidation between segments.

Business segments

in €m	Web and special presses		Sheetfed offset presses		Consolidation/ reconciliation		Group	
	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**
External turnover	**817.7**	**571.7**	**714.2**	**478.7**	**–**	**–**	**1,531.9**	**1,050.4**
Operating profit/loss	108.5	31.8	–188.4	–23.1	–	–	–79.9	8.7
Depreciation	21.1	17.9	18.7	12.1	–	–	39.8	30.0
Capital investments	31.1	20.6	21.3	9.6	–	–	52.4	30.2
Assets	514.5	500.1	521.9	412.9	145.0	147.4	1,181.4	1,060.4
Liabilities	333.5	267.9	215.6	173.7	221.2	199.0	770.3	640.6

The geographical regions were defined according to their significance for Group income.

Geographical breakdown

in €m	External turnover		Capital investments		Assets	
	2008	**2009**	2008	**2009**	2008	**2009**
Germany	235.5	162.8	32.9	13.0	683.3	550.5
Rest of Europe	786.8	378.4	19.4	16.2	316.0	332.8
North America	144.8	146.4	0.1	1.0	37.1	29.7
Asia/Pacific	271.5	235.7	–	–	–	–
Africa/Latin America	93.3	127.1	–	–	–	–
Consolidation/reconciliation	–	–	–	–	145.0	147.4
Group	**1,531.9**	**1,050.4**	**52.4**	**30.2**	**1,181.4**	**1,060.4**

(K) Notes to Section 285 no. 17 HGB

The auditors, PricewaterhouseCoopers, received €0.2m remuneration for audits and €0.1m for other services.

(L) Related Party Disclosures

Related parties as defined by IAS 24 are all affiliated, non-consolidated entities (*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.

in €m	2008	**2009**
Other current financial receivables at 31.12.	0.3	0.6
Trade receivables at 31.12.	11.3	13.4
Trade payables at 31.12.	1.2	2.6
Revenue	36.4	25.1

Management board remuneration totalled €2.3m (previous year: €1.2m), with the fixed portion representing €1.4m (€1.2m). No variable portion was paid the previous year because this is based on net profit.

Pension provisions were increased by €0.2m (previous year: €0.1m) for the current service cost. Remuneration for former members and their survivors stood at €1.1m (€1.1m). Supervisory board remuneration totalled €0.1m (€0.1m), none of which was variable.

€15.1m (previous year: €15.1m) was set aside for pension claims by active and retired members of the management board, and their survivors. The individual compensation specified by section 314 (1) 6 of the German Commercial Code was omitted as per section 314 (2) in conjunction with section 286 (5).

At 31 December 2009 members of the management board held 2.6% and members of the supervisory board 2.3% of Koenig & Bauer's share capital, giving a total of 4.9%.

Supervisory Board

Dieter Rampl
Chairman
Banker
Munich

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert
Deputy chairman
Business economist
Würzburg

Peter Hanzelka*
Drill operator
Coswig

Matthias Hatschek
Entrepreneur
St. Martin, Austria

Günter Hoetzl*
Representative of IG Metall
Hofheim

Dr Hermann Jung
Member of the management board, Voith AG
Heidenheim

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

Walther Mann*
Representative of IG Metall
Würzburg

Klaus Schmidt*
Director Corporate Communications, KBA
Hettstadt

Jochen Walther*
Instructor
Grossniedesheim

Professor Horst Peter Wölfel
Department of Mechanical Engineering
Technical University Darmstadt
Höchberg

* elected by the workforce

Committees

Mediation committee as per section 27(3) of the
Law on Codetermination
Dieter Rampl
Klaus Schmidt
Gottfried Weippert
Professor Horst Peter Wölfel

Human Resources Committee
Dieter Rampl
Reinhart Siewert
Gottfried Weippert

Financial Audit Committee
Reinhart Siewert
Peter Hanzelka
Dieter Rampl
Gottfried Weippert

Strategy Committee
Reinhart Siewert
Dr Hermann Jung
Klaus Schmidt
Gottfried Weippert

Management Board

Albrecht Bolza-Schünemann (until 26 March 2009)

Dr Frank Junker (until 22 September 2009)

Helge Hansen
CFO (since 6 February 2009)
President and CEO (since 27 March 2009)
Head of human resources, finances and legal affairs,
sheetfed production and purchasing
Würzburg

