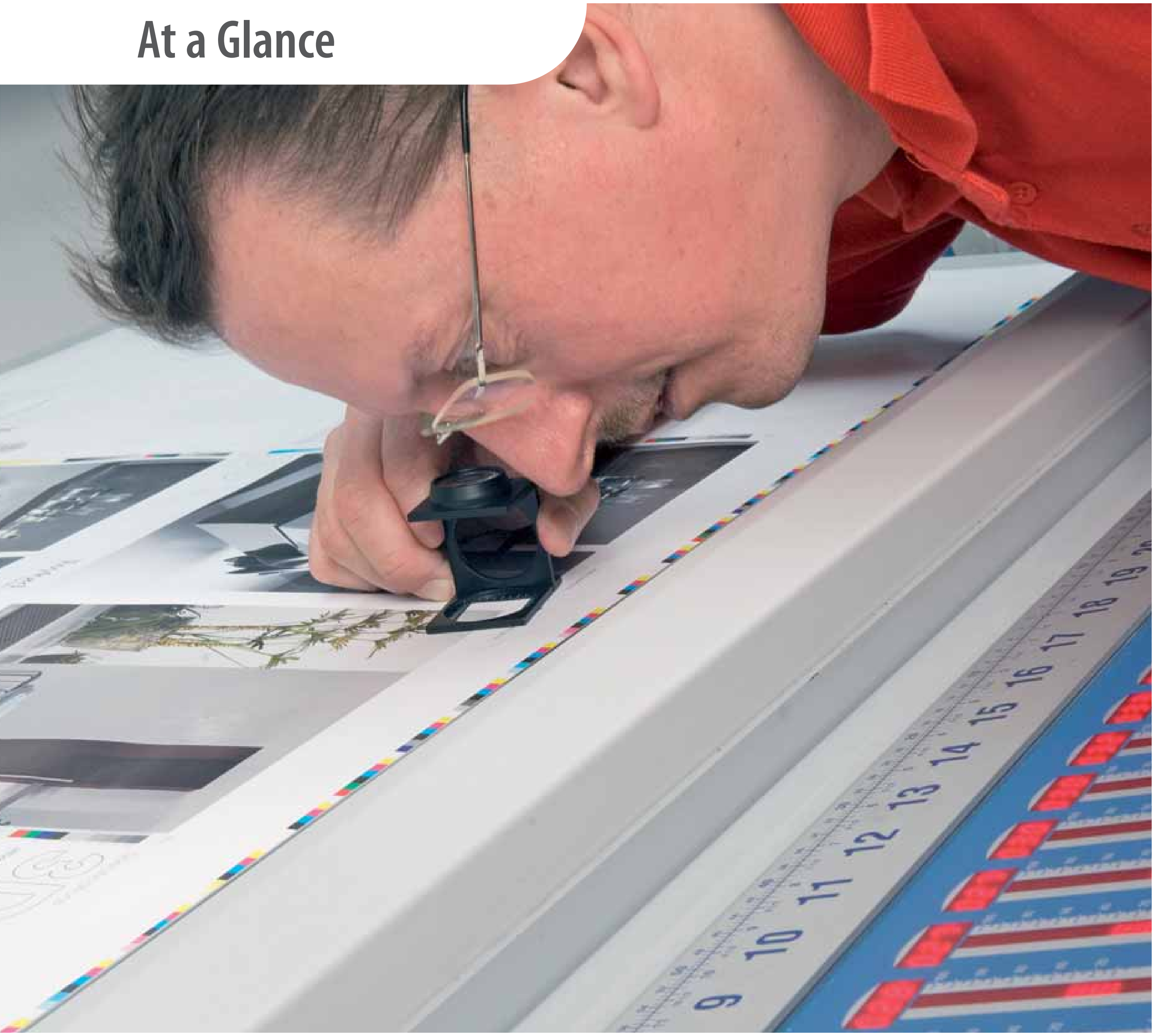
Consolidated Financial Statements 2010

KBA
Koenig & Bauer Group

At a Glance



KBA Group in Figures

€m	2006	2007	2008	2009	**2010**
Order intake	1,649.7	1,546.9	1,241.5	883.9	1,284.9
Sales	1,741.9	1,703.7	1,531.9	1,050.4	1,179.1
Order backlog at 31.12.	948.7	791.9	501.5	335.0	440.8
Operating profit/loss	46.2	65.7	–79.9	8.7	22.2
Earnings before taxes	47.4	63.2	–87.1	2.7	15.3
Net profit/loss	34.3	49.0	–101.0	6.6	12.5
Balance sheet total	1,394.2	1,366.6	1,181.4	1,060.4	1,164.4
Intangible assets, property, plant and equipment	293.1	290.3	254.5	259.8	269.4
Equity (excluding dividend payment)	468.1	505.3	411.1	419.8	456.4
Investment in intangible assets, property, plant and equipment	54.3	50.7	52.4	30.2	15.4
Depreciation on intangible assets, property, plant and equipment	41.9	50.2	88.6	30.3	31.0
Payroll: annual average	8,269	8,250	8,052	7,327	6,515
Cash flows from operating activities	90.0	21.3	34.6	29.6	30.1
Dividend per share in €	0.50	0.60	–	–	0.30

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Centre: by kind permission of L.N. Schaffrath, Geldern. Photo: Michael Neuhaus, Duisburg

Major Events in 2010

January: Dutch print enterprise Ten Brink installs four Rapida 106 perfecting presses with flying job-changing capabilities to support the fast turnarounds and short print runs associated with a shift in the book sector to on-demand production of monochrome books.

February: L.N. Schaffrath DruckMedien in Geldern am Niederrhein, Germany, becomes the first user of our new 16-page commercial web offset press, the C16, which is engineered specifically for short runs and fast job changes. Members of the international graphic arts industry have the opportunity to see demonstrations on this highly automated press at an open house in November.

March: The world's biggest litho press, a 300-tonne Rapida 185 extending 33 metres and equipped with twelve printing, coating and drying units, leaves the Radebeul production line destined for Al Bayan in Saudi-Arabia.

April: Jordan Press Foundation in Amman signs a contract for a big Commander press line, followed a few weeks later by an order from King Fahd Complex for the Printing of the Holy Qur'an in Medina, Saudi-Arabia, for two Compacta 217 commercial web offset presses.

May: Under the banner "KBA: Champions in Print", at the Ipex international trade fair in Birmingham we exhibit a Rapida 106 with a flying job-changing capability alongside our new B2 Rapida 75E, which consumes less space and energy than any comparable press for this format.

June: Express Newspapers Group subsidiary West Ferry Printers in the UK awards a contract for two Commander CT press lines totalling 22 towers, 22 reelstands and four high-performance folders. It is the biggest web press order of the year in Europe.

From left to right:
Waterless printing with the Cortina (pictured here at Südkurier in Constance) delivers substantial benefits in terms of cost efficiency, quality and the environment
Growth market Latin America: for KBA, the Expoprint trade fair in São Paulo in June 2010 was a big success
Book printing: a new Commander CT with imprinting capability for printing monochrome books is in operation at France's CPI group in La Flêche

July: On 23 July Dr Hans-Bernhard Bolza-Schünemann, a former longstanding president of KBA, dies at the age of 84. It is a sad loss both for the KBA Group and for the German engineering industry, which bids farewell to a technological pioneer and internationally respected representative.

August: Within a matter of weeks four regional newspapers – Der neue Tag in Weiden, the Badische Neueste Nachrichten in Karlsruhe, Rhein-Zeitung in Koblenz and Aachener Zeitung/Nachrichten – sign up for compact Commander CT press lines. They are followed by contracts from printers in Germany, Austria and Sweden.

September: The world's biggest printer of playing cards, Cartamundi in Turnhout, Belgium, places an order for two more medium-format Rapida 106 presses with a total of 23 units to support extensive inline finishing options. Cartamundi's US operation also has sheetfed presses from KBA.

October: China becomes our biggest single market for sheetfed presses in 2010. In large format alone the number of Rapida installations tops 30. The annual KBA roadshow, which in 2010 stopped in Beijing, Yinchuan, Jinan, Xiamen and Dongguan, has become a popular event among Chinese printers.

November: At an investor and analyst conference in Frankfurt am Main president Helge Hansen announces the prospect of higher Group sales in 2010 and a substantially higher pre-tax profit compared to 2009. Analysts' issue positive appraisals of KBA's financial stability and profitability compared to other players in the sector.

December: Following a slow start to the year our sheetfed offset division, which is based primarily in Radebeul, posts a 15% increase in sales and a big improvement in earnings compared to 2009, largely resulting from a high volume of shipments in the fourth quarter.

From left to right:
Dr Hans-Bernhard Bolza-Schünemann (r), a former KBA president and revered industry pioneer, died in July. On the left is German ex-chancellor Helmut Schmidt
China, a giant market: the annual KBA roadshow through the provinces, offering seminars and press demos, is a popular event among Chinese printers
L.N. Schaffrath in Geldern held a well-attended open house in November 2010 to celebrate the first installation of our new C16 commercial web offset press

Foreword

While press manufacturers benefited from the unexpectedly swift recovery that followed the global economic crisis, the gains were smaller than in other branches of the capital-goods industry: the 13% increase in worldwide sales of new printing equipment (excluding digital) to €4.5bn took them to barely half their pre-crisis level. However, provided there is no further international economic turbulence we anticipate a further modest improvement in 2011.

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

In the medium term, annual demand for new printing presses will level out at between €6 billion and €7 billion. Which means we must accept that figures of more than €9bn, to which we were previously accustomed, are no longer feasible. The shifting role played by print in today's media arena, along with technological advances, structural changes in the print sector and the incursion of digital print providers in the market, will clearly constrain potential for growth. This is the unanimous verdict of those familiar with this market.

Regional differences in market dynamics have become more pronounced. China and other emerging economies in the Far East and Latin America are forging ahead. There was also a palpable revival in Germany, central and eastern Europe and high-potential markets such as Turkey. More traditional markets like southern Europe, the UK and the USA are still struggling to recover from their worst economic slump in decades. There are also substantial differences among the individual print sectors. While demand for packaging printing and non-media print applications is picking up strongly, investment is more subdued among book, catalogue, magazine and newspaper printers who compete directly with online media and electronic reading devices.

The KBA Group successfully sustained its position in volatile markets and in a business environment still plagued by widespread overcapacity on the supply side. The Group order intake climbed by 45.4%, sales by 12.3% and the backlog of orders by 31.6%. Pre-tax earnings leaped from €2.7m the previous year to €15.3m, while the free cash flow swelled by more than €15m to €20.4m. This is much better than the industry average.

This improved performance was largely powered by sales of sheetfed offset presses and niche products: continuing slack demand, and shrinking backlogs from better years, meant that our web press activities contributed less to earnings in 2010 than in both the previous years. Nonetheless, the leap in figures that are widely interpreted as a measure of success indicate that the KBA Group has made good progress in adjusting to a smaller global market for printing presses.

This progress has necessitated drastic payroll cuts, which were implemented in a socially responsible manner to minimise the impact on our employees. At the end of the year the Group payroll totalled 6,419, down 550 from the same time the previous year and 1,700 fewer than before the crisis. Phased retirement schemes and voluntary redundancies scheduled for the current year will reduce the number of employees still further towards our 6,100 target.

Because we already have a much broader product base than our competitors, and thus a more complex operational structure, realigning Group activities is taking up a lot of our executives' time and energy. But the measures already approved and partially put into effect have helped us to weather the economic crisis, media transitions and their aftermath without having to resort to external financing and capital aids. The solid business and financial policies of my predecessors, and our early diversification into less volatile markets, have also played their part. A Group capital-to-assets ratio of 39.6%, and the ability to finance our operations from our own resources and to trim our relatively low level of debt still further with no capital injection from outside, distinguish KBA in a very positive sense from many other enterprises in the sector.

We are determined to maintain this course, preferring to focus on boosting margins rather than gaining market share at all costs. Since demand for conventional offset presses has perceptibly softened over the past three years in the wake of market transitions, we have signed a co-operative agreement with RR Donnelley, the world's biggest printing group, with a view to developing, producing and marketing our own digital printing systems based on advances made by this US-based giant over the past ten years. In the medium term we anticipate substantial sales volumes and earnings from this promising new business line.

The risks confronting the global economy have been exacerbated by a series of grave and far-reaching events: the continuing debt crisis in parts of Europe, with its unknown consequences for the euro, and the potential impact on energy and raw materials prices of the turbulence in North Africa and the Middle East, and the recent catastrophic events in Japan, which have shocked and shaken us all. Nonetheless we are confident that the upward trajectory that Group sales and earnings have followed over the past two years can be maintained in 2011. I am sure you will agree that last year's growth rates were high partly because they followed exceptionally poor prior-year figures, and are therefore unlikely to be repeated on this scale. For 2011 we are targeting a moderate increase in sales and earnings.

On behalf of the management board I wish to thank you, our shareholders, for your confidence in KBA, and trust you will continue to follow our progress with interest. Many thanks, too, to all our customers worldwide for the loyalty you have shown and for your faith in our products. And a big thank-you to all our executives and staff, whose unflagging commitment is so crucial to our success.

Würzburg, 24 March 2011
Koenig & Bauer Management Board

Helge Hansen
President and CEO

Supervisory Board Report

Dieter Rampl
Chairman, Koenig & Bauer AG

With the knock-on effects of the economic and structural crisis still reverberating in the print media industry, in the 2010 business year the supervisory board and its committees fulfilled their legal and statutory obligations with particular 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.

Four supervisory board meetings were held, at which KBA management provided a full and detailed report on the performance, financial position and earnings of the Parent and the Group, individual business operations and major subsidiaries. Along with market-related issues and competition in the individual business sectors the primary focus was on fundamental matters of corporate policy and planning. At every meeting the supervisory board requested a detailed update on restructuring measures and critically reviewed the Group's strategic development. Other items included investment, human resources, risk and compliance.

The meeting in March revolved around the discussion, examination and approval of the financial statements for 2009. As well as appointing a nomination committee the supervisory board approved an executive proposal that new regulations governing supervisory board compensation be implemented in the 2011 business year. This proposal was tabled at the AGM. Dr Olaf Römer, operations manager at the Group's sheetfed factory in Radebeul, was made an assistant vice-president. On 17 June we approved the division of subsidiary KBA-Metronic AG into two separate entities – KBA-Metronic GmbH and KBA-MetroPrint AG – specialising in coding technology and UV presses respectively.

The management board's business and profit forecasts for 2010, and the outlook for the web and special press division, were the subject of intense debate at the September meeting. With market prospects likely to remain subdued, even in the medium term, in November the supervisory board approved a management proposal to restructure the newspaper and commercial web press production plants as well. Management's corporate strategy for 2011 to 2013 was also elucidated and approved, as was the investment plan for 2011 and changes in management board competencies following the appointment of a new CFO.

In addition to co-ordinating the work of the various committees I fulfilled the monitory and advisory functions pertaining to my position as chairman by holding regular interplenary meetings with the management board. Helge Hansen provided routine briefings on the status quo and major pending decisions. Business transactions and projects were also reviewed and scrutinised.

Five committees assist the Koenig & Bauer supervisory board in the efficient execution of its duties by drafting supervisory board resolutions and formulating any issues that are to be raised at plenary sessions. The human resources (executive), audit and strategy committees convened a number of times. The newly formed nomination committee did not need to convene in 2010 nor, despite Group-wide redundancies, did the mediation committee appointed under section 27 (3) of the Law on Codetermination.

In a session on 23 March 2011 the audit committee reviewed the 2010 financial statements and management reports for both the Parent and the Group, with the auditors' representative summarising the results of their audit and providing further information upon request. Prior to this I had attended a meeting between management and the auditors on 7 March. Other items included the interim reports, the monitoring of auditor independence and efficiency, issues relating to risk management, internal controls and auditing, and compliance with the Corporate Governance Code.

A number of personnel issues occupied the executive committee. To ease Helge Hansen's operational workload the committee set about finding a new CFO. Following our recommendations, on 1 October 2010 the supervisory board appointed Dr Axel Kaufmann, who has a degree in business administration and international experience in industry and corporate finance.

