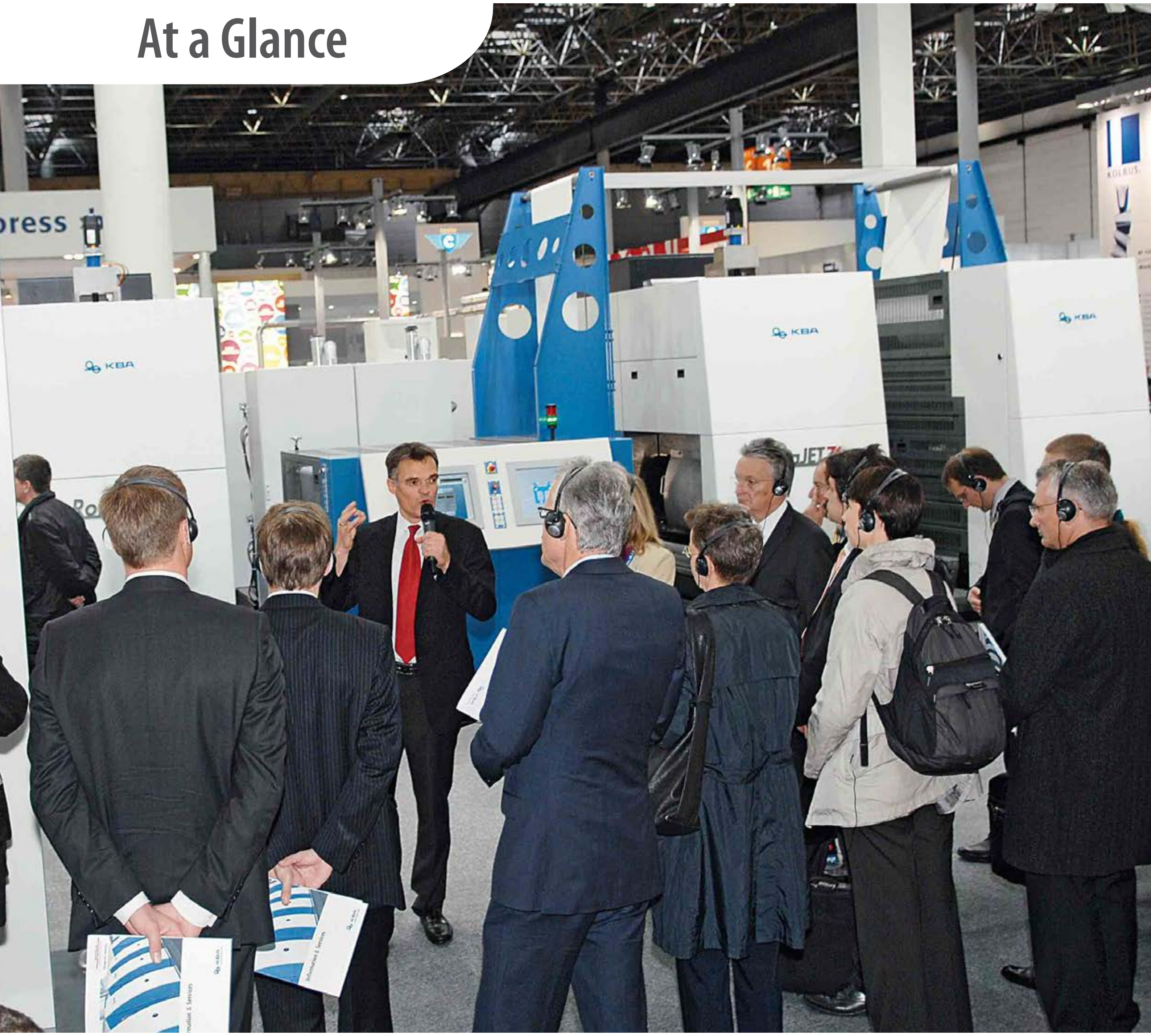
Consolidated Financial Statements 2012

KBA
Koenig & Bauer Group

At a Glance



200 years after its founders Friedrich Koenig and Andreas Bauer invented the steam-driven cylinder press, KBA unveiled its first own digital press, the RotaJET 76, at Drupa 2012. Here KBA president and CEO Claus Bolza-Schünemann explains this new technology to a group of visitors

KBA Group in Figures

€m	2008	2009	2010	2011	2012
Order intake	1,241.5	883.9	1,284.9	1,552.1	1,116.2
Sales	1,531.9	1,050.4	1,179.1	1,167.2	1,293.9
Order backlog at 31.12.	501.5	335.0	440.8	825.7	648.0
Operating profit before special items	13.4	8.7	22.2	9.9	43.1
Operating profit/loss after special items	–79.9	8.7	22.2	9.9	16.0
Earnings before taxes	–87.1	2.7	15.3	3.3	6.1
Net profit/loss	–101.0	6.6	12.5	0.4	2.3
Balance sheet total	1,181.4	1,060.4	1,164.4	1,222.8	1,177.8
Intangible assets, property, plant and equipment	254.5	259.8	269.4	275.0	243.1
Equity (excluding dividend payment)	411.1	419.8	456.4	466.6	466.5
Investment in intangible assets, property, plant and equipment	52.4	30.2	15.4	35.7	22.6
Depreciation on intangible assets, property, plant and equipment	88.6	30.3	31.0	35.5	64.9
Payroll: annual average	8,052	7,327	6,515	6,401	6,272
Cash flows from operating activities	34.6	29.6	30.1	83.9	83.3
Dividend per share in €	–	–	0.30	–	0.40

Contents

Title photo: Array with inkjet printing heads on the new KBA RotaJET 76


KBA
People & Print

Major Events in 2012

January: The *Times Union* newspaper in Albany belonging to the prominent US media group Hearst Corporation bucks the trend in the North American newspaper industry and reaffirms its commitment to print with the purchase of a new press type, the KBA Commander CL.

February: Amcor Tobacco Packaging in Switzerland invests in a sheetfed offset press whose configuration of 19 printing and finishing units is unique in the global marketplace. Measuring around 35m (114ft) the Rapida 106, which features inert UV curing technology and an integrated cold-foil finishing capability, is already in operation and saves numerous process steps when finishing inline.

March: At the pre-Drupa open house at our Radebeul facility some 1,000 print professionals from all over the world experience the latest KBA sheetfed offset generation just two months before the industry's leading trade show Drupa opens. At DER NEUE TAG print centre in Weiden, Germany, representatives from the newspaper industry take a closer look at the first Commander CT 6/2 in operation in Europe.

April: In the year of the dragon Huashang Digital, a media enterprise in Xian, northwest China, orders a KBA Commander newspaper web press with dryer. Management opts for this press, which is the first Berliner format press in China, to maintain the company's present rapid growth rate.

May: In Düsseldorf Drupa opens its doors to more than 1,800 exhibitors and over 300,000 international visitors. Under the banner "**s**printing ahead" KBA showcases a raft of new launches on its 3,500m^2 (37,700ft^2) stand. They include a new generation of sheetfed offset presses in all format classes, offset/digital hybrid printing, new web offset presses for commercial and newspaper printing and for the first time an inkjet web press, the KBA RotaJET 76 for high-volume digital printing.

June: A large KBA Cortina hybrid press with twelve printing towers and four thermal dryers comes on stream at Al Nisr Publishing in Dubai. This is the first Cortina waterless offset press to go into operation outside of Europe. It prints the internationally well-known *Gulf News* daily and further titles in outstanding quality.