Claus Bolza-Schünemann
Deputy president
Executive vice-president sheetfed and web press engineering
and web press production
Würzburg

Christoph Müller
Executive vice-president web press sales,
marketing, service, purchasing and logistics
Würzburg

Ralf Sammeck
Executive vice-president sheetfed sales,
marketing and service
Radebeul

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

	Member of the supervisory board at:
Dieter Rampl	Bayerische Börse AG, Munich, Germany
Chairman	Bode Grabner Beye AG & Co. KG, Grünwald, Germany
	FC Bayern München AG, Munich, Germany
	Mediobanca, Milan, Italy
	UniCredit, Milan, Italy
Reinhart Siewert	Bank Schilling & Co. AG, Hammelburg, Germany
Deputy chairman	KBA-Metronic AG, Veitshöchheim, Germany
	KBA-Mödling AG, Mödling, Austria
	Winkler + Dünnebier AG, Neuwied, Germany
Matthias Hatschek	Buy-Out Central Europe II Beteiligungs-Invest AG, Vienna, Austria
Dr Hermann Jung	Putzmeister AG, Aichtal, Germany
Baldwin Knauf	Lindner AG, Arnstorf, Germany
Klaus Schmidt	KBA-FRANCE SAS, Tremblay-en-France, France
	KBA-Metronic AG, Veitshöchheim, Germany
	KBA-Polska Sp.z o.o., Warsaw, Poland

Other information

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

(M) Events after the Balance Sheet Date

No significant events affected the Group financial statements after the balance sheet date.

Würzburg, 24 March 2010
Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy president

Christoph Müller

Ralf Sammeck

Auditor's Opinion

We have audited the consolidated financial statements prepared by Koenig & Bauer Aktiengesellschaft, Würzburg, comprising the balance sheet, the income statement, the comprehensive income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group statements for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Nuremberg, 24 March 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Thomas Hartmann
Auditor

ppa. Claus Gossmann
Auditor

Responsibility Statement

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

Würzburg, 24 March 2010
Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy president

Christoph Müller

Ralf Sammeck

Balance Sheet for Koenig & Bauer AG to 31 December 2009

under the German Commercial Code (HGB)

Assets in €m	31.12.2008	**31.12.2009**
Non-current assets		
Intangible assets	2.9	2.2
Property, plant and equipment	157.0	143.9
Financial assets	43.3	43.5
	203.2	**189.6**
Current assets		
Inventories less payments received	163.5	127.6
Trade receivables	184.5	147.0
Other receivables and assets	102.4	112.8
Securities	8.4	13.3
Cash and cash equivalents	31.9	45.9
	490.7	**446.6**
Prepayments	**4.1**	**2.2**
	698.0	**638.4**

Equity and liabilities in €m	31.12.2008	**31.12.2009**
Equity		
Share capital	42.6	42.7
Share premium	86.7	87.0
Reserves	246.4	246.4
Retained earnings	–99.4	–109.1
	276.3	**267.0**
Special items with equity portion	**4.5**	**4.6**
Provisions		
Pension provisions	67.5	68.3
Tax provisions	4.5	4.0
Other provisions	254.7	197.4
	326.7	**269.7**
Liabilities		
Bank loans	14.4	12.3
Trade payables	41.7	45.1
Sundry other liabilities	34.4	39.7
	90.5	**97.1**
	698.0	**638.4**

Income Statement for Koenig & Bauer AG for 2009

under the German Commercial Code (HGB)

in €m	2008	2009
Revenue	1,178.4	786.2
Cost of sales	–1,032.4	–706.5
Gross profit	**146.0**	**79.7**
Distribution costs	–111.4	–76.1
Administrative expenses	–40.4	–41.4
Other operating income	45.5	82.5
Other operating expenses	–127.5	–74.4
Loss from operations	**–87.8**	**–29.7**
Financial result	–6.1	19.7
Loss from ordinary activities	**–93.9**	**–10.0**
Income taxes	–5.5	0.3
Net loss	**–99.4**	**–9.7**

Key Financial Dates

Interim report on 1st quarter 2010
12 May 2010

Koenig & Bauer Annual General Meeting
17 June 2010
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2010
13 August 2010

Interim report on 3rd quarter 2010
15 November 2010

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Consolidated Financial Statements

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