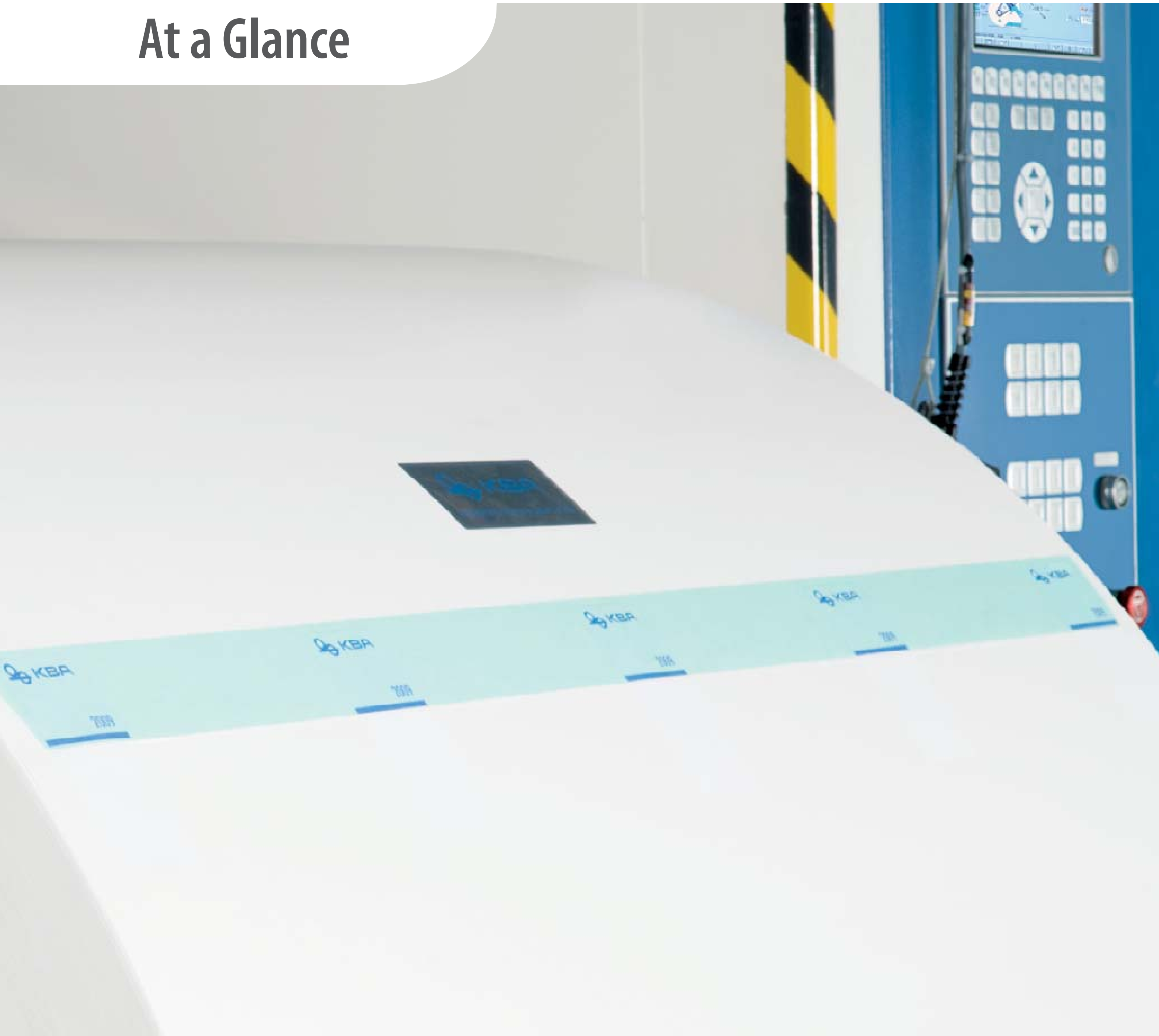
Consolidated Financial Statements 2011

Koenig & Bauer Group

At a Glance



Colour breathes life into white paper, and print in its manifold forms is with us throughout the day: our morning newspaper, the banknotes and smart cards we use, the board and metal packaging and sales displays we see in the shops when we go shopping, the magazines and books we read and even the coasters on which our drinks are served in the evening. Most of these can be printed on KBA presses, as the following pages illustrate

KBA Group in Figures

€m	2007	2008	2009	2010	2011
Order intake	1,546.9	1,241.5	883.9	1,284.9	1,552.1
Sales	1,703.7	1,531.9	1,050.4	1,179.1	1,167.2
Order backlog at 31.12.	791.9	501.5	335.0	440.8	825.7
Operating profit/loss	65.7	–79.9	8.7	22.2	9.9
Earnings before taxes	63.2	–87.1	2.7	15.3	3.3
Net profit/loss	49.0	–101.0	6.6	12.5	0.4
Balance sheet total	1,366.6	1,181.4	1,060.4	1,164.4	1,222.8
Intangible assets, property, plant and equipment	290.3	254.5	259.8	269.4	275.0
Equity (excluding dividend payment)	505.3	411.1	419.8	456.4	466.6
Investment in intangible assets, property, plant and equipment	50.7	52.4	30.2	15.4	35.7
Depreciation on intangible assets, property, plant and equipment	50.2	88.6	30.3	31.0	35.5
Payroll: annual average	8,250	8,052	7,327	6,515	6,401
Cash flows from operating activities	21.3	34.6	29.6	30.1	83.9
Dividend per share in €	0.60	–	–	0.30	–

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The internet notwithstanding, printed newspapers are still the preferred choice for many readers and advertisers because they are considered more credible and provide background information that is often lacking in other media. Our highly automated Commander CT has proved particularly popular in this sector

Major Events in 2011

January: Just a few weeks after the first KBA C16, a commercial web offset press engineered for fast job changes, is officially inaugurated at L.N. Schaffrath in Geldern, Germany, a further order for a press of this type is placed by Niederösterreichisches Pressehaus in St Pölten, Austria.

February: The hundredth medium-format Rapida 106 with DriveTronic SPC dedicated plate-cylinder drives is assembled in Radebeul. The perfecting press with 14 printing, coating and drying units is destined for Belgian playing-card manufacturer Cartamundi.

March: KBA and the world's biggest print group, RR Donnelley (RRD) in Chicago, sign a co-operative agreement to build digital printing presses based on RRD's inkjet technology. This marks KBA's entry into the high-growth market of digital print. Manufactured in Würzburg, the first such press will be demonstrated at Drupa 2012.

April: The world's biggest litho press, a 33m-long Rapida 185 with twelve printing, coating and drying units, comes on stream at Al Bayan in Saudi-Arabia.

May: At the Metpack trade fair in Essen KBA-MetalPrint unveils a new generation of metal-decorating coaters that is received with acclaim.

June: Shortly after the production start-up of a superlarge-format Rapida 185 at Linocraft Printers in Malaysia, Singapore-based book printer Tien Wah Press (TWP), part of Japan's Dai Nippon Printing Group, signs up for a high-automation large-format Rapida 142 which has since gone live at TWP's plant in Johor Bahru, Malaysia.

From the left:

Plate changing on our C16 is faster than on any other 16-page press

At Drupa 2012 KBA will be announcing a move into the high-growth digital print market with the RotaJET 76

KBA-MetalPrint's busy exhibition stand at the Metpack trade fair in Essen, Germany

July: KBA clocks up another success in Switzerland's highly discerning commercial market when gdz, the last major commercial printer in Zurich, replaces a web press with a highly automated Rapida 106 ten-colour perfecting press.

August: Our Frankenthal operation celebrates its 150th jubilee on 18 August, and minister president Kurt Beck attends the official ceremony in the autumn. On 1 November Albert-Frankenthal GmbH and KBA-FT Engineering GmbH are spun off from the Parent as independent entities.

September: A major French customer, Lenglet Imprimeurs, becomes an all-KBA plant when two new 48-page Compacta 618 presses are launched into operation alongside KBA gravure and commercial presses, replacing third-party models.

October: At the IFRA Expo newspaper trade fair in Vienna we unveil the Commander CL, a new classic, non-splittable press that offers a choice of automation levels and expands our compact platform comprising the highly successful Commander CT and Cortina. The Compacta CL's printing units are just 2.75 metres high.

November: A new medium-format press, the Rapida 105, is unveiled to great acclaim at the well-attended All in Print trade fair in Shanghai. Based on our high-tech Rapida 106, the Rapida 105 is the first of the new products we are launching at Drupa 2012 in Düsseldorf.

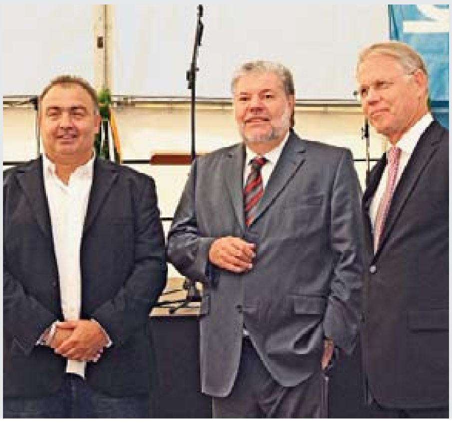
December: In sharp contrast to a widespread reluctance among other US newspaper publishers to invest in new kit, Hearst Corporation reaffirms its commitment to print by ordering a Commander CL for Times Union in Albany.

From the left:

Minister president Kurt Beck (centre) with former KBA president Helge Hansen (r) and works council chairman Michael Gasbarri at Frankenthal's jubilee celebrations

Several orders for our new, custom-automated Commander CL newspaper press were placed before it had left the drawing board

China is a major market for our new Rapida 105, which was a major attraction at a trade fair in Shanghai



Foreword

In the 2011 business year a volatile market environment once again brought major challenges for the German press engineering industry and KBA. The bankruptcy of manroland, formerly our main competitor, on 25 November was a product of this volatility and a spectacular example of how the financial crisis and shifts in the media market have accelerated consolidation within the sector. This process, which among the three biggest German press manufacturers has led to the loss of some 15,000 jobs through downsizing alone, is already well advanced but not yet concluded. Today KBA has some 2,000 fewer employees than before the crisis.

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

Much as I deplore the loss of so many jobs, we had little option when faced with adjusting our business to a market volume that had shrunk by almost half. Jobs in new sectors or business lines where other players have already become established cannot be created in such large numbers in a short space of time. We are hopeful that the drastic capacity cuts on the supply side will lead to more sensible conditions being stipulated in contracts, and that sober calculations will gain the upper hand over what has at times been a one-sided focus on gaining and securing market share at the expense of long-term corporate health.

Demand for both sheetfed and web presses lagged well behind expectations in the second half of the year. This, and the knock-on effects of a six-week strike at our Frankenthal facility, meant that we were unable to fulfil all our spring projections. Looking on the bright side, brisk sales of special presses for niche applications helped swell the volume of new orders by more than 20% to €1,552.1m, a modest improvement on the pre-crisis 2007 figure. We entered the year in which the Drupa trade fair will take place with an order backlog worth €825.7m, an improvement of 87% over 2010 and the biggest since 2006.

Group sales and income were both below target, and revenue of €1,167.2m was marginally down on the prior-year figure of €1,179.1m. In conjunction with delays to shipments of some more profitable products and the unforeseeable consequences of strike action, this reduced pre-tax earnings from €15.3m in 2010 to €3.3m. But once again we achieved a key objective: for the third year in succession and with no recourse to external funding we alone among major press manufacturers disclosed a profit after deducting interest, depreciation and substantial restructuring costs. So while the present geopolitical and economic environment has brought disappointment, there is still some cause for pride.

We have an edge over major competitors in that my predecessors on the KBA management board were adept at anticipating market shifts, and in the 1950s, 1990s and the new millennium expanded into less cyclical, media-dependent print markets, such as security printing, metal decorating, industrial coding and packaging printing, by either developing new products or acquiring existing players. In many of these sectors KBA now holds the pole position and can build on years of experience and a substantial global customer base.

Last year we continued to pursue this path with a move into digital print. But instead of entering a non-exclusive marketing agreement for digital systems manufactured by other, much bigger vendors of office equipment, we decided to offer our own products. At Drupa we'll be unveiling a web-fed digital press that was built at our Würzburg factory and incorporates a cutting-edge inkjet system developed in alliance with Chicago-based US print media giant RR Donnelley. The aim is to expand our portfolio in the medium term and thus compensate, if only in part, for the relentless decline in sales of conventional web presses.

This new inkjet press for both high-volume and personalised applications is not the only new product we'll be launching at Drupa. True to our reputation as an innovator among press manufacturers, under the banner "**s**printing ahead" we'll also be unveiling new offset products and processes for commercial, book, label, packaging, magazine and newspaper printers. They will include a new generation of large-format sheetfed presses, hybrid offset/digital systems and new options for process automation, quality management, brand protection and sustainable production.

In the course of our 200-year history we have learned that, while it is necessary to contain costs, when times get tough innovation in our core business is essential as a means of differentiating our products from low-cost alternatives through technological excellence. But we are also aware that there has been a tectonic shift in economic weightings worldwide towards threshold countries like India, Brazil and, more particularly, China. Following our acquisition in 2010 of Mabeg Machinery (Shanghai), which gave us a production foothold in China, we have therefore pushed ahead with plans to acquire a stake in a Chinese press manufacturer. While continuing to export our own high-tech presses to China we are hoping to complete a deal this year that will enable us to build less complex sheetfed presses locally for the domestic Chinese market.

Meanwhile we continue our endeavours to develop another new and potentially profitable line of business beside the growth markets of digital print and China. Our strong presence in the packaging sector makes associated technologies an attractive proposition. We'll keep you posted on our progress.

Following the payment of a dividend for 2010, in view of the unsatisfactory earnings and unsettled economic environment the management and supervisory boards have regretfully decided not to pay a dividend for the 2011 business year. While we are fully aware that this leaves us open to criticism, you will appreciate that the uncertainties currently confronting the print media industry have left us with little alternative. The management board will make every effort to regain a level of profitability that allows us to award our shareholders a suitable return on capital as soon as is humanly possible.

We wish to thank you, our shareholders, for your interest in KBA and your confidence in the management board, and we hope this will continue in the future. Many thanks, too, to all our customers worldwide for the loyalty you have shown, some of you for many years now. And a big thank-you to all our executives and staff, who work so hard for the benefit of the Group.

Würzburg, 29 March 2012
Koenig & Bauer Management Board

Claus Bolza-Schünemann
President and CEO

Supervisory Board Report

Dieter Rampl
Chairman, Koenig & Bauer AG

Glacial investment in print by publishers, the negative impact of the sovereign debt crisis in Europe and slowing growth in China put paid to hopes of a sustained upturn in the major markets served by the international press engineering industry. Once again our niche products, which constitute a substantial proportion of our business, had a stabilising effect on Group performance. In a volatile market and industry environment the supervisory board and its committees fulfilled their legal and statutory obligations with particular vigilance, supporting, guiding and monitoring the activities of the Koenig & Bauer management board on an ongoing basis. 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.

In addition to one extraordinary meeting and a constituent meeting following the election of shareholder representatives at the AGM, four supervisory board meetings were held. KBA management provided a full and detailed report on the performance, financial position and earnings of the Parent and the Group, individual business fields and major subsidiaries. Along with demand and competition in the various market sectors the central issues discussed were corporate policy and planning. At every meeting the supervisory board requested a detailed update on progress to date in restructuring the Group's web press operations. Other items included investment, human resources, strategic development, risk and compliance.

The meeting on 24 March revolved around the discussion, examination and approval of the financial statements for 2010 and the agenda for the AGM. We also examined a new business application – digital printing technology – in alliance with the world's biggest print media group, RR Donnelley. At the extraordinary session on 18 May the substantial decline in the market volume for newspaper and commercial presses was the subject of intense debate, and the adjustments proposed by the management board were approved.

On 15 June, following the end of a six-week strike at KBA's Frankenthal facility, the supervisory board reviewed the situation and the raft of initiatives negotiated by the management board with employee representatives and the trade union, IG Metall. We were also briefed on the agreed division of the factory into a manufacturing and an engineering entity. The management board provided details of the broader compliance structures and processes involved and of a newly drafted Code of Business Conduct. This latter has been accompanied by a compulsory electronic training program for the majority of employees. In the constituent supervisory board committee meeting subsequent to the AGM on 16 June my two deputies, Reinhart Siewert and Gottfried Weippert, and I were confirmed in office, and the members of the committees selected.