The strategy committee examined management board proposals concerning potential new business lines and the Group's future strategic alignment, and imparted its findings to the supervisory board.

Koenig & Bauer's compliance with the German Corporate Governance Code is a recurrent item on the supervisory board agenda, and the recommendations published on 26 May 2010 were carefully appraised. KBA broadly complies with the Code and on 18 February this year the supervisory and management boards duly issued and published on the internet 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.

Nuremberg-based KPMG Bayerische Treuhandgesellschaft, the auditors approved by the AGM for the 2010 business year, examined the financial statements, management reports and method of accounting for Koenig & Bauer and for the KBA Group to 31 December 2010, and awarded them the auditor's certificate unreservedly. The auditors confirmed that the management board has put in place a risk management system conforming to section 91 (2) of German Stock Corporation Law. The statements, reports and auditors' reports for the Parent and the Group were distributed to the members of the supervisory board for perusal well in advance. The results of the audit committee's scrutiny were imparted to the supervisory board and approved together with the auditors' report. After conducting its own review the supervisory board raised no objections to the year-end financial statements and management report for the Parent. At a meeting on 24 March 2011 these were officially approved in the form submitted by the management board, as were the financial statements and management report for the Group. The management board then proposed paying a dividend of 30 cents per share, and this, too, was accepted.

The supervisory board would like to thank the members of the KBA management board, all Group employees and their elected representatives for their hard work and dedication in 2010.

Würzburg, 24 March 2011
Koenig & Bauer AG
Supervisory Board

Dieter Rampl
Chairman

Management Report

New orders for newspaper web presses in 2010 were dominated by our compact Commander CT


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Farbe
D21.7
People


KBA

Share Capital, Executive Bodies and Approved Capital Initiatives

The Parent Company's share capital at 31 December 2010 was valued at €42,808,201.80, divided among 16,464,693 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 Bestinver Gestión in Madrid, Spain, with 13.6% and MKB Holding in Vienna, Austria (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 is authorised to amend the articles in compliance with resolutions passed by the AGM, particularly with regard 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 in consecutive years. In accordance with statutory regulations compensation is structured in such a way as to promote sustainable long-term corporate development and growth. The supervisory board is entitled to a basic collective total of €100,000 for the 2010 financial year. It also receives a variable component comprising 5% of the total obtained after deducting 4% of share capital from the dividend sum. Fixed and variable remuneration for the individual members is calculated according to their responsibilities and committee activities. The AGM passed a motion on 17 June 2010 to adjust supervisory board compensation, effective 1 January 2011. 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 €15,180,638.20 of authorised capital remaining from an increase previously approved by shareholders. €1,205,638.20 or 463,707 new shares were available. Koenig & Bauer employees were offered blocks of 20 no-par bearer shares at a preferential price of €6.50 per share. 41.1% of the workforce took advantage of this scheme, signing up for 38,640 shares which were issued on 24 September. At the end of the year the remaining authorised capital came to €15,080,174.20 or 5,800,067 no-par shares, and may be drawn on until 21 June 2011. 464,693 shares have been issued to employees since the scheme was launched in 2002. This represents 2.8% of our subscribed capital.

All aggregates are subjected to exhaustive function tests prior to shipment

Authority to purchase shares

The AGM on 17 June 2010 also authorised the management board to purchase and allot company shares on a non-pre-emptive basis up to a maximum of 10% of the issued share capital of €42,707,737.80. This authority, which is valid until 16 December 2011, is purely a contingency measure permitting Koenig & Bauer to purchase shares at short notice and use them as a negotiating tool for acquisitions of other companies or shareholdings. No shares had been purchased by 31 December 2010.

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

Early diversification has stabilising impact

In August this year Koenig & Bauer, the Parent, will celebrate its 194th anniversary. Its founders, Friedrich Koenig and Andreas Bauer, formed the company in 1817, five years after inventing the mechanical cylinder press in London. The original factory – the first of its kind worldwide – was established in a secularised monastery in Zell, just across the river from our present location outside Würzburg, and is generally considered to be the birthplace of the globally dominant German press engineering industry – it is the origin, directly or indirectly, of all the major domestic press manufacturers. Koenig & Bauer became a public limited company in 1920, with the founding family long retaining a majority shareholding. In 1985 the company listed on the Munich and Frankfurt stock exchanges, and joined the SDAX in 2004.

Our new 16-page C16 addresses a shift towards shorter print runs in the commercial press market


C16

KBA has the broadest product range of all major press vendors in both volume and niche markets. In the recent economic crisis the early diversification of our activities through acquisitions and organic growth proved to be an asset. Our main factory in Würzburg and our plants in Trennfeld and Frankenthal primarily develop and build newspaper and commercial web presses. KBA is the global leader in newspaper press technology, with a market share of some 40 per cent.

Our production plant in Radebeul (near Dresden) and our Czech subsidiary KBA-Grafitec cater to the sheetfed offset sector, the biggest by volume. The small-, medium- and large-format presses they build are distributed from Radebeul and mostly go to book, packaging and commercial printers. Our global market share averages around 17%, increasing with format size: in large format it is over 50%. Niche markets such as security printing, metal decorating, UV printing and industrial coding are addressed by subsidiaries in Germany, Austria and Switzerland. Most of them have their own development, manufacturing and distribution facilities.

The ongoing structural changes in print and media markets notwithstanding, innovative press technology for wide-ranging applications will remain our core business. Our proposed expansion into high-growth digital print technology in 2011 will help to balance the diminished demand for offset we anticipate in the long term. Management continues to vet potential new ventures outside the printing industry. The applications being considered – packaging and thermal solar technology – are no foreign territory: we already have a sound knowledge base, the pertinent engineering and project management skills, modern manufacturing facilities and years of experience in international markets.

Our Group financial statements differentiate between our batch-based sheetfed activities and our web and special press activities, which are dominated by large-scale installations. On a long-term basis the two divisions tend to contribute equally to Group sales. Over the past two years, sales of web and special presses accounted for more than 50% of the Group total because the economic crisis had a more immediate impact on our sheetfed division.

KBA has been an international player for almost 200 years now, with exports routinely generating over 80% of Group output. We are thus heavily dependent on foreign markets, and recent years have brought major shifts in regional sales volumes. The financial crisis has accelerated and intensified this process. The USA, which though showing signs of a recovery has long been losing ground, has been overtaken by the Far East with China at its head. Growth in the Americas is being driven by countries in the south, primarily Brazil. In Europe the differences are even more marked. Italy and Spain, two major markets for German press manufacturers, are battling with a severe economic downturn and a debt crisis that has spread throughout the Mediterranean. In the UK there is little sign of an imminent stable upturn. However, demand has revived in central and eastern Europe. In the long term we see growth opportunities shifting to densely populated threshold countries in Asia and Latin America.

International Group Organisation and Financial Controls

Long-term planning in shareholders' interests

Despite a two-year hiatus in dividend payments and frequent plunges in our share price, the recent crisis has shown that in focussing on the long horizon, rather than on quarterly performance and the short-term impact on stock markets, we are pursuing the right business strategy both for the Group and for our shareholders. This is evident in the fact that KBA shares have outperformed the sector over the past three years. Through our own resources we have weathered what has been a challenging period for all export-driven press manufacturers. We have accomplished this without drawing on state aid, taking on more debt or seeking an injection of fresh capital from shareholders. The wisdom of making provision for lean times during times of plenty is often forgotten in debates on shareholder value, which tends to be defined in terms of dividends and short-term gains.

While shareholders have a justified interest in maximising the return on their investment, in the form of value enhancement and dividends, personal experience has caused many of them to appreciate anew the benefits of a corporate strategy predicated on reliability, sustainability, risk containment and prudence in husbanding the capital they have placed at our disposal. Our commitment to such values is unwavering and this has been reflected in our share price over the past twelve months. It is a commitment that embraces clear communications and vital transparency in all our dealings with investors, customers, employees and suppliers.

Over the past two years we have made good progress in realigning Group activities with current and anticipated changes in the print and media arena, but have not finished yet. The capacity, cost and personnel adjustments we have made were not always easy, but there was simply no alternative. The in-house production of items previously outsourced certainly helped to cushion the impact of fluctuating demand on plant utilisation, as indeed did short-time work, but since the latter can never be anything but a temporary solution for both the company and the workforce, we are making every effort to conclude the restructuring measures with all possible speed.

Corporate control is based on three-year business plans which are drawn up annually, with monthly updates of key economic parameters. In recent years we have refined our planning and reporting procedures still further, ensuring prompt and realistic feedback on the status quo and our objectives.

In 2010 price erosion continued to occupy the printing press sector, which overcapacity has made a buyers' market. Nonetheless, progress in downsizing our operations, cutting costs and boosting sales the previous year enabled us to post a substantial increase in pre-tax profit compared to 2009. Enhancing our production flexibility while slimming our cost base remains a major focus of our activities in 2011.

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. An extensive training programme, the active engagement of staff in internal enhancement, quality and environmental initiatives, our annual employee share scheme and our sponsorship of innovation and environmental awards, cultural events, social initiatives and other activities bring this philosophy to life.

Global Operations

Uneven growth in individual market sectors

Exports accounted for three-quarters of our annual sales long before globalisation became a media buzzword. Underpinning this is an international sales and service network with the flexibility to adapt continually to shifts in market and customer demands, while retaining its efficiency. We have sales and service subsidiaries throughout Europe, in the Americas, Asia and Australia. Elsewhere KBA is represented by agencies. This lean organisational structure has served us well, particularly in times of crisis.

KBA has eight production plants in Germany and other European countries. The post-meltdown slump in demand led us to increase the proportion of mechanical components manufactured in-house, distributing the workload across multiple locations.

With the US and Canadian markets showing signs of a tentative revival, our subsidiary KBA North America in Dallas, Texas, booked a much bigger influx of new orders following a weak prior year. Since it has yet to move back into the black despite rigorous cost-cutting, this is the goal we shall pursue in 2011, supported by a solid backlog of orders from the end of last year. We are hoping that the perceptible upturn in the printing-press sector across the Atlantic will assist our efforts by stabilising.

At our Austrian subsidiary, KBA-Mödling, an increase in the number of aggregates for our main sheetfed facility in Radebeul, and brisk demand for security presses, brought a lift in sales compared to the previous year, and a profit. We are confident that this upward trend will continue in 2011.

Our Czech subsidiary KBA-Grafitec, a specialist manufacturer of small-format Rapida presses based in Dobruška, failed to meet its sales targets in a challenging market environment. This was due to a number of factors: difficulties with financing investments, a diminishing number of users in mature markets, fierce competition from digital print providers and an excess of suppliers for the size of the market. As a result KBA-Grafitec, which is consolidated in the sheetfed division, posted a loss in 2010. However, we are hopeful that a new generation of presses launched last May, and the realignment of sales activities, will enable the company to move back into the black by the end of this year.

The market recession also impacted on some of the products manufactured by KBA-Metronic in Veitshöchheim, near Würzburg. While there was a modest lift in demand for its industrial marking and coding systems, sales of UV presses for printing on plastic, film and digital data storage media were lower than expected. Since these two lines of business are quite distinct, in the summer we split the company into KBA-MetroPrint AG (for UV) and KBA-Metronic GmbH. This allows each operation to focus more intently on its respective market. Both subsidiaries are incorporated in our web and special press division. Weak demand resulted in a loss by KBA-MetroPrint, but KBA-Metronic posted a pre-tax profit.

Stuttgart-based KBA-MetalPrint, which makes metal-decorating presses and thermal air-purification systems, posted a double-digit leap in new orders and sales compared to the poor prior year. Restructuring measures and revived demand helped to improve pre-tax earnings. Even so, revenue was well below the high level of 2008 and the company incurred a loss.

Business and profits were healthy once again at our Lausanne-based Swiss subsidiary KBA-GIORI, the global market leader in banknote and security presses. On 6 January this year the company was renamed KBA-NotaSys SA.

Sales by our small Dutch subsidiary Holland Graphic Occasions (HGO) in Wieringerwerf, which deals in second-hand presses, were above target and delivered a small profit. While our consolidated sales subsidiary KBA-FRANCE failed to break even, KBA (UK) posted a profit despite the fact that sales dived along with the UK economy.

Purchasing, Production and Organisation

Enhancing productivity and efficiency

To maintain our outstanding position in the international printing-press market on a long-term basis we must pursue demand-oriented innovation, control production costs to keep them competitive, shorten lead times and minimise the amount of capital tied up at any one time. A highly professional purchasing department, efficient manufacturing technology and the ongoing optimisation of processes and structures are key.

Timeliness and cost reduction the primary focus in purchasing

As the economy perked up, the situation in the procurement market gradually changed in the course of the year. The inflow of new orders for sheetfed presses revived in the spring, fuelling a demand for more components in the second half-year. This upsurge in demand was largely met by casting parts and manufacturing mechanical components and subassemblies internally, spreading the workload among our various production plants so as to offset poor levels of capacity utilisation at our web press factories. An adequate provision of bought-in parts was also secured, whereby close alliances with our suppliers proved to be a big asset. Alongside the punctual delivery of raw materials and finished parts, trimming procurement costs is a primary and ongoing objective, and sustainable savings were achieved last year by streamlining our commodities management still further, cutting costs through substitution, conducting value analyses and expanding the number of Group-wide framework agreements. The recruitment of new suppliers was supported by a multilingual electronic purchasing system.

Targeted investment

Preparations for refurbishing the foundry at our Würzburg plant in 2011 were completed with the appointment of a general contractor. The installation of a new lathe, also in Würzburg, means that cast impression cylinders for medium-format sheetfed presses can now be processed

One-stop machining of a web press side frame at our Würzburg factory


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alongside cylinders for web presses. At our Radebeul factory, moving assembly line facilities were extended, as was multiple machine operation in the manufacturing hall. A new high-output laser system for engraving the inking and coating rollers will enable us to achieve a better quality more cost-effectively.

Better IT infrastructure for sales

The cost-effective support of Group-wide communications and business processes and an update of our IT infrastructure were two major objectives in 2010. Our sheetfed division started using Salesforce.com, a specialist provider of customer-relationship management (CRM) software that supports global sales planning and control using cloud computing, and allows data to be accessed reliably and securely via the internet without the need for expensive in-house hardware or software. Invoicing is based on the level of usage. Once this system has been fully installed our sales, marketing and service operations worldwide will be able to access customer and market data in a single database. Globally standardised processes will improve market and planning transparency, and thus predictability. In addition they will enable us to customise and submit offers for new kit or services much faster, irrespective of location. Our sheetfed sales staff were also given a useful new tool called a product configurator. This is a software production management (SPM) system that facilitates the configuration, pricing and quotation of complex products and services.

Improving customer proximity

All engineering, capacity planning, project management, assembly and installation activities at our web press facilities were reorganised and obstacles in the workflow eliminated. A central co-ordinating unit for commercial and newspaper presses was created to expedite order fulfilment.

Media transition: printed newspapers are facing fierce competition from the internet

Research and Development

Innovation bears fruit

With the recession still impacting on markets the world over, timely innovation in a fiercely competitive environment paid dividends. For example, the compact press platform developed in Würzburg over the previous decade, in defiance of mainstream opinion, proved to be the preferred choice for a string of orders booked last year, chiefly in Europe. Drawing on our unparalleled expertise in newspaper press technology we increased our global market share to more than 40%.

Until three years ago sales of compact presses were dominated by our environmentally friendly waterless Cortina, but in 2009 its conventional counterpart, the Commander CT, featured more strongly and in 2010 this trend continued. Alongside contracts from the UK, Austria and Sweden, most of the orders we booked were placed by regional newspaper publishers in Germany and were for double- and triple-wide configurations for webs up to 2.1 metres (7 feet) wide. Until then German printers had generally preferred satellite presses, and standard tower presses had made little headway.