From the left:
In March 2012 some 1,000 print professionals from all over the world visited the pre-Drupa open house at the KBA plant in Radebeul
Pleased with the delivery of a KBA Commander web press (l-r): Andreas Friedrich, general manager web sales and service at KBA Printing Machinery (Shanghai), Wang Xiao Di, general manager at Huashang Digital, and Li Bin, general manager at Shaanxi Huasheng Electric Engineering
Sprinting ahead –KBA's banner at Drupa 2012 went down well. The live demonstrations on the 3,500m^2 large KBA stand attracted big audiences and led to a raft of new orders

July: Following the first KBA C16 (16pp) commercial web press in 2010 and a Rapida 106 sheetfed press, multimedia service provider schaffrath medien in Geldern, North Rhine-Westphalia, chooses the first new-generation KBA C48 (48pp) shortly after Drupa.

August: 70 youngsters begin a vocational training at the KBA facilities in Würzburg and Radebeul. They will be trained in professions, such as electromechanics, metalworking, industrial and foundry mechanics, electronics, technical product design, model-making, industrial clerk, commercial clerk and computer science. The above-average training ratio shows just how important the promotion of youth careers is at KBA.

September: "agensketterl" printing house in Mauerbach near Vienna demonstrates its investment in the most advanced sheetfed offset presses currently in Austria as part of a "festival of innovation". The eight-colour KBA Rapida 106 for four-back-four printing as well as the large-format Rapida 145 with four printing units and coater are equipped with cutting-edge automation.

October: During the Munich Media Days, KBA receives the Bavarian prime minister's honorary prize at the Bavarian Print Media Awards 2012. Horst Seehofer praises Koenig & Bauer as a highly-innovative showcase company with an impressive history and a bright future. Bavarian media minister Thomas Kreuzer awards the honorary prize to KBA president and CEO Claus Bolza-Schünemann.

November: At the end of November the management of Scottish printers Bell & Bain accepts its third Rapida 142 press at the KBA plant in Radebeul. The eight-colour press contains the 6,000th printing unit to be built into the large-format Rapida 130-162a generation since 1995. Its successor, the new Rapida 145 with up to 17,000sph and minimal makeready times, redefines performance parameters in large format.

December: With a maximum production speed of 15,000sph, the KBA Rapida 164 in format 120.5 x 164cm is equipped with same extensive automation options as the Rapida 145. It supersedes the vastly successful Rapida 162 and 162a series. With this new press, KBA technologically underscores its position as market leader in the extra-large format class.

From the left:

Obaid Humaid Al Tayer, managing director of media house Al Nisr Publishing in Dubai, is delighted with the first copy of his newspaper, *Gulf News*, printed on the waterless KBA Cortina

Bavarian media minister Thomas Kreuzer (r) and KBA CEO Claus Bolza-Schünemann with the Bavarian prime minister's honorary award

Alan Fleming print foreman at Bell & Bain (r) and KBA sales manager Roland Gebauer in front of an eight-colour Rapida 142, which contains the 6,000th printing unit to be built into a large-format Rapida from 1995 to 2012

Foreword

Our targets for 2012 were met to a great extent with a growth in Group sales of over 10% to nearly €1.3bn and a positive operating profit of €43.1m before special items, more than quadruple that of 2011 (€9.9m). In the fourth quarter our sheetfed division posted a one-off special depreciation on fixed assets which did not affect cash flow. This reflects current market evaluation parameters and our more profit-orientated business strategy for the future. As a result, Group pre-tax profit was reduced to €6.1m and net income to €2.3m. However, both figures are higher than those of the previous year.

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

The success of the industry's leading trade show, Drupa, as well as our broad press portfolio ranging from banknote production and metal-decorating to packaging and newspaper printing, boosted our operating result. Brisk business with special presses more than compensated for the continuing lull in web press orders resulting from an ongoing reluctance to invest. Although KBA's earnings once again profited from the Group's extensive product mix, returns on investment must be significantly and sustainably improved, predominantly in the sheetfed and web press business. The one-time write-down on fixed assets, trade show and launch costs for new press generations and the ongoing pricing pressure prevented the sheetfed sector from generating a profit. We have implemented various measures to improve the situation this year. The programme includes an amendment to labour contracts in place until the end of 2014 which focuses on more flexible working times and a cost-effective alleviation of capacity fluctuations at our Radebeul plant. A similar amendment to wage agreements was introduced on 1 January 2013 at our web press facilities in Würzburg and Trennfeld. In addition, the Trennfeld facility, founded in 1964, will be integrated into the Würzburg plant, closed by the end of 2013 and finally sold with the aim of improving earnings in the shrunken business for web offset presses.

It is our aim to grow by developing new products and expanding into new markets, wherever possible and viable from an economic point of view. However, management is not geared to a one-sided volume-orientated strategy at the expense of value for money. Innovative technology offers our customers a higher level of productivity, economy and opens up new opportunities. But that doesn't come for free. Adequate gross margins for financing the investments and innovations necessary, for providing capital reserves and for giving shareholders an appropriate share in the company's earnings are essential, even in a buyer's market. Along with the necessary focus on costs, this is only possible in the long-term with reasonable prices. With this in mind, we announced a price increase for our new sheetfed offset press generation in February 2013 following the loss of many jobs and the implementation of extensive cost-cutting measures over the last years.

The KBA Group is the only leading press manufacturer to have been profitable for the past four years. However, not all Group entities and product segments contributed to a satisfactorily extent. Management has therefore set positive earnings as a mid-term goal for all business fields. This target also includes possibly discontinuing products which are not likely to become profitable in the long-term for market reasons.

In our efforts to increase earnings, we have not neglected the development of new products and processes crucial to the success of our company. Under the banner "**s**printing ahead" at Drupa the KBA Group showcased innovations in almost every one of the market sectors we serve. This included the most productive sheetfed offset presses on the global market, a new flexibly-automated newspaper web press, innovations in metal-decorating and coding and the new variable-format Varius 80 web offset press for the growing market of flexible packaging. One of the biggest attractions on the KBA stand was the high-volume RotaJET 76 inkjet web press, developed at our main plant in Würzburg.

It signals our entry into digital print and should compensate at least in part for the drop in web offset in the mid-term. At around the same time as Drupa, our Swiss subsidiary KBA-NotaSys in Lausanne presented the newest developments in banknote printing to a global audience at Banknote Horizons 2012, a seven-week marathon event at the facility in Switzerland.

Technologically, KBA is perfectly positioned in terms of meeting current and future demands in the markets we address. In 2012 we focused intensively on expanding our product portfolio to target print-related growth markets and given our core skills and market contacts we found that the diverse packaging market is particularly of interest. This led us to announce the planned takeover of the Italian press manufacturer, Flexotecnica, at the end of February. This company produces presses for the growing market of flexible packaging, such as film.

Following intensive research on market trends and potential partners, we have decided not to go ahead with the planned majority stake in a Chinese press manufacturer, but to find another way to produce less complex sheetfed offset presses in China. This change in strategy is in part due to the growing volume of higher performance imported presses in key KBA markets, such as packaging.

We anticipate Group performance to remain stable in 2013 with Group sales similar to 2012, given an essentially unchanged market environment. Management is focusing on increasing earnings in sheetfed and web offset as well as on the continued strategic realignment of the Group.

Following the earnings-related decision to forgo a dividend payment for 2011, at the AGM in June 2013 the management and supervisory boards are pleased to propose a dividend once again. This proposal is based on a significant increase in the Group operating profit before special items and on the Parent’s retained earnings. You, our shareholders, can expect a reasonable return on your capital investment and we assure you that management is doing everything to fulfil this objective in this challenging market environment.

We wish to thank you, our shareholders, for your faith, confidence and loyalty in KBA and hope that you will continue to follow our progress with interest. Many thanks to all our customers worldwide for your interest in our products and for your trust, some of you for many years. And a big thank-you to all our executives and staff for the active contribution made towards achieving our joint objectives.