The detailed agreements for the Frankenthal facility were elucidated at the meeting on 22 September. President and CEO Helge Hansen, whose mandatory retirement was coming up in February 2012, asked the supervisory board to bring the date forward to 31 October 2011. After joining the KBA management board as CFO on 6 February 2009 Mr Hansen was made president and CEO on 27 March that same year. The supervisory board complied with his request and Claus Bolza-Schünemann assumed the post of president and CEO on 1 November 2011, with Dr Axel Kaufmann as his deputy.

The supervisory board would like to thank Helge Hansen for his untiring efforts in realigning Parent and Group activities to the diminished global market for printing presses that has resulted from far-reaching structural changes. In a challenging environment he drew on his formidable expertise and experience to place KBA on a sound financial footing and position it favourably for future success. We also expressly thank Mr Hansen on behalf of the management board for his constructive input and personal commitment to the good of the Group. We wish him all the best for the future.

On 24 November corporate targets for 2012 to 2014 were on the agenda. The committee approved the investment plan for 2012 and the management board provided a status report on the development of the new digital press. Christopher Kessler, the head of legal affairs and compliance, was made an assistant vice-president.

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. The president and CEO provided timely, routine briefings on business data and developments as well as on matters of significance. Important business transactions and projects were also discussed.

To promote the efficient execution of its duties the Koenig & Bauer supervisory board has created five committees whose task is to draft supervisory board resolutions and formulate any issues that are to be raised at plenary sessions. The human resources (executive), audit, strategy and nomination committees convened a number of times. As in previous years, the mediation committee appointed under section 27 (3) of the Law on Codetermination did not need to convene.

In a session on 28 March 2012 the audit committee examined the 2011 financial statements, management reports and audit reports for both the Parent and the Group, with the auditors' representatives summarising the major focus and results of their audit and providing further information upon request. Prior to this I had attended a meeting between management and the auditors on 1 March. The interim reports and the risk situation in the Group were also discussed. Other items on the agenda included the monitoring of auditor independence and efficiency, risk management, internal controls and auditing, and compliance with the Corporate Governance Code.

The extension of contracts for members of the management board, and the subject of succession, were among the personnel issues that occupied the executive committee. Following our recommendations, on 1 April 2012 the supervisory board appointed Michael Kummert executive vice-president for production. Mr Kummert, who will take over this remit from Claus Bolza-Schünemann, was previously head of big production units at SKF, where he demonstrated a thorough knowledge of and experience in reorganising manufacturing chains and production plants.

The nomination committee drew up a list of candidates for the post of shareholder representative. The strategy committee examined a number of options for Group development and recommended pursuing projects in print-related activities such as packaging. Following more intensive research it was decided that solar technology and water purification, two other potential new business lines that had previously been considered, should not be pursued any further.

The complexities of corporate governance, and Koenig & Bauer's compliance with the fundamental principles of the code, were once again an item on the supervisory board agenda. On 17 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 Stock Corporation Law. With a few justified exceptions we comply with the code in full. There were no conflicts of interest among members of the supervisory and management boards.

Nuremberg-based KPMG Bayerische Treuhandgesellschaft examined the financial statements, management reports and method of accounting for Koenig & Bauer and for the KBA Group to 31 December 2011, 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 auditor's 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 29 March 2012 these were officially approved in the form submitted by the management board, as were the financial statements and management report for the Group.

The Koenig & Bauer supervisory board underwent the following changes in 2011: on 31 May employees elected Claus Weihmann and Michael Gasbarri to succeed Peter Hanzelka and Jochen Walther, whose terms of office ended with the conclusion of the AGM on 16 June. The mandates of the other four employee representatives were renewed. All existing shareholder representatives were re-elected at the AGM. We wish to thank Mr Hanzelka and Mr Walther for the valuable contribution they have made over the years.

The supervisory board thanks all Group employees and executives, the KBA management board and staff representatives for their diligence and dedication in 2011. And we thank you, our shareholders, for your confidence in KBA.

Würzburg, 29 March 2012
Koenig & Bauer AG
Supervisory Board

Dieter Rampl
Chairman

Group Management Report

Our large-format Rapidas are often used to print rigid materials like beer mats, and the Katz group pumps out over 30 billion a year on modified Rapida 130 press lines in Weisenbach (Germany) and at three other locations

The magazine and catalogue sectors are seeing circulations, page counts and turnaround times steadily shrinking, while the number of contracts per shift is increasing. In this situation, fast job changes and a minimum of waste can deliver real cost savings. Our new C16 commercial press is engineered to address these trends

Share Capital, Executive Bodies and Approved Capital Initiatives

On 31 December 2011 the Parent Company's share capital stood at €42,863,477.80, divided among 16,485,953 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 12.3% and MKB Holding in Vienna, Austria, with 10.2%.

Executive bodies

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

Under the present compensation system all the members of the KBA management board draw a basic salary plus a bonus which is higher for the president and deputy president than for the other members. The bonus is calculated solely on annual profit in consecutive years. Compensation is therefore structured in such a way as to promote sustainable long-term corporate development and growth.

Supervisory board remuneration is regulated by section 11 of the articles of association. In addition to an attendance fee and the reimbursement of out-of-pocket expenses, each member of the supervisory board receives fixed compensation of €21,000 per year plus a variable component of no more than €9,000 split into payments of €3,000 p.a. over three consecutive years in which the Group posts a profit. The chairman's remuneration is twice the fixed and variable total, his deputy's one-and-a-half times. Share options or 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 the long-term employee share scheme using some of the authorised capital totalling €15.6m created by shareholders at the AGM on 16 June 2011. €1,625,000 or 625,000 new shares were made available. Koenig & Bauer employees were each offered 20 no-par bearer shares at a preferential price of €12.80 per share. 25% of the workforce took advantage of this scheme, signing up for 21,260 shares which were issued on 27 September. At the end of the year the remaining authorised capital amounted to €15,544,724 or 5,978,740 no-par shares, and may be drawn on until 15 June 2016. Since the scheme was launched in 2002 employees have purchased 485,953 shares representing 2.9% of our subscribed capital.

Authority to purchase shares

The AGM on 16 June 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 €42,808,201.80. This authority is also valid until 15 June 2016 and 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. The Group had no such shares on 31 December 2011.

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

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

Business Environment and Activities

Expansion into the high-growth digital print market

Koenig & Bauer, the Parent, was established in 1817 in a secularised monastery in Zell, near Würzburg, and is thus the oldest press manufacturer worldwide. Its founders, Friedrich Koenig and Andreas Bauer, unveiled their first mechanical cylinder press in London 200 years ago, in 1812. Two years later, and 360 years after Gutenberg invented the hand press, the two men printed *The Times* on a steam-powered double-cylinder press, thus laying the technical foundations for the widespread distribution of newspapers and other printed matter. The globally dominant German press engineering industry sprang directly or indirectly from this original factory. Koenig & Bauer became a public limited company in 1920, with the founding family retaining a majority interest for many decades. In 1985 the company listed on the Munich and Frankfurt stock exchanges, and joined the SDAX in 2004.

KBA has long pursued a strategy of diversification into sectors that are less cyclical than newspapers and commercials. In the 1950s we started building security and banknote presses, a departure that has delivered benefits ever since. In the 1990s and until the meltdown in 2008 we maintained dynamic growth through acquisitions and new business lines developed in-house that enabled us to establish a strong standing in both volume and niche markets, offering the broadest product range in the industry. This, too, is one reason why we have weathered the recent economic recession better than other manufacturers. Our plants in Würzburg, Trennfeld and Frankenthal primarily develop and build newspaper and commercial web presses. Our Würzburg operation also engineers security presses, most of which are manufactured by our Austrian subsidiary, KBA-Mödling, though a rising proportion is now produced in Würzburg once again. KBA is the global market leader in security presses.

Applying metallic inks and a coating to luxury packaging poses something of a challenge for press technology. There is a rising demand for inline finishing capabilities and monitoring systems for print and colour quality. Addressing such demands with our medium- and large-format Rapidas has enabled us to establish a strong position in this expanding market

Our facility in Radebeul (near Dresden) and our Czech subsidiary KBA-Grafitec develop, design and produce small- to superlarge-format sheetfed offset (litho) presses, mainly for book, packaging and commercial printers. This is our biggest sector by volume. Worldwide distribution via our sales network is controlled from Radebeul. At present KBA is the second-biggest vendor of litho presses with a global market share or around 18%. In large format, where packaging plays a major role, it is over 50%. Other markets that are less vulnerable to competition from online media, such as metal decorating, industrial coding, waterless UV printing on plastic and electronic data storage devices, and air-purificatien systems, are served by subsidiaries.

KBA's expansion into the growing market for digital print will be underscored with the exhibition at Drupa 2012 of an inkjet press produced in Würzburg. The aim is to address an emerging shift away from the dominant offset process for certain applications. Current transitions in the media marketplace notwithstanding, innovative press technology will remain KBA's core business. The sales potential in growth markets such as digital and packaging printing, and in densely populated threshold economies, has not yet been exhausted. Management has been examining possible new business lines for some time now. Following an exhaustive analysis of market conditions and growth opportunities, some options have since been shelved. However, packaging technology, being closely associated with packaging printing, remains an attractive proposition: we not only have the technological competence, engineering expertise and project management skills required for this broad and diverse market, but also valuable customer contacts and a fundamental knowledge of the market.

Our Group financial statements distinguish between our sheetfed offset activities, which are batch-based, and our web and special press activities, which focus on more customised installations. Historically, both divisions contribute equally to Group sales, and this is unlikely to change in the near future.

Exports routinely generate over 80% of Group output, and recent years have brought major shifts in regional weightings. The Far East, with China at its head, has overtaken what was formerly our biggest market, the USA, which has long been losing ground. Growth in America is being driven by countries in the south, primarily Brazil and Mexico. In Europe, countries such as Italy, Spain and the UK, which prior to the financial meltdown accounted for a substantial proportion of our sales, are battling with the consequences of the debt crisis and persistent slack growth. Economic recessions and structural changes have taken their toll, and some printers have gone to the wall. We are already adjusting to the fact that growth markets in Asia and Latin America will soon generate a higher volume of Group sales, and are intensifying our activities in these regions, most notably in China.

International Group Organisation and Financial Controls

Managing change through our own resources

A six-week strike at our Frankenthal facility, an unforeseeable slide in demand in the second six months and external delays in shipments at the end of the year foiled our efforts to meet our sales and earnings targets for 2011. Even so, KBA weathered the financial crisis better than our closest competitors, one of which went bankrupt last year. This is largely because we made provisions for leaner times when business was good, and expanded into high-growth niche markets long before the crisis broke. In its decision-making, KBA management has never allowed itself to be pressured by analysts and shareholders into focussing on quick gains or shareholder value to the exclusion of all else, but has always pursued a long-term corporate strategy that is much more appropriate for the engineering industry. Having experienced the crisis, investors are now coming to value this more conservative attitude which just a few years ago was attracting widespread criticism.

Although our share price has halved since 2008 as the result of market turbulence and the devastating changes that followed compared to 2007, this slump has not been as dramatic as at other prominent members of the industry. The adjustments necessitated by the abrupt contraction of the printing-press market, and the financial challenges these posed, were accomplished with no state aid, no capital injection or other form of shareholder support, and with no new debt. So while shareholders may be understandably disappointed in our performance, they have fared better than elsewhere in the sector. In view of the current earnings situation we are unable to follow up the dividend for 2010 with another for 2011. Nonetheless, management will make every effort to boost profits and thus generate a commensurate return for investors.

Our core focus is on sustainability, risk containment and prudence in husbanding the capital that shareholders have placed at our disposal. It includes clear communications and transparency in imparting our business policy to investors, customers, employees and suppliers.

The capacity adjustments initiated at our production plants in 2009, entailing a reallocation of work within the Group to improve plant utilisation and a realignment of corporate structures to address projected market developments, continued apace at our web-press factories. Further measures may be necessary, however, depending on how our markets and business evolve. While we deeply regret having to make so many employees redundant, in retrospect this was the right decision, as the situation at our competitors illustrates. In-house production of items previously outsourced, and temporary short-time work, helped to soften the impact of fluctuating demand on plant utilisation at our web-press plants.

Corporate control is based on three-year business plans which are drawn up annually in advance and updated monthly with key economic data. In response to recent market volatility we have systematically refined our planning and reporting procedures. They now provide prompt and realistic feedback on the status quo and our objectives.

Price erosion continues to plague the printing press sector. While we have achieved sizeable cost savings and foregone unprofitable contracts in recent years, gross margins have not yet improved, particularly in the highly competitive volume markets for sheetfed and web presses. Sales fell short of targets following customer-instigated postponements in deliveries. This, together with unexpected external delays in shipments and the financial impact of the protracted strike at our Frankenthal plant, resulted in a modest pre-tax Group profit that was well below the prior-year figure and our target for 2011. Rigorous cost management, safeguarding our innovative capabilities and cutting turnaround times are ongoing priorities.

Customer satisfaction, personnel development, innovation, quality, sustainability and social responsibility, both internal and external, are central pillars of our corporate philosophy. Our commitment to staff training, the active engagement of staff in our internal suggestion scheme and in environmental, cultural, sports and charity initiatives breathe life into this philosophy. Our annual employee share scheme, our sponsorship of innovation and environmental awards and the promotion of scientific institutions are just a few examples.

Global Operations

Performance-driven production and sales subsidiaries

KBA's business activities have been international ever since it was founded 195 years ago. Export levels of around 80% have long been routine. Our global sales and service network guarantees direct contact with customers and is repeatedly adapted to shifts in regional economic weightings. Flexibility and cost efficiency are fundamental. We have dedicated sales and service subsidiaries for major export markets in Europe, the Americas, Asia and Australia. Elsewhere KBA is represented by agencies. This lean organisational structure has served us well and is now gaining traction among other manufacturers.

KBA has eight European production locations, in Germany, Austria and the Czech Republic. To maximise capacity utilisation we have brought more manufacturing jobs in-house, and spread the workload across multiple locations.

At our Austrian subsidiary KBA-Mödling, brisk demand for special presses and deliveries of aggregates to our sheetfed facility in Radebeul led to a substantial lift in new orders and sales compared to the previous year, and a profit. There is every indication that this upward trajectory will continue in 2012.

Sales by our Czech subsidiary, KBA-Grafitec in Dobruška, which develops and produces small-format Rapida presses, were adversely affected by a supply overhang, weak demand and inroads by digital print providers. This was further exacerbated by difficulties in financing new equipment, a decline in the number of printers in mature markets and fierce competition in the B2 sector from Japanese vendors. As a result KBA-Grafitec, which is consolidated in the sheetfed offset division, failed to meet its targets and posted a loss. Management responded by cutting capacity and transferring sales and service activities to the main sheetfed plant in Radebeul.

There was a sharp contrast in the performance of our two subsidiaries in Veitshöchheim, near Würzburg. KBA-Metronic, which is consolidated in our web and special press division, returned a double-digit increase in order intake and sales of its digital and analogue industrial coding systems. However, sales of waterless UV presses were lower than expected and resulted in a loss by KBA-MePrint, which had changed its name from KBA-MetroPrint on 22 December and is consolidated in the sheetfed offset division. KBA-MePrint is targeting an increase in new orders and sales, and a move back into the black, following the proposed expansion of our range of packaging presses. The first new press will be exhibited at Drupa in May this year.

After boosting its order intake and sales the previous year, Stuttgart-based KBA-MetalPrint, a specialist manufacturer of metal-decorating presses and thermal air-purification systems, returned to profit in 2011 with a substantial increase in new orders and shipments. KBA-MetalPrint, which is consolidated in our sheetfed division, still has plenty of potential for further growth.

On 1 November the number of subsidiaries was expanded when the Frankenthal operation of our Parent, Koenig & Bauer AG, was spun off as two separate entities, Albert-Frankenthal and KBA-FT Engineering. KBA-FT Engineering has 254 employees and is a systems provider whose primary business is engineering, installing, commissioning and servicing folders for the web presses manufactured in Würzburg and Trennfeld. While it maintains close business links with the Parent, the company also offers its engineering, installation and other services elsewhere, e.g. to the energy, environmental and food-processing industries. Albert-Frankenthal, which has a payroll of 330, is a dedicated manufacturer of sophisticated mechanical components. Alongside the production of press rollers and other basic parts for the KBA Group an increasing proportion of its output is generated by contract work and installation services. Albert-Frankenthal is also open to potential investors who are looking to relocate production and would be interested in an equity stake. Since these new entities did not start operating independently until the last two months of the year we have no meaningful figures for 2011.