Another example of the need for sustained R&D activities during challenging times is the high market acceptance of the Rapida 106 litho press built in Radebeul. Launched at Drupa 2008, and exhibited last May at the Ipex international trade fair in Birmingham with an array of unique features that included flying job changes and closed-loop colour control, it has become the benchmark in medium format. Well over 100 Rapida 106 press lines with shaftless DriveTronic SPC dedicated drives have been shipped to date, several with the new flying job-change option.

In November last year print demonstrations on a new 16-page commercial web press, the C16, were given for members of the international print trade at first-time user L.N. Schaffrath in Geldern, Germany, near the Dutch border. The fast job changes possible with this highly automated press, and its low level of start-up waste, address a shift towards shorter runs for magazines and promotional literature, and make the C16 a focus of keen market interest.

Our development engineers in both divisions continued to drive advances on a number of fronts, among them energy efficiency, makeready minimisation and productivity enhancement through higher automation. Most of their activities centred on new products for the next Drupa in June 2012, and target our core commercial, packaging and newspaper markets as well as niche applications within the packaging and security markets. Some products are already undergoing field tests.

KBA's reputation as an innovator in press engineering was reaffirmed at the end of the year by the *Wall Street Journal*'s Patent Scorecard™ for heavy industrial equipment in the USA, which ranked KBA 24th among the top 50, ahead of another major German press manufacturer. Including customer-specific innovations, the proportion of R&D to total Group sales in 2010 was over 4%.

Market and Industry Environment

Upturn lacks momentum

While the demand for printing presses picked up in individual regions and sectors, this revival was patchy, and on the whole the upward momentum was weaker than in many other sectors of the engineering industry. The main reasons for this are changes in media consumption, which are accelerating a structural transition in the print media industry. Worldwide orders for new sheetfed presses (excluding digital) approached €4.5bn, just half the average level for 2006 and 2007. The prime engines of growth were Asia and Latin America, with China streaking ahead to become our biggest export market for sheetfed presses by a substantial margin. In Europe and, more particularly, in North America, investment volumes were well below their pre-crisis levels, although in most countries more orders were booked than in the prior year. One negative exception was southern Europe, where weak growth and budgetary issues acted as a deterrent.

Market developments in 2010 highlighted the long-standing shift in demand towards emerging economies in the Far East and South America, which the crisis has only served to hasten. According to the German Machinery and Plant Manufacturers' Association (VDMA), the proportion of exports to Asia by German manufacturers of printing presses and papermaking equipment climbed from 17.1% in 2000 to 33.2% last year. It also noted a substantial and persistent decline in investment by printers in sectors such as newspapers, magazines and catalogues that compete head-on with online media. While our web press business has been severely affected by this internet-driven media shift, our sheetfed activities have been benefiting from strong growth in the packaging sector. Most of the subsidiaries specialising in non-media applications are incorporated in our web and special division, which is why the slump in demand for web presses was less critical for KBA than for our direct competitors.

45.4% leap in orders strengthens market position

In 2010 KBA outperformed the industry, booking a 45.4% jump in the Group order intake to €1,284.9m (2009: €883.9m), and strengthening still further our position in both the web and sheetfed sectors. There was also a welcome increase in new orders for metal-decorating, coding and security presses.

Our sheetfed division won contracts worth €621.6m. While the 33.8% improvement compared to the previous year (€464.6m) was largely generated in Asia, there was brisk demand from printers all over the world for our medium-format Rapida 105 and 106. Sales of large-format presses also surged, particularly in the Far East. But sales of small-format press were disappointing, not just for us but for all vendors.

The influx of new orders for web and special presses soared by 58.2% to €663.3m (2009: €419.3m). As in previous years there were substantial regional differences in demand for web presses. Our biggest contract in 2010 – and the biggest in Europe for any vendor – was awarded by Express Newspapers Group in the UK. Orders for newspaper and commercial web presses were placed by printers in Australia, Austria, Bulgaria, Cameroon, China, France, Jordan, the Netherlands, Saudi-Arabia and Sweden. Investment by German newspaper printers has been remarkably brisk: between July 2010 and February this year a total of seven regional publishing houses signed up for our compact Commander CT newspaper press.

The Group order backlog at the end of December was worth €440.8m, 31.6% higher than the prior-year figure of €335m. The sheetfed division's contribution of €162.7m (2009: €92.2m) ensured that our Radebeul factory was kept busy in the first quarter of the current year. Although the increase in the backlog of orders for web and special presses from €242.8m to €278.1m safeguards a basic level of plant utilisation, it is not enough to keep production running at full capacity on a prolonged basis.

Group business operations: order intake / sales / order backlog

in €m	2009	**2010**
Order intake	883.9	1,284.9
sheetfed offset presses	464.6	621.6
web and special presses	419.3	663.3
Sales	1,050.4	1,179.1
sheetfed offset presses	478.7	551.1
web and special presses	571.7	628.0
Order backlog	335.0	440.8
sheetfed offset presses	92.2	162.7
web and special presses	242.8	278.1

Earnings, Finances and Assets

Earnings
Improved performance

Demand for printing presses started to rebound in the spring, and as a result Group sales climbed by 12.3% to €1,179.1m (2009: €1,050.4m). Higher revenues and the cost savings delivered by the ongoing Group consolidation enabled us to post a pre-tax profit after interest of €15.3m, a big improvement on the previous year's €2.7m. This was despite intense downward pressure on prices in the market for large-scale press lines.

Upsurge in sheetfed sales

Our sheetfed division boosted sales to €551.1m, 15.1% up on the figure of €478.7m the year before, and increased its share of the global sheetfed market to 17%. Its contribution to total Group sales rose from 45.6% in 2009 to 46.7%.

Growth in sheetfed sales was largely powered by our medium-format Rapida 105 and 106. While the Rapida 105 is more popular in China and many other dynamic markets, the high-performance Rapida 106, with its array of unique automation features and exceptional versatility, appeals more to big industrial enterprises. In large format, we profited from renewed investment by packaging printers in the West and surging demand in China, Southeast Asia and eastern Europe. Even though competition in this sector was intensified by the incursion of a further German rival, we were able to defend our pole position and meet our sales targets. However, sales of the small-format presses built by our Czech subsidiary and distributed by our Radebeul operation were below target. This was largely attributable to credit constraints and mounting competition from digital print. On the bright side, there was a substantial increase in the number of new bookings for the metal-decorating presses and thermal air-purification systems built by our subsidiary KBA-MetalPrint in Stuttgart.

10% lift in sales of web and special presses

Our special-press business was brisk and we defended our number one slot in the newspaper press market with a share of over 40%. Even so, a diminished backlog of orders at the beginning of the year and slack sales until the summer months meant that sales of web and special presses improved by just 9.8% to €628m (2009: €571.7m).

Sales of newspaper presses were dominated by shipments of our compact Cortina and Commander CT to customers in Europe and North America. These highly automated, versatile and user-friendly presses, which can even be used to print semi-commercials and books, made a major contribution towards consolidating our pole position in the global market. Along with two new installations in Scandinavia, in summer last year an environmentally friendly waterless Cortina press came on stream at longstanding KBA customer Rheinische Post in Düsseldorf. Canadian print group Transcontinental fired up four Commander CT press lines with heatset dryers, while the CPI group in France, the European market leader in book printing, pushed the button on a Commander CT which had been specially modified for printing monochrome paperbacks. Shipments of web presses for printing commercials, magazines and catalogues included two new presses, the C16 and C48 SG. The 16-page C16 made its debut at L.N. Schaffrath in Geldern, Germany, while the C48 SG – the first 48-page short-grain KBA press worldwide – went to longstanding customer Em. de Jong in Baarle-Nassau, Netherlands. With the aid of these new presses, which are engineered for fast job changes and short print runs, we are aiming to increase our share of the world commercial press market to around 17% and, if possible, beyond.

Higher export level

An increase in sheetfed sales failed to offset a decline in deliveries of web presses. As a result domestic sales fell from €162.8m to €135.7m, pushing our export level up to 88.5% (2009: 84.5%). With economic issues in southern Europe, the UK and other major markets unresolved, total European shipments slid from €378.4m to €335.3m. As a result the proportion of Group sales generated in Europe dropped from 36% to 28.5% – again, well below the historic average of 50%-plus for what is one of our core markets.

China an engine for growth

Sales to the rest of Europe were surpassed in the Group rankings by sales to Asia and the Pacific, which generated 29.4% of the total compared to 22.5% in 2009. Brisk demand in China for sheetfed presses was a major factor contributing to total revenues of €347.1m (2009: €235.7m).

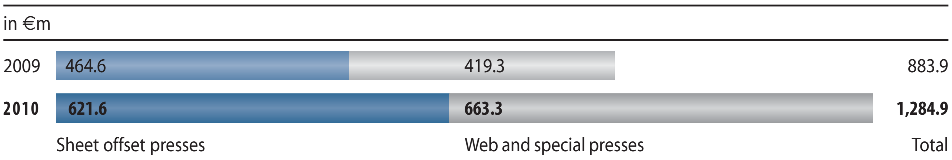
North American markets subdued

North America, which in the past was a prime market for German press manufacturers, still showed no sign of a perceptible recovery. While orders for sheetfed presses revived, sales tumbled from €146.4m in 2009 to €118.3m, reducing the proportion of the Group total from 13.9% to just 10%.

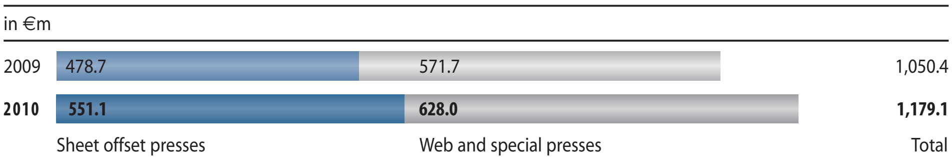
Big gains in Latin America and Africa

Sales to the threshold markets of Latin America and Africa soared from €127.1m in 2009 to €242.7m, pushing up the regional total from 12.1% to 20.6% of Group sales. This is well above the long-term average.

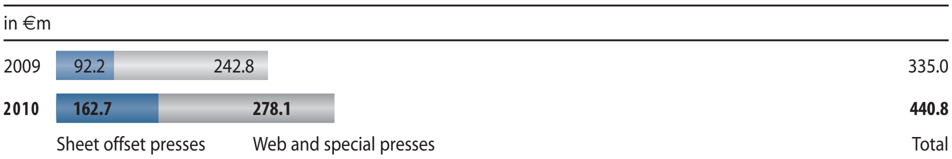
Group order intake



Group sales



Group order backlog



Cost savings boost gross profit margin

The 12.3% increase in sales was not paralleled in the cost of sales, which rose to €865.6m (2009: €831.7m). Gross profit swelled from €218.7m to €313.5m, our gross profit margin from 20.8% to 26.6%.

Substantial 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 €45.2m, not far off the prior-year figure of €46.1m. An increase in new orders and shipments, and thus agency commissions and outbound freight, drove distribution costs up from €127m to €154.2m. Administrative expenses of €87.7m were only a little higher than in 2009 (€86.4m). While other operating income fell to €88.5m from €109.6m, other operating expenses jumped from €60.1m to €92.7m as provisions were made for restructuring our web press facilities. Overall, the KBA Group made an operating profit of €22.2m, a substantial improvement on the 2009 figure of €8.7m. At €29.5m, earnings before interest, taxes, depreciation and amortisation were down on the previous year (€34.6m).

Price erosion and poor levels of plant utilisation at our web press factories were partially balanced by flourishing service and niche activities, enabling our web and special press division to post a profit of €14m (2009: €31.8m). In our sheetfed division the benefits of the restructuring initiative launched the previous year finally worked their way through to the bottom line, helping to transform an operating loss of €23.1m into a profit of €8.2m – despite the fact that sales did not pick up until March, and for the first five months of the year our Radebeul plant was on short-time work and running below capacity. In view of the substantial order backlog at the beginning of the current year, and a steady flow of new contracts in the early months, we are confident that this upward trend will continue in 2011, provided the optimistic projections for global economic development are fulfilled.

Pre-tax profit exceeds €15m

While a lower level of bank debts trimmed interest expense from €12.8m to €12.1m, interest income was more or less unchanged at €4.9m (2009: €5m), resulting in a financial loss of €6.9m (2009: a loss of €6m). However, we boosted pre-tax profit (EBT) from €2.7m to €15.3m.

Dividend of 30 cents per share

We posted a net Group profit after tax of €12.5m (2009: €6.6m) and earnings per share of 76 cents (2009: 41 cents). In view of this improvement the management and supervisory boards will table a motion at the AGM on 16 June to pay a dividend of 30 cents per share.

In 2010 Asia and the Pacific topped our regional sales rankings

Geographical breakdown of sales

in %	2009	2010
Africa/Latin America	12.1	20.6
Asia/Pacific	22.5	29.4
North America	13.9	10.0
Rest of Europe	36.0	28.5
Germany	15.5	11.5


KBA
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Finances

Focus on internal financing

A strong financial profile and high equity ratio are key strategic elements in maintaining our financial and entrepreneurial flexibility. Cash flows from operating activities met all our capital requirements in 2010 and also allowed us to scale back our external funding commitments still further. Liquid assets increased substantially. We have access to ample financial reserves via pre-secured credit lines. None were drawn down for cash purposes, but use was made of them for securing prepayments. In addition to mitigating currency risks, for which purpose the Group treasury unit deploys a number of instruments (*see management report, pages 39-40*), reducing our working capital is a primary and ongoing objective of our financial management activities.

Positive cash flow

The larger volume of incoming orders pushed customer prepayments up from €104.4m to €153m. These, together with higher earnings, higher provisions and smaller inventories, caused a small increase in cash inflows from operating activities to €30.1m from €29.6m, despite a jump in trade receivables. After deducting outflows for investing activities the free cash flow surged from €4.9m in 2009 to €20.4m. Cash outflows from financing activities, which mainly comprised the repayment of loans, fell from €14.4m to €5m.

High net liquidity

At the end of December liquid assets totalled €91m (31.12.2009: €76.1m). After deducting €43.1m for bank loans, down from €48.3m (*cf pages 85-86*), our net financial position, at €47.9m, was much stronger than in the previous year (€27.8m) and well above the average for the engineering industry.

Equity ratio of 39.6%

Net profit, foreign currency translations and the issue of employee shares raised total equity by €41.5m to €461.3m at the end of the year (2009: €419.8m). The ratio of equity to the much bigger balance sheet total remained unchanged at 39.6%.

Further drop in bank loans

Although we trimmed bank loans and trade payables, total liabilities swelled from €640.6m to €703.1m due to an increase of €48.6m in customer prepayments and of €22.4m in provisions. Alongside a modest rise in pension provisions the jump in other provisions from €212.9m to €234.4m was chiefly attributable to restructuring measures at our web press plants and sales-related obligations. Our debt-to-equity ratio eased down from 152.6% to 152.4%.

Group income statement

as % of sales	2009	2010
Cost of sales	–79.2	–73.4
Research and development costs	–4.4	–3.8
Distribution costs	–12.1	–13.1
Administrative expenses	–8.2	–7.4
Other income/expenses	4.7	–0.4
Financial result	–0.6	–0.6
Income taxes	0.4	–0.2
Net profit	0.6	1.1

Assets

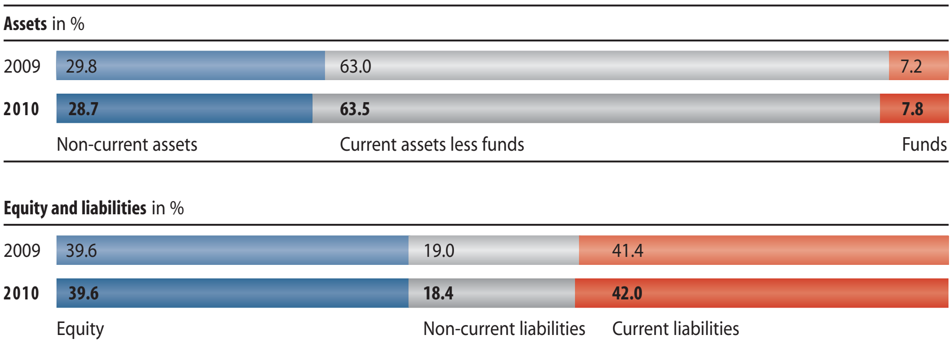
Solid substance

At the end of the year non-current assets were worth €333.8m, €17.9m above the figure for 2009 of €315.9m. Fixed assets came to €243m (2009: €234.6m). The ratio of equity capital to property, plant and equipment was 189.8%. Investment in such assets totalled €14m, down from €28.9m the prior year, and primarily related to replacements and efficiency-enhancing systems. The main items are described on pages 22 and 25. Including investment in intangible assets this represented 1.3% of sales (2009: 2.9%). With depreciation at €31m (2009: €30.3m) the investment rate more than halved, from 99.7% to 49.7%.