Würzburg, 21 March 2013
Koenig & Bauer Management Board

Claus Bolza-Schünemann
President and CEO

Supervisory Board Report

Dieter Rampl
Chairman, Koenig & Bauer AG

Despite the positive effect of the industry's leading trade show, Drupa, on the export-focused printing press industry, our hopes of a sustained upturn in the web and sheetfed offset press markets were not met. Further restructuring steps have therefore been implemented to increase earnings in these very competitive market segments. In 2012 sales and earnings in the KBA Group once again profited from the positive business development in packaging and security printing. In a challenging industry environment the supervisory board and its committees fulfilled their legal and statutory obligations with particular vigilance, support, guidance 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 importance. Board resolutions were passed only after rigorous scrutiny and debate.

A total of four regular and three extraordinary supervisory board meetings took place in 2012. In the regular sessions KBA management provided a full and detailed report on the financial position, earnings and performance of the Parent and Group, individual business operations and major subsidiaries. Corporate policy, the status of the restructuring activities at the affected plants as well as short- and mid-term Group planning were on the agenda of every regular meeting. Other core items included investment and personnel planning, risk and compliance. Additionally, in the three extraordinary meetings the board discussed the long-term alignment of both business divisions, the Group as a whole and potential new business lines.

In an extraordinary meeting on 13 January 2012, we discussed in-depth the offer to take over our insolvent competitor manroland, proposed by the management board, and approved subsequently. The meeting in March revolved around the discussion, examination and approval of the financial statements for 2011. We also discussed the opportunities and risks of a significant shareholding in a Chinese press manufacturer with the goal of producing simpler sheetfed offset presses on-site for the Chinese market. Additionally, we were occupied with the agenda for the AGM in June.

At the extraordinary meeting on 22 May 2012 market development, competition and future options for the core business in web offset presses were the subject of intense debate and the restructuring concept developed with external support by the management board was approved. In the meeting in June the results of the Drupa print media trade show were a main focus. The supervisory board approved milestones for the efficient control of the agreed restructuring measures in the web division. The board agreed to the introduction of a product-house organisation with increased bundling of market-orientated functions, such as product development, marketing, sales, on-site assembly and after-sales service for sheetfed and web offset presses. In the extraordinary session on 20 July comprehensive measures to increase earnings in the sheetfed offset division proposed by the management were also approved.

At the meeting in September the management board gave us an update on the market entry into the growing business areas of digital printing and flexible packaging. Given new market insights, a more defensive approach with regard to a takeover of a Chinese press manufacturer was approved by the supervisory board. The corporate targets submitted for 2013 and a contract extension for a management board member were also confirmed. On 27 November management provided an outlook on the financial statements of 2012. The investment plan for 2013 and a further contract extension for a member of the management board were approved by the supervisory board.

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. Issues regarding strategy, planning and business developments were debated during these sessions, and risks were also discussed in depth. The president and CEO provided information on matters of significance. Important business activities and decisions were also the subject of intense debate.

Five committees assist the supervisory board in the efficient execution of its duties by drafting supervisory board resolutions and formulating any issues that are to be raised at plenary sessions. The human resources, audit and strategy committees convened a number of times. The mediation committee appointed under section 27 (3) of the Law on Codetermination did not need to convene as didn't the nomination committee because the next supervisory board elections will not take place until 2016.

The audit committee examined the 2012 financial statements, management reports and audit reports for both the Parent and the Group in the session on 20 March 2013. In this session the auditor's representatives summarised the major focus and results of their audit, as well as providing further information upon request. Prior to this I had attended a meeting between management and the auditors on 28 February. The interim reports and the quarterly statements were also discussed with the management board. Other items on the agenda included the audit itself, monitoring the accounting procedure, efficiency of internal controls and auditing, risk management and compliance with the Corporate Governance Code.

The executive committee mainly discussed personnel issues, such as the extension of contracts for members of the management board. Concerning the Group's future strategic alignment the strategy committee examined documents presented by the management board concerning potential additional and new business lines, and recommended the consistent follow-up of promising projects. The supervisory board was informed of its results.

The implementation of the Corporate Governance Code, and Koenig & Bauer's compliance with its fundamental principles, were once again an item on the supervisory board's agenda. The newly included recommendations from 15 May were carefully appraised. With a few justified exceptions we comply with the code in full. On 15 February this year the supervisory and the management boards duly issued and published on the internet an updated declaration of compliance as per section 161 of German Stock Corporation Law. 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 2012, 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 documents and the auditors' report mentioned were distributed to the members of the supervisory board for perusal 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 21 March 2013 the supervisory board addressed the value adjustments in the sheetfed division and approved the year-end financial statements submitted by the management board. The Group financial statements and the management report statements were also approved. The supervisory board also accepted the management board's proposal of paying a dividend of 40 cents per share.

The supervisory board thanks all Group employees and executives, the KBA management board and staff representatives for their diligence and dedication in 2012. And we thank you, our shareholders, for your confidence in KBA.

Würzburg, 21 March 2013
Koenig & Bauer AG
Supervisory Board

Dieter Rampl
Chairman

Group Management Report

Drupa 2012: new generations of sheetfed and web offset presses, plus the KBA RotaJET inkjet web press and many other innovations enticed huge numbers of visitors to the 3,500m² large KBA stand and ensured a raft of new orders

The new KBA RotaJET 76 digital printing press, developed and produced at our main plant in Würzburg, addresses the growing market for short-run colour and personalised print products. Initially our focus is on the book, direct mail, advertising, newspaper and magazine sectors

Share Capital, Executive Bodies and Compensation Report

On 31 December 2012 the Parent'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 12.8% and MKB Holding in Vienna, Austria, with 10.2%.

Executive bodies

The appointment and dismissal of management board members as well as the 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.

Compensation report

Under the present Koenig & Bauer compensation system, all members of the management board draw a basic salary plus a bonus. 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. Other compensation drawn by the management board covers the costs of sundry benefits, such as the provision of a company car.

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

Share options or other share-based benefits form no part of board remuneration.

Use of authorised capital

The long-term employee share scheme continued in 2012. Koenig & Bauer employees were offered 20 no-par bearer shares at a preferential price of €8. In the fiscal year 28.3% of the workforce took advantage of this scheme which has been in place since 2002, signing up for 20,420 shares. Since the employee shares have been issued at the beginning of 2013, remaining authorised capital was unchanged at €15,544,724 or 5,978,740 no-par shares, and may be drawn on until 15 June 2016.

Authority to purchase shares

Koenig & Bauer is authorised to purchase and allot company shares on a non-pre-emptive basis of up to a maximum of 10% of the issued share capital of €42,808,201.80. This authority is valid until 15 June 2016 and is purely a contingency measure permitting Koenig & Bauer to purchase shares and offer them as a negotiating tool for acquisitions of other companies or shareholdings. On 31 December 2012 the Group had no such shares.

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

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

Corporate Structures

Business Concept

Print in all facets remains core business

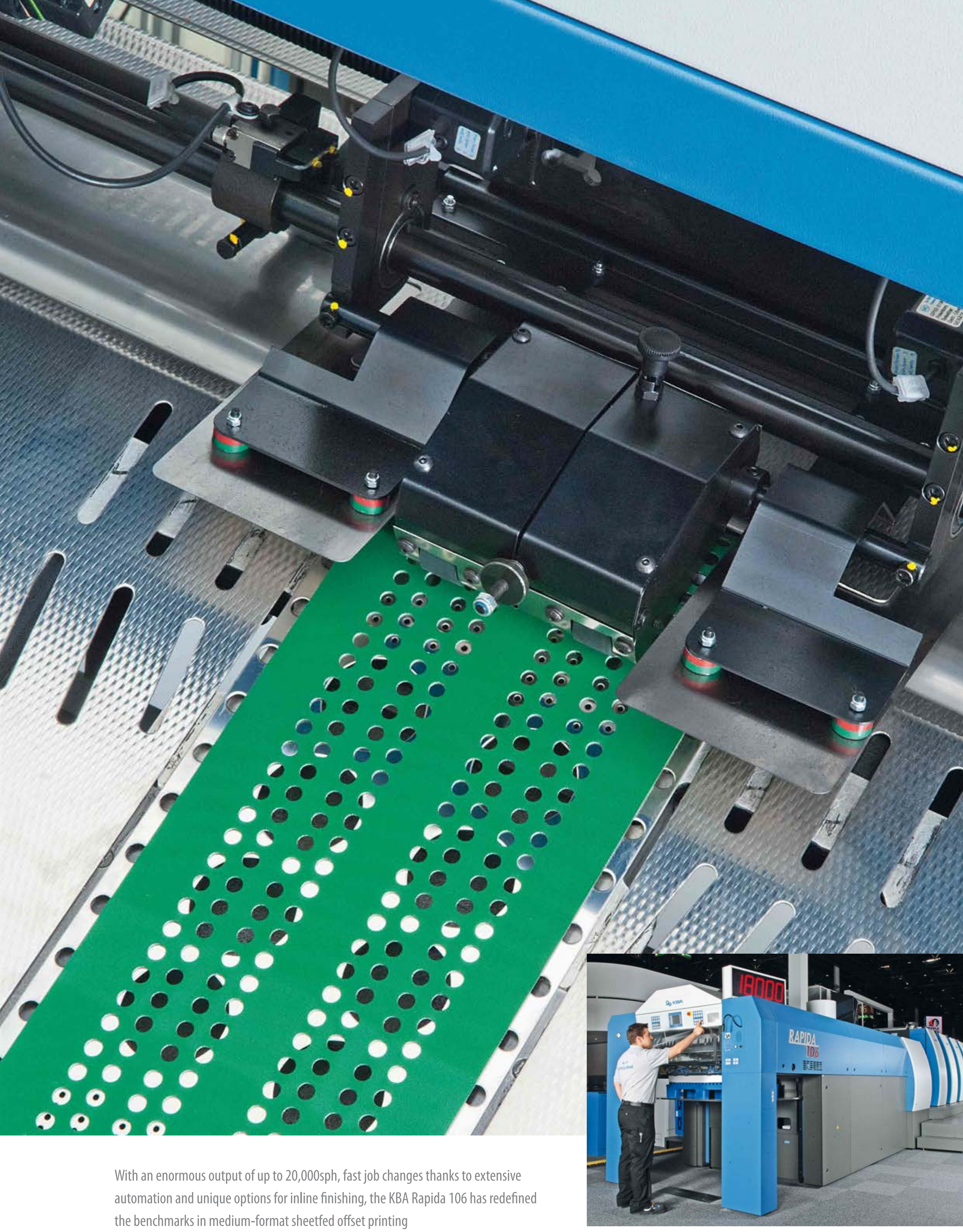
Koenig & Bauer (KBA) is the second-largest and oldest printing press manufacturer in the world. The Parent was established in August 1817 in a secularised monastery in Zell, near Würzburg by Friedrich Koenig and Andreas Bauer, who three years earlier had made history by printing *The Times* in London on their new steam-powered cylinder press. This invention laid the technical foundations for the widespread distribution of printed matter to a wider population. The globally dominant German press engineering industry sprang from Koenig & Bauer. In 1920 it became a public limited company and in 1985 KBA listed on the stock exchange.

For years now our Group financial statements have distinguished between our sheetfed offset activities which are batch-based and our web and special press activities which focus on more customised installations. Historically, each division contributes to about half of Group sales and this is unlikely to change significantly in the near future.

Along with the growth of our sheetfed and web offset press business by our own resources, KBA extended its product portfolio through diverse acquisitions shortly after the millennium to target sectors less dependent on business and advertising cycles, such as security printing, metal-decorating and coding. Thanks to this timely diversification strategy, we have weathered the recent financial and industry crises better than our competitors who address only one market segment.

KBA is the leading international vendor in banknote, metal-decorating, large-format sheetfed offset and newspaper presses. It has eight European production locations, in Germany, Austria and the Czech Republic. Along with the company's main plant in Würzburg and the affiliated plant in Trennfeld, the sheetfed offset site in Radebeul (near Dresden) also belongs to the Parent.

In November 2011, the Frankenthal operation was spun off by the Parent as part of adjustments to a smaller market for web presses, nevertheless it remains part of the Group's consolidated companies. Since then the subsidiaries KBA-FT Engineering and Albert-Frankenthal have been two separate entities which offer their engineering, production and installation services to the Parent and also to third parties with some initial success.



With an enormous output of up to 20,000sph, fast job changes thanks to extensive automation and unique options for inline finishing, the KBA Rapida 106 has redefined the benchmarks in medium-format sheetfed offset printing

As part of further measures with the aim of realigning our web press plants, in November 2012 the management and supervisory boards decided to integrate the plant in Trennfeld into our main plant in Würzburg and close the site by the end of 2013. The some 210 assembly specialists will be offered new positions in Würzburg, only 25km away. Management expects mid-term annual savings of a single-digit figure in the millions of euros from this measure.

When the restructuring is complete, commercial and newspaper web presses will only be assembled in our main plant in Würzburg. In addition, the Würzburg facility, along with KBA-Mödling in Austria, is producing banknote printing presses again. The construction of these special presses has always resided here. Furthermore, the KBA RotaJET digital inkjet press, developed at the main plant in Franconia, was added to our manufacturing portfolio. This new press should also compensate in part for the slump in volume of web offset press sales and maximise capacity utilisation.

Our facility in Radebeul is responsible for the development and sales of all our Rapida sheetfed offset presses as well as the production of medium- and large-format presses. The Czech subsidiary KBA-Grafitec builds the small-format presses. Sheetfed offset presses for commercial, book and packaging printers have the largest market volume and highest share in Group sales. Worldwide distribution via our sales network is controlled from Radebeul. KBA is the second-biggest vendor of sheetfed offset presses with a global market share of 20%. In large format, where packaging plays a major role, it is over 50%. KBA profits from its strong footing in this fast growing packaging market.

Other markets that are less vulnerable to competition from online media, such as metal-decorating, waterless UV printing on plastic and film as well as analogue and digital coding, are served by the subsidiaries KBA-MetalPrint in Stuttgart, KBA-MePrint and KBA-Metronic in Veitshöchheim, near Würzburg.

Worldwide Operations

Orientated to a global market

In the past years exports have routinely generated nearly 90% of Group sales. Considering the per-capita print output which has nearly reached its limits in established markets such as Western Europe, North America, and Japan, the fast growing emerging markets in the Middle and Far East, Latin America and parts of Africa have become of enormous significance. The economic consequences of the sovereign debt crisis in Europe and the particularly fast advance of online media in the USA have strengthened this trend. Along with China, India, Korea, Brazil and Mexico, further populous countries in Southeast Asia and Africa as well as Turkey and Russia belong to the growth regions for print where new printing companies are being established. In contrast, the number of printers in highly developed industrial nations is sinking as a result of consolidation.

Shifts in regional weightings in the global economy demand a corresponding adjustment to our international sales and service network. Important foreign markets in Europe, on the American and Asian continent and in Australia, have been served by our own sales offices for decades now. In other countries we often cooperate with longstanding agencies.

In 2012 our global sales network was expanded with new offices in Mexico, South Korea and Japan, some experienced sales and service specialists joined us following the insolvency of our competitor manroland.

Along with our production entities, the most important sales subsidiaries in the KBA Group have also been consolidated (see page 81 in the Notes), whose performance in 2012 was a reflection of the heterogeneous development in the individual markets.

There was a continued good level of capacity utilisation at KBA-Mödling, our oldest subsidiary, with special presses for the production of banknotes and deliveries of aggregates to our sheetfed facility in Radebeul. Compared to 2011, order intake rose by approx. 18% and sales by about 12%. KBA-Mödling once again posted a pre-tax profit. We expect production activities and this positive upward trajectory to continue in 2013.