Our Lausanne-based Swiss subsidiary KBA-NotaSys, a systems provider and global market leader in banknote and security presses, once again booked an agreeably high volume of orders, sales and earnings, and started the new year with a substantial backlog and healthy prospects.

Although our sales and service subsidiary for the USA and Canada, KBA North America in Dallas, sold a number of large-format litho presses to packaging printers, demand in general stagnated and as a result the volume of new sheetfed orders fell short of the prior-year figure. On the bright side, a contract from Hearst Corporation's Times Union in Albany for a new, compact Commander CL web press made a welcome exception to the current investment restraint in the North American newspaper industry. A big increase in sales of new presses and press-related services, coupled with substantial cost

When it comes to printing costly film, KBA-MePrint's B3 Genius 52UV offers the benefits of an outstanding image quality, fast job changes and low waste levels. Being waterless, it is also environmentally friendly savings, enabled KBA North America to return to the black following a loss in recent years. It remains to be seen whether, as in earlier years, the approaching elections will stimulate demand for print and revitalise investment in what was formerly the world's biggest print market.

Our small Dutch subsidiary, Holland Graphic Occasions (HGO) in Wieringerwerf, which deals in second-hand sheetfed offset presses, returned a profit after booking a much higher volume of new orders and sales than in 2010.

In addition to our longstanding consolidated sales subsidiaries KBA-France in Tremblay-en-France, near Paris, and KBA (UK) in Watford, last year saw the consolidation for the first time of KBA Italia in Milan, KBA Printing Machinery (Shanghai) and KBA (HK) in Hong Kong. While the first three subsidiaries are intermediaries, the Chinese entities operate on commission. Performance reflected regional economic realities, with the order intake at KBA-France marginally lower than in the previous year but sales much higher, and new orders up at KBA (UK) but sales virtually unchanged. Our European sales subsidiaries closed the year with a modest loss, while the Chinese ones returned a profit.

As a first step towards expanding our activities beyond sales and customer services in growth markets, in 2010 we acquired a Chinese manufacturing business, Mabeg Machinery (Shanghai) with a payroll of 50. This company, which has not been consolidated, specialises in sheet feeders for the domestic market and in 2011 made a profit on sales worth several million euros. Small sales subsidiaries in Russia, Poland, Scandinavia, Malaysia, Singapore and Australia have also not been consolidated.

Purchasing, Production and Organisation

Cutting costs and boosting efficiency in a buyers' market

Although all major press manufacturers have substantially reduced capacity over the last three years, internationally we are still operating in a buyers' market, with most prospective customers demanding rock-bottom prices yet shortest possible turnaround times. Our purchasing department must therefore ensure a timely supply of materials while minimising costs, capital-intensive inventories and throughput times from manufacturing and assembly to logistics. Along with productivity and quality enhancements these are the focus of Group investment.

Tight procurement markets

The boom in many sectors of industry lengthened procurement times and drove up the prices of key commodities and finished parts. The catastrophes in Japan and bottlenecks in the supply of strategically important resources such as rare-earth elements impacted on prices and the availability of bearings, printed circuit boards and motors. The situation improved as the economy cooled. However, bankruptcies among some of our suppliers posed additional challenges for our purchasing department. In markets where materials were in short supply KBA profited from longstanding alliances and the timely recruitment of alternative suppliers. Group-wide framework agreements were negotiated on a larger scale to secure better prices for materials consumed at different rates by our various production plants.

More inplant manufacturing

In the engineering industry, cost efficiency largely depends on the extent to which capital-intensive manufacturing equipment is utilised. To counteract cyclical fluctuations in the individual market sectors we stepped up our internal collaboration and the inplant production of components that were previously bought in. For example, our Würzburg operation increasingly handles manufacturing and assembly work for our Radebeul facility and also for the security presses whose production was previously confined to our Austrian subsidiary, KBA-Mödling. This has improved the basic level of plant utilisation at our web press factories.

Extensive investment in foundry

Investment in heavy plant at our various factories once again centred on modernisation and rationalisation.
A manufacturing line for large components was expanded in Würzburg and new machining centres added in Radebeul. One of our biggest projects was the complete refurbishment of the foundry in Würzburg at a cost of some €14m. Constructing a new 200m long hall around the foundry while production continued uninterrupted demanded foresight, detailed planning and flawless organisation. The new hall, which is much wider and higher than the old one, has a maximum crane capacity of 50 tonnes, allowing large workpieces and moulds to be processed more efficiently. Many workpieces which

were previously outsourced can now be cast in-house. The foundry can even accept contract work, e.g. spherical cast iron components, to maintain a high level of plant utilisation.

Improved IT infrastructure

For a globally active engineering enterprise like KBA, information technology plays a key role both in internal processes and external communications. In 2010 our sheetfed offset division started using Salesforce.com, a specialist provider of customer-relationship management (CRM) software that supports global sales planning and control using cloud computing. The engineering department updated its CAD and PDM (product data management) systems. The IT department defined Windows 7 and Office 2010 as a stable standard client platform for PCs and notebooks in coming years.

New website

In the autumn the KBA Group launched a new website, with an array of enhanced functions for easier navigation and a flatter page structure more attuned to current usage. The launch was accompanied by a change in the content management system that allows this complex online offering to be managed remotely with less input, supports faster updating and enhances the quality of information available to the countless users worldwide.

Research and Development

Raft of Drupa launches in the pipeline

In the year leading up to Drupa there is always a strong focus on research and development, and 2011 was no exception. New products and processes were given a final polish ready for the world's definitive print media trade fair.

We have booked our usual 3,500m² stand in hall 16 at the Düsseldorf show in May, and as an acknowledged innovator among press vendors we shall be exhibiting a raft of new sheetfed offset, digital and web offset presses and processes for printing commercials, books, packaging and newspapers. Our entry into digital print with a high-performance web-fed inkjet press represents a landmark in our 195-year history. We are the only traditional press manufacturer aiming to address the digital print market with a press developed and manufactured in-house. Here we are collaborating with the world's biggest print group, Chicago-based RR Donnelley. The prototype RotaJET 76 that will be unveiled at Drupa 2012 will initially target the book, commercial and advertising sectors. Later we are planning to bring out modified digital presses for other key applications: packaging, security and newspaper printing.

Another KBA world first at Drupa will be a Rapida sheetfed press combining digital inkjet with analogue offset technology. The specially developed sheet guiding system supports the integration of multiple inline modules for quality assurance, brand protection, personalisation and finishing. Finally, in Düsseldorf we shall underscore KBA's pole position in large sheet formats with a new generation of powerful Rapidas that are already being tested in a pressroom environment at selected customers and will be commercially mature by Drupa. They boast an array of unique features adapted from the makeready world champion, our high-tech Rapida 106, and are technologically far in advance of any other products in the expanding large-format sector.

The launch of so many products and processes is being spread out to sustain the impact. Some were unveiled to members of the printing trade at smaller fairs and pre-Drupa open houses. Our new medium-format Rapida 105, for example, made a successful debut in November 2011 at the All in Print China trade fair in Shanghai. It, too, is based on the same platform as our high-end 106 and is available in a choice of automation levels. Four weeks previously KBA launched a new compact newspaper press, the Commander CL (= CLassic) at the IFRA Expo newspaper trade fair in Vienna. Its modular design supports customised automation to a level approaching that of our high-performance Commander CT (= CompacT), but for a smaller capital outlay. In Düsseldorf we shall be showing a Commander CL printing unit along with a unit of the C16 commercial web press we launched at the end of 2010. Both will feature automatic plate changing and cutting-edge console technology. Some of our subsidiaries will also be unveiling new products for growth markets at the show.

Recent developments in the printing-press industry compellingly illustrate that the course of action demanded by external observers, of scaling back innovation and concentrating exclusively on trimming costs and prices, was not the best way out of the crisis. Even in a buyers' market it is not always the cheapest but the most cost-effective products that survive in the long run. Halving the payroll does not necessarily double the opportunities, because discerning customers soon notice the lack of investment in research, development, distribution and after-sales services.

While we have implemented rigorous cost-cutting initiatives, we have not economised at the expense of innovation, and the proportion of R&D to total Group sales is still around 5%. This has paid dividends. According to the Patent Scorecard™ for Heavy Industrial Equipment, published in the *Wall Street Journal* in January this year, KBA has moved up from 21st to 11th position among the top 50 international players, ahead of all other major press manufacturers.

Market and Industry Environment

Leap in new orders, but patchy demand

Following a perceptible upturn in 2010, optimism that major sectors of the printing-press market would maintain this momentum in 2011 proved to be misplaced, with demand largely driven by niche products. The political turbulence triggered by the euro and the debt crisis impacted on European orders in the second six months after a promising start. The volume of new contracts booked in the world's biggest sheetfed offset market, China, remained high, but was curbed by a more restrictive monetary policy. Brisk demand in Latin America, some Asian markets and Turkey contrasted with weak sales in the USA and UK. Markets in the Middle East and North Africa were affected by regional upheavals. Business in Russia, Ukraine and the Balkans was generally slack. Domestic investment in sheetfed and web presses was much stronger.

From summer 2011 onwards the global downturn, and the month-by-month fluctuations that are normal in the capital-goods industry, became apparent in other engineering branches, albeit to a lesser degree. According to the VDMA (German Machinery and Plant Manufacturers' Association), the volume of new orders booked by the domestic engineering industry rose by 10% in real terms, but declined by 5% among manufacturers of printing equipment, who thus ranked near the bottom.

Demand for printing presses varied according to their purpose, with investment quickening among packaging printers and in less conspicuous niche markets such as metal decorating and security printing, but glacial among ad-dependent commercial, magazine and newspaper printers, who were still suffering the knock-on effects of the recession and media transitions.

This dichotomy was also evident in Group order statistics. While demand for special presses was brisk, sheetfed and web press orders were disappointing. However, thanks to our uniquely diverse product range we booked a double-digit leap in total contracts for new presses.

Order intake tops €1.55bn

At €1,552.1m, the Group order intake surpassed the high figure for 2007 and topped the prior-year total of €1,284.9m by 20.8%. This percentage gain was well above the industry average and the VDMA's overall figure.

However, there were substantial fluctuations in the volume of new orders booked by both our divisions. The Print China trade fair in Guangdong last April was a big success for KBA and resulted in a large influx of sheetfed orders in the second quarter. However, a temporary slowdown in the Chinese market and in certain sectors during the run-up to Drupa curtailed demand in the second half-year. The total volume of orders received in 2011 for sheetfed offset presses came to €569.9m, 8.3% below the previous year's figure of €621.6m but in line with the industry average. Once again our most popular sheetfed products were our medium- and large-format Rapidas. Here KBA maintains a market share of 50% against fierce competition. While there was a modest increase in new contracts for small-format presses, they fell short of expectations. Orders for second-hand equipment were on target.

A flourishing trade in special presses helped swell the order intake in our web and special press division by 48.1% to €982.2m (2010: €663.3m). While investment by newspaper publishers stagnated in most regions, Germany and Scandinavia were welcome exceptions. Our compact Commander CT is proving very popular, and orders were booked in Germany, Italy, the Netherlands and Latin America. Bold Printing Group, part of the Bonnier media group in Sweden, signed up for two big presses of this type for its production plants in Kista, near Stockholm, and Malmö. We also booked orders from German and US newspaper publishers for the new Commander CL we unveiled at IFRA Expo last October in Vienna. The volume of incoming orders for commercial presses was higher than in 2010 following the launch of three new models: the C16 (for 16-page copies) and the double-circumference C48 SG and C56 SG (for 48 and 56 short-grain pages respectively).

The Group order backlog of €825.7m at the end of December was 87.3% above the prior-year figure of €440.8m. The sheetfed division accounted for €149m (2010: €162.7m) and the web and special division contributed €676.7m (2010: €278.1m).

Group business operations: order intake / sales / order backlog

in €m	2010	**2011**
Order intake	1,284.9	1,552.1
sheetfed offset presses	621.6	569.9
web and special presses	663.3	982.2
Sales	1,179.1	1,167.2
sheetfed offset presses	551.1	583.6
web and special presses	628.0	583.6
Order backlog	440.8	825.7
sheetfed offset presses	162.7	149.0
web and special presses	278.1	676.7

Earnings, Finances and Assets

Earnings

Market trends and unusual factors impact on performance

Group sales totalled €1,167.2m, below the 2010 figure of €1,179.1m and short of our target. The main reasons were softer demand in the second half-year and the postponement of some deliveries – and thus sales – until the new year. These, in conjunction with downward pressure on prices and margins, and fluctuations in capacity utilisation at our production plants, outweighed the savings delivered by Group consolidation. As a result the Group posted a pre-tax profit of €3.3m, compared to €15.3m the previous year.

Higher sheetfed sales

Our sheetfed offset division generated sales worth €583.6m, 5.9% more than twelve months before (€551.1m). An 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 was a contributory factor. Sales in this division constituted precisely 50% of the Group total (2010: 46.7%). Our share of the global sheetfed offset market was around 18%. The bankruptcy of a competitor in November 2011 and its break-up into two much smaller operations early this year will make it easier for us to win more customers and, with the new products unveiled last November and at Drupa in May this year, enable us to expand our market share. There are signs that this is already beginning to happen.

Growth in sheetfed sales was largely powered by our medium-format Rapida 105 and 106. A new Rapida 105 model unveiled in November at a trade fair in Shanghai was received with acclaim in China, our biggest market for this press type. The versatile Rapida 105 is based on the same technological platform as our innovative Rapida 106, the makeready world champion, and offers a choice of automation levels. We are confident that this will substantially boost sales. Sales of large-format presses for printing packaging, displays, posters and books also easily topped the prior-year figure. In addition to our core markets – Europe, North America and China – we shipped more large-format Rapidas to growth markets such as Turkey, Egypt, Malaysia, Indonesia, Thailand and India.

Small-format presses continue to be a cause for concern, not just for us but also for our competitors, who are much more dependent on this sector. Sales have been hit by banks' restrictive lending practices, the incursion of digital print and new Chinese competitors.

Slide in sales of web and special presses

While business was brisk in the special-press sector, picked up in the commercial press sector and remained stable in the newspaper press sector, sales by our web and special press division failed to reach our target following external shipping delays. At €583.6m they were 7.1% down on 2010 (€628m).

KBA presses now account for around 40% of sales in the global newspaper press market, and this outstanding achievement is due in no small part to our compact and highly automated Commander CT. A big, four-section press line was installed at the Express Newspapers Group in the UK, and Commander CT presses also came on stream in Germany at Der Neue Tag (Weiden), Mittelrhein-Verlag (Coblenz), Badische Neueste Nachrichten (Karlsruhe), Euregio-Druck (Aachen) and in Austria at the Salzburger Nachrichten. Other KBA newspaper press models were shipped to Australia, Bulgaria, Jordan and Cameroun. Commercial web offset presses were installed in Austria, France, Belgium and China. Lenglet Imprimeurs, a major French customer, became an all-KBA operation when it replaced two third-party presses with new Compacta 618s. In 2011 we expanded our share of the competitive commercial market to over 20%.

More exports to the rest of Europe

A rise in revenues from sheetfed and web presses boosted domestic sales by 34.3% to €182.3m (2010: €135.7m), trimming our export level from 88.5% to 84.4%. There was a 23.7% jump in total European shipments from €335.3m to €414.8m, with higher sales of both sheetfed and web presses contributing to the increase. As a result the proportion of Group sales generated in the rest of Europe climbed from 28.5% to 35.6%.

Sales in Asia and the Pacific below prior year

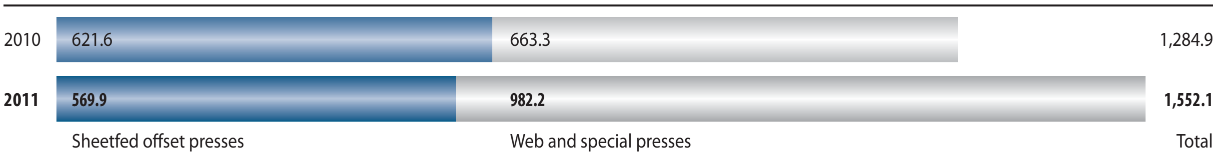
The anti-inflationary monetary policy pursued in China from the summer onwards put a temporary curb on sales of sheetfed offset presses in our biggest growth market. The contribution to Group sales from Asia and the Pacific declined from €347.1m (29.4%) to €319.6m (27.4%). Judging by current volumes we anticipate a rebound this year.

Lack of investment in North America

Despite a gain in sheetfed orders, the volume of Group sales booked in North America fell from €118.3m to €100.7m due to a widespread lack of investment among newspaper publishers. This meant that there were no shipments of web presses, so the proportion of the Group total attributable to this region plunged to the exceptionally low level of 8.6%.

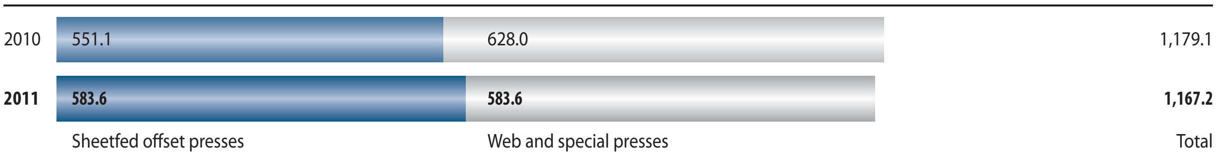
Group order intake

in €m



Group sales

in €m



Group order backlog

in €m

Conflicts in North Africa constrain demand

Revenues from the threshold markets of Latin America and Africa sank from €242.7m to €149.8m following a reduction in shipments of web and special presses and a slump in demand triggered by regional conflicts in North Africa. The proportion of Group sales fell from 20.6% to 12.8%, which is closer to its historical average.

Gross profit margin hit by rising costs and price erosion

While sales remained more or less steady, the rising price of raw materials and a negotiated wage increase nullified the benefits of our manifold cost-cutting initiatives and drove up manufacturing costs from €865.6m in 2010 to €895.1m. Relentlessly fierce competition on prices and substantial fluctuations in the level of capacity utilisation at our web-press production plants also had a detrimental impact on gross profit, which slipped from €313.5m the previous year to €272.1m. Our gross profit margin narrowed to 23.3%, from 26.6% in 2010.

Operating result down on previous year

The substantial expenses involved in launching a new generation of products at the Drupa trade fair in May 2012 and other events pushed R&D costs up to €56.4m (2010: €45.2m). This figure does not include the cost of customer-specific product development typically associated with the manufacture of big web presses. Lower agency commissions helped trim distribution costs from €154.2m to €147m. Streamlining organisational structures cut administrative expenses from €87.7m to €60.4m. Other operating income tumbled to €48.3m, the prior-year figure of €88.5m being largely attributable to a one-off gain from a revaluation of intangible assets, property, plant and equipment. Following a year in which substantial provisions swelled other operating expenses to €92.7m, a decrease in sales provisions and fewer foreign currency effects in 2011 saw them virtually halve to €46.7m. Overall, the KBA Group disclosed a smaller operating profit (€9.9m compared to €22.2m in 2010). Nonetheless, earnings before interest, taxes, depreciation and amortisation came to €45.4m (2010: €29.5m).

While price erosion and poor levels of plant utilisation weighed on the profitability of our web press operations, and a delay in shipments affected sales, our web and special press division generated a profit of €28m (2010: €14m). Niche and service activities played a major role. In our sheetfed division, downward pressure on prices and the high up-front expense associated with the development of new products put paid to any operating profit, even though our restructuring measures had delivered substantial cost savings. The division therefore made an operating loss of €18.1m following a profit of €8.2m the year before.

Pre-tax profit of €3.3m

The Group financial loss was trimmed from €6.9m to €6.6m. Interest expense remained unchanged at €12.1m, but interest income rose from €4.9m to €5.5m following an increase in customer prepayments. Pre-tax profit (EBT) declined from €15.3m to €3.3m. The KBA Group posted a net profit after tax of €0.4m (2010: €12.5m) and earnings per share of 2 cents (2010: 76 cents). In view of this result, and the current challenging business environment, the management and supervisory boards wish to forego the payment of a dividend for 2011.

Geographical breakdown of sales

in %	2010	**2011**
Germany	11.5	15.6
Rest of Europe	28.5	35.6
North America	10.0	8.6
Asia/Pacific	29.4	27.4
Africa/Latin America	20.6	12.8

Web offset presses are ideal for medium to long runs of inserts and commercials – a sector where price erosion is severe – and this is one reason why we have enhanced the automation of our high-volume presses such as this new C48 SG at Dutch printer Em. de Jong in Baarle-Nassau

Finances

A sound financial profile

A strong financial profile, above-average equity ratio and high net liquidity provide the Group with the financial flexibility necessary for preserving our corporate independence. As in previous years, the operating cash flow was our primary source of funding. Cash flows from operating activities met all our capital requirements in 2011 and allowed us to scale back our external funding commitments still further. Liquid assets increased substantially. Pre-secured credit lines were mainly drawn down to secure prepayments of web presses; none were used for cash purposes. Access to credit lines totalling €100m was extended by our domestic banks to the Parent until September 2013. In addition to mitigating currency risks, for which purpose the Group treasury unit deploys a number of instruments *(see page 42)*, reducing our working capital is a primary and ongoing objective of our financial management activities.

Strong cash flow

A much higher volume of customer prepayments and a smaller volume of trade receivables led to a big increase in cash inflows from operating activities to €83.9m from €30.1m, despite bigger inventories. After deducting higher outflows for investing activities the free cash flow surged from €20.4m in 2010 to €57.8m. Cash outflows from financing activities, which mainly comprised dividend payments and the repayment of loans, rose to €11.9m from €5m.

Comfortable net liquidity level

At the end of December liquid assets soared to €145.6m (2010: €91m). After deducting €35.9m for bank loans, down from €43.1m *(see pages 87-88)*, our net financial position, at €109.7m, was more than twice as high as in the previous year (€47.9m). The Group also had access to ample credit lines.

Good capital structure

Following the issue of employee shares, share capital increased to €42.9m and the share premium to €87.3m. Total equity rose from €461.3m to €466.6m. The ratio of equity to the bigger balance sheet total remained at a high level (38.2% compared to 39.6% in 2010). This is well above the industry average.

Higher customer prepayments

Although we trimmed bank loans by €7.2m and trade payables by €5.2m, other liabilities jumped by €59.9m due to higher customer prepayments of €198.9m (2010: €153m). Pension provisions lifted from €104.6m to €106.6m. While provisions for ongoing restructuring measures at our web press plants meant that personnel provisions remained virtually unchanged, a decline in sales-related obligations reduced total other provisions to €203.3m (2010: €234.4m). On balance, current and non-current liabilities surged from €703.1m to €756.2m. Our debt-to-equity ratio climbed from 152.4% to 162.1%.

Group income statement

as % of sales	2010	**2011**
Cost of sales	–73.4	–76.7
Research and development costs	–3.8	–4.8
Distribution costs	–13.1	–12.6
Administrative expenses	–7.4	–5.2
Other income/expenses	–0.4	0.1
Financial result	–0.6	–0.6
Income taxes	–0.2	–0.2
Net profit	1.1	0.03

Assets

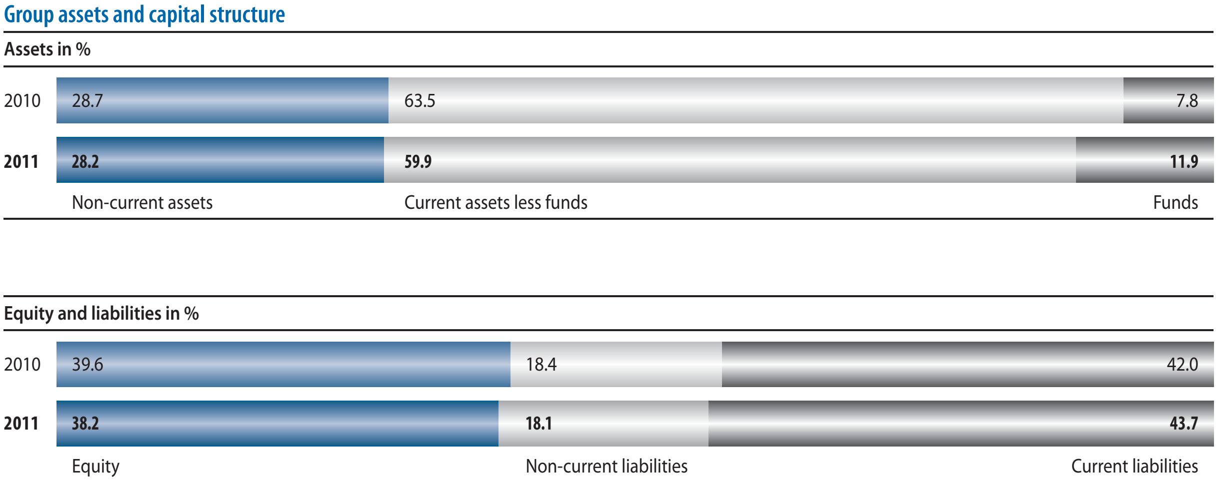
Solid balance sheet

Investment in intangible assets, property, plant and equipment totalled €35.7m (2010: €15.4m), or 3.1% of sales (2010: 1.3%). The biggest items are detailed on pages 26 to 27. With depreciation at €35.5m the investment rate more than doubled, from 49.7% to 100.6%. The ratio of equity capital to property, plant and equipment was 187.7%, with fixed assets up from €243m in 2010 to €248.6m. At the end of the year non-current assets were worth €344.9m, compared to €333.8m twelve months earlier.

A rise of €54.6m in liquid assets and €31.4m in inventories helped to swell current assets from €830.6m to €877.9m. However, there was a €58.2m drop in trade receivables. Working capital eased up from €341.5m to €342.9m.

By 31 December the Group balance sheet total stood at €1,222.8m (2010: €1,164.4m).

Group assets and capital structure



Summary of Earnings, Finances and Assets

In 2011 we invested heavily in new products, high-potential business lines and more efficient production processes, while at the same time implementing a range of cost-cutting initiatives. But the savings achieved were largely offset by sluggish markets, price erosion and delays in shipments. The management board considers the Group pre-tax profit of €3.3m to be less than satisfactory.

We are working at full stretch to boost our performance on a sustainable basis and defend our position as the world's no. 2 press vendor through innovation, process optimisation and strategic market decisions. As well as driving growth by upgrading, streamlining and expanding our product palette, we are beginning to reap the benefits of the capacity adjustments we have made and the initiatives we have introduced to trim manufacturing costs. There is also good reason to hope that, in the medium term, ongoing consolidation in the sector will help to eliminate overcapacity among suppliers and lead to more disciplined pricing in the marketplace.

Meanwhile the Group maintains a healthy balance sheet, with a solid equity ratio, capital-to-assets ratio and gearing. A comfortable level of net liquidity and access to adequate credit lines provide a solid financial backing, making it easier for management to conduct business in a volatile environment. In 2011 a strong cash flow allowed us to fund investments from our own resources and reduce our low level of bank debt still further.

In emerging markets where printing capacity is limited, school textbooks are still often printed on conventional newspaper presses. The cutting-edge technology incorporated in this KBA Colora four-high tower press in Ecuador delivers a fine quality

Printing large-format posters is easy with our Rapida 185 and Rapida 205. The highly automated, high-tech Rapida 205 is the biggest sheetfed offset press on the global market and can print an image measuring over three square metres

Supplementary Statement

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

KBA-MetalPrint is an international leader in the production of systems for printing and coating metal. In one hour its MetalStar presses can print, coat and dry as many as 10,000 sheets between 0.1 and 0.4mm thick. Direct-printed tin cans are used for food, drinks, chemicals and technical fluids. KBA-MetalPrint also prints decorative metal containers

Risk Management and Internal Monitoring System

Effective control instruments

Our risk management system must support prompt and targeted intervention by providing advance warning of potential risks relating to our corporate activities, and a transparent indication of their extent. Despite the current economic and political uncertainties, we perceive no risks that could pose an existential threat to the KBA Group. Our solid capital base and good liquidity, our strong position in some less cyclical niche sectors and our substantial order backlog at the beginning of the year all serve to contain potential risks.

Comprehensive risk management process

Risks to the Group are detected, assessed and reported in accordance with standard Group-wide practices. The instruments for recognising and communicating risks are detailed in a dedicated manual. Basically, risk is defined as a negative deviation from an established business plan. Risks are detected via regular, independent checks based on comparisons of targeted and actual performance. These standardised procedures promote a systematic, homogeneous analysis and assessment of risks. Management is then responsible for taking the appropriate action. The early warning system 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.

Our risk management organisation comprises a central risk co-ordination unit under the CFO and dedicated risk managers whose job is to assess the probability of potential risks within their remit at half-yearly intervals 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 promote transparency, expedite the early detection of incipient risks and allow prompt remedial measures.

Half-yearly assessments of the overall risk situation flag critical market and corporate developments in good time, improve the accuracy of our planning procedures and heighten our risk awareness. They enable us to detect potential risks to Group earnings, finances and assets well in advance and thus institute prompt countermeasures.

Financial and other risks

Financial risks mainly constitute credit, liquidity, currency and pricing risks. The type, scope and market value of the instruments deployed 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 at an early stage.

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 alone we use currency options and foreign 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 $\pm 5\%$ 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. Following a jump in commodity prices the situation has eased in recent months as the global economy has cooled.

However, the higher capital requirements for banks and the current situation in capital markets have made it more difficult for businesses to obtain loans. Interest on savings is very 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 fluctuations 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 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 we can discern no customer-specific or geographical concentrations of credit risks.

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

The credit lines and sureties needed to balance current and projected fluctuations in cash flows in the cyclical plant engineering industry have been extended by our domestic banks and allow us to accommodate imponderable fluctuations in our cash flow.

At present we discern no significant IT-related, environmental or legal hazards. Individual imponderables are covered by insurance with standard indemnity limits. Adequate provisions have been set aside as a hedge against other risks.

Orderly accounting through internal monitoring

Our internal system for monitoring our accounting practices encompasses principles, procedures and measures for safeguarding their efficacy, cost efficiency and compliance with legal regulations. The organisational and monitoring structures are supported by work instructions and directives.

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

The IT systems (SAP) used for financial and payroll accounting are protected against unauthorised access. The Group accounts are compiled with the aid of consolidation software, and meticulously checked against subsidiaries' accounts on a quarterly basis. Group-wide planning, forecasting and early warning procedures, together with reporting guidelines for risk management, and accounting and evaluation principles, all promote transparency. Reporting guidelines are regulerly updated.

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 for booking business transactions. Staff access to IT applications is also controlled and authorisation restricted. No individual personnel assigned to the various functions have access to the entire process level of the accounting software (goods reception, additions to stock, invoice auditing, release and transfer of payments). This ensures that the organisational firewalls that have been put in place cannot be breached. Our internal auditing unit spot-checks pertinent non-accounting activities and processes. We can thus be confident that our financial reporting complies with statutory regulations.

The supervisory board's audit committee monitors accounting practices, the end-of-year audit and the efficacy of the internal monitoring, risk management and auditing systems. 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.

With online media exacerbating the time, quality and cost pressures facing newspaper printers, press manufacturers must address demands for rapid edition changes with a minimum of personnel and waste, yet a superb print quality. Our compact Cortina (photo) and Commander CT are engineered accordingly

Outlook, Risks and Opportunities

Unabated turbulence in the global press market

According to the latest figures issued by the VDMA (German Machinery and Plant Manufacturers' Association), production in the German engineering industry rose by 12% in real terms, the order intake by 10%. Total output was just 5% below its 2008 peak. However, buffeted by the ongoing shifts in media, print and advertising markets, the printing-press sector has profited little from this dynamic growth. Order intake and sales both rank near the bottom in the VDMA's economic reports.

In the final four months of 2011 the economic outlook also dimmed for other branches of the German engineering industry and exports overall. The unresolved sovereign debt issues in Europe and the USA, political upheavals around the Mediterranean, the high oil price, flatter growth in big emerging markets, the approaching elections in the USA and mounting risks to the global economy have shaken investors' confidence. In the last week of February the VDMA responded by adjusting its forecast for 2012 from 4% to zero growth. The huge Chinese market continues to offer the greatest potential.

Unstable economic environment complicates projections

The International Monetary Fund (IMF) believes the world is in a critical phase. Like virtually all economic institutes it sees the rapid resolution of the debt and euro crises as crucial for the future development of Europe and the world. At the end of January the Fund adjusted its global growth forecast for 2012 to 3.3% and predicted that the European economy would contract by 0.5% as a result of the challenges confronting its southern members. Others are more optimistic, but rarely was the uncertainty greater than it is today. With state budgets exhausted and balance sheets shaky at many banks, pessimists believe there may well be a recurrence of the global financial and economic crisis.

Drupa 2012 a potential stimulus

Widespread economic instability complicates endeavours to assess prospects for the printing-press sector in a year when Drupa is scheduled to take place. Whether this definitive trade fair for the print media industry will stimulate demand as strongly as it has done in previous years will largely depend on political decisions relating to the euro and on the general business climate in early summer. All in all, we and other members of the industry do not expect the fair to provide as big a stimulus as it used to. But thanks to the array of new products we are launching we anticipate a substantial lift in new orders in the second and third quarters, particularly for sheetfed presses. This appraisal also informs our projections for the KBA Group in 2012.

Well positioned in a consolidated sector

KBA is a solidly financed press manufacturer with a technologically advanced and uniquely diverse portfolio for a range of applications, in many of which it leads the field. So we are well poised to emerge with confidence from the current wave of industry consolidation that has long been accompanied by fierce price competition. We seek to contain the risk of losses arising from ongoing pressure on prices and margins by clearly defining sales and pricing procedures for new and secondhand business transactions, and by providing unambiguous guidelines for customer financing. Following the recent bankruptcy and break-up of a competitor that was formerly the second-largest press manufacturer worldwide we are looking to win more customers for our core products: sheetfed offset, web offset and newspaper presses. We have already had some success, and the Group started the new year with a backlog of unfinished orders that was almost twice as large as twelve months earlier. Most of the new orders originated in profitable niche markets. The number of projects currently being negotiated indicates that in sectors less affected by structural changes, such as metal decorating, product coding, packaging printing and security printing, demand will remain firm in 2012 and continue to have a positive impact on sales and income.

Early preparations for future growth

Three years ago we realised that global demand for new printing presses would not return to its previous high levels, and set about trimming our capacities accordingly. Excluding apprentices, of whom we have over 400, the number of permanent staff on the Group payroll fell to 5,980 by the end of last year. We have thus achieved our targeted adjustment to around 6,000. Phased retirement schemes and other measures will reduce the figure still further in the medium term. Even when the euro crisis, which is constraining demand in major European markets, has passed we anticipate no more than modest growth in the printing-press sector. Our pole position in large-format sheetfed offset has already enabled us to establish a stronghold in the high-growth packaging market. The new generation of large-format presses and many other new advances we shall be showing at Drupa 2012 will consolidate our standing as a vendor of choice to the packaging industry. Our entry into high-volume digital printing with our own inkjet press paves the way for further growth and will attract additional custom.

Stepping up activities in China

Sales in China and Asia, two major sheetfed offset markets in recent years, have started to pick up again. Investment is also going forward in Germany and Europe, though not in the troubled south, and demand remains buoyant in the growth markets of South America. But it has slumped in North America, the UK and North Africa, while business in the Middle East has been hit by armed conflict in Syria and tense relations with Iran. Investment in the web press sector, where the shift to online media has had a more pronounced effect, has perceptibly declined and is mainly confined to Europe and Asia. Individual contracts have also been booked in other regions. Orders from the USA, like the one in 2011 for a big newspaper press for Albany, are the exception rather than the rule in the plant engineering sector.

In view of China's significance as a key market, and the risks and opportunities it represents, KBA management has been conducting intense negotiations in recent months with a prospective Chinese partner in a move to acquire a substantial interest. Our primary objective is the joint development and production of sheetfed offset printing presses for the domestic Chinese market. This would expand our portfolio and enable us to offer economy-priced products alongside the high-tech Rapidas imported from Germany. We are hopeful that negotiations will soon reach a successful conclusion, and we shall announce the outcome in due course.

Food packaging must be consistently well printed using inks and coatings that are non-migratory. This requires close collaboration among manufacturers of inks, coatings, presses and packaging. With our large-format Rapidas we have cornered the number 1 slot in offset presses for printing folding cartons

Outlook: moderate growth and a profit

Although, for the reasons stated above, we failed to achieve our 2011 sales target of €1.2bn and Group sales stagnated at the 2010 level, we believe a single-digit percentage increase is possible in 2012 provided that business conditions remain stable. The percentage will depend to a great extent on the sales generated by Drupa and the alacrity with which investors order web presses. Because web presses take so long to build, their full value will not be reflected in sales figures for the current business year. We are also busy planning new initiatives to expand our customer services. The creation of a dedicated firm, PrintHouseService (PHS), is one example. The web-press related services it offers also extend to non-KBA presses and address an emerging trend among printers towards outsourcing such services.

In 2011 the KBA Group withstood the vagaries of the market to post a pre-tax profit for the third year running, and was thus the big exception among leading press manufacturers. As we indicated last November in our third-quarter report, unscheduled structural expenses and external postponements in shipments meant that we failed to achieve the improvement in Group profits over 2010 (€15.3m) that we had been targeting. So we are aiming for an increase in Group pre-tax earnings in 2012.

We also envisage higher sales and earnings in 2013 and 2014. However, given the risks inherent in the present geopolitical, economic and business environment, in the shifting print media market and in changes on the supply side, even medium-term projections such as these may have to be adjusted in our quarterly reports.

For the past 50 years our Swiss subsidiary, KBA-NotaSys, has been supplying government and private banknote printers worldwide with a wide range of services that include pre-press, press and finishing equipment specially engineered to meet the rigorous security specifications obtaining in this sensitive market

Human Resources and Welfare

A smaller workforce, but highly qualified

Fundamental shifts in the print media market have impacted on personnel decisions for some years now. But while we have had to trim our workforce, an exceptionally high standard of staff training and dedication has been a crucial success factor in our global and technologically challenging line of business. Extensive investment in staff training has therefore been an ongoing priority at KBA.

Consolidation of further companies influences payroll statistics

The Group payroll expanded following the consolidation of foreign subsidiaries in Italy and China, and therefore does not reveal the extent of the personnel adjustments made. On 31 December the Group payroll stood at 6,408, just eleven fewer than twelve months earlier. Excluding the newly consolidated subsidiaries there would have been 71 fewer. The total number of employees at the Parent, Koenig & Bauer, fell by 688 to 3,777 at year's end following redundancies at our web-press production plants and the divestment of certain operations in Frankenthal.

Demand for web presses in 2011 was too weak to sustain production, and we had to reintroduce short-time work in some departments at our Würzburg and Trennfeld factories. However, while there were fluctuations in plant utilisation at our sheetfed offset factories, we managed to avoid short-time work. Prospects in the web-press sector failed to improve, and at the end of May management announced further capacity cuts. Following a six-week strike at our Frankenthal facility an amended tariff agreement was signed on 15 June. In accordance with more detailed agreements signed in September the payroll was cut by 248 and the Frankenthal operation split into two legally independent companies. On 1 November KBA-FT Engineering, a specialist folder engineering, installation and commissioning firm, took over 256 staff. Albert-Frankenthal, which makes rollers and other parts for KBA and also offers manufacturing and assembly services externally, took over 330 staff.

A reduction of 200 in the Würzburg and Trennfeld workforce was agreed amongst tariff partners in autumn 2011. Natural attrition and phased retirement schemes, along with internal staff transfers to the security press and new digital press departments, trimmed redundancies to 130. Once all downsizing measures have been completed the KBA Group in its present composition will have well below 6,000 employees (excluding apprentices).

Outstanding reputation for training

The number of apprentices and student trainees in the Group rose from 420 to 428, or from 6.5% of the workforce to 6.7%. KBA's reputation for excellence in training extends beyond the sector. This applies not only to the state-certified training school founded over 140 years ago in Würzburg but also to the training facilities in Radebeul. The Dresden chapter of the Chamber of Industry and Commerce (IHK) has awarded our Radebeul plant a certificate of excellence every year since introducing this accolade in 2000.

88 youngsters started training at the Parent in autumn 2011. Apprenticeships are predominantly technical and include various forms of mechanics (e.g. electromechanics), electronics, technical product design, model-making and media technologies. For the first time administrative training included computer science with systems engineering as a specialisation. The Parent also provided practical training for electrical engineering students on sandwich courses.

Outstanding exam results

81 apprentices from the Parent passed the qualifying examinations set by the Chambers of Industry and Commerce. Five 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 model-making mechanic at our Würzburg factory carried off the title of best young technician both in Bavaria and nationwide, and was awarded his certificate by the German Association of Chambers of Commerce and Industry (DIHK) at a grand ceremony last December in Berlin. An apprentice at our Radebeul plant was the best newly qualified printer in Saxony.

We seek early contacts with young people through diverse activities such as open days at our training centres, information campaigns at schools, a Girls' Day and a technology camp for girls. Some 300 pupils and students gained experience in plant engineering and construction via trial training courses and industrial placements at our German production plants. We supervised 18 undergraduate and masters' theses and awarded undergraduate and postgraduate grants as a means of nurturing the engineering professions essential to our long-term survival.

Lifelong learning

In 2011 many of our employees took advantage of our training programme, which encompassed foreign languages, IT, production technology, business administration, new products and work safety.

Employee suggestions save money

Once again staff made a valuable contribution towards enhancing the efficiency of our production processes and product development. 303 of the 464 (2010: 493) suggestions submitted at the Parent were awarded a prize and delivered sizeable cost savings.

Inplant health campaigns

The independent KBA health-insurance scheme (BKK) with 9,533 full and 3,157 family members organised a number of activities and health campaigns focussing on prevention. The services offered ranged from flu vaccinations to nutritional advice and skin-cancer screening. For the sixth year running there was a big response to the BKK's initiative encouraging staff to cycle to work.

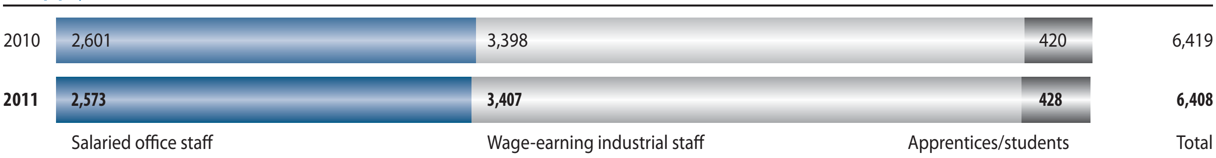
Combining family and a career

We help parents combine a family with a career by offering more flexible working hours, and by working closely with local child-care centres. The kindergarten set up five years ago next door to our Radebeul factory has proved very popular because the opening hours are so convenient for staff. In Würzburg, the activity day we held for the fourth time for employees' children was well attended, attracting 175 children.

7,345 years of service

226 employees at the Parent were honoured for their long service to the company: 115 for 25 years, 108 for 40 years and three for 50 years of service. We thank them all for their loyalty and dedication.

Group payroll on 31 December



Nowadays monochrome books are printed on digital systems, Rapida sheetfed offset presses or even on modified KBA Commander CT-B (book) presses that support flying imprint changes, as can be seen here at a French enterprise in the CPI group

Sustainability Report

Safeguarding quality and the environment in the long term

In addition to safeguarding the quality of our products and services through an integrated quality management system we fulfil our environmental and social obligations by greening up production on an ongoing basis and by supporting a range of social and cultural activities.

Cutting energy consumption and carbon emissions

One current example of symbiosis between economics and ecology was a new hall and a technology upgrade for the foundry in Würzburg. This major investment significantly improved working conditions and reduced emissions still further. We have also enhanced the energy balance at our Würzburg plant by extending our heat recovery system. The heat from the furnace- and sand-cooling systems is now used for heating, hot water and pre-warming inducted air. The heating system at our Trennfeld factory was also modernised and energy consumption reduced.

Customer satisfaction through quality

Product quality was further enhanced as part of a continuing move to safeguard customer satisfaction in the long term. The quality of web-press components and subassemblies sourced externally was monitored more intensively using new computer-aided assessment tools. The results of field observations were incorporated in the quality assurance process. The error-recognition and analysis system for machine installations was reconfigured, enabling us to make retrospective modifications to the production chain right back to the engineering stage. In Radebeul, pre-series quality control for new products ranks high alongside standard quality assurance procedures. Intensive training of final assembly and service staff also helped trim quality-related costs.

Green printing

When making investment decisions, a major objective among print entrepreneurs today is to reduce energy and materials consumption, carbon emissions and waste. Environmental aspects are therefore a core focus of our development work. With print buyers increasingly demanding climate-neutral products, many commercial and packaging printers have joined emissions trading schemes. In alliance with ClimatePartner we offer assistance via Footprint Manager, an online platform that calculates customers' greenhouse gas emissions. All Rapida sheetfed presses bear an "emissions tested" eco-certificate issued by the BGDP, the industrial safety council for the printing and paper processing industry. For more than ten years now KBA has also been a global leader and innovator in ecological waterless offset technology. Newspaper printers, for example, can burnish their environmental credentials with our waterless Cortina press.

To promote a greener mindset in the print media industry we sponsor a number of awards, among them Druck & Medien's "eco printing plant of the year", which last year was won by the Evers-Frank print and media group and Evers-ReForest in Meldorf.

Promoting cultural, social and scientific initiatives

The various Group operations have a long tradition of promoting social and cultural activities in their respective regions. One example is the Bach festival in Würzburg. Last year the management board and works council launched a successful fund-raising campaign in aid of Japanese orphans. The €4,000 donated by KBA employees was matched by the company and will be used to rebuild a children's home in Ichinoseki. Together with other print and media enterprises in and around Würzburg we also organise annual benefit concerts in aid of scientific, cultural and social projects and charities. The proceeds from the sixth event, in November 2011, went to Würzburg University for selected research projects. The Parent also assumes a form of social responsibility in maintaining an above-average training ratio, which promotes youth development and ensures an adequate supply of new employees with the appropriate qualifications. As in previous years, apprentices who could not be taken on permanently in 2011 because of the recession generally had no trouble in finding employment at less training-oriented companies.

Old and new in press engineering: our biggest investment last year was in a technical upgrade and new hall (centre) for the foundry in Würzburg

Other Reports

Digital inkjet and laser marking systems for industrial applications are the core business of KBA-Metronic in Veitshöchheim, Germany. The alphaJET's inkjet technology, which can even print on bananas (!), is especially popular with cable manufacturing and assembly plants

KBA Shares

Mixed reports influence performance

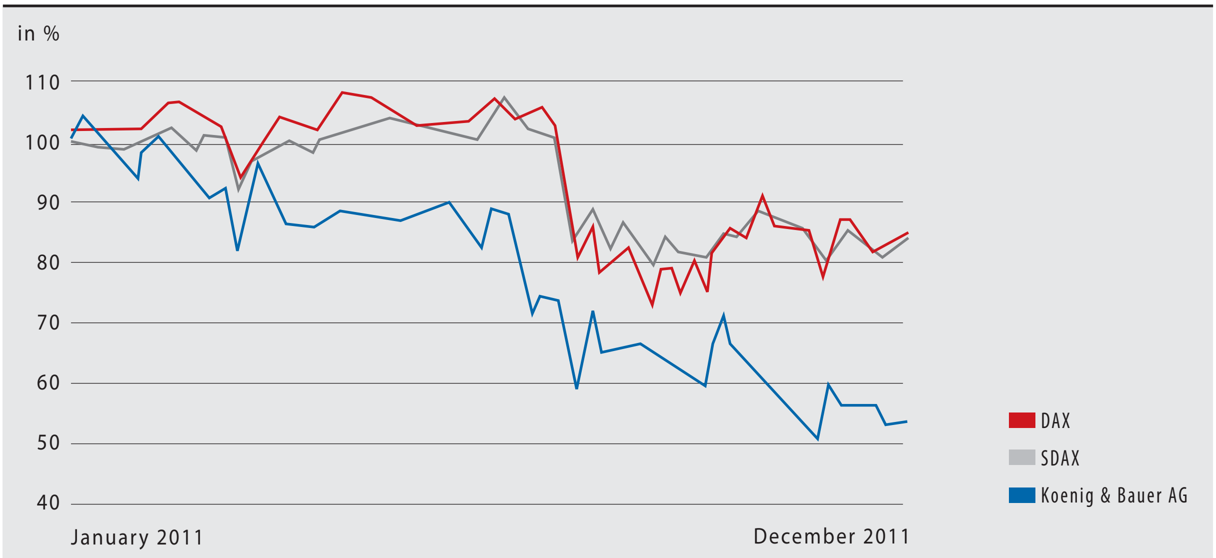
In 2011 the mounting risks to which the global economy was exposed, and negative reports in the print media industry, inevitably impacted on the price of Koenig & Bauer shares. The sovereign debt crises in Europe and the USA, slackening growth in China, political conflicts around the Mediterranean and some spectacular bankruptcies dimmed prospects in our export-intensive sector. The structural changes in the media environment and the challenges facing established market players in adjusting to the speed and scale of these changes put a damper on investment activities in the printing-press sector. As a result KBA shares remained volatile and their performance disappointing. The gains delivered by our realignment, our sound accounting and financial profile and our strong standing in less cyclical markets compared to our competitors did not stabilise our share price as we had hoped.

Severe price fluctuations

After soaring to €19 at the beginning of the year and dropping back to €15.10 in March following the catastrophes in Japan, the KBA share price hovered around the €16 mark until well into the summer. But mounting economic anxiety, and turbulence in financial markets triggered by the debt crisis, sent international stockmarkets tumbling in August. Caught in the downdraught, KBA shares slipped below €11. Following a brief recovery to €13.30 in mid-October, on 23 November a jittery stockmarket sent the price plunging to a low for the year of €9.50. Two days later the bankruptcy of a competitor, manroland, briefly pushed the price above €11, but this proved unsustainable. At the end of December our shares closed at €9.97, 43% below the prior-year figure of €17.50.

Of the 50 companies listed in the SDAX, which fell by an average of 14.5%, KBA ranked 44th. Some small caps suffered even higher losses, of 80% or more. In line with the rest of our industry our shares also underperformed

Performance of KBA shares in 2011



the DAX, which was down by 14.7%. In the first two months of the current year our share price revived to just under €13 before slipping back again.

Analysts broadly recommend buying

As an SDAX enterprise KBA complies in full with the international transparency obligations imposed by our listing in the Prime Standard segment of the German stock exchange. Group performance has been monitored 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 most analysts recommended buying our shares, with only a few in favour of selling.

Maintaining a dialogue with investors

Investor relations at KBA focus on timely and open communications with capital markets. Our AGM in June, and our annual investor and analyst conference, which last year took place in Frankfurt am Main in December, are key events for promoting and maintaining a dialogue with shareholders, financial analysts and business journalists. Some 550 shareholders, representing 54.5% of KBA equity, attended our AGM at the Vogel Convention Center in Würzburg. Shareholders who were unable to attend could follow the president's speech live on our website and download the pertinent documentation. We also meet shareholders, analysts, journalists and investors, both institutional and private, on a one-to-one basis to discuss market developments and Group prospects. Investor-relevant information – financial reports, figures and dates, presentations and press releases on major Group events, and corporate governance reports – can all be accessed on our website.

Key data on ordinary KBA shares

	2010	**2011**
Earnings per share	€ 0.76	€ 0.02
Price-earnings ratio	23.0	–
Highest price	€ 18.10	€ 19.30
Lowest price	€ 11.37	€ 9.50
Closing price	€ 17.50	€ 9.97
Market capitalisation in €m	288.1	164.4
Cash flow per share	€ 1.83	€ 5.09
Dividend	€ 0.30	–

Corporate Governance

A corporate culture predicated on responsibility

KBA management is guided by the standards of transparency and responsibility defined in Germany's Corporate Governance Code, which we consider indispensable for winning and retaining the trust of shareholders, customers, employees, suppliers, financial markets and the public. We believe that these values form the basis for sustainable corporate development and survival. With a few justifiable exceptions we comply with the recommendations and voluntary proposals contained in the Code, and promptly amend our rules of procedure and corporate guidelines when any changes are made.

Objectives relating to supervisory board composition

Alongside a balance of qualifications, the supervisory board and its nomination committee have 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.

Current declaration of compliance on KBA website

In accordance with section 161 of German Company Law, on 17 February 2012 the Koenig & Bauer supervisory and management boards issued a declaration of compliance with the recommendations issued on 26 May 2010 by a government commission on the German Corporate Governance Code. Past and present declarations of compliance may be accessed on the Group website at http://www.kba.com/en/investor-relations/corporate-governance/ and are amended without delay in the event of changes being made.
The recommendations contained in the Code were implemented with the following few exceptions.

Policy excess borne by the supervisory board 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. We have no plans to raise the excess to a minimum of one-and-a-half times the fixed annual remuneration because our Supervisory Board discharges its duties conscientiously at all times and in full, irrespective of the level of such excess.

Disclosure of board compensation
Pursuant to section 286 (5) of the German Commercial Code (HGB) on the disclosure of management board compensation, at the Koenig & Bauer AGM on 16 June 2011 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 19, furnishes our shareholders with sufficient information for assessing the propriety of the remuneration given. Share options and other share-based compensation have hitherto formed no part of such remuneration, and there are no plans for them to do so.

Supervisory board remuneration contains appropriate adjustments for the chairman and vice-chairman, but not for committee work, since this is covered by the increase in annual fixed remuneration (provision 5.4.6).

Compensation report
Management board compensation in 2011, and pension provisions for active and retired members of the board, are disclosed in the Notes on page 98. Compensation for the supervisory board totalled €0.4m (2010: €0.3m), with the fixed component constituting €0.3m (2010: €0.1m).

Management and supervisory board shareholdings
At the end of December 2011 members of the management board owned 3.5% of equity capital, members of the supervisory board 2.2%. Since we feel that 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 should publish a list of major affiliates together with their operating results in the past financial year. For competitive reasons the overview provided in the Notes on page 81 lists only the names and headquarters of such companies, the size of the shareholding and the amount of equity.

Based on the same technical platform as our high-end Rapida 106, the medium-format Rapida 105, which has a flexible automation system and a maximum rated output of 17,000sph, is popular in China and selling well in Europe, America, Asia, Australia and Africa

Group Financial Statements

Group Balance Sheet to 31 December 2011

Assets in €m	Note	31.12.2010	**31.12.2011**
Non-current assets			
Intangible assets	**(1)**	26.4	26.4
Property, plant and equipment	**(1)**	243.0	248.6
Investments and other financial receivables	**(2)**	27.4	22.1
Other assets	**(2)**	0.2	0.2
Deferred tax assets	**(6)**	36.8	47.6
		333.8	**344.9**
Current assets			
Inventories	**(3)**	296.7	328.1
Trade receivables	**(2)**	368.6	310.4
Other financial receivables	**(2)**	10.0	24.3
Other assets	**(2)**	39.5	39.8
Current tax assets		1.1	1.0
Securities	**(4)**	23.7	28.7
Cash and cash equivalents	**(5)**	91.0	145.6
		830.6	**877.9**
		1,164.4	**1,222.8**

Equity and liabilities in €m	Note	31.12.2010	**31.12.2011**
Equity	**(7)**		
Share capital		42.8	42.9
Share premium		87.1	87.3
Reserves		331.4	336.4
Capital attributable to equity holders of the Parent		**461.3**	**466.6**
Liabilities			
Non-current liabilities			
Pension provisions	**(8)**	104.6	106.6
Other provisions	**(9)**	71.7	65.9
Bank loans and other financial payables	**(10)**	15.0	20.8
Other liabilities	**(10)**	0.5	0.1
Deferred tax liabilities	**(6)**	22.2	27.8
		214.0	**221.2**
Current liabilities			
Other provisions	**(9)**	162.7	137.4
Trade payables	**(10)**	69.4	64.2
Bank loans and other financial payables	**(10)**	84.2	101.2
Other liabilities	**(10)**	165.2	225.5
Current tax liabilities		7.6	6.7
		489.1	**535.0**
		1,164.4	**1,222.8**

Group Income Statement 2011

in €m	Note	2010	2011
Revenue	(14)	1,179.1	1,167.2
Cost of sales	(15)	–865.6	–895.1
Gross profit		**313.5**	**272.1**
Research and development costs	(15)	–45.2	–56.4
Distribution costs	(15)	–154.2	–147.0
Administrative expenses	(15)	–87.7	–60.4
Other operating income	(17)	88.5	48.3
Other operating expenses	(17)	–92.7	–46.7
Operating profit		**22.2**	**9.9**
Other financial results		0.3	–
Interest income		4.9	5.5
Interest expense		–12.1	–12.1
Financial result	(18)	**–6.9**	**–6.6**
Earnings before taxes		**15.3**	**3.3**
Income tax expense	(19)	–2.8	–2.9
Profit for the period attributable to equity holders of the Parent		**12.5**	**0.4**
Earnings per share (in €, basic/dilutive)	(20)	**0.76**	**0.02**

Statement of Comprehensive Group Income 2011

in €m	2010	2011
Net profit	**12.5**	**0.4**
Foreign currency translation	26.7	9.1
Measurement of derivatives	0.5	–2.9
Deferred taxes	1.6	0.9
Gains recognised directly in equity	**28.8**	**7.1**
Total comprehensive income attributable to equity holders of the Parent	**41.3**	**7.5**

For further information see explanatory Note (7).

Statement of Changes in Group Equity 2011

in €m	Share capital	Share premium	Reserves – Recognised in equity – Primary financial instruments	Reserves – Recognised in equity – Derivatives	Reserves – Recognised in equity – Exchange differences	Reserves – Recognised in equity – Deferred taxes	Reserves – Other	**Total**
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**
1 January 2011	**42.8**	**87.1**	**2.4**	**0.6**	**32.8**	**–1.5**	**297.1**	**461.3**
Total net profit	–	–	–	–	–	–	0.4	0.4
Gains/losses recognised directly in equity	–	–	–	–2.9	9.1	0.9	–	7.1
Profit/loss for the period	**–**	**–**	**–**	**–2.9**	**9.1**	**0.9**	**0.4**	**7.5**
Capital increase from authorised capital	0.1	0.2	–	–	–	–	–	0.3
Dividend	–	–	–	–	–	–	–4.9	–4.9
Other changes	–	–	–	–	1.1	0.1	1.2	2.4
31 December 2011	**42.9**	**87.3**	**2.4**	**–2.3**	**43.0**	**–0.5**	**293.8**	**466.6**

For further information see explanatory Note (7).

Group Cash Flow Statement 2011

in €m	2010	2011
Earnings before taxes	15.3	3.3
Depreciation/write-ups on intangible assets, property, plant and equipment	7.0	35.5
Currency measurement	0.4	–6.1
Non-cash interest income/expense	4.9	5.1
Changes in pension provisions	0.9	2.0
Other non-cash income/expenses	–0.9	-3.8
Gross cash flow	**27.6**	**36.0**
Changes in inventories	33.9	–23.8
Changes in receivables and other assets	–71.8	63.2
Changes in other provisions	17.3	–34.7
Changes in payables and other liabilities	30.7	52.6
Interest received	2.8	3.9
Interest paid	–5.2	–5.5
Income tax paid	–5.3	–10.2
Income tax refunded	0.1	2.4
Cash flows from operating activities	**30.1**	**83.9**
Proceeds from the disposal of intangible assets, property, plant and equipment	7.7	10.4
Payments for investment in intangible assets, property, plant and equipment	–15.4	–35.7
Proceeds from the disposal of investments	0.1	0.1
Payments for investments	–3.3	–1.0
Investment subsidies received	0.9	0.1
Dividends received	0.3	–
Cash flows from investing activities	**–9.7**	**–26.1**
Free cash flow	**20.4**	**57.8**
Proceeds from capital contributions	0.2	0.3
Proceeds from loans	1.5	1.4
Repayment of loans	–6.7	–8.7
Dividends paid	–	–4.9
Cash flows from financing activities	**–5.0**	**–11.9**
Change in funds	**15.4**	**45.9**
Effect of changes in exchange rates	–0.5	6.9
Effect of changes in consolidated companies	–	1.8
Funds at beginning of period	76.1	91.0
Funds at end of period	**91.0**	**145.6**

For further information see explanatory Note (I).

Notes to the Group Financial Statements

(A) Preliminary Remarks

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

Consolidated financial statements for the Parent to 31 December 2011 were prepared in accordance with section 315a of the HGB (German Commercial Code), as was a Group management report, which together with a list of interests held under section 285 (11) of the HGB 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 28 March 2012 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 2011 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 2011:

IAS 24	Amendments to IAS 24 Related Party Disclosures
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues
IFRS 1	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures
IFRIC 14	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Sundry amendments resulting from the third annual improvements project (2008-2010)	

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

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

Amendments to IAS 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 the presentation of the Group financial statements.

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 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
IAS 1	Amendments to IAS 1 Presentation of Financial Statements: Components of Other Comprehensive Income	2013
IAS 19	Revised IAS 19 Employee Benefits	2013
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements – Separate Financial Statements	2013
IAS 28	Amendments to IAS 28 Investments in Associates	2013
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting a Financial Asset and a Financial Liability	2013
IFRS 10	Consolidated Financial Statements	2013
IFRS 11	Joint Arrangements	2013
IFRS 12	Disclosure of Interests in Other Entities	2013
IFRS 13	Fair Value Measurement	2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	2013
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting a Financial Asset and a Financial Liability	2014
IFRS 9	Financial Instruments	2015

Amendments to IAS 12 were adopted as part of the EU endorsement process. The issues treated in the amendments to IAS 12, IAS 28, IFRS 1, IFRS 11 and IFRIC 20 are irrelevant to the business activities of the entities included in the statements.

Amendments to IFRS 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.

Amendments to IAS 1 Presentation of Financial Statements: Components of Other Comprehensive Income (OCI)
The amendments to IAS 1 require companies to group separately items within OCI that may later be reclassified to the profit or loss section of the income statement. This will enhance transparency and improve comparability.

Revised IAS 19 Employee Benefits

The revised IAS 19 specifies the immediate recognition of all actuarial gains and losses of pension obligations or plan assets in OCI. There is no longer a choice between immediate recognition in the income statement or OCI, or deferred recognition using the corridor approach. Since KBA currently uses the corridor approach, this amendment would have led to a €5.9m increase in pension provisions at 31 December 2011. The revised IAS 19 allows interest income on plan assets to be calculated at a rate that is no higher than the discount rate for pension obligations, so additional information will be required in the Notes.

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

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

Amendments to IFRS 7 and IAS 32 Offsetting a Financial Asset and a Financial Liability

This addition to IAS 32 clarifies the criteria for offsetting financial instruments. It explains the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. In this connection regulations governing disclosures in the Notes were expanded in IFRS 7. For KBA this may result in individual amendments in presentation.

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

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 41-43. 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 19 (previous year: 13) companies.

Altogether 15 (previous year: 16) subsidiaries were excluded from the consolidated financial statements since they were of minor significance to the Group's financial position and performance.

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

Consolidation principles

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

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

(E) Foreign Currency Translation

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

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

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

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

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

in €m	Cost						
	01.01.	Group additions	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
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**
2011							
Intangible assets							
Industrial property rights and similar rights	41.4	–	0.6	–	0.2	0.7	41.5
Goodwill	21.4	–	–	0.3	–	–	21.7
Product development costs	6.7	–	1.5	–	–	–	8.2
Assets under construction	0.1	–	0.1	–	–0.2	–	–
	69.6	**–**	**2.2**	**0.3**	**–**	**0.7**	**71.4**
Property, plant and equipment							
Land and buildings	256.5	1.1	1.6	0.8	–	6.8	253.2
Plant and machinery	267.0	1.8	6.6	0.3	2.2	26.4	251.5
Other facilities, factory and office equipment	118.0	1.3	20.1	0.2	0.2	12.1	127.7
Assets under construction	4.3	–	13.7	–	–2.4	–	15.6
	645.8	**4.2**	**42.0**	**1.3**	**–**	**45.3**	**648.0**
	715.4	**4.2**	**44.2**	**1.6**	**–**	**46.0**	**719.4**

[1] Business segment sheetfed offset presses

	Depreciation									Carrying amount	
	01.01.	Group additions	Annual depre-ciation	Impair-ments	Write-ups	Exchange differences	Reclassifi-cations	Disposals	**31.12.**	01.01.	**31.12.**
	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**
	37.6	–	2.5	–	–	–	–	0.7	39.4	3.8	2.1
	0.2	–	–	–	–	–	–	–	0.2	21.2	21.5
	5.4	–	–	–	–	–	–	–	5.4	1.3	2.8
	–	–	–	–	–	–	–	–	–	0.1	–
	43.2	**–**	**2.5**	**–**	**–**	**–**	**–**	**0.7**	**45.0**	**26.4**	**26.4**
	99.1	0.7	7.4	–	–	–	–	1.9	105.3	157.4	147.9
	210.0	0.3	12.7	–	–	0.3	–	26.2	197.1	57.0	54.4
	93.7	1.0	12.9	–	–	0.1	–	10.7	97.0	24.3	30.7
	–	–	–	–	–	–	–	–	–	4.3	15.6
	402.8	**2.0**	**33.0**	**–**	**–**	**0.4**	**–**	**38.8**	**399.4**	**243.0**	**248.6**
	446.0	**2.0**	**35.5**	**–**	**–**	**0.4**	**–**	**39.5**	**444.4**	**269.4**	**275.0**

(G) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

With finance leases the total includes €0.3m for land and buildings, €3.2m (previous year: €2.8m) for plant and machinery, and €8.8m (€0.9m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €6.4m (previous year: €7.3m).

Intangible assets

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

Goodwill

in €m	31.12.2010	**31.12.2011**
Bauer+Kunzi GmbH, Stuttgart, Germany	3.4	3.4
KBA-MetalPrint GmbH, Stuttgart, Germany	9.2	9.2
KBA-NotaSys SA, Lausanne, Switzerland	8.6	8.9
	21.2	**21.5**

Property, plant and equipment

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

Impairment tests

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

Cash-generating unit	Number of planning periods	Pre-tax interest rate	Post-tax interest rate
Bauer+Kunzi GmbH and KBA-MetalPrint GmbH	3	10.3 %	7.4 %
KBA-NotaSys SA	3	8.6 %	7.8 %

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

(2) Financial and other assets

Investments

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

Company, location	Capital share in %	Equity in €m
Consolidated affiliates		
Albert-Frankenthal GmbH, Frankenthal, Germany	100.0	8.7
KBA-FT Engineering GmbH, Frankenthal, Germany	100.0	–
KBA-MePrint AG, Veitshöchheim, Germany (KBA-MetroPrint AG until 22.12.2011)	100.0	7.4
KBA-Metronic GmbH, Veitshöchheim, Germany [1]	100.0	6.0
Bauer+Kunzi GmbH, Stuttgart, Germany	100.0	6.7
KBA-MetalPrint GmbH, Stuttgart, Germany [1]	100.0	1.0
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	–0.4 [2]
KBA ITALIA SPA, Milan, Italy	100.0	1.0
KBA (UK) Ltd., Watford, UK	100.0	–0.5 [2]
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	1.3
KBA-Mödling AG, Mödling, Austria	>99.9	43.3
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	56.0
KBA-NotaSys SA, Lausanne, Switzerland [1]	100.0	115.3
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	5.7
KBA North America Inc., Wilmington, Delaware, USA	100.0	–1.4 [2]
KBA (HK) Company Ltd., Hong Kong, China	100.0	0.9
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	1.5
Non-consolidated affiliates		
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.6 [2]
KBA NORDIC A/S, Herlev, Denmark	100.0	–3.2 [2]
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	0.7
KBA CEE Sp. z o.o., Warsaw, Poland	100.0	–0.3 [2]
KBA RUS OOO, Moscow, Russia	100.0	–1.2 [2]
Print Assist AG, Höri, Switzerland [1]	100.0	2.4
MABEG Machinery (Shanghai) Co., Ltd., Shanghai, China	80.0	2.1
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.1 [3]
KBA NotaSys India Private Limited, New Delhi, India [1]	50.0	0.4

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

In 2011 the sales and service subsidiaries KBA ITALIA SPA (Milan, Italy), KBA (HK) Company Ltd. (Hong Kong, China) and KBA Printing Machinery (Shanghai) Co., Ltd. (Shanghai, China) were consolidated for the first time in the Group accounts.

On 1 November 2011 the Frankenthal operation was spun off from Koenig & Bauer AG as Albert-Frankenthal GmbH and KBA-FT Engineering GmbH.

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

in €m	31.12.2010	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2011**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade receivables						
- from affiliates	12.7	12.7	–	7.7	7.6	0.1
- from companies in which interests are held	0.2	0.2	–	0.9	0.9	–
- from third parties	355.7	324.3	31.4	301.8	271.6	30.2
	368.6	**337.2**	**31.4**	**310.4**	**280.1**	**30.3**
Investments	8.2	–	8.2	6.8	–	6.8
Other financial receivables						
- from affiliates	–	–	–	0.4	0.4	–
- derivatives	1.0	1.0	–	–	–	–
- sundry other financial receivables	28.2	9.0	19.2	39.2	23.9	15.3
	37.4	**10.0**	**27.4**	**46.4**	**24.3**	**22.1**
Other assets						
- payments for inventories	23.5	23.5	–	20.3	20.3	–
- tax receivables	11.9	11.9	–	16.7	16.7	–
- prepayments	4.3	4.1	0.2	3.0	2.8	0.2
	39.7	**39.5**	**0.2**	**40.0**	**39.8**	**0.2**
	445.7	**386.7**	**59.0**	**396.8**	**344.2**	**52.6**

Adopting the percentage of completion method resulted in €38.8m (previous year: €38.4m) being carried in **trade receivables.**

Sundry other financial receivables included €1.6m (previous year: €2.7m) from customer finance leases totalling €2m (previous year: €3.6m) and an interest share of €0.4m (€0.9m), with those due in less than one year representing €0.3m (€2.5m) of a total of €0.4m (€3.4m) and other receivables representing €0.6m of a total of €0.8m having terms to maturity of one to five years. The terms to maturity of the remainder were less than eight years. Value adjustments of €2.1m (€2.7m) 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, €17.9m (previous year: €15.3m) was no longer overdue or impaired. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2010	**31.12.2011**
Raw materials, consumables and supplies	56.1	62.2
Work in progress	198.0	221.8
Finished goods and products	42.6	44.1
	296.7	**328.1**

The carrying amount of inventories balanced at net realisable value was €130.9m (previous year: €115m). Total value adjustments were reduced by €4.4m (previous year: €7.7m increase) and recognised as income.

(4) Securities

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

The balanced market value of the special fund was €28.7m (previous year: €23.7m). This was pledged to employees in order to hedge phased retirement credits.

(5) Cash and cash equivalents

in €m	31.12.2010	**31.12.2011**
Cheques, cash in hand	0.1	0.2
Balances with banks	90.9	145.4
	91.0	**145.6**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2010	**31.12.2011**	31.12.2010	**31.12.2011**
Assets				
Intangible assets, property, plant and equipment	1.0	0.9	16.0	15.9
Inventories	23.7	50.1	2.9	2.6
Financial receivables and other assets	0.1	0.4	8.8	9.1
Securities, cash and cash equivalents	–	–	0.1	0.1
Equity and liabilities				
Equity	–	–	0.3	0.3
Provisions	25.0	22.1	1.4	2.7
Financial payables and other liabilities	0.9	1.8	22.3	50.7
	50.7	**75.3**	**51.8**	**81.4**
Tax loss carryforwards	15.7	25.9	–	–
Offset	–29.6	–53.6	–29.6	–53.6
	36.8	**47.6**	**22.2**	**27.8**
- of which current deferred taxes	11.0	5.2	5.8	10.2

At the end of the year there were loss carryforwards totalling €235.4m (previous year: €174.6m) and temporary differences of €10.9m (€32.2m) for which no deferred tax assets were disclosed. €17.7m of the unrecognised tax loss carryforwards are time-limited to 2020 or later. Restructuring activities in recent years and other proposed reorganisational measures gave rise to positive earnings projections and the recognition of deferred tax assets totalling €21.5m (€15.7m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €4.5m (previous year: €2.7m), 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 66, capital management methods on page 34.

Share capital

The Parent's share capital at 31 December 2011 totalled 16,485,953 (2010: 16,464,693) no-par shares with a nominal value of €2.60. The 21,260 increase over the previous year represents the issue of employee shares, using part of the €15.6m capital authorised by the shareholders' meeting on 16 June 2011. The remaining €15.5m was authorised until 15 June 2016. Management was further authorised to repurchase shares up to a maximum of 10% of equity capital of €42.8m. This authorisation is valid at least until the next AGM and expires no later than 15 June 2016.

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

Share premium

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

Reserves

The use of hedge accounting trimmed reserves by €2.5m (previous year: €1.6m decrease). During completion of the underlying transactions €0.4m was recognised as an expense (previous year: €2.1m as income).

Deferred taxes swelled reserves by €0.9m (previous year: €1.6m increase), with derivatives accounting for €0.8m (–€0.2m) and foreign currency translation €0.1m (€1.8m).

(8) Pension provisions

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

Calculations were based on a discount rate of 5.3% (previous year: 4.8%) in Germany and 2.5% to 4.9% (3.3% to 5.6%) in the rest of Europe. For the first time, the rate of interest in Germany was calculated using the Mercer Pension Yield Curve Approach, since we believe that this provides a clearer representation of pension obligations in the present financial market environment. The method of recognition used led to a 0.5% increase in the interest rate and thus a reduction of around €7.1m in the present value of the pension obligations on the balance sheet date. Applying the corridor method meant that this change had no impact on the Group balance sheet or income statement.

Calculations were further based on a pay increase of 2.5% (3.1%) and a fluctuation rate of 2.7% (2.7%). Pension adjustments were calculated at 1.3% (1.5%). All figures are weighted averages of the assumptions contained in the pension plans. Changes in unspecified actuarial assumptions had a negligible impact on pension obligations.

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

in €m	Present value of obligations		Current market value of plan assets	
	31.12.2010	**31.12.2011**	31.12.2010	**31.12.2011**
Status at 01.01.	**114.9**	**194.1**	**–10.0**	**–77.2**
Current service cost	5.8	6.9	–	–
Interest cost	7.4	7.4	–	–
Actuarial gain/loss	9.8	–9.9	0.1	3.1
Expected return on plan assets	–	–	–2.9	–3.4
Contributions paid by employer	–	–	–5.4	–6.4
Contributions paid by plan beneficiaries	–	–	–0.1	–0.1
Benefits paid	–8.1	–10.0	2.8	5.0
Foreign currency changes	11.2	2.4	–10.1	–2.2
Other changes	53.1	0.1	–51.6	–
Status at 31.12.	**194.1**	**191.0**	**–77.2**	**–81.2**

The following costs and returns were recognised:

in €m	31.12.2010	**31.12.2011**
Current service cost	5.8	6.9
Interest cost	7.4	7.4
Expected return on plan assets	–2.9	–3.4
Cost (+)/return (–) for the year	**10.3**	**10.9**

Pension provisions constituted the following:

in €m	31.12.2010	**31.12.2011**
Present value of non-funded obligations	107.0	103.3
Present value of funded obligations	87.1	87.7
Present value of obligations	**194.1**	**191.0**
Current market value of plan assets	–77.2	–81.2
Current market value of obligations (offset)	**116.9**	**109.8**
Unrecognised actuarial gains/losses	–12.8	–5.9
Balance sheet value at 31.12.	**104.1**	**103.9**
- of which pension provisions	104.6	106.6
- of which assets	0.5	2.7

Plan assets comprised €28.5m (previous year: €30.3m) from shares and equity securities, €37.9m (€35.2m) from loans, €8m (€5m) from liquid assets and €6.8m (€6.7m) from other assets.

The actual return on plan assets was €0.3m (previous year: €2.8m). The anticipated rate of return is 4.2% (previous year: 3.8%), 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	31.12.2007	31.12.2008	31.12.2009	31.12.2010	**31.12.2011**
Present value of obligations	110.2	104.8	114.9	194.1	191.0
Current market value of plan assets	–9.4	–8.4	–10.0	–77.2	–81.2
Net liability	**100.8**	**96.4**	**104.9**	**116.9**	**109.8**
Experience adjustments of liabilities		–0.9	–	1.9	–2.4
Experience adjustments of assets		0.9	–0.4	–0.4	–0.4

Expenses for defined-contribution plans totalled €34.9m (previous year: €35.6m).

Payments for pension obligations in 2012 are estimated at €11.5m (previous year: €10.8m). Plan contributions for 2012 are estimated at €4.6m.

(9) Other provisions

in €m	Status at 01.01.2011	Group additions	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Exchange differences	**Status at 31.12.2011**
Other provisions								
- for employees	76.7	2.9	11.9	1.2	7.3	1.0	0.1	74.9
- for sales	114.2	0.6	38.6	10.3	29.4	–	0.6	95.9
- for sundry other purposes	43.5	3.1	38.6	0.5	24.6	–	0.4	32.5
	234.4	**6.6**	**89.1**	**12.0**	**61.3**	**1.0**	**1.1**	**203.3**
of which								
- long-term provisions	71.7							65.9
- short-term provisions	162.7							137.4
	234.4							**203.3**

Provisions for employees included expenses relating to the ongoing 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	31.12.2010	Term to maturity		**31.12.2011**	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade payables						
- to affiliates	5.0	5.0	–	0.7	0.7	–
- to others	64.4	64.2	0.2	63.5	63.3	0.2
	69.4	**69.2**	**0.2**	**64.2**	**64.0**	**0.2**
Bank loans	43.1	34.3	8.8	35.9	27.9	8.0
Other financial payables						
- from derivatives	1.2	1.1	0.1	3.4	3.4	–
- sundry other financial payables	54.9	48.8	6.1	82.7	69.9	12.8
	99.2	**84.2**	**15.0**	**122.0**	**101.2**	**20.8**
Other liabilities						
- from payments received	153.0	152.5	0.5	198.9	198.9	–
- from taxes	12.2	12.2	–	15.1	15.1	–
- sundry other liabilities	0.5	0.5	–	11.6	11.5	0.1
	165.7	**165.2**	**0.5**	**225.6**	**225.5**	**0.1**
	334.3	**318.6**	**15.7**	**411.8**	**390.7**	**21.1**

Bank loans (financial liabilities) were secured by mortgages to the value of €19.2m (previous year: €23.2m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of inventory and trade receivables totalling €4.4m (€4.4m). The carrying amounts of secured items of property, plant and equipment came to €25.6m (previous year: €26.7m), of trade receivables €28.5m (€27.9m), of inventories €4m (€4m) and of pledged collateral (other financial receivables) €1.1m (€1.1m). Failure to fulfil contractual obligations may result in the seizure of collateral.

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

Lines of credit not drawn down by the KBA Group at the balance sheet date totalled €55.5m (previous year: €51.1m).

Sundry other financial payables included finance leases to the sum of €13.6m (previous year: €5m). Standard market conditions apply to renewal and purchase options.

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

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

in €m	31.12.2010	Term to maturity			**31.12.2011**	Term to maturity		
		up to 1 year	1 to 5 years	more than 5 years		up to 1 year	1 to 5 years	more than 5 years
Minimum lease payments	5.3	2.5	2.8	–	15.4	4.6	10.2	0.6
Interest portion	–0.3	–0.2	–0.1	–	–1.8	–0.7	–1.1	–
Present value of finance lease	**5.0**	**2.3**	**2.7**	**–**	**13.6**	**3.9**	**9.1**	**0.6**

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

Other liabilities included total payments received of €43.4m (previous year: €53.5m) for construction contracts.

(11) Derivatives

Forward contracts with a maturity of up to 3 years (previous year: 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 €45.6m (previous year: €27.9m) was –€2.5m (€0.4m).

Interest rate swaps and cap transactions with a maturity of 2.5 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: –€0.1m) on the balance sheet date.

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

in €m	Nominal amount Total 31.12.2010	Nominal amount Term to maturity more than 1 year	Market value 31.12.2010	Nominal amount Total 31.12.2011	Nominal amount Term to maturity more than 1 year	Market value 31.12.2011
Forward contracts	55.7	–	–	72.8	2.5	–3.3
Interest rate hedges	7.7	7.7	–0.2	7.7	6.0	–0.1
	63.4	**7.7**	**–0.2**	**80.5**	**8.5**	**–3.4**

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
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**
2011						
Loans and receivables	446.0	362.3	46.3	18.4	7.5	11.5
Gross amount due from customers for contract work	38.8	36.0	1.7	0.3	–	0.8
Assets held to maturity	9.4	9.4	–	–	–	–
Assets available for sale	36.9	36.9	–	–	–	–
Financial instruments recognised at fair value	–	–	–	–	–	–
	531.1	**444.6**	**48.0**	**18.7**	**7.5**	**12.3**

in €m		31.12.2010	Carrying value	
	Category under IAS 39*	Carrying amount	Amortised cost	Fair value recognised in profit or loss
Assets				
Investments and other financial receivables				
- interests in affiliates	afs	8.1	8.1	–
- loans	lar	0.1	0.1	–
- other financial receivables from finance leases	lar	–	–	–
- other financial receivables from derivatives	rafv	0.4	–	0.4 [2]
- other financial receivables from hedge accounting	–	0.6	–	–
- sundry other financial receivables	htm	8.5	8.5	–
	afs	1.5	–	–
	lar	18.2	18.2	–
		37.4	**34.9**	**0.4**
Trade receivables	lar	330.2	330.2	–
Gross amout due from customers for contract work	lar	38.4	38.4	–
Securities	afs	23.7	–	–
Cash and cash equivalents	lar	91.0	91.0	–
		520.7	**494.5**	**0.4**
Liabilities				
Bank loans and other financial payables				
- bank loans	ofp	43.1	43.1	–
- other financial payables from finance leases	ofp	5.0	5.0	–
- other financial payables from derivatives	rafv	0.9	–	0.9 [2]
- other financial payables from hedge accounting	–	0.3	–	–
- sundry other financial payables	ofp	49.9	49.9	–
		99.2	**98.0**	**0.9**
Trade payables	ofp	69.4	69.4	–
		168.6	**167.4**	**0.9**

* 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	31.12.2011	Carrying value			31.12.2011
	Fair value recognised in equity	Fair value	Carrying amount	Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	Fair value
	–	–	6.7	6.7	–	–	–
	–	0.1	–	–	–	–	–
	–	–	1.6	1.6	–	–	1.7
	–	0.4	–	–	–	–	–
	0.6 [2]	0.6	–	–	–	–	–
	–	8.5	9.4	9.4	–	–	9.4
	1.5 [1]	1.5	1.5	–	–	1.5 [1]	1.5
	–	18.2	27.2	27.2	–	–	27.2
	2.1	**29.3**	**46.4**	**44.9**	**–**	**1.5**	**39.8**
	–	330.2	271.6	271.6	–	–	271.6
	–	38.4	38.8	38.8	–	–	38.8
	23.7 [1]	23.7	28.7	–	–	28.7 [1]	28.7
	–	91,0	145.6	145.6	–	–	145.6
	25.8	**512.6**	**531.1**	**500.9**	**–**	**30.2**	**524.5**
	–	43.1	35.9	35.9	–	–	35.9
	–	5.0	13.6	13.6	–	–	13.8
	–	0.9	0.8	–	0.8 [2]	–	0.8
	0.3 [2]	0.3	2.6	–	–	2.6 [2]	2.6
	–	49.9	69.1	69.1	–	–	69.1
	0.3	**99.2**	**122.0**	**118.6**	**0.8**	**2.6**	**122.2**
	–	69.4	64.2	64.2	–	–	64.2
	0.3	**168.6**	**186.2**	**182.8**	**0.8**	**2.6**	**186.4**

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 €32.6m (previous year: €37.1m) within the next twelve months, €13m (€10.9m) in one to three years and €4.7m in more than three years from now. Additional liquidity was required for sundry other financial payables, other financial payables and financial guarantees.

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

in €m	Net gain/loss	from subsequent measurement: from interest	due to impairment	currency impact	at fair value	from disposal	Other
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**
31.12.2011							
Loans and receivables	–15.8	4.2	–4.4	0.3	–	–15.9	–
Gross amount due from customers for contract work	0.2	0.1	0.2	–	–	–0.1	–
Assets available for sale	–0.6	–0.6	–	–	–	–	–
Financial instruments recognised at fair value in profit or loss	–	–	–	–	–	–	–
Other financial payables	–4.6	–4.4	–	–0.2	–	–	–
	–20.8	**–0.7**	**–4.2**	**0.1**	**–**	**–16.0**	**–**

Value adjustments were made of €8.5m (previous year: €4.2m) on trade receivables and –€4.3m (–€1.9m) 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 €2.5m (previous year: €1.3m) and reduced income by €0.5m (€1.4m) on the balance sheet date, whereas a 5% revaluation would have reduced equity by €2.7m (€1.4m) and increased income by €0.6m (€1.5m).

On the balance sheet date the KBA Group was exposed to a foreign currency risk amounting to €88.2m (previous year: €78.8m), 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	31.12.2010	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2011**	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	8.1	3.4	3.9	0.8	7.7	2.8	4.3	0.6
- leasing and service contracts	14.4	7.5	6.9	–	13.1	7.6	5.5	–
- investment plans	2.0	2.0	–	–	2.7	2.7	–	–
- sundry other activities	0.3	0.3	–	–	0.7	0.2	0.5	–
	24.8	**13.2**	**10.8**	**0.8**	**24.2**	**13.3**	**10.3**	**0.6**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €4.4m (previous year: €4.6m) 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 €2.7m (previous year: €2m).

Contingent liabilities

These comprised contingencies totalling €64m (previous year: €79.1m) from financial guarantees, primarily relating to repurchase obligations to lessors and banks. The guaranteed repurchase price decreased over the term of the repurchase obligation.

Provisions totalling €6.2m (previous year: €12.6m) were created for existing risks that were not classified as minor.

(H) Explanatory Notes to the Income Statement

(14) Revenue

Revenue from the sale of machinery came to €933.7m (previous year: €928.1m), other sales totalled €233.5m (€251m).

Construction contract revenue totalled €181.5m (previous year: €142.7m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €320.3m (€458.3m).

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

(15) Expenses by function

Cost of sales

Cost of sales included €1m (previous year: €1.1m) 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 €327.3m (previous year: €445.8m).

Research and development costs

Expenditure on research and development was higher than in the previous year in preparation for the Drupa 2012 trade fair.

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

Distribution costs and administrative expenses

A €7.2m drop in distribution costs was primarily attributable to a reduction in commission payments. More streamlined structures cut administrative expenses by €27.3m.

(16) Expenses by nature

Material costs

in €m	2010	**2011**
Cost of raw materials, consumables, supplies and purchased goods	446.4	474.4
Cost of purchased services	80.8	93.3
	527.2	**567.7**

Personnel costs

in €m	2010	**2011**
Wages and salaries	306.9	320.5
Social security and other benefits	56.2	60.9
Pensions	7.5	8.2
	370.6	**389.6**
Average payroll		
- wage-earning industrial staff	3,507	3,451
- salaried office staff	2,645	2,579
- apprentices/students	363	371
	6,515	**6,401**

Reimbursements from the Federal Employment Agency for social security expenses relating to short-time work reduced personnel expenses by €0.6m (previous year: €4.8m).

(17) Other operating income and expenses

in €m	2010	**2011**
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	2.5	4.6
Foreign currency gains	19.9	6.8
Currency measurement	12.9	11.0
Restructuring	24.8	0.3
Reversal of write-downs	6.9	7.6
Sundry other operating income	21.5	18.0
	88.5	**48.3**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–0.1	–0.8
Foreign currency losses	–24.5	–13.7
Currency measurement	–13.3	–4.9
Restructuring	–18.7	–
Creation of write-downs	–9.8	–11.9
Sundry other operating expenses	–26.3	–15.4
	–92.7	**–46.7**
Other operating income and expenses	**–4.2**	**1.6**

Sundry other operating income included €10.3m (previous year: €8.2m) from the reversal of sales-related provisions. It also included insurance and compensation claims and other refunds.

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

(18) Financial result

in €m	2010	**2011**
Other financial results		
Income from interests in affiliates	0.3	–
	0.3	**–**
Interest income/expense		
Other interest and similar income	4.9	5.5
Other interest and similar expense	–12.1	–12.1
- from pension obligations	(–7.4)	(–7.4)
	–7.2	**–6.6**
Financial result	**–6.9**	**–6.6**

(19) Income taxes

in €m	2010	**2011**
Earnings before taxes	**15.3**	**3.3**
Group tax rate	30.0 %	30.0 %
Expected taxes	**–4.6**	**–1.0**
Tax effects from		
- variances due to different tax rates	13.0	8.4
- tax-free earnings	0.6	0.4
- write-downs	–10.8	–9.9
- decreases and increases	0.2	–1.9
- other	–1.2	1.1
Income tax	**–2.8**	**–2.9**

in €m	2010	**2011**
Actual tax expense	–4.9	–8.1
Prior-period income taxes	–1.0	0.7
Deferred taxes from loss carryforwards	7.5	10.0
Deferred tax income from temporary differences	–4.4	–5.5
	–2.8	**–2.9**

Other tax effects included prior-period income taxes.

The recognition of previously unrecognised tax losses relating to subsidiaries led to a €3.8m increase in deferred tax income. This reduced the actual tax expense by €0.4m.

The payment of a dividend to Parent company shareholders had no impact on income taxes.

(20) Earnings per share

	2010	**2011**
Group profit for the period in €m	12.5	0.4
Weighted average of ordinary shares issued	16,436,428	16,470,226
Earnings per share in €	**0.76**	**0.02**

The total number of ordinary shares issued was 21,260 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 €145.6m (previous year: €91m) included cash and cash equivalents.

(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 and digital inkjet systems.

The business segment sheetfed offset presses constitutes commercial, book, packaging and metal-decorating presses and also UV presses for printing on plastic, film and electronic data storage devices.

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

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

in €m	Web and special presses		Sheetfed offset presses		Group	
	2010	**2011**	2010	**2011**	2010	**2011**
Revenue	628.0	583.6	551.1	583.6	1,179.1	1,167.2
Operating profit/loss	14.0	28.0	8.2	–18.1	22.2	9.9
Depreciation	19.7	18.8	10.8	16.7	30.5	35.5
Major non-cash expenses	52.4	24.0	40.1	38.3	92.5	62.3
Capital investments	9.4	23.3	6.0	12.4	15.4	35.7

Geographical breakdown

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

in €m	Revenue		Capital investments		Non-current assets	
	2010	**2011**	2010	**2011**	2010	**2011**
Germany	135.7	182.3	8.7	25.4	181.2	184.8
Rest of Europe	335.3	414.8	6.5	9.7	87.2	88.7
North America	118.3	100.7	0.2	0.2	1.2	1.1
China	131.0	179.9	–	0.4	–	0.6
Rest of Asia/Pacific	216.1	139.7	–	–	–	–
Africa/Latin America	242.7	149.8	–	–	–	–
Reconciliation	–	–	–	–	64.2	69.7
Group	**1,179.1**	**1,167.2**	**15.4**	**35.7**	**333.8**	**344.9**

(K) Notes to Section 285 no. 17 HGB

The auditors, KPMG Bayerische Treuhandgesellschaft, received €0.5m remuneration for their auditing services.

This includes the annual audits for 2011 and €0.2m for subsequent support services, e.g. the examination of the 2010 annual accounts by the German Financial Reporting Enforcement Panel, DPR.

(L) Related Party Disclosures

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

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

in €m	2010	**2011**
Other current financial receivables at 31.12.	–	0.4
Trade receivables at 31.12.	12.9	8.6
Trade payables at 31.12.	5.0	0.7
Revenue	28.1	30.0

Management board remuneration totalled €2.2m (previous year: €2.6m), with the fixed portion representing €1.3m (€1.2m). The variable portion was based on net profit.

Pension provisions were increased by €0.3m (previous year: €0.2m) for the current service cost. Remuneration for former members and their survivors stood at €1.1m (€2.7m). Supervisory board remuneration totalled €0.4m (€0.3m), of which €0.1m (€0.2m) was variable.

€15.3m (previous year: €15.2m) was set aside for pension claims by active and retired members of the management board, and their survivors. The individual compensation specified by section 314 (1) 6 of the German Commercial Code was omitted as per section 314 (2) in conjunction with section 286 (5).

At 31 December 2011 members of the management board held 3.5% and members of the supervisory board 2.2% of Koenig & Bauer's share capital, giving a total of 5.7%.

Supervisory Board

Dieter Rampl
Chairman
Banker
Munich

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert
Deputy chairman
Business economist
Würzburg

Michael Gasbarri* (since 16 June 2011)
Lathe operator
Frankenthal

Peter Hanzelka* (until 16 June 2011)
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* (until 16 June 2011)
Instructor
Grossniedesheim

Claus Weihmann* (since 16 June 2011)
Gear grinder
Radebeul

Professor Horst Peter Wölfel
Department of Structural Dynamics (ret.)
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 (until 16 June 2011)
Dieter Rampl
Claus Weihmann (since 16 June 2011)
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 (until 31 October 2011)

Claus Bolza-Schünemann
President and CEO (since 1 November 2011)
Deputy president (until 31 October 2011)
Head of web and sheetfed press engineering and web press production, and (since 1 November 2011) sheetfed press production, purchasing and logistics, human resources, legal affairs and insurance
Würzburg

Dr Axel Kaufmann
Deputy president (since 1 November 2011)
CFO
Head of information technology and quality management (since 1 November 2011)
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	UniCredit S.p.A., Milan, Italy
Chairman	Mediobanca S.p.A., Milan, Italy
	FC Bayern München AG, Munich, Germany
	KKR Management LLC, New York, USA
Reinhart Siewert	Bank Schilling & Co. AG, Hammelburg, Germany
Deputy chairman	KBA-Mödling AG, Mödling, Austria
Matthias Hatschek	Buy-Out Central Europe II Beteiligungs-Invest AG, Vienna, Austria
Dr Hermann Jung	Putzmeister AG, Aichtal, Germany
	Dachser GmbH & Co. KG, Kempten, 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-MePrint AG, Veitshöchheim, Germany
	KBA-Metronic GmbH, Veitshöchheim, Germany
	KBA CEE Sp.z o.o., Warsaw, Poland

Other information

A declaration of compliance was issued in accordance with section 161 of German Company Law and made permanently accessible under http://www.kba.com/en/investor-relations/corporate-governance/

Würzburg, 28 March 2012
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Axel Kaufmann
Deputy president

Christoph Müller

Ralf Sammeck

Auditor's 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 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Nuremberg, 28 March 2012

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[Original German version signed by:]

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

Responsibility Statement

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

Würzburg, 28 March 2012
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Axel Kaufmann
Deputy president

Christoph Müller

Ralf Sammeck

Balance Sheet for Koenig & Bauer AG to 31 December 2011

under the German Commercial Code (HGB)

Assets in €m	31.12.2010	31.12.2011
Non-current assets		
Intangible assets	1.5	0.9
Property, plant and equipment	126.3	119.7
Financial assets	43.8	63.2
	171.6	**183.8**
Current assets		
Inventories less payments received	79.4	48.2
Trade receivables	154.2	136.2
Other receivables and assets	110.8	175.7
Securities	21.3	26.3
Cash and cash equivalents	44.1	38.6
	409.8	**425.0**
Prepayments	**0.9**	**1.5**
	582.3	**610.3**

Equity and liabilities in €m	31.12.2010	31.12.2011
Equity		
Share capital	42.8	42.9
Share premium	87.1	87.3
Reserves	99.3	99.3
Retained earnings	4.9	11.3
	234.1	**240.8**
Special items with equity portion	**4.4**	**3.9**
Provisions		
Pension and similar provisions	70.1	67.9
Tax provisions	3.5	3.5
Other provisions	195.2	188.7
	268.8	**260.1**
Liabilities		
Bank loans	10.1	7.8
Trade payables	23.4	28.2
Other liabilities	41.5	69.5
	75.0	**105.5**
	582.3	**610.3**

Income Statement for Koenig & Bauer AG for 2011

under the German Commercial Code (HGB)

in €m	2010	**2011**
Revenue	731.7	715.4
Cost of sales	–657.6	–650.3
Gross profit	**74.1**	**65.1**
Distribution costs	–79.0	–66.9
Administrative expenses	–37.2	–30.4
Other operating income	27.5	38.0
Other operating expenses	–65.9	–74.9
Loss from operations	**–80.5**	**–69.1**
Financial result	47.6	81.1
Profit/loss from ordinary activities	**–32.9**	**12.0**
Extraordinary loss	–0.4	–1.4
Earnings before taxes	**–33.3**	**10.6**
Income taxes	0.2	0.7
Net profit/loss	**–33.1**	**11.3**
Loss carried forward	–109.1	–
Distributions from other revenue reserves	147.1	–
Retained earnings	**4.9**	**11.3**

Key Financial Dates

Interim report on 1st quarter 2012
15 May 2012

Koenig & Bauer Annual General Meeting
14 June 2012
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2012
14 August 2012

Interim report on 3rd quarter 2012
14 November 2012

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Consolidated Financial Statements

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