Inventories shrank from €319.5m to €296.7m, current assets soared to €830.6m (2009: €744.5m). In addition to a €14.9m rise in liquid assets this was largely due to a jump in trade receivables to €368.6m (2009: €276.2m) following bigger shipments in previous weeks. Working capital improved accordingly to €341.5m (2009: €305.3m).

The Group balance sheet total of €1,164.4m at 31 December was €104m higher than twelve months before.

Group assets and capital structure



Summary of Earnings, Finances and Assets

The cost savings achieved, increased revenues and a satisfactory level of plant utilisation at our sheetfed factories from early summer onwards brought a leap in Group pre-tax profits to €15.3m (2009: €2.7m). Beside investing in innovative products and streamlining production processes, in 2010 disappointing market prospects caused us to pursue further cost savings at our web press facilities as part of the corporate realignment initiated in early 2009. The restructuring programme launched in spring 2009 in our sheetfed division is nearing completion. We are aiming to consolidate our position as second in the global market and create a stable basis for operating at a profit in a diminished market.

A positive cash flow allowed us to fund investments from our own resources and reduce our low level of bank debts still further, while a comfortable level of net liquidity and access to additional credit lines provided solid financial backing. Our balance-sheet structure, equity ratios and capital-to-assets ratio are also exceptionally sound.

KBA-Grafitec's new Rapida 75E sheetfed press is engineered for maximum energy efficiency


KBA
Champions in Print
FIRE POINT
EXIT
15300
ECONOMICAL ENERGY SAVING
LONDON


METALSTAR PR

Supplementary Statement

On 1 March 2011 KBA announced a development and cooperation agreement with the world's biggest print group, R. R. Donnelley & Sons Company (RRD) based in Chicago.

Under the terms of the agreement KBA will develop, manufacture and sell a new generation of digital printing systems incorporating the digital imaging technologies which RR Donnelley has developed and successfully deployed at its own print operations over the past ten years. The new digital print platform we are planning to develop will be manufactured in Germany, drawing on our intimate knowledge of the specific demands relating to digital applications in the commercial, book printing, publishing, packaging, security printing and newspaper sectors. We are aiming to unveil the first digital press at the next Drupa trade fair in May 2012.

Our Stuttgart subsidiary, KBA-MetalPrint, is the world market leader in presses for metal decorating, a niche application


KBA
Service

Risk Management and Internal Monitoring System

Enhanced transparency for targeted action

Our early warning system must support targeted intervention by providing timely and transparent notification of potential risks relating to our corporate activities. Despite the obvious political and economic risks that currently exist in export markets, we perceive no risks that could pose an existential threat to the KBA Group. Improved sectoral stability, our solid capital base and good liquidity make the risk situation manageable.

Timely detection

Risk is a negative deviation from an established business plan. Following the financial meltdown we materially expanded our repertory of instruments for detecting and combating risk. Corporate planning cycles were shortened, the scope of remedial measures expanded and independent performance reviews conducted on a regular basis. Imponderables are captured, assessed, categorised and reported in accordance with standard Group-wide practices. Management is then responsible for taking the appropriate action.

Our risk management organisation comprises a central risk co-ordination unit 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 forwarded to the management board after being collated, quantified and classified by severity. Group-wide business planning procedures, regular reports to the management board and an internal reporting system complete our systematic approach.

Clearly defined communication channels expedite the early detection of incipient risks. Half-yearly risk reporting makes critical market and corporate developments more transparent, improves the accuracy of our planning procedures 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.

The early warning system specified in the risk manual and approved by the management board is discussed in detail by the supervisory board's audit committee and monitored annually by the auditors in accordance with statutory regulations.

Financial instruments deployed

Financial risks 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- or counterparty-related risks. Management receives regular breakdowns of receivables by region, so potential concentrations of risk can be identified in good time.

A highly professional global after-sales service is key in the capital goods business

Foreign currency risks relate to balance sheet items and pending transactions, primarily 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 macro- and micro-hedge foreign-currency contracts for batch-produced machinery. For this purpose exclusively we use currency options and forward exchange contracts. 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 is offset where possible by inserting escalation clauses in customer contracts. The economic upturn and seemingly insatiable demand in China having sent global commodity prices rocketing.

However, the financial meltdown has seriously impaired access to money and capital markets. Interest on savings is exceptionally low and relatively high risk premiums are being demanded for loans. Interest-related risks chiefly arise from changes in fair value or future cash flows due to changes in market interest rates. Since we deploy financial instruments whose exposure to market interest rates may have a negative impact on their fair value or the cash flows they generate, we use derivatives to limit such risks.

We offer prospective buyers the usual 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 obviate bad-debt risks as far as possible. Customer creditworthiness is reviewed and collateral called in prior to shipment, and after shipment ownership is transferred only when full payment has been made. On top of this, credit checks are routinely carried out on new customers. Adequate 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 reports. Following the crisis we increased the frequency of our liquidity planning and reporting to weekly for the Parent and monthly for the Group, and provided more regular updates for our banks. Incoming and outgoing payments are monitored continually. Cash management techniques include finely tuned liquidity and financial planning.

The credit lines and sureties needed to balance the fluctuations in cash flows that commonly occur in the cyclical plant engineering industry are in place and will allow us to accommodate 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. The organisational and monitoring structures specified are 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. This also helps to make our internal monitoring procedures more effective.

The 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, guarantee 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 and other bodies. The efficiency of these checks and balances is safeguarded by automated input, output and processing controls.

The authorising and implementing units are segregated as a matter of principle. Read/write authorisation is controlled in all systems. There is a strict separation of functions relating to the posting of business transactions. Staff access to IT applications is also controlled and authorisation restricted. No individual members of personnel assigned to the various functions have access to the entire process level of the accounting software (goods reception, additions to stock, invoice auditing, release and transfer of payments). The organisational firewalls that have been put in place are thus secure. Our internal auditing unit has full access to the entire database, and also spot-checks pertinent non-accounting activities and processes. This ensures that our financial reporting complies with statutory regulations.

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 subject to random inspections by our auditors as part of the annual audit.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KBA
Belg gedood in
opdracht van Saddam

Outlook and Opportunities

Moderate growth in a volatile environment

The financial and economic conditions for growth are relatively volatile the world over, with an unresolved debt crisis in Europe, political tumult in North Africa, inflationary pressures in China, natural disasters in Japan, economic instability in the US, currency fluctuations among the dollar, euro and yuan, and soaring prices for energy and raw materials. Nonetheless, at the end of January the International Monetary Fund (IMF) predicted a 4.4% increase in global GDP in 2011.

We, too, calculate that the world economy will continue to expand and that the printing-press sector, which has trailed other branches of the engineering industry, will start to close the gap. There are two reasons: a lack of investment over the past few years, and the higher average age of plant and equipment. Fierce competition and thus relentless pressure to modernise should stimulate investment by printers in industrialised economies, while the need to build up capacity should drive demand in fast-growing threshold economies, where the per capita output of print is a mere ten per cent or so of that in mature markets such as western Europe, the USA, Japan or Singapore.

One-sided media debate to the detriment of print

Following the crisis banks tightened up their credit practices, and this has become a serious obstacle to investment in the print sector. Online media and digital print have inspired euphoric assessments of their significance that have no founding in reality, while media coverage of the prospects for print has tended to be negative, with insolvencies disproportionately influencing the ratings published by the financial sector. This has hit small family enterprises and big contract printers with equal severity, especially those with only a small equity base. Basel III and the higher proportion of capital it advocates in the banking sector will do nothing to facilitate investment funding.

Our plans for 2011 and beyond are predicated on the assumption that global demand for new printing presses will not return to the levels of 2006 or 2007 in the medium term. Sales prospects are dimmed by the enormous output of modern presses, dwindling numbers of printing plants in mature markets, the migration of ad spend to the internet and smart phones, and the steady incursion of digital print into certain sectors that were formerly the preserve of offset.

Unique to KBA: waterless printing with the Cortina represents a major advance towards standardised, sustainable newspaper production

Substantial variations in market outlook

Growth prospects vary considerably from one sector to another. Those that were badly hit by the economic slump, such as book, magazine or newspaper printing, will see a moderate lift in demand from a low base. But they will be a long way from the annual volumes that were previously the norm. Commercial printers, who were knocked sideways by the slump in advertising, will invest more in sheetfed and web presses once the economy and the advertising industry rebound on a more widespread scale. There will be exceptionally strong growth in consumption- and prosperity-driven packaging printing, particularly in emerging economies with their pent-up demand. KBA is well positioned in these sectors and will benefit accordingly.

Unrelenting pressure on prices and margins

Capacity overhangs among vendors of both sheetfed and web presses continue to weigh on prices and margins. 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.

New products in the pipeline

At KBA we continually seek to consolidate and expand our position in major print markets by pursuing demand-driven advances in technology. In preparation for next year's Drupa, the definitive international trade fair for the print media industry, these include a raft of sophisticated new products and enhancements. Launching them on the market will not be totally free of risk, but rigorous project management and quality control, combined with exhaustive beta testing, will serve to minimise it. As innovation cycles rapidly diminish, trimming production and quality costs to boost profitability is an ongoing task. Value analyses and the systematic documentation of the insights gained in the course of each development project help us achieve this goal.

Consolidation of web press production plants not yet complete

KBA was quick to adapt to anticipated changes in market trends, downsizing capacity at many of our operations and realigning structures. These measures, which were painful for all involved, are well advanced but not yet complete, and Group figures reveal that we are on the right track. The level of plant utilisation in our sheetfed division has been high for months now following a capacity adjustment. Our web and special press division is also much busier than last year. Even so, in view of the fact that market volumes for web presses have shrunk by 50%, further consolidation is required. Foreseeable fluctuations in the workload mean that we cannot rule out the need for short-time work in the course of the year.

Moving up to second place in the global press market

Market data and our own analyses revealed that in 2010 the KBA Group moved up into second place in the global press market, behind the no. 1 sheetfed press vendor. This ranking is all the more commendable because, unlike major competitors, we have not included consumables such as ink and other materials in our product range. While consumables boost sales, such a practice is not typical of the industry since they neither enhance value nor help to keep press vendors' production plants busy. Having said that, we believe that expanding our product portfolio with a select range of consumables optimised for use with our presses will promote customer loyalty, enable us to enhance the performance of our presses and in the medium term provide additional sources of income. In view of the logistical systems and market expertise necessary to support the international distribution of consumables we are initially planning to limit this service to sheetfed customers in Germany and neighbouring countries.

Well prepared for market shifts

KBA has weathered the biggest crisis of the past 60 years entirely through its own resources and without drawing on fresh credit lines or a capital injection from shareholders. Compared to our direct competitors we have done very well, posting a higher pre-tax profit than in 2009. Once again the diversity of our product mix, embracing both volume and niche markets, has been a stabilising factor in the challenging years that lay behind us.

For the KBA Group, developments in major markets such as sheetfed offset, web offset and newspaper printing are of major significance. But our broad product range means that we are less affected than others by volatility in individual sectors. The know-how behind our product diversity and our solid finances make it much easier for us to adapt and expand our portfolio with new high-potential business lines.

KBA is the technology and market leader in large-format sheetfed offset


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Prospects for 2011: continued solid growth

KBA started the new year with a much bigger backlog of unfilled orders than the previous year. The volume of new contracts for both sheetfed and web presses in the first two months was also above the poor prior-year figure. Virtually all our export markets and, increasingly, the domestic market, contributed to this improvement. However, the external conditions mentioned at the beginning of this report pose risks for future business activities and for long-term forecasts. In accordance with the growth objectives KBA has long pursued, predicated on healthy finances, we reject the concept of boosting growth and market share in a buyers' market at all costs. Nevertheless, we anticipate a single-digit percentage increase in Group sales if the upturn in the printing-press sector stabilises and gains a broader footing, as is hoped. Despite relentlessly fierce competition, we are targeting a continuation in profitability as well, and envisage a moderate improvement in pre-tax profit compared to last year. Both business divisions will contribute their share. Further information will be made available in the first-quarter report issued in mid-May.

With printers in dynamic emerging markets continuing to expand capacity, and those in mature markets dusting off investment plans for replacement kit and new equipment to boost efficiency, we expect demand to remain brisk in 2012. Drupa, the world's biggest trade fair for the print media industry, which takes place in June next year in Düsseldorf, is also sure to have a beneficial impact. Members of the export-intensive German engineering industry will be keeping a weather eye on medium-term developments in the global economy as well as political and economic conditions.

The global market for newspaper presses has halved following the economic crisis and shifts in media consumption, and will not return to its former level


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Human Resources and Welfare

Staff competence the key to success

In the global printing-press market, with its manifold technological challenges, the expertise, creativity and initiative of our executives and staff are crucial to our success. So although market forces compelled us to trim our workforce, we continued to invest heavily in helping our apprentices achieve high standards of qualifications, promoting the careers of talented young staff and enabling our employees to realise their potential through further training.

Payroll reflects market shifts

At 31 December the Group payroll stood at 6,419, or 550 fewer that twelve months earlier (6,969). The reduction of 1,700 since the economic meltdown of autumn 2008 is a direct consequence of the ensuing slump in market and sales volumes. Once all the restructuring measures have been implemented the Group workforce will be around 25 per cent smaller than before the crisis.

More contracts, less short-time work

With market prospects unlikely to improve significantly in the near term, in the interests both of the company and of the remaining workforce there was no sensible alternative to the painful capacity adjustments initiated in 2009. Following the realignment of our sheetfed offset production plants we were able to terminate short-time work in Radebeul at the end of May 2010 as the volume of new orders boosted the level of plant utilisation. Business also picked up at our web press operations, which returned to full-time employment in the fourth quarter. Since the adjustment of our web press factories to a much smaller market volume has not yet been completed, short time will still be necessary in 2011 to accommodate fluctuations in plant utilisation.

6.5% training level

The number of apprentices and student trainees in the KBA Group climbed from 407 to 420, or from 5.8% of the workforce to 6.5%. The state-certified training school founded 140 years ago in Würzburg, and the training facilities at our other plants, make a major contribution towards promulgating a high standard of skill among our technical staff. The results achieved in the annual examinations set by the German Chamber of Industry and Commerce (IHK) are compelling proof. And once again the high standard of training provided by our Radebeul plant was acknowledged with a certificate of excellence awarded by the Dresden chapter of the IHK.

74 youngsters joined the Parent in August and September to start training in eleven predominantly technical occupations. The most popular was that of metalworking mechanic, followed by industrial mechanic, electromechanic and electronics engineer. As well as helping to create future press operators and administrative staff the Parent provides practical training for students at vocational colleges. The high standards we maintain also benefit other companies in the region, and customers whose staff train as electromechanics at KBA.

Building complex printing presses is impossible without skilled employees

Three top IHK and regional rankings

85 apprentices from the Parent passed the qualifying examinations set by the Chambers of Industry and Commerce. Three of these were regional best in their chosen field, and along with several second and third places underscored anew the high quality of the training we provide. An apprentice press operator at our Radebeul operation carried off the title of best young technician in Saxony.