Sales at our Czech subsidiary, KBA-Grafitec in Dobruška, which produces small-format sheetfed offset presses, were affected by fierce competition in this format class that is saturated by many suppliers and in the meantime strongly endangered by digital print. This was exacerbated in addition by consolidation processes in the printing industry and increased restrictions of the banks when issuing loans. As a result KBA-Grafitec, which is consolidated in the sheetfed offset division, failed to meet sales targets despite a slight increase in orders and posted a loss in spite of efforts to reduce capacity. Following the transfer of responsibility of small-format presses to the main sheetfed plant in Radebeul and the availability of a new high-speed press unveiled at Drupa 2012, we expect improved sales and results in 2013.

There was a sharp contrast in the performance of our two subsidiaries KBA-MePrint and KBA-Metronic in Veitshöchheim, near Würzburg, as in 2011. KBA-MePrint, which produces presses for waterless UV printing on film and plastic, failed to meet its targets concerning order intake and sales. Orders for the small-format Genius 52UV sheetfed press fell short of expectations and the new variable-format Varius 80 packaging press unveiled at Drupa was not yet ready for delivery. KBA-MePrint posted an operative loss but was able to account for a pre-tax profit due to investment income from KBA-Metronic. In view of the heavily shrunken market for printed storage devices (CDs, DVDs), entry into the growing market for packaging to improve KBA-MePrint's performance is of significant importance.

Coding system specialist KBA-Metronic, which is consolidated in our web and special press division, once again saw an increase in order intake and sales and posted a considerable return on sales. Considering its intensified internationalisation efforts and new products KBA-Metronic has potential for further growth.

Overall we were pleased with the performance of KBA-MetalPrint in Stuttgart, a specialist manufacturer of metal-decorating presses and thermal air-purification systems. This subsidiary, consolidated in the sheetfed division, posted a pre-tax profit and a rise in order intake and sales by over 15%. With a raft of newly-developed products and solutions, management also expects a stable business performance for KBA-MetalPrint in 2013.

The subsidiaries Albert-Frankenthal and KBA-FT Engineering, which were founded on 1 November 2011 when the Frankenthal operation of the Parent, Koenig & Bauer AG, was spun off, had their first full year in 2012. Even though various contract work was acquired and processed, capacity at both subsidiaries was not fully utilised given the rather slow intake of web press orders. The loss posted by Albert-Frankenthal was higher than last year. KBA-FT Engineering posted a slightly positive result. Further work from third parties must be acquired to fill the gaps in reduced capacities of both subsidiaries. Agreed measures in place will reduce the employee count further by 2015.

KBA-FT Engineering, which has a current payroll of 217, carries out the engineering, installing, commissioning and servicing of folders for KBA web presses and additionally offers engineering and other services elsewhere. Albert-Frankenthal, a qualified manufacturer with 306 employees supplies other Group plants with ink and dampening rollers and other mechanical components. In addition, an increasing proportion of its output is generated by contract work and installation services. KBA is open to investors who are looking to produce at the Albert-Frankenthal plant with a qualified workforce and/or would be interested in an equity stake.

KBA-NotaSys in Lausanne is a successful system provider and has been the global market leader in banknote and security presses for many decades now. In 2012 our Swiss subsidiary increased sales substantially, even though order intake was considerably smaller than the prior year's unusually high volume. KBA-NotaSys posted a profit once again. Order backlog for 2013 and afterwards is still considerable. We can expect further positive results due to new projects in the pipeline.

The sales and service subsidiary KBA Deutschland, spun off from the Parent's Radebeul facility at the beginning of 2012, was consolidated for the first time. The new company's order intake and sales lay within our projections. Results were balanced.

Our location for the USA and Canada, KBA North America in Dallas, Texas, increased its sales thanks to the delivery of medium- and large-format sheetfed offset presses and expanded service activities. The company improved its pre-tax profit. Order intake stood at about one third up on the previous year. Investment restraint in the North American newspaper industry meant web sales remained extremely low. Nevertheless, in 2013 KBA will install two newspaper presses in the USA and Canada.

Our small Dutch subsidiary, Holland Graphic Occasions in Wieringerwerf, which deals in second-hand sheetfed offset presses, remained in the black albeit with a somewhat smaller order intake and sales volume.

In addition to our consolidated sales subsidiaries KBA-France in Tremblay-en-France, near Paris, KBA (UK) in Watford, KBA Italia in Milan, KBA Printing Machinery (Shanghai) and KBA (HK) in Hong Kong, last year saw the consolidation for the first time of our longstanding affiliate Print Assist AG in Switzerland. While the first three subsidiaries and the Swiss branch are intermediaries, the Chinese entities operate on commission. Order intake and sales at KBA-France remained at about the same level as last year. KBA (UK) saw a slight increase in new orders and sales, while KBA Italia saw a decrease in both. Our subsidiaries in France and Italy closed the year with a loss, while in the UK results were balanced. Our Chinese and Swiss entities returned a profit.

Our smaller sales subsidiaries in Russia, Central Eastern Europe, Scandinavia, Malaysia, Singapore and Australia as well as newly founded entities in Latin America, South Korea and Japan have not been consolidated. MABEG Machinery (Shanghai), whose 60 employees principally produce sheet feeders for the Chinese market has also not been consolidated. In 2012 it was profitable with sales of several million euros.

The commercial web offset segment has to contend with smaller circulations and page counts for catalogues, magazines and advertising products. KBA responded to this trend with the launch of the new, highly automated C-generation of presses

Goals and Strategies

Solid finances and structures as basis

The effects of structural changes in the print industry have also taken their toll on the KBA Group. Compared to the high of €1.74bn in 2006, the Group saw an approximate 25% reduction in sales and Group employees. The climb from third-largest to the world's second-largest press manufacturer in a challenging economic environment and positive pre-tax earnings achieved without investor or state aid since 2009, reflect our solid structure, financial standing and ability to adapt.

Solid and satisfactory earnings are essential in sustaining these strengths. The Parent's comprehensive restructuring concept drawn up with the help of external advisors therefore set a preliminary target of at least a 3% return on sales (EBIT) for each product segment in the core business of sheet and web offset presses. Returns are in part significantly higher in niche markets. When pursuing corporate policy which focuses on securing adequate returns in core markets affected by supplier overcapacity and considerable pricing pressure, our mid-term planning expects no significant growth.

The precise transfer of ink onto the substrate, whether it be paper, board, film or metal with the most economically and qualitative process suitable (offset, waterless offset, flexo, gravure, screen printing, intaglio or inkjet), remains our core competence and corporate base. This will remain so for the foreseeable future, despite shifts in the media landscape. Sales potential in expanding markets, such as digital and packaging, and in populous threshold countries is far from exhausted.

We are focusing on regions and market segments in which KBA is inadequately positioned in particular, along with the existing ones. Alongside new products, we require new partners and sales channels, where necessary. Along with digital printing, we will expand in segments, such as the printing and finishing of flexible packaging as well as industrial coding technology, amongst others. In 2012 our subsidiaries KBA-MePrint and KBA-Metronic unveiled new developments representative of this expansion, such as the variable-format Varius 80 web press and the alphaJET mondo coding system. The planned takeover of Flexotecnica in Tavazzano, near Milan, signals our entry into the growing print market for flexible packaging with flexo presses. We expect that the proportion of Group sales attributable to niche markets will continue to grow in the mid-term, currently it is over 30%.

With an entry into the growing market for digital print at Drupa 2012, Koenig & Bauer aims to address an emerging shift away from the dominant offset process for certain applications. The KBA RotaJET 76 developed in Würzburg compensates at least in part for the declining market demand in web offset presses and opens up new options in previously not explored segments, e.g. direct mailing. In digital printing we expect sales in the mid double-digit millions of euros in the mid-term.

When looking for further business lines, currently Management is concentrating strongly on print-related activities that have potential for growth. We have the engineering expertise and project management skills needed plus an expandable customer base required for the technically challenging and heterogeneous packaging market.

Demand and order intake for web presses in 2012 fell significantly short of our expectations and the high willingness to invest in sheetfed offset around Drupa in May weakened from August. However, at Group level we reached our sales and operating targets for 2012 to a great extent.

Other important financial figures, such as cash flow, equity and the debt-to-equity ratio were also pleasing. They also set KBA apart positively from other companies in industry.

This was largely due to our product mix, which in part is less vulnerable to crises, and management's forward-looking financial strategy. Instead of short-sighted quarterly and shareholder value thinking, KBA has always preferred a longer-term corporate strategy that is much more appropriate for the machinery and engineering sector. This strategy was proven to be successful in the financial crisis and has had a positive effect on the financial figures.

As a result of turbulence on the financial markets and the discount for print media companies, the KBA share has significantly dropped in value, compared to 2007. Even so, the slump in share performance has not been as dramatic as that of other members in the industry. This is due to the fact that KBA has mastered the financial challenges associated with market developments with no state aid, no capital increase and with no new debt. So while some of our shareholders may be disappointed in our performance, they have fared better than elsewhere in the sector.

Following the earnings-related decision to forgo a dividend payment for 2011, we propose to follow up the dividend for 2010 with another for 2012. With the goal of ensuring appropriate and consistent shareholder participation in the success of the company, Management will make every effort to boost profits.

Our focus remains on sustainable management, responsibility, risk containment and care in husbanding the capital that shareholders have placed at our disposal. This includes transparency when imparting our business policy to investors, customers, employees and suppliers.

Customer and employee satisfaction, innovation, quality, sustainability and social responsibility, both internal and external, are central pillars of our corporate philosophy. We are committed to staff training, the active engagement of staff in our internal suggestion scheme and KBA and its staff place the utmost importance on environmental, cultural, sports and charity initiatives. A few examples of this are our annual employee share scheme, our sponsorship of innovation and environmental awards and the promotion of scientific institutions to name just a few of our activities.

Corporate Control

Modern procedures prevent surprises

An important Management tool for corporate control is our integrated business plan adjusted twice a year which is supplemented monthly with key financial data. Along with contribution margin-orientated product analyses, KBA uses figures from across the whole Group, such as return on sales and cash flow figures, for additional control. In response to financial turbulance and market volatility we have systematically refined our parameters, planning procedures, reporting, liquidity planning and our cash management over the past years. They now provide prompt and realistic feedback on the status quo and our objectives. An annual performance-related graduated bonus system for all executives and many employees ensures commitment to achieving Group objectives.

Research and Development

Innovation drive for a changing market

In 2012 our R&D activities revolved around the preparation and final polishing of a raft of new products for Drupa in May and their subsequent market launch. The design, commissioning and necessary optimisations of prototypes and beta presses initially required substantial financial and personnel resources. The software developments associated with increasing automation of functions and processes are thus becoming ever more important. Every four years the high costs associated with the new press generations and process innovations launched at Drupa have an immediate impact on earnings, while the positive impact of these innovations on sales and margins become apparent later.

In sheetfed offset, the new-generation highly automated large-format Rapida 145 with an output of up to 17,000sph secured a notable market share within a short time. KBA delivered over 30 of these presses to many countries prior to the end of 2012. As the most productive press in its format class, the Rapida 145 ensures extraordinarily fast job changeovers with high substrate flexibility. A sidelay-free infeed, dedicated drive technology for simultaneous printing plate and coating forme changes or anilox roller sleeves which can be easily changed by one press operator all of which in this format-class are only currently available from the market leader, KBA. At the end of 2012 the even larger Rapida 164 available with the same features was launched on the market. KBA is extremely well positioned with its new press series in markets which are orientated to large formats, such as packaging and internet printing.

The same is true of our widespread medium-format presses. With the optimised Rapida 105 (max.17,000sph) all-rounder and the high-tech Rapida 106 (max. 20,000sph straight and 18,000sph when perfecting) KBA can economically cover various customer requirements in terms of output and automation using the same basis. The Rapida 106 is the fastest press with the shortest makeready times on the market in its format class.

Towards the end of 2012, KBA delivered a Rapida 106 with 19 printing, coating and drying units to a Swiss company belonging to an international packaging group. This is the world's longest medium-format press so far. The 35m-long press features a new suction cylinder with an inert dryer positioned above it enabling migration-free UV production and saves numerous production steps when finishing lavish packaging.

An important technical milestone in our company history, which stretches back over 200 years, was the Drupa premiere of the RotaJET 76 digital press, built at our main plant in Würzburg. Made for industrial inkjet printing, this high-output web press targeting a fast growing future market is of great interest to print experts. The Commander CL, a further web press launched at Drupa, has found high acceptance in the newspaper industry as well. In 2012 the first press in the successful Super Orlof Intaglio series, which targets the sensitive and challenging banknote business, left the plant in Würzburg. Addressing the digital coding sector, KBA-Metronic launched new products for continuous inkjet (CIJ) with good sales prospects at the trade show FachPack. Our other subsidiaries KBA-MePrint, KBA-MetalPrint, KBA-Grafitec, KBA-Mödling and KBA-NotaSys also unveiled a raft of innovations.

Even though the rapid increase in productivity associated with technical advances is a cause for the lower demand in new presses, abandoning innovation would lead to a dead-end and endanger the company. There are enough examples of this in our industry. The print media industry is under severe pressure from electronic media and needs its supply partners to increase their competitiveness. Even though KBA is making every effort to cut costs, in 2012 we invested 4.5% of sales in research and development. Therefore it is no coincidence that on 11 May 2012 the *Wall Street Journal*'s Patent Scorecard™ for heavy industrial equipment in the USA ranked KBA 13th among the top 100, thus placing KBA significantly ahead of all the other international major press manufacturers.

Business Report

Market and Industry Environment

The public debt crisis in Europe, the political disputes concerning the fiscal cliff in the USA, the turbulence in the Arab world and the growth slump in important emerging countries such as China, India and Brazil, all weakened the global economy in 2012. This has left its mark on the order books of many export sectors. According to the VDMA (German Machinery and Plant Manufacturers' Association), in real terms the volume of new orders booked by the engineering industry was 3.1% lower than in 2011. Given higher order backlog the engineering industry reacts more slowly to business cycles and is significantly more robust than the consumer-related car industry. However, the engineering sector only saw a real increase in sales of 1.1%.

Following the unexpected flourish of investment triggered by the industry's leading trade fair Drupa, many exhibitors and most press manufacturers reported record order figures midyear. In the second half of 2012 this especially export-reliant sector of the engineering industry also felt the effects of the economic downturn. At the end of 2012 price-adjusted press sales exceeded the prior-year figure by 10.2%, order intake by only 1.5%. Compared to previous shows, the boost triggered by Drupa proved to be less sustainable. All in all investment met our reserved expectations.

The heterogeneous development in the individual markets is striking. Given the differing strong effects of Drupa within KBA's broad product portfolio there are also clear differences between the serial-orientated sheetfed presses and the long-term investment business in web and special presses.

Group business operations: order intake / sales / order backlog

in €m	2011	2012
Order intake	1,552.1	1,116.2
sheetfed offset presses	569.9	667.4
web and special presses	982.2	448.8
Sales	1,167.2	1,293.9
sheetfed offset presses	583.6	643.2
web and special presses	583.6	650.7
Order backlog	825.7	648.0
sheetfed offset presses	149.0	173.2
web and special presses	676.7	474.8

Business Performance

Drupa boosts sheetfed sales

Along with the boom triggered by Drupa, KBA's sheetfed division also profited from above-average growth in packaging printing on paper, board and metal. Outside the print industry there was also brisk demand for KBA-Metronic coding systems used in the automobile and food industries. In contrast regional economic problems, negative industry reports and uncertainty concerning future developments in printed media, dampened investment in web presses for newspapers, magazines and advertising. The book printing market, which along with offset machines is increasingly served by digital printing presses, also reacted cautiously. Following the extraordinary influx of orders in 2011, order volume fell back to normal in banknote and security printing, which are important markets for KBA.

Despite weaker demand from the summer months, a boost in sheetfed orders spurred on by Drupa and the pre-Drupa open house saw a rise in order intake of 17.1% to €667.4m, compared to €569.9m in 2011. This gain was well above the VDMA's sector figure and was shaped by the raft of new customers resulting from manroland's insolvency. Packaging printers, an important target group for KBA for a long time now, attributed to nearly 60% of the total order volume. Thanks to our cutting-edge technology in all format classes, with a market share of about 20% we strengthened our position as the world's second-largest sheetfed press manufacturer in the face of fierce competition from the Japanese. In the industrial countries the high-tech, medium-format Rapida 106 was predominantly in demand, whereas in emerging countries most customers opted for the somewhat less automated Rapida 105. In large format KBA could maintain its leading position ahead of a large German counterpart with a market share of significantly over 50%. However, business in small-format presses was not satisfactory and management implemented further measures to improve market position against tough competition.

Given the lower number of projects, not as many large orders for special presses were booked as in the above-average prior year. The growing tendency towards online media enforced economy-related reluctance to invest in newspaper and commercial web presses. At €448.8m order intake in the web and special press division came to less than half of the prior-year's unusual high of €982.2m. New investment in web presses once again succumbed to substantial regional fluctuations. In 2012 orders predominantly were placed in emerging countries, such as China, as well as in some established European markets. It is also worth mentioning that further regional newspaper houses in Germany opted in favour of innovative KBA technology to enhance their printed products. Seven of the new Commander CL have been sold so far, with presses going to Germany, China and the USA, four of which were ordered in 2012 alone. In an overall weak market environment, KBA achieved a global market share of over 40%. In 2012 the less dynamic commercial web segment orders generated 18% of the total market volume, like in 2011. Our new 16 and 48-page C series presses proved popular.

Despite notable growth in our sheetfed division, at €1,116.2m Group order intake failed to top the prior-year total of €1,552.1m by 28.1%.

Accordingly, at the end of 2012 Group order backlog fell to €648m compared to €825.7m in 2011. In the web and special press division, there were about 30% fewer orders in the books as in 2011 (€676.7m) also due to the high volume of deliveries. At €474.8m order volume was however more than that from 2008 to 2010. In contrast the volume of unfulfilled orders for sheetfed offset presses rose by 16.2% to €173.2m (2011: €149m).

Earnings, Finances and Assets

Earnings

Operating profit more than quadrupled

Group sales to 31 December rose by 10.9% to €1,293.9m (2011: €1,167.2m). The double-digit growth in sales, the healthy product mix and improved gross margins in some areas all had a positive impact on earnings. Operating profit before special items of €43.1m was more than quadruple that of 2011 (€9.9m). Due to a special depreciation on fixed assets in the sheetfed division totalling €27.1m, Group earnings before taxes came to €6.1m, above the prior-year figure of €3.3m and short of our target. This one-off effect reflects management's strategy to focus consistently on more profitable orders and products in a buyer's market.

Strong final quarter for sheetfed sales

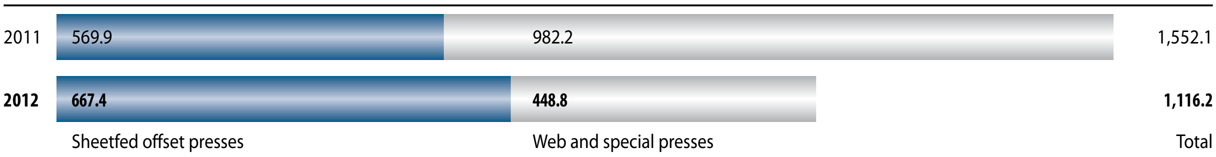
Sales in our sheetfed division of €643.2m exceeded the prior-year figure of €583.6m by 10.2%. Its contribution to the Group total of 49.7% remained at a similar level to the previous year (2011: 50%).

Along with the significant expansion in business volume with metal-decorating and coating systems at KBA-MetalPrint, the rise in sheetfed sales was largely powered by our medium-format Rapida 106 and 105. At Drupa the new Rapida 105 was our bestselling sheetfed offset press thanks to its popularity with commercial and packaging printers in growth markets, such as Asia, Mediterranean regions, Eastern Europe and Latin America. The highly automated Rapida 106, the world makeready champion, predominantly targets industrial print shops which demand a very high level of productivity. Sales of large-format presses were up on the three previous years. Transferring most of the automated features found in the high-tech medium-format Rapida 106 to the new Rapida 145 opened up a new dimension in performance. When it comes to makeready times, printing speeds and automation, the large Rapidas set global benchmarks.

In December 2012, the delivery of the 6,000th printing unit built into in a large-format Rapida to a customer in Scotland marked the end of an era of this extremely successful press generation. Following the launch of the new Rapida 145 (up to 17,000sph in 106 x 145cm format)

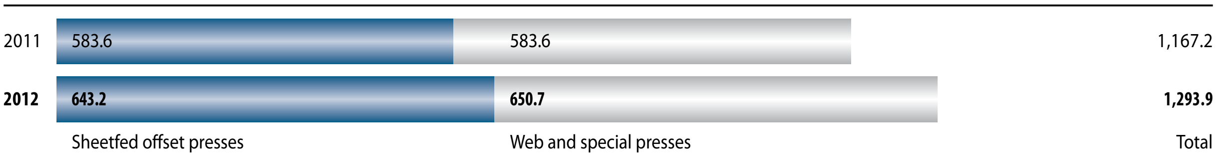
Group order intake

in €m



Group sales

in €m



Group order backlog

in €m

at Drupa, the identically-equipped, new Rapida 164 (up to 15,000sph in 120.5 x 164cm format) replaced the Rapida 162 in December. Sales of the small-format Rapida 75 produced by KBA-Grafitec failed to reach targets, given tough competition and the sinking number of printers in this format class. We hope the highly automated Rapida 76 available from early summer 2013 will boost sales, especially as it was the subject of great interest at its launch at Drupa.

11.5 % lift in sales of web and special presses

In the web and special press division it was mainly the brisk business with special presses that contributed to a 11.5% rise in sales to €650.7m (2011: €583.6m), given newspaper, illustration and magazine printers subdued willingness to invest.

Sales of web presses were dominated by shipments of our Commander CT. A whole armada of these presses went into operation at newspaper houses in Germany, Italy, Sweden and Latin America. Additionally, the first web presses from the new flexible Commander CL series were installed in Germany. Commercial and magazine printers in China, France, Holland, Russia and Saudi Arabia received commercial web presses. Shipments included several C16s, which target the trend towards sinking print runs, and the first 56-page short-grain KBA press worldwide, which went to longstanding customer Em. de Jong.

Export ratio of 88.2%

A decline in shipments of sheetfed and web presses resulted in a 16.6% fall in domestic sales to €152.1m, compared to 2011 (€182.3m). The export ratio thus climbed from 84.4% to 88.2%. At €395.9m, sales generated in the rest of Europe means that it remains a core market (2011: €414.8m). The proportion of sales attributable to this region sank below the historic average from 35.6% in 2011 to 30.6%, a result of economic weakness in key countries.

Suspended growth in Asia and the Pacific

Compared to 2011 (€319.6m), sales to Asia and the Pacific of €312.8m remained at a high level. This corresponds to 24.1% of Group sales (2011: 27.4%). Business in China, which has gained in importance over the past years, made a major contribution to the above-average volume of shipments. Along with our KBA team in China, our subsidiaries and branches in other Asian countries play a valuable role in ensuring the market success of this emerging region. In 2013 we expect an increasing number of shipments to Asia resulting from the China Print trade show and some outstanding deliveries from large projects.

Business in North America has bottomed out

Sales in North America rose by a third from €100.7m in 2011 to €134.1m, a result of a growth in sheetfed activities. Also contributing to this rise was the installation of a Commander CL in Albany, New York, and the upcoming delivery of a web press going to St. Albert in Canada. Thus the regional total was pushed up from 8.6% in 2011 to 10.4%.

Big gains in Latin America and Africa

Even though the political situation in some north African countries led to a slump in investment, revenues of €299m generated in Central and South America and Africa were well above the long-term average. In 2011 sales in this region came to €149.8m. The proportion of Group sales attributable to these emerging markets reached an above-average 23.1%.

Geographical breakdown of sales

in %	2011	**2012**
Germany	15.6	11.8
Rest of Europe	35.6	30.6
North America	8.6	10.4
Asia/Pacific	27.4	24.1
Africa/Latin America	12.8	23.1

The modular automation concept of the new KBA Commander CL meets the diverse requirements of newspaper houses. In 2012 this led to pleasing sales in today's challenging market environment

Rise in gross profit margins

In 2012 the cost of sales stood at €967.1m (2011: €895.1m), which with an increase of 8% did not rise as sharply as the 10.9% gain in revenues, due to the implementation of various cost-cutting initiatives. As far as materials are concerned, the creation of a Group-wide purchasing board and consistent material group management both contributed to lowering the costs of sales. The ongoing optimisation measures in purchasing to increase the bundling of requirements with a Group-wide focus on key suppliers supports the sustained reduction in material costs. Despite a 4.3% wage increase at the German facilities from 1 May 2012, costs of sales improved from 76.7% in 2011 to 74.7%. Thanks to the cost reductions achieved and a profitable product mix our gross profit rose to €326.8m in 2012 (2011: €272.1m). After 23.3% in 2011, our gross profit margin climbed to 25.3%.

Other expenses and income

Additional expenses involved in developing and launching new products for trade shows and other projects resulted in higher R&D costs of €58.3m (2011: €56.4m), this does not include the cost of customer-specific product development typically associated with the manufacture of web and special presses. More deliveries, special expenses associated with Drupa and large customer events in Radebeul and Lausanne drove up distribution costs from €147m to €156.7m. A wage increase and the expenses for the turn-around scheme in the sheetfed and web offset divisions were a contributory factor in propelling administrative costs from €60.4m in 2011 to €75.9m. Provisions made for trade receivables, repurchasing obligations and the ongoing restructuring measures contributed to a rise in other operating expenses to €56.1m (2011: €46.7m), while other operating income fell to €36.2m (2011: €48.3m).

Substantial improvement in operating result

Earnings before interest, taxes, depreciation and amortisation (EBITDA) soared to €79.2m (2011: €45.4m). Savings, increased sales and the growing profitable service and special press business resulted in a rise in operating results before special items of €33.2m to €43.1m. After the adjustments in value of fixed assets (impairment) in the sheetfed division, the Group disclosed an operating profit of €16m (2011: €9.9m).

Even though weak demand and low margins in newspaper and commercial web presses continue to weigh on profitability, our web and special press division posted a sizeable profit of €54.7m (2011: €28m). The positive trends in earnings resulted from higher contribution margins delivered by a 11.5% rise in the division's sales, expansion of our service activities and the higher share of

Group income statement

as % of sales	2011	**2012**
Cost of sales	–76.7	–74.7
Research and development costs	–4.8	–4.5
Distribution costs	–12.6	–12.1
Administrative expenses	–5.2	–5.9
Other income/expenses	0.1	–1.5
Financial result	–0.6	–0.8
Income taxes	–0.2	–0.3
Net profit	0.03	0.2

special presses as well as coding and security systems.

Despite initial success in reducing costs, operating profit in the sheetfed division was significantly affected by substantial expenses for trade shows, the market launch of new press generations and mainly the special depreciation on fixed assets. Our operating loss after special items widened from €18.1m in 2011 to €38.7m in 2012. Without this one-off effect, results in this segment improved to –€11.6m.

Following extensive staff and rationalisation measures, management have extended their ongoing turn-around scheme with the goal of sustainably improving the profitability of the sheetfed and web offset press business. A comprehensive range of measures to improve efficiency and cut costs should achieve savings in the double-digit million euro range by the end of 2014. Along with the introduction of a product-house organisation and conclusion of amendments to wage agreements, in 2012 we implemented further initiatives to cut general and administrative expenses in core areas, in Group-wide purchasing and at the Group's manufacturing facilities. Under the banner "manufacturing footprint" certain manufacturing activities will be concentrated at certain plants as part of a Group division of work. The goal is to improve utilisation of the respective manufacturing cells by increasing the number of similar parts and to significantly reduce the need for investment on the whole. Along with this, in 2012 we pressed ahead with the realignment of production capacity in place since 2009, as the intended closure of our Trennfeld plant demonstrates.

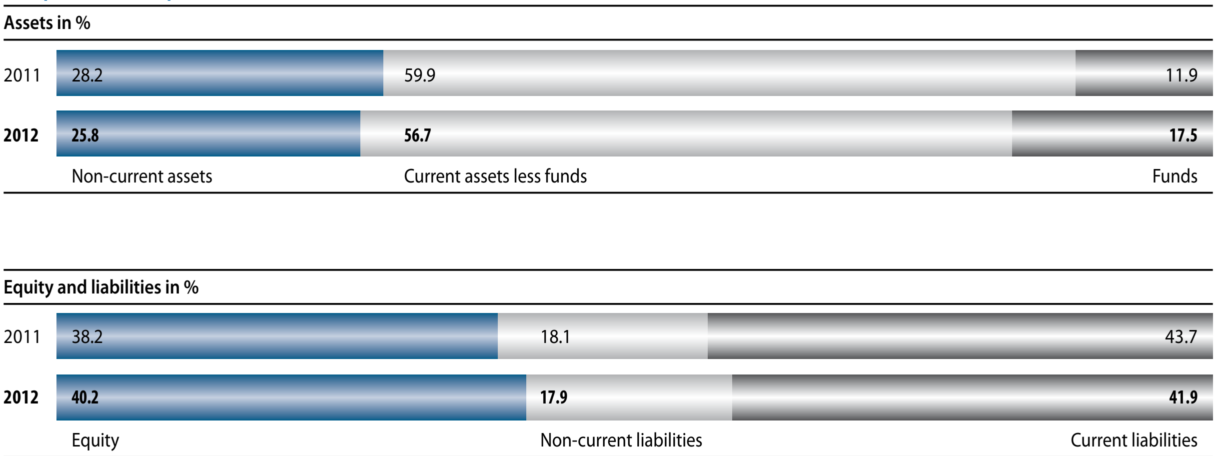
Pre-tax profit of €6.1m

Interest income fell to €3.7m (2011: €5.5m) following a decline in customer prepayments and interest rates. Interest expense incurred €11.9m (2011: €12.1m). With a continued moderate financial loss of €9.9m, pre-tax profit (EBT) rose to €6.1m, compared to the prior-year figure of €3.3m.

Dividend of €0.40 per share

We posted a net Group profit after tax of €2.3m (2011: €0.4m) and earnings per share of 14 cents (2011: 2 cents). In view of this significant improvement in operating results at Group level and the Parent's retained earnings, the management and supervisory boards will table a motion at the AGM to pay a dividend of 40 cents per share.

Group assets and capital structure



Finances

Focus on internal financing

At KBA a high equity ratio and good cash flow securing internal financing are key goals in maintaining our financial flexibility and entrepreneurial independence. Along with the external financing of new orders where possible, we push to reduce working capital and actively manage trade receivables. In 2012 this once again led to a strong operating cash flow, from which all investments were financed. In addition this allowed us to scale back our bank loans still further. Liquid assets increased substantially. Access to credit lines totalling €100m was extended by our domestic banks by three years with the usual covenants securing our liquidity in the volatile capital-goods business. In addition, a further ongoing credit facility of 100m Swiss