We attract young people to careers in industry through diverse activities that include a Girls' Day, a technology camp for girls, information campaigns at schools and open days at our training centres. Over 250 pupils and students gained work experience at our German production plants through trial training courses and industrial placements. Our global activities make us an attractive employer for young people, and we filled all our training vacancies with first-class applicants. We also awarded undergraduate and postgraduate grants as a means of nurturing the engineering professions essential to our long-term survival.

Preparing for new tasks

Alongside foreign-language and IT courses, and seminars on specific aspects of technology, further training focussed on preparing staff for new tasks or changes in their job definitions. For example, industrial mechanics attended courses on electrical engineering. Where possible, short time was used to maintain and expand employee skills. For the first time, courses were held for external participants, and apprentices from other companies were given training in metalworking and control technology.

Getting better all the time

Last year staff made a valuable contribution towards enhancing the efficiency of our production processes and product development. 85% of the 493 suggestions submitted at the Parent (2009: 415) were awarded a prize and delivered sizeable cost savings.

The independent KBA health-insurance scheme with 9,520 full and 3,179 family members organised a well-attended health campaign concerning noise prevention. Apprentices were given special training in fundamentals and their practical application at the workplace.

Combining family and a career

We help parents combine a family with a career by offering part-time contracts and job sharing, and by working closely with local child-care centres. We also provide facilities where employees on parental leave can meet and compare notes. On a school-free day in November we held our third activity day in Würzburg and Trennfeld for the children of employees. 160 children ranging in age from six to fourteen years took part.

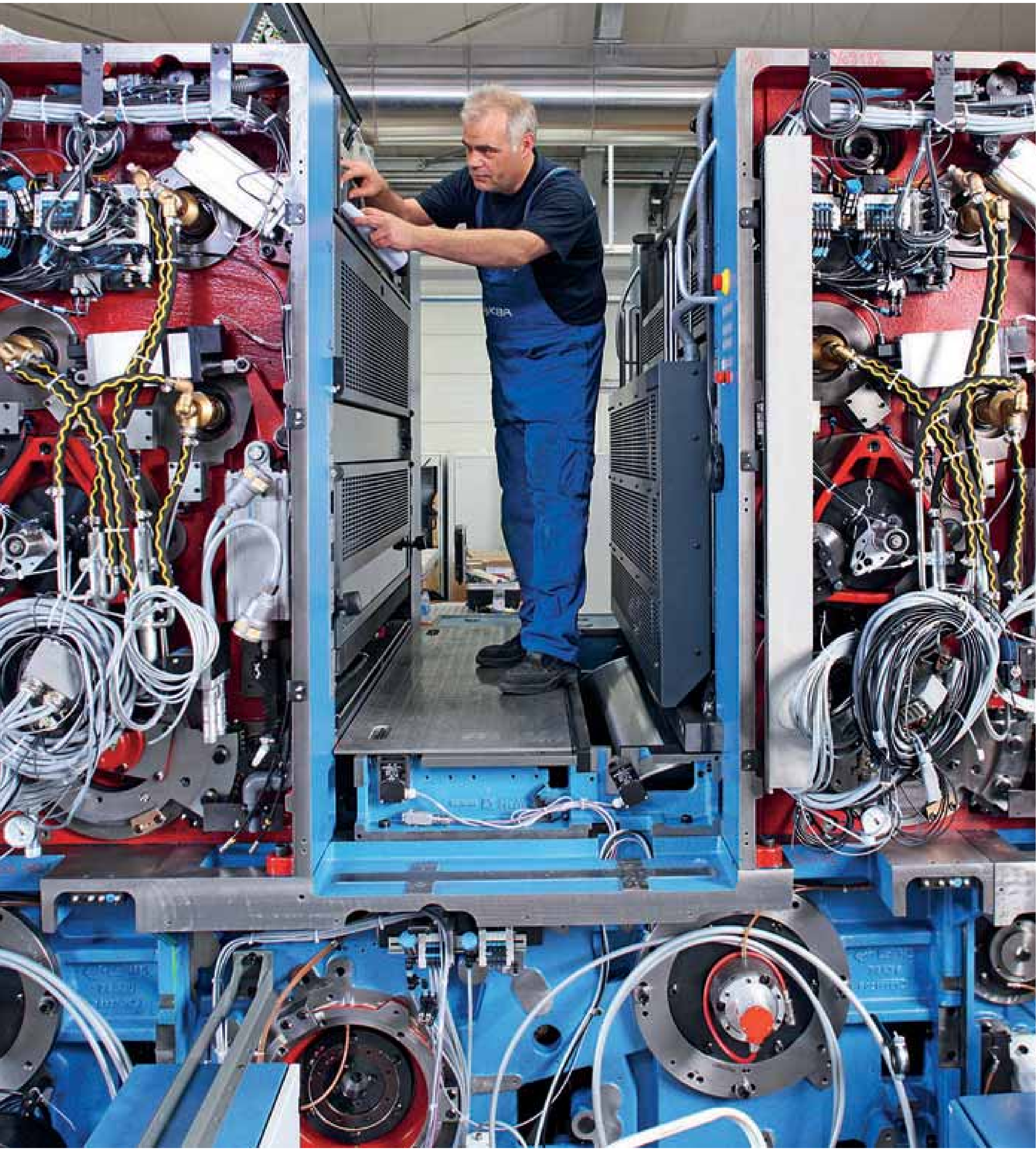
Many awards for long service

200 employees at the Parent were awarded long-service bonuses: 106 for 25 years, 93 for 40 years and one for 50 years of service. We wish to thank them all for their loyalty and dedication.

Final assembly at our Radebeul sheetfed plant

Group payroll on 31 December

	Salaried office staff	Wage-earning industrial staff	Apprentices/students	Total
2009	2,791	3,771	407	6,969
2010	**2,601**	**3,398**	**420**	**6,419**



Sustainability Report

Eco-friendly products and processes

Proactive efforts to protect the climate and environment wherever possible form the essence of our sustainability strategy, which embraces the entire value-added chain from product design through materials procurement to production. We believe that, for the users of our presses, energy efficiency, ease of operation and the ability to deploy greener raw materials and consumables are just as important as quality, performance and reliability. The efficient utilisation of resources and compliance with rigorous safety standards play a major role. And we fulfil our social obligations by providing apprentice training well beyond our own needs and by supporting a range of social and cultural activities.

Focus on safety at the workplace

Regular inspections of and improvements to our manufacturing processes in 2010 brought further reductions in our materials consumption, the volume of waste generated and emissions at all our production plants. Measuring emissions on a routine basis and briefing the staff concerned ensured compliance with internal and external environmental regulations. For manufacturers of heavy plant and machinery like ourselves, employee safety and workflow ergonomics are key issues, and these we addressed by providing clear guidelines, training and advice.

Total quality management

Our quality management system was further enhanced as part of an ongoing move to safeguard customer satisfaction in the long term. First sampling and prototype testing, systematic quality control, regular inspections and internal and external audits help guarantee a high standard of product quality. Computer-aided machine tools allow deviations to be analysed and remedied without delay, thus minimising the risk of repeat errors. Collaboration with our suppliers on quality assurance has also been intensified. Pre-shipment function and software testing of web press subassemblies was improved still further, and quality logs for existing press installations were included in the inspection schedules. The increasing complexity of sheetfed offset technology prompted us to introduce a holistic pre-shipment acceptance procedure. ISO 9001:2008 accreditation of our Radebeul production plant was renewed in June.

Climate-friendly print production

Among print entrepreneurs today, conservation is steadily moving up the agenda alongside cost efficiency. A major focus of product development at KBA is to reduce the amount of energy and consumables our presses require, and the noise, dust and carbon dioxide they emit during print production. Early last year we teamed up with Munich-based ClimatePartner whose website features Footprint Manager, a budget-priced and easy-to-navigate customised online platform for calculating greenhouse gas emissions. This alliance enabled us a few weeks later to become the first press manufacturer to offer environmentally responsible printers the means of quantifying their production emissions. For a small charge their customers can now choose climate-neutral printing, an option that is increasingly popular.

At the Ipex trade fair in Birmingham we launched a new “E” (economy and ecology) version of the Rapida 75. The Rapida 75E consumes up to 50% less power than comparable models, and is thus the energy-saving champion in its format class. One reason for the low consumption is a new dryer, the KBA VariDry^BLUE^, whose heat-recovery system makes it exceptionally efficient. All Rapida sheetfed presses have been awarded “emissions tested”

KBA-MetroPrint's Genius 52UV waterless offset press at the Ipex international trade fair

eco-certificates. KBA is also a longstanding global leader and innovator in environmentally friendly waterless offset technology for both sheetfed and web presses. To promote a greener mindset in the print media industry we sponsor a number of awards, among them "eco printing plant of the year".

Promoting cultural, social and scientific initiatives

KBA has a 150-year tradition of social and cultural engagement. Even today, despite our ongoing cost-cutting initiatives, we support social and cultural projects and initiatives within our financial capabilities. Our longstanding sponsorship of the annual Bach and Mozart festivals in Würzburg is one example. Together with other print and media enterprises in the area we also organise annual benefit concerts in aid of scientific, cultural and social projects and charities. The proceeds from the most recent event, in November 2010, went to HALMA (day-to-day aid for the elderly) in Würzburg.

Other Reports

At Ipex in Birmingham last May KBA demonstrated innovative press technology under the banner "KBA: Champions in Print"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KBA Shares

Fluctuating but upward trajectory

Demand for printing presses started to pick up again in the spring, and as the year progressed a more favourable market climate also helped to boost our share price. Capital markets acknowledged the substantial advances we were making in improving profitability and adjusting capacity to diminishing volumes. But investors' negative response to reports from the print media industry, and shifting perceptions of the risks associated with foreign trading, had a volatile impact on our share price throughout the year.

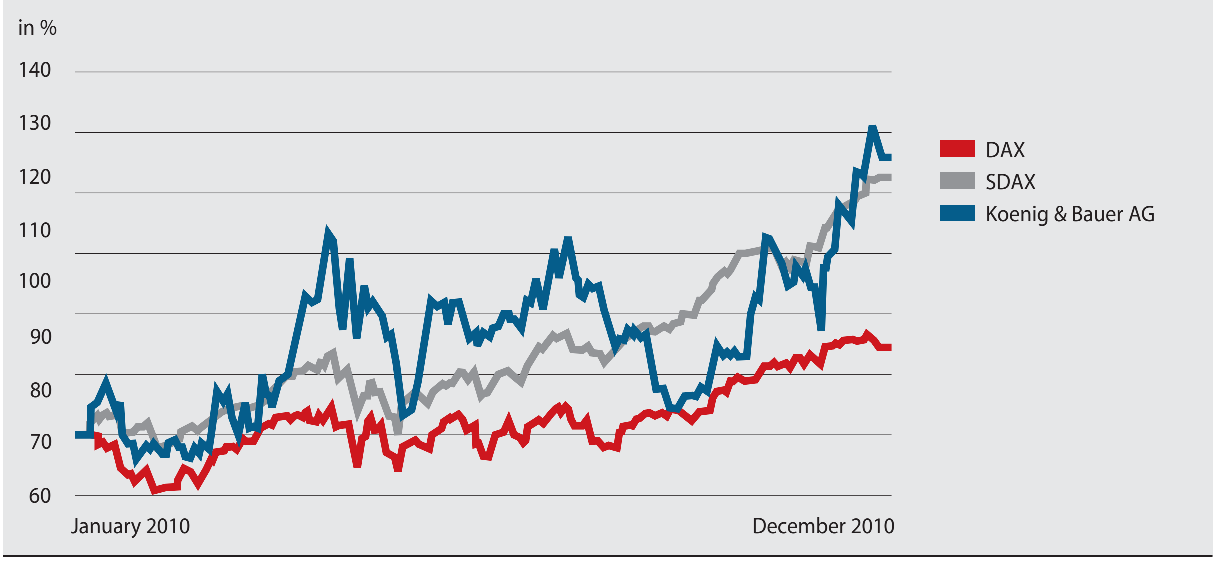
50% jump in share price

After opening at €11.96, on 28 January our share price slipped to a low for the year of €11.37. In subsequent months it fluctuated between €11.50 and €13, briefly nudging €16 upon publication of our 2009 financial statements at the end of March and half-year results in August. In September it fell to around €12 before hitting a high of €18.10 on 28 December. KBA shares closed on 30 December at €17.50, 53.5% up on the previous year. They thus outperformed the SDAX and the DAX, which climbed by 45.8% and 16.1% respectively. After jumping briefly above €19 early this year our share price settled between €16.50 and €18.75. In mid-March it tumbled below €16 again as global stock markets reacted with alarm to events in Japan.

Proposed dividend of 30 cents per share

In view of the improved Group performance, the management and supervisory boards will table a motion at the AGM on 16 June proposing a dividend payment of 30 cents per share. This represents a yield of 1.7% on a share price of €17.50 at 30 December 2010.

Performance of KBA shares in 2010



Analysts appraisals largely positive

Interest in KBA shares, which are listed in the SDAX index, has been intensified by our above-average earnings and finances compared to the rest of the sector worldwide. Alongside the economic upturn our successful realignment, which is reflected clearly in the figures, is a contributory factor. The performance of the Koenig & Bauer Group has been evaluated for many years now by several financial institutions, which publish regular studies on KBA and the printing-press industry. At the end of the year the vast majority of analysts recommended buying our shares.

Ongoing dialogue with investors

Our AGM in June and annual investor and analyst conference in November are a key forum for promoting public relations and maintaining a dialogue both with our shareholders and with players in capital markets. Around 700 shareholders attended our AGM at the Vogel Convention Center in Würzburg. The investor and analyst conference, which last year was held in Frankfurt, was also well attended. Helge Hansen, our Group president and CEO, maintains close personal contacts with major shareholders. Much of our investor relations and corporate communications activities revolve around institutional and private investors, financial analysts and business journalists. Extensive use is made of telephone communications to propound our objectives and Group strategy, and to respond to queries concerning the market environment. The AGM up to the general debate is broadcast on the internet as a matter of routine.
Our website contains information on all events and developments of potential interest to capital markets, the media and the public. These include press releases and ad-hoc communications, financial dates and analysts' recommendations. Our annual financial statements, interim reports and presentations at the AGM, investor/analyst conferences and other events can all be downloaded from our website.

Key data on ordinary shares

	2009	2010
Earnings per share	€ 0.41	€ 0.76
Price-earnings ratio	27.8	23.0
Highest price	€ 13.70	€ 18.10
Lowest price	€ 6.15	€ 11.37
Closing price	€ 11.40	€ 17.50
Market capitalisation in €m	187.3	288.1
Cash flow per share	€ 1.81	€ 1.83
Dividend	–	€ 0.30

Corporate Governance

Sustainable development a primary objective

Good corporate governance and control is predicated on transparency, responsibility and sustainable development. Winning and retaining the trust of our shareholders, customers, employees, suppliers, financial markets and the public in KBA management and our supervisory board are fundamental principles of our entrepreneurial activities. With a few justifiable exceptions we comply with the proposals and recommendations issued by the German Corporate Governance Code. All operational goals serve to safeguard sustainable value creation and the Parent's long-term survival and corporate independence.

Supervisory board composition

Alongside a balance of qualifications, the supervisory board has long sought to maintain diversity when proposing new candidates from shareholder representatives at the AGM. Selection criteria focus increasingly on entrepreneurs and executives with a broad international background, a good grasp of technology and a sound understanding of industrial economics. The rules of procedure for the supervisory board stipulate an age limit. While efforts will be made to increase the proportion of women on the board, long-term corporate interests will continue to govern the selection and proposal of candidates.

Declaration of compliance under section 161, German Company Law

Under section 161 of German Company Law the management and supervisory boards of publicly quoted German companies are obliged to issue a declaration stating whether and to what extent the enterprise has complied with the German Corporate Governance Code, which recommendations have or have not been adopted, and why. The Koenig & Bauer management and supervisory boards issued a declaration of compliance on 18 February this year. The Government Commission's recommendations of 26 May 2010 relating to the Code are implemented with the following few exceptions.

Policy excess for D&O liability

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. In view of the level of compensation a higher excess was considered inappropriate. A higher excess has been proposed following a scheduled adjustment in supervisory board remuneration for 2011.

Disclosure of board compensation

Pursuant to sections 286 (5) and 314 (2) 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 the disclosure of individual board members' compensation and the details required in section 314 (1) 6a articles 5 to 8 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.

Compensation report

Management board compensation in 2010, and pension provisions for active and retired members of the board, are disclosed in the Notes on page 96. Compensation for the supervisory board totalled €0.3m (2009: €0.1m), with the fixed component comprising €0.1m (2009: €0.1m).

Management and supervisory board shareholdings

At the end of December 2010 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.

Overview of major affiliates

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.

Declaration of compliance on website

Past and present declarations of compliance may be accessed on the Group website at http://www.kba.com/en/investor/corporate_governance.html and will be amended accordingly in the event of changes being made.

Since issuing the last declaration of compliance in February 2010, Koenig & Bauer AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code, as amended on 18 June 2009, with the following exceptions: the policy excess borne by members of the supervisory board for D&O liability insurance is lower than one-and-a-half times the fixed annual remuneration (provision 3.8); a nomination committee (provision 5.3.3) was first appointed in March 2010, since no elections to the supervisory board were scheduled prior to June 2011; no individual supervisory board remuneration and board equity holdings have been disclosed (provisions 5.4.6 and 6.6); and the list of third-party companies contains no information on operating results (provision 7.1.4).

Financial Statements

Group Balance Sheet to 31 December 2010

Assets in €m	Note	31.12.2009	**31.12.2010**
Non-current assets			
Intangible assets	**(1)**	25.2	26.4
Property, plant and equipment	**(1)**	234.6	243.0
Investments and other financial receivables	**(2)**	24.4	27.4
Other assets	**(2)**	–	0.2
Deferred tax assets	**(6)**	31.7	36.8
		315.9	**333.8**
Current assets			
Inventories	**(3)**	319.5	296.7
Trade receivables	**(2)**	276.2	368.6
Other financial receivables	**(2)**	24.4	10.0
Other assets	**(2)**	31.6	39.5
Current tax assets		1.1	1.1
Securities	**(4)**	15.6	23.7
Cash and cash equivalents	**(5)**	76.1	91.0
		744.5	**830.6**
		1,060.4	**1,164.4**

Equity and liabilities in €m	Note	31.12.2009	**31.12.2010**
Equity	**(7)**		
Share capital		42.7	42.8
Share premium		87.0	87.1
Reserves		290.1	331.4
Capital attributable to equity holders of the Parent		**419.8**	**461.3**
Liabilities			
Non-current liabilities			
Pension provisions	**(8)**	103.7	104.6
Other provisions	**(9)**	56.0	71.7
Bank loans and other financial payables	**(10)**	20.6	15.0
Other liabilities	**(10)**	0.1	0.5
Deferred tax liabilities	**(6)**	21.0	22.2
		201.4	**214.0**
Current liabilities			
Other provisions	**(9)**	156.9	162.7
Trade payables	**(10)**	74.8	69.4
Bank loans and other financial payables	**(10)**	83.6	84.2
Other liabilities	**(10)**	117.2	165.2
Current tax liabilities		6.7	7.6
		439.2	**489.1**
		1,060.4	**1,164.4**

Group Income Statement 2010

in €m	Note	2009	**2010**
Revenue	**(14)**	1,050.4	1,179.1
Cost of sales	**(15)**	–831.7	–865.6
Gross profit		**218.7**	**313.5**
Research and development costs	**(15)**	–46.1	–45.2
Distribution costs	**(15)**	–127.0	–154.2
Administrative expenses	**(15)**	–86.4	–87.7
Other operating income	**(17)**	109.6	88.5
Other operating expenses	**(17)**	–60.1	–92.7
Operating profit		**8.7**	**22.2**
Other financial results		1.8	0.3
Interest income		5.0	4.9
Interest expense		–12.8	–12.1
Financial result	**(18)**	**–6.0**	**–6.9**
Earnings before taxes		**2.7**	**15.3**
Income tax expense	**(19)**	3.9	–2.8
Profit for the period attributable to equity holders of the Parent		**6.6**	**12.5**
Earnings per share (in €, basic/dilutive)	**(20)**	**0.41**	**0.76**

Statement of Comprehensive Group Income 2010

in €m	2009	**2010**
Net profit	**6.6**	**12.5**
Foreign currency translation	0.3	26.7
Measurement of primary financial instruments	0.3	–
Measurement of derivatives	1.4	0.5
Deferred taxes	–0.3	1.6
Gains recognised directly in equity	**1.7**	**28.8**
Total comprehensive income attributable to equity holders of the Parent	**8.3**	**41.3**

For further information see explanatory Note (7).

Statement of Changes in Group Equity 2010

in €m	Share capital	Share premium	Reserves: Recognised in equity: Primary financial instruments	Derivatives	Exchange differences	Deferred taxes	Other	**Total**
1 January 2009	**42.6**	**86.7**	**2.1**	**–1.3**	**5.8**	**–2.8**	**278.0**	**411.1**
Total net profit	–	–	–	–	–	–	6.6	6.6
Gains recognised directly in equity	–	–	0.3	1.4	0.3	–0.3	–	1.7
Profit for the period	**–**	**–**	**0.3**	**1.4**	**0.3**	**–0.3**	**6.6**	**8.3**
Capital increase from authorised capital	0.1	0.3	–	–	–	–	–	0.4
31 December 2009	**42.7**	**87.0**	**2.4**	**0.1**	**6.1**	**–3.1**	**284.6**	**419.8**
1 January 2010	**42.7**	**87.0**	**2.4**	**0.1**	**6.1**	**–3.1**	**284.6**	**419.8**
Total net profit	–	–	–	–	–	–	12.5	12.5
Gains recognised directly in equity	–	–	–	0.5	26.7	1.6	–	28.8
Profit for the period	**–**	**–**	**–**	**0.5**	**26.7**	**1.6**	**12.5**	**41.3**
Capital increase from authorised capital	0.1	0.1	–	–	–	–	–	0.2
31 December 2010	**42.8**	**87.1**	**2.4**	**0.6**	**32.8**	**–1.5**	**297.1**	**461.3**

For further information see explanatory Note (7).

Group Cash Flow Statement 2010

in €m	2009	2010
Earnings before taxes	2.7	15.3
Depreciation/write-ups on intangible assets, property, plant and equipment	24.1	7.0
Currency measurement	–	0.4
Non-cash interest income/expense	6.0	4.9
Changes in pension provisions	1.2	0.9
Other non-cash income/expenses	–1.4	–0.9
Gross cash flow	**32.6**	**27.6**
Changes in inventories	76.8	33.9
Changes in receivables and other assets	46.9	–71.8
Changes in other provisions	–62.8	17.3
Changes in payables and other liabilities	–58.0	30.7
Interest received	2.4	2.8
Interest paid	–4.4	–5.2
Income tax paid	–3.9	–5.2
Cash flows from operating activities	**29.6**	**30.1**
Proceeds from disposal of intangible assets, property, plant and equipment	2.8	7.7
Payments for investment in intangible assets, property, plant and equipment	–30.2	–15.4
Proceeds from disposal of investments	0.5	0.1
Payments for investments	–0.4	–3.3
Investment subsidies received	0.6	0.9
Dividends received	2.0	0.3
Cash flows from investing activities	**–24.7**	**–9.7**
Free cash flow	**4.9**	**20.4**
Proceeds from capital contributions	0.4	0.2
Proceeds from loans	0.2	1.5
Repayment of loans	–15.0	–6.7
Cash flows from financing activities	**–14.4**	**–5.0**
Change in funds	**–9.5**	**15.4**
Effect of changes in exchange rates	–0.2	–0.5
Funds at beginning of period	85.8	76.1
Funds at end of period	**76.1**	**91.0**

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 to 31 December 20010 were prepared in accordance with section 315a of the HGB (German Commercial Code), as was a Group management report, which was published online in the electronic *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 2011 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 2010 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 2010:

IFRS 3	Revised IFRS 3 Business Combinations
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements
IAS 39	Additions to IAS 39 Financial Instruments: Recognition and Measurement of Eligible Hedged Items
Sundry amendments resulting from the second annual improvements project	
IFRS 1	Revised IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 1	Revisions to IFRS 1 Additional Exemptions for First-time Adopters
IFRS 1	Revisions to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IFRS 2	Amendments to IFRS 2 Share-based Payment
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

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.

Revised IFRS 3 Business Combinations and amendments to 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). These did not 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 IFRIC 16. The amendments did not have any significant impact on the recognition, measurement and/or presentation of the consolidated financial statements.

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.

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

		Date applicable
IAS 24	Amendments to IAS 24 Related Party Disclosures	2011
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation: Classification of rights issues	2011
IFRS 1	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures	2011
IFRIC 14	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	2011
Sundry amendments resulting from the third annual improvements project (2008-2010)		2011
IAS 12	Amendments to IAS 12 Income Taxes: Recovery of Underlying Assets	2012
IFRS 1	Revised IFRS 1 First-time Adoption of International Financial Reporting Standards: Hyperinflation	2012
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures	2012
IFRS 9	Financial Instruments	2013

IFRIC 14, IFRIC 19, the amendments to IAS 24 and IAS 32, the revised IFRS 1 on limited exemption from comparative IFRS 7 disclosures and amendments resulting from the third annual improvement process (2008-2010) were adopted as part of the EU endorsement process.

The issues treated in the amendments to IAS 12, IAS 24, IFRS 1 and IFRIC 14 are irrelevant to the business activities of the entities included in the 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 resulting from the third annual improvements project (2008-2010)

The amendments published serve to clarify or correct existing IFRS. The standards affected are IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27 and IAS 34 and the interpretation of IFRIC 13. The amendments may give rise to minor changes in presentation of the consolidated financial statements.

Amendments to IAS 7 Financial Instruments: Disclosures

These require an additional Note relating to transfer transactions of financial assets. Information must be provided on the nature of the transferred assets and on the possible risks and rewards of ownership to which the entity is exposed. At present these disclosures have no impact on the Notes in the financial statements for KBA.

IFRS 9 Financial Instruments: Classification and Measurement

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

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

Estimates and assumptions

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

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. The calculated value in use is most strongly influenced by changes in interest rates and in growth rates for the extrapolation of cash flows beyond the planning period. The interest rate applied corresponds to the weighted average capital cost. It comprises two variables: a risk-free interest rate for Group equity components, adjusted for business risks, and the Group's average borrowing rate of interest for loan components, tax-adjusted for each unit. The growth rate is 0.8% (prior year: 0 to 0.8%). Integrated planning is also used to assess the recognition of deferred tax assets on losses carried forward.

Restructuring provisions were created based on the measures 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 as the lessor transferred the basic risks and rewards to the lessee were disclosed as finance leases under other financial receivables and marked at the present value of the minimum lease payments. Profits accrued in proportion to the term to maturity of the finance lease. The contractual payments for operating leases were recognised as profit.

Depreciation

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

	Years
Industrial property rights and similar rights	3 to 7
Product development costs	4 to 6
Buildings	5 to 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. 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. Where the recoverable amount was lower than the carrying amount the difference was disclosed as an impairment loss. If the reason for an impairment no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

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

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

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

Financial assets

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

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

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

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

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

Cash and cash equivalents were disclosed under loans and receivables.

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

Derivatives

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

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

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

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

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

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

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

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

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

These risks are contained by a risk management system. The principles laid down ensure that risk is assessed and documented in accordance with systematic and uniform procedures. Further information can be found on pages 39-40. Derivatives in the form of marketable foreign exchange transactions (forwards and swaps) and interest rate hedges were used. Where the conditions defined in IAS 39 for an effective hedging relationship were fulfilled, hedge accounting was used, more specifically cash flow hedges.

Inventories

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

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

Construction contracts

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

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

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

Reserves encompassed the net profits posted and retained in previous years by consolidated companies, and adjustments arising from the adoption of IFRS, more specifically IFRS 3 in 2004. They also included translation differences relating to the financial statements of foreign entities 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.

The current service cost and the return on plan assets are recognised in the individual functions.

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

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

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

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

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

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

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

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. At present the Group holds none.

Earnings
Revenue from the **sale of goods** was recognised at fair value if the entity had transferred to the buyer the significant risks and rewards of ownership of the goods, had retained neither continuing managerial involvement nor effective control over the goods sold, and it was probable that the economic benefits would flow to the entity.

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

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

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

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

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

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

Administrative expenses included the amortisation of goodwill.

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

(D) Consolidated Companies and Consolidation Principles

Consolidated companies

In addition to Koenig & Bauer AG, Würzburg, the consolidated financial statements include 13 (previous year: 12) companies.

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

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

(E) Foreign Currency Translation

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

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

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

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

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

in €m	Cost					
	01.01.	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
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**
2010						
Intangible assets						
Industrial property rights and similar rights	51.0	0.6	0.9	0.1	11.2	41.4
Goodwill	20.0	–	1.4	–	–	21.4
Product development costs	6.0	0.7	–	–	–	6.7
Assets under construction	–	0.1	–	–	–	0.1
	77.0	**1.4**	**2.3**	**0.1**	**11.2**	**69.6**
Property, plant and equipment						
Land and buildings	251.3	0.1	5.2	0.9	1.0	256.5
Plant and machinery	267.6	3.0	5.5	3.0	12.1	267.0
Other facilities, factory and office equipment	124.7	5.9	1.3	–1.2	12.7	118.0
Assets under construction	2.9	4.2	–	–2.8	–	4.3
	646.5	**13.2**	**12.0**	**–0.1**	**25.8**	**645.8**
	723.5	**14.6**	**14.3**	**–**	**37.0**	**715.4**

[1] Business segment sheetfed offset presses

Depreciation								Carrying amount	
01.01.	Annual depreciation	Impairments	Write-ups	Exchange differences	Reclassifi-cations	Disposals	**31.12.**	01.01.	**31.12.**
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**
46.2	1.9	–	0.2	0.9	–	11.2	37.6	4.8	3.8
0.2	–	–	–	–	–	–	0.2	19.8	21.2
5.4	–	–	–	–	–	–	5.4	0.6	1.3
–	–	–	–	–	–	–	–	–	0.1
51.8	**1.9**	**–**	**0.2**	**0.9**	**–**	**11.2**	**43.2**	**25.2**	**26.4**
108.8	6.4	–	16.4	0.6	0.3	0.6	99.1	142.5	157.4
204.7	12.3	0.5	3.8	4.4	0.7	8.8	210.0	62.9	57.0
98.4	9.9	–	3.6	1.0	–1.0	11.0	93.7	26.3	24.3
–	–	–	–	–	–	–	–	2.9	4.3
411.9	**28.6**	**0.5**	**23.8**	**6.0**	**–**	**20.4**	**402.8**	**234.6**	**243.0**
463.7	**30.5**	**0.5** [1]	**24.0** [1]	**6.9**	**–**	**31.6**	**446.0**	**259.8**	**269.4**

(G) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

The total includes €2.8m (previous year: €3.1m) for plant and machinery, and €0.9m (€2.2m) 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 €7.3m (previous year: €6.4m).

Intangible assets

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

Goodwill

in €m	31.12.2009	**31.12.2010**
Bauer+Kunzi GmbH, Stuttgart, Germany	3.4	3.4
KBA-MetalPrint GmbH, Stuttgart, Germany	9.2	9.2
KBA-GIORI S.A. (from 06.01.11 KBA-NotaSys SA), Lausanne, Switzerland	7.2	8.6
	19.8	**21.2**

Property, plant and equipment

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

Impairment tests

The following impairment tests were conducted on the balance sheet date in compliance with IAS 36.

Cash-generating unit	Number of planning periods	Pre-tax interest rate	Post-tax interest rate
Bauer+Kunzi GmbH und KBA-MetalPrint GmbH	3	9.8 %	7.1 %
KBA-GIORI S.A. (from 06.01.11 KBA-NotaSys SA)	3	8.1 %	7.3 %
Koenig & Bauer AG, KBA-Mödling AG sheetfed activities and KBA North America Inc.	5	9.6 %	7.1 %

No cash-generating units would have suffered an impairment of goodwill even if interest rates had been 0.5% higher.

In 2009 and 2010 the sheetfed division was successfully restructured as part of a Group realignment to a diminished market volume. This resulted in a €24m reversal of an impairment loss relating to intangible assets, property, plant and equipment at our facility in Radebeul, Germany, which in 2008 had been written down at a post-tax interest rate of 8.4% following an impairment test.

(2) Financial and other assets

Investments

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

Company, location	Capital share in %	Equity in €m
Consolidated affiliates		
KBA-MetroPrint AG, Veitshöchheim, Germany	100.0	3.6
KBA-Metronic GmbH, Veitshöchheim, Germany[1]	100.0	6.0
Bauer+Kunzi GmbH, Stuttgart, Germany	100.0	0.3
KBA-MetalPrint GmbH, Stuttgart, Germany[1]	100.0	–2.1[2]
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	0.4
KBA (UK) Ltd., Watford, UK	100.0	0.5
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	1.1
KBA-Mödling AG, Mödling, Austria	>99.9	36.0
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	30.7
KBA-GIORI S.A., Lausanne, Switzerland (KBA-NotaSys SA from 06.01.11)[1]	100.0	122.2
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	8.4
KBA North America Inc., Wilmington, Delaware, USA	100.0	–2.1[2]
Non-consolidated affiliates		
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.7[2]
KBA NORDIC A/S, Herlev, Denmark	100.0	–3.0[2]
KBA-Italia S.p.A., Milan, Italy	100.0	1.4
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	0.6
KBA-Polska Sp. z o.o., Warsaw, Poland	100.0	–0.1[2]
KBA RUS OOO, Moscow, Russia	100.0	–0.6[2]
Print Assist AG, Höri, Switzerland[1]	100.0	2.1
KBA (HK) Company Ltd., Hong Kong, China	100.0	0.8
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	1.3
MABEG Machinery (Shanghai) Co., Ltd., Shanghai, China	80.0	1.6
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.9[3]
KBA Complete GmbH, Radebeul, Germany	50.0	–[3]
KBA-GIORI India Private Ltd., New Delhi, India[1]	50.0	0.5

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

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

in €m	31.12.2009	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2010**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade receivables						
- from affiliates	9.7	9.6	0.1	12.7	12.7	–
- from companies in which interests are held	3.7	3.7	–	0.2	0.2	–
- from third parties	262.8	223.6	39.2	355.7	324.3	31.4
	276.2	**236.9**	**39.3**	**368.6**	**337.2**	**31.4**
Investments	5.9	–	5.9	8.2	–	8.2
Other financial receivables						
- from affiliates	0.6	0.6	–	–	–	–
- derivatives	1.0	0.9	0.1	1.0	1.0	–
- sundry other financial receivables	41.3	22.9	18.4	28.2	9.0	19.2
	48.8	**24.4**	**24.4**	**37.4**	**10.0**	**27.4**
Other assets						
- payments for inventories	19.7	19.7	–	23.5	23.5	–
- tax receivables	7.1	7.1	–	11.9	11.9	–
- prepayments	4.8	4.8	–	4.3	4.1	0.2
	31.6	**31.6**	**–**	**39.7**	**39.5**	**0.2**
	356.6	**292.9**	**63.7**	**445.7**	**386.7**	**59.0**

Adopting the percentage of completion method resulted in €38.4m (previous year: €26.3m) being carried in **trade receivables**.

Sundry other financial receivables included €2.7m (previous year: €3m) from customer finance leases totalling €3.6m (previous year: €4m) and an interest share of €0.9m (€1m), with those due in less than one year representing €2.5m (€2.4m) of a total of €3.4m (€3.2m). The terms to maturity of the remainder were less than five years.
Value adjustments of €2.7m (€2.2m) 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 such as default of payment relating to specific loans or countries. As a result of renegotiated conditions, €15.3m (previous year: €2.7m) was no longer overdue or impaired. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2009	31.12.2010
Raw materials, consumables and supplies	62.3	56.1
Work in progress	211.7	198.0
Finished goods and products	45.5	42.6
	319.5	**296.7**

The carrying amount of inventories balanced at net realisable value was €115m (previous year: €89.5m). Value adjustments totalling €7.7m (previous year: –€2.6m) were recognised as an expense.

(4) Securities

These refer to shares in a special fund combining stocks and bonds.

The balanced market value of the **special fund** was €23.7m (previous year: €15.6m). This was pledged to employees in order to hedge phased retirement credits.

(5) Cash and cash equivalents

in €m	31.12.2009	31.12.2010
Cheques, cash in hand	1.1	0.1
Balances with banks	75.0	90.9
	76.1	**91.0**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2009	**31.12.2010**	31.12.2009	**31.12.2010**
Assets				
Intangible assets, property, plant and equipment	1.3	1.0	16.9	16.0
Inventories	15.2	23.7	1.6	2.9
Financial receivables and other assets	0.8	0.1	1.1	8.8
Securities, cash and cash equivalents	–	–	0.2	0.1
Equity and liabilities				
Equity	–	–	2.2	0.3
Provisions	22.5	25.0	0.7	1.4
Financial payables and other liabilities	0.9	0.9	16.0	22.3
	40.7	**50.7**	**38.7**	**51.8**
Tax loss carryforwards	8.2	15.7	–	–
Other	0.5	–	–	–
Offset	–17.7	–29.6	–17.7	–29.6
	31.7	**36.8**	**21.0**	**22.2**
- of which current deferred taxes	10.3	11.0	1.9	5.8

At the end of the year there were loss carryforwards totalling €174.6m (previous year: €110.7m) and temporary differences of €32.2m (€67.5m) for which no deferred tax assets were disclosed. Although the subsidiaries concerned posted a loss for the period, deferred tax assets of €15.7m (€9.7m) were recognised in expectation of a profit.

No deferred tax liability was recognised on temporary differences in investments of €2.7m (previous year: €4.7m), since a reversal in the foreseeable future was highly improbable.

(7) Equity

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

Changes in shareholders' equity are described in a separate schedule on page 64, capital management methods on page 32.

Share capital

The Parent's share capital at 31 December 2010 totalled 16,464,693 (2009: 16,426,053) no-par shares with a nominal value of €2.60. The 38,640 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 €15.1m 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 €42.7m, with repurchasing to be completed by no later than 16 December 2011, 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 €0.1m compared to the previous year, due to the issue of employee shares.

Reserves
The use of hedge accounting trimmed reserves by €1.6m (previous year: €0.6m increase). During completion of the underlying transactions €2.1m (previous year: €0.8m) was recognised as income.

Deferred taxes swelled reserves by €1.6m (previous year: €0.3m reduction), with derivatives accounting for –€0.2m (–€0.4m) and foreign currency translation +€1.8m (€0.2m). In the previous year deferred taxes of –€0.1m from primary financial instruments were offset against reserves.

(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 4.8% (previous year: 4.9%) in Germany and 3.3% to 5.6% (4.1% to 5.8%) in the rest of Europe, a pay increase of 3.1% (3.9%) and a fluctuation rate of 2.7% (2.4%). Pension adjustments were calculated at 1.5% (2.1%). 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.

Corporate pension schemes for which, at least temporarily, all actuarial risks including capital-market risks are borne by an insurance company, were previously treated as defined-contribution plans under the terms of IAS 19. The opinion now prevails that they should be treated as defined-benefit schemes. As a result a €0.2m surplus was capitalised in 2010. At the same time there was an increase of €53m in the present value of obligations and of €51.6m in the current market value of plan assets.

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	
	31.12.2009	**31.12.2010**	31.12.2009	**31.12.2010**
Status at 01.01.	**104.8**	**114.9**	**–8.4**	**–10.0**
Current service cost	2.4	5.8	–	–
Interest cost	5.8	7.4	–	–
Actuarial gain/loss	7.8	9.8	–0.4	0.1
Expected return on plan assets	–	–	–0.4	–2.9
Contributions paid by employer	–	–	–0.6	–5.4
Contributions paid by plan beneficiaries	–	–	–0.1	–0.1
Benefits paid	–6.3	–8.1	0.2	2.8
Foreign currency changes	0.1	11.2	–0.3	–10.1
Other changes	0.3	53.1	–	–51.6
Status at 31.12.	**114.9**	**194.1**	**–10.0**	**–77.2**

The following costs and returns were recognised:

in €m	31.12.2009	**31.12.2010**
Current service cost	2.4	5.8
Interest cost	5.8	7.4
Expected return on plan assets	–0.4	–2.9
Cost (+)/return (-) for the year	**7.8**	**10.3**

Pension provisions constituted the following:

in €m	31.12.2009	**31.12.2010**
Present value of non-funded obligations	104.9	107.0
Present value of funded obligations	10.0	87.1
Present value of obligations	**114.9**	**194.1**
Current market value of plan assets	–10.0	–77.2
Current market value of obligations (offset)	**104.9**	**116.9**
Unrecognised actuarial gains/losses	–1.2	–12.8
Balance sheet value at 31.12.	**103.7**	**104.1**
- of which pension provisions	103.7	104.6
- of which assets	–	0.5

Plan assets comprised €30.3m (previous year: €3.2m) from shares and equity securities, €35.2m (€5.2m) from loans, €5m from liquid assets and €6.7m (€1.6m) from other assets.

The actual return on plan assets was €2.8m (previous year: €0.8m). The anticipated rate of return is 3.8% (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 five years changed as follows:

in €m	31.12.2006	31.12.2007	31.12.2008	31.12.2009	**31.12.2010**
Present value of obligations	127.0	110.2	104.8	114.9	194.1
Current market value of plan assets	–8.8	–9.4	–8.4	–10.0	–77.2
Net liability	**118.2**	**100.8**	**96.4**	**104.9**	**116.9**
Experience adjustments of liabilities			–0.9	–	1.9
Experience adjustments of assets			0.9	–0.4	–0.4

Expenses for defined-contribution plans totalled €35.6m (previous year: €37.7m).

Payments for pension obligations in 2011 have been estimated at €10.8m (previous year: €6.7m).

(9) Other provisions

in €m	Status at 01.01.2010	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Exchange differences	Reclassifi-cation	**Status at 31.12.2010**
Other provisions								
- for employees	79.3	28.5	2.8	25.6	1.3	0.3	1.5	76.7
- for sales	102.7	22.2	8.2	40.0	0.5	1.4	–	114.2
- for sundry other purposes	30.9	12.8	0.8	25.1	–	2.6	–1.5	43.5
	212.9	**63.5**	**11.8**	**90.7**	**1.8**	**4.3**	**–**	**234.4**
of which								
- long-term provisions	56.0							71.7
- short-term provisions	156.9							162.7
	212.9							**234.4**

Provisions for employees included expenses relating to the planned Group realignment, long-service bonuses, credits for phased retirement plans and performance bonuses. Sales expenses covered provisions for process risks, warranty and anticipated goodwill obligations arising from contractual and legal agreements, and commission obligations. Provisions for sundry other purposes primarily related to liability insurance premiums, archiving costs and similar obligations.

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

(10) Financial and other liabilities

in €m	31.12.2009	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2010**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade payables						
- to affiliates	2.6	2.6	–	5.0	5.0	–
- to companies in which interests are held	0.1	0.1	–	–	–	–
- to others	72.1	71.8	0.3	64.4	64.2	0.2
	74.8	**74.5**	**0.3**	**69.4**	**69.2**	**0.2**
Bank loans	48.3	35.3	13.0	43.1	34.3	8.8
Other financial payables						
- from derivatives	0.9	0.8	0.1	1.2	1.1	0.1
- sundry other financial payables	55.0	47.5	7.5	54.9	48.8	6.1
	104.2	**83.6**	**20.6**	**99.2**	**84.2**	**15.0**
Other liabilities						
- from payments received	104.4	104.3	0.1	153.0	152.5	0.5
- from taxes	11.0	11.0	–	12.2	12.2	–
- sundry other liabilities	1.9	1.9	–	0.5	0.5	–
	117.3	**117.2**	**0.1**	**165.7**	**165.2**	**0.5**
	296.3	**275.3**	**21.0**	**334.3**	**318.6**	**15.7**

Bank loans (financial liabilities) were secured by mortgages to the value of €23.2m (previous year: €13.3m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of inventory and trade receivables totalling €4.4m (€7.9m). The carrying amounts of secured items of property, plant and equipment came to €26.7m (previous year: €26.9m), of trade receivables €27.9m (€24.4m), of inventories €4m (€6.3m) and of pledged collateral (other financial receivables) €1.1m (€1.1m). Failure to fulfil contractual obligations can 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 €51.1m (previous year: €74.2m).

Sundry other financial payables included finance leases to the sum of €5m (previous year: €8.2m). 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	31.12.2009	Term to maturity		**31.12.2010**	Term to maturity	
		up to 1 year	1 to 5 years		up to 1 year	1 to 5 years
Minimum lease payments	9.0	2.9	6.1	5.3	2.5	2.8
Interest portion	–0.8	–0.4	–0.4	–0.3	–0.2	–0.1
Present value of finance lease	**8.2**	**2.5**	**5.7**	**5.0**	**2.3**	**2.7**

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

Other liabilities included total payments received of €53.5m (previous year: €23.6m) for construction contracts.

(11) Derivatives

Forward contracts with a maturity of up to 1 year (2009: 1 year), which were used to hedge the calculation rate of other foreign currency trade contracts, correlated with underlying transactions with the same maturity. The currencies hedged were primarily US dollars. The fair value of forward contracts qualifying as hedges with a nominal amount totalling €27.9m (previous year: €12.5m) was €0.4m.

Interest rate swaps and cap transactions with a maturity of 3.5 years covered subsidiaries' existing interest risk. A hedge for an interest rate swap with a nominal amount of €1.7m (previous year: €1.7m) had a market value of –€0.1m (previous year: –€0.2m) on the balance sheet date.

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

in €m	Nominal amount Total 31.12.2009	Nominal amount Term to maturity more than 1 year	Market value 31.12.2009	Nominal amount Total 31.12.2010	Nominal amount Term to maturity more than 1 year	Market value 31.12.2010
Forward contracts	36.4	–	0.1	55.7	–	–
Currency options	1.9	–	–	–	–	–
Interest rate hedges	7.7	7.7	–0.1	7.7	7.7	–0.2
	46.0	**7.7**	**–**	**63.4**	**7.7**	**–0.2**

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
2009						
Loans and receivables	358.2	286.0	28.8	19.4	3.4	20.6
Gross amount due from customers for contract work	26.3	23.1	2.5	–	–	0.7
Assets held to maturity	8.3	8.3	–	–	–	–
Assets available for sale	22.9	22.9	–	–	–	–
Financial instruments recognised at fair value	0.6	0.6	–	–	–	–
	416.3	**340.9**	**31.3**	**19.4**	**3.4**	**21.3**
2010						
Loans and receivables	439.5	346.9	38.3	29.9	0.8	23.6
Gross amount due from customers for contract work	38.4	22.6	5.5	2.4	7.9	–
Assets held to maturity	8.5	8.5	–	–	–	–
Assets available for sale	33.3	33.3	–	–	–	–
Financial instruments recognised at fair value	0.4	0.4	–	–	–	–
	520.1	**411.7**	**43.8**	**32.3**	**8.7**	**23.6**

in €m	Category under IAS 39*	31.12.2009 Carrying amount	Carrying value Amortised cost	Carrying value Fair value recognised in profit or loss	Carrying value Fair value recognised in equity	31.12.2009 Fair value
Assets						
Investments and other financial receivables						
- interests in affiliates	afs	5.8	5.8	–	–	–
- loans	lar	0.1	0.1	–	–	0.1
- other financial receivables from finance leases	lar	0.8	0.8	–	–	0.8
- other financial receivables from derivatives	rafv	0.6	–	0.6 [2]	–	0.6
- other financial receivables from hedge accounting	–	0.4	–	–	0.4 [2]	0.4
- sundry other financial receivables	htm	8.3	8.3	–	–	8.3
	afs	1.5	–	–	1.5 [1]	1.5
	lar	31.3	31.3	–	–	31.3
		48.8	**46.3**	**0.6**	**1.9**	**43.0**
Trade receivables	lar	249.9	249.9	–	–	249.9
Gross amount due from customers for contract work	lar	26.3	26.3	–	–	26.3
Securities	afs	15.6	–	–	15.6 [1]	15.6
Cash and cash equivalents	lar	76.1	76.1	–	–	76.1
		416.7	**398.6**	**0.6**	**17.5**	**410.9**
Liabilities						
Bank loans and other financial payables						
- bank loans	ofp	48.3	48.3	–	–	48.3
- other financial payables from finance leases	ofp	8.2	8.2	–	–	8.2
- other financial payables from derivatives	rafv	0.3	–	0.3 [2]	–	0.3
- other financial payables from hedge accounting	–	0.6	–	–	0.6 [2]	0.6
- sundry other financial payables	ofp	46.8	46.8	–	–	46.8
		104.2	**103.3**	**0.3**	**0.6**	**104.2**
Trade payables	ofp	74.8	74.8	–	–	74.8
		179.0	**178.1**	**0.3**	**0.6**	**179.0**

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

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

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

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

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

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

31.12.2010	Carrying value			31.12.2010
Carrying amount	Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	Fair value
8.1	8.1	–	–	–
0.1	0.1	–	–	0.1
–	–	–	–	–
0.4	–	0.4[2]	–	0.4
0.6	–	–	0.6[2]	0.6
8.5	8.5	–	–	8.5
1.5	–	–	1.5[1]	1.5
18.2	18.2	–	–	18.2
37.4	**34.9**	**0.4**	**2.1**	**29.3**
330.2	330.2	–	–	330.2
38.4	38.4	–	–	38.4
23.7	–	–	23.7[1]	23.7
91.0	91.0	–	–	91.0
520.7	**494.5**	**0.4**	**25.8**	**512.6**
43.1	43.1	–	–	43.1
5.0	5.0	–	–	5.0
0.9	–	0.9[2]	–	0.9
0.3	–	–	0.3[2]	0.3
49.9	49.9	–	–	49.9
99.2	**98.0**	**0.9**	**0.3**	**99.2**
69.4	69.4	–	–	69.4
168.6	**167.4**	**0.9**	**0.3**	**168.6**

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

The **liquidity risk** derived from cash flows comprising contractual payments of interest and capital on bank loans. Interest-bearing debts and payables from finance leases will result in a liquidity outflow of €37.1m (previous year: €36.8m) within the next twelve months and €10.9m (€18.9m) in one to three years. Additional liquidity was required for sundry other financial payables, other financial payables and financial guarantees.

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

in €m	Net gain/loss	from interest	from subsequent measurement due to impairment	currency impact	at fair value	from disposal	Other
31.12.2009							
Loans and receivables	–5.0	4.0	0.7	–	–	–9.7	–
Gross amount due from customers for contract work	–1.3	0.2	–0.2	–0.1	–	–1.2	–
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**
31.12.2010							
Loans and receivables	–17.8	3.6	–2.3	–9.6	–	–9.5	–
Gross amount due from customers for contract work	–0.7	–	–0.5	–	–	–0.2	–
Assets available for sale	0.5	0.2	–	–	–	–	0.3
Financial instruments recognised at fair value in profit or loss	–3.0	–	–	–0.8	–2.2	–	–
Other financial payables	0.8	–4.6	–	5.4	–	–	–
	–20.2	**–0.8**	**–2.8**	**–5.0**	**–2.2**	**–9.7**	**0.3**

Value adjustments were made of €4.2m (previous year: –€5.9m) on trade receivables and –€1.9m (€5.4m) on investments and other financial receivables.

Foreign currency risks were assessed using a sensitivity analysis based on the premise that the US dollar fluctuates in value by ±5% relative to the euro. A 5% devaluation in the dollar would have increased equity by €1.3m (previous year: €0.6m) and reduced income by €1.4m (previous year: €0.4m) on the balance sheet date, whereas a 5% revaluation would have reduced equity by €1.4m (€0.7m) and increased income by €1.5m (€0.8m).

On the balance sheet date the KBA Group was exposed to a foreign currency risk amounting to €78.8m (previous year: €66.7m), primarily relating to loans and receivables.

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

(13) Other financial commitments and contingent liabilities

Other financial commitments

in €m	31.12.2009	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2010**	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years
Commitments from:								
operating leases	11.7	4.4	6.0	1.3	8.1	3.4	3.9	0.8
leasing and service contracts	13.5	5.0	8.5	–	14.4	7.5	6.9	–
investment plans	0.3	0.3	–	–	2.0	2.0	–	–
sundry other activities	0.9	0.9	–	–	0.3	0.3	–	–
	26.4	**10.6**	**14.5**	**1.3**	**24.8**	**13.2**	**10.8**	**0.8**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €4.6m (previous year: €6.9m) 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 €2m (previous year: €0.3m).

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

Contingent liabilities

These comprised contingencies totalling €79.1m (previous year: €116m) 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

Revenue from the sale of machinery came to €928.1m (previous year: €875.9m), other sales totalled €251m (previous year: €174.5m).

Construction contract revenue totalled €142.7m (previous year: €166.9m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €458.3m (€478m).

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

(15) Expenses by function

Cost of sales

Cost of sales included €1.1m (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 €445.8m (previous year: €455.8m).

Research and development costs

Expenditure on research and development was €0.9m below the prior-year figure.

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

Distribution costs and administrative expenses

A €27.2m increase in distribution costs was primarily attributable to a jump in sales. Administrative expenses rose by €1.3m compared to the previous year.

(16) Expenses by nature

Material costs

in €m	2009	**2010**
Cost of raw materials, consumables, supplies and purchased goods	433.3	446.4
Cost of purchased services	84.9	80.8
	518.2	**527.2**

Personnel costs

in €m	2009	**2010**
Wages and salaries	314.8	306.9
Social security and other benefits	60.4	56.2
Pensions	4.9	7.5
	380.1	**370.6**
Average payroll		
- wage-earning industrial staff	3,985	3,507
- salaried office staff	2,963	2,645
- apprentices/students	379	363
	7,327	**6,515**

Reimbursements from the Federal Employment Agency for social security expenses relating to short-time work reduced personnel expenses by €4.8m (previous year: €7.3m).

(17) Other operating income and expenses

in €m	2009	2010
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	2.3	2.5
Foreign currency gains	4.2	19.9
Currency measurement	2.8	12.9
Restructuring	35.1	24.8
Reversal of write-downs	15.1	6.9
Sundry other operating income	50.1	21.5
	109.6	**88.5**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–0.7	–0.1
Foreign currency losses	–4.1	–24.5
Currency measurement	–2.8	–13.3
Restructuring	–19.7	–18.7
Creation of write-downs	–14.5	–9.8
Sundry other operating expenses	–18.3	–26.3
	–60.1	**–92.7**
Other operating income and expenses	**49.5**	**–4.2**

Income in 2010 included €24m for **restructuring** from the reversal of an impairment loss on intangible assets, property, plant and equipment.

Sundry other operating income included €8.2m (previous year: €25.2m) from the reversal of sales-related provisions for the Group adjustment to a diminished market volume. 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	2009	2010
Other financial results		
Income from interests in affiliates	2.0	0.3
Impairments in investments and securities	–0.2	–
	1.8	**0.3**
Interest income/expense		
Other interest and similar income	5.0	4.9
Other interest and similar expense	–12.8	–12.1
- from pension obligations	(–5.8)	(–7.4)
	–7.8	**–7.2**
Financial result	**–6.0**	**–6.9**

(19) Income taxes

in €m	2009	2010
Earnings before taxes	**2.7**	**15.3**
Group tax rate	30.0 %	30.0 %
Expected taxes	**–0.8**	**–4.6**
Tax effects from		
- variances due to different tax rates	11.2	13.0
- tax-free earnings	–1.5	0.6
- write-downs	–5.8	–10.8
- decreases and increases	–0.4	0.2
- other	1.2	–1.2
Income tax	**3.9**	**–2.8**

in €m	2009	2010
Actual tax expense	–4.8	–4.9
Prior-period income taxes	1.1	–1.0
Deferred taxes from loss carryforwards	6.4	7.5
Deferred tax income from temporary differences	1.2	–4.4
	3.9	**–2.8**

Other tax effects included prior-period income taxes.

Income from the reversal of write-downs in deferred tax assets of €7.2m arising from the reversal of an impairment loss on intangible assets, property, plant and equipment was offset against the write-downs.

(20) Earnings per share

	2009	2010
Group profit for the period in €m	6.6	12.5
Weighted average of ordinary shares issued	16,397,050	16,436,428
Earnings per share in €	**0.41**	**0.76**

The total number of ordinary shares issued was 38,640 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. Funds totalling €91m (previous year: €76.1m) included cash and cash equivalents.

Tax expense embraced tax payments of €5.3m (previous year: €7.1m) and refunds of €0.1m (€3.2m).

(J) Segment Information

Business segments

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

The business segment web and special presses encompasses newspaper, commercial, directory and security presses, industrial ID systems and UV presses for printing on plastic, film and 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.

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

in €m	Web and special presses		Sheetfed offset presses		Group	
	2009	**2010**	2009	**2010**	2009	**2010**
External turnover	571.7	628.0	478.7	551.1	1,050.4	1,179.1
Operating profit/loss	31.8	14.0	–23.1	8.2	8.7	22.2
Depreciation	17.9	19.7	12.1	10.8	30.0	30.5
Capital investments	20.6	9.4	9.6	6.0	30.2	15.4

Geographical breakdown

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

Reconciliation related to non-current financial assets and deferred tax assets.

in €m	External turnover		Capital investments		Non-current assets	
	2009	**2010**	2009	**2010**	2009	**2010**
Germany	162.8	135.7	13.0	8.7	170.8	181.2
Rest of Europe	378.4	335.3	16.2	6.5	87.8	87.2
North America	146.4	118.3	1.0	0.2	1.2	1.2
China	92.8	131.0	–	–	–	–
Rest of Asia/Pacific	142.9	216.1	–	–	–	–
Africa/Latin America	127.1	242.7	–	–	–	–
Reconciliation	–	–	–	–	56.1	64.2
Group	**1,050.4**	**1,179.1**	**30.2**	**15.4**	**315.9**	**333.8**

(K) Notes to Section 285 no. 17 HGB

The auditors, KPMG Bayerische Treuhandgesellschaft, received €0.5m remuneration for audits and €1m for other services.

(L) Related Party Disclosures

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

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

in €m	2009	**2010**
Other current financial receivables at 31.12.	0.6	–
Trade receivables at 31.12.	13.4	12.9
Trade payables at 31.12.	2.6	5.0
Revenue	25.1	28.1

Management board remuneration totalled €2.6m (previous year: €2.3m), with the fixed portion representing €1.2m (€1.4m). The variable portion was based on net profit.

Pension provisions were increased by €0.2m (previous year: €0.2m) for the current service cost. Remuneration for former members and their survivors stood at €2.7m (€1.1m). Supervisory board remuneration totalled €0.3m (€0.1m), of which €0.2m was variable.

€15.2m (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 2010 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 GmbH
Heidenheim

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

Walther Mann*
Representative of IG Metall
Würzburg

Klaus Schmidt*
Director Corporate Communications, KBA
Hettstadt

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

Nomination Committee
Dieter Rampl
Reinhart Siewert
Baldwin Knauf
Dr Hermann Jung

Management Board

Helge Hansen
President and CEO
Head of finances (until 30.09.2010), human resources,
legal affairs, IT, web and sheetfed press quality management,
sheetfed press production, purchasing and logistics
Würzburg

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

Dr Axel Kaufmann (since 01.10.2010)
CFO
Munich

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 Chairman	UniCredit S.p.A., Milan, Italy Mediobanca S.p.A., Milan, Italy FC Bayern München AG, Munich, Germany KKR Management LLC, New York, USA
Reinhart Siewert Deputy chairman	Bank Schilling & Co. AG, Hammelburg, 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
Günter Hoetzl	Tyco Electronics AMP GmbH, Speyer, Germany
Klaus Schmidt	KBA-FRANCE SAS, Tremblay-en-France, France KBA-MetroPrint AG, Veitshöchheim, Germany KBA-Metronic GmbH, 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) Proposal for the Utilisation of Retained Earnings

The single-entity statements for Koenig & Bauer AG were prepared under German accounting and reporting laws.
The dividend payable to shareholders was based on retained earnings disclosed in the financial statements for Koenig & Bauer AG. With the approval of the supervisory board a proposal will be submitted to the AGM to utilise retained earnings totalling €4,939,407.90 as follows:

Payment of a dividend of 30 cents per ordinary share on 16,464,693 no-par shares	€4,939,407.90

Würzburg, 24 March 2011
Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy president

Dr Axel Kaufmann

Christoph Müller

Ralf Sammeck

Auditors' Report

We have audited the consolidated financial statements prepared by KOENIG & BAUER Aktiengesellschaft, Würzburg, comprising group balance sheet, group income statement, statement of comprehensive group income, statement of changes in group equity, group cash flow statement and notes, together with the group management report for the business year from 1 January to 31 December 2010. 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) of the HGB (Handelsgesetzbuch, German Commercial Code) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (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 2011

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Original German version signed by)

Karsten Dankert	Dr Holger Kelle
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility Statement

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

Würzburg, 24 March 2011
Management Board

Helge Hansen
President and CEO

Claus Bolza-Schünemann
Deputy president

Dr Axel Kaufmann

Christoph Müller

Ralf Sammeck

Balance Sheet for Koenig & Bauer AG to 31 December 2010

under the German Commercial Code (HGB)

Assets in €m	31.12.2009	**31.12.2010**
Non-current assets		
Intangible assets	2.2	1.5
Property, plant and equipment	143.9	126.3
Financial assets	43.5	43.8
	189.6	**171.6**
Current assets		
Inventories less payments received	127.6	79.4
Trade receivables	147.0	154.2
Other receivables and assets	112.8	110.8
Securities	13.3	21.3
Cash and cash equivalents	45.9	44.1
	446.6	**409.8**
Prepayments	**2.2**	**0.9**
	638.4	**582.3**

Equity and liabilities in €m	31.12.2009	**31.12.2010**
Equity		
Share capital	42.7	42.8
Share premium	87.0	87.1
Reserves	246.4	99.3
Retained earnings	–109.1	4.9
	267.0	**234.1**
Special items with equity portion	**4.6**	**4.4**
Provisions		
Pension provisions	68.3	70.1
Tax provisions	4.0	3.5
Other provisions	197.4	195.2
	269.7	**268.8**
Liabilities		
Bank loans	12.3	10.1
Trade payables	45.1	23.4
Sundry other liabilities	39.7	41.5
	97.1	**75.0**
	638.4	**582.3**

Income Statement for Koenig & Bauer AG for 2010

under the German Commercial Code (HGB)

in €m	2009	2010
Revenue	786.2	731.7
Cost of sales	–706.5	–657.6
Gross profit	**79.7**	**74.1**
Distribution costs	–76.1	–79.0
Administrative expenses	–41.4	–37.2
Other operating income	82.5	27.5
Other operating expenses	–74.4	–65.9
Loss from operations	**–29.7**	**–80.5**
Financial result	19.7	47.6
Loss from ordinary activities	**–10.0**	**–32.9**
Extraordinary loss	–	–0.4
Earnings before taxes	**–10.0**	**–33.3**
Income taxes	0.3	0.2
Net loss	**–9.7**	**–33.1**
Loss carried forward	–99.4	–109.1
Distributions from other revenue reserves	–	147.1
Retained earnings	**–109.1**	**4.9**

Key Financial Dates

Interim report on 1st quarter 2011
13 May 2011

Koenig & Bauer Annual General Meeting
16 June 2011
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2011
12 August 2011

Interim report on 3rd quarter 2011
15 November 2011

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Consolidated Financial Statements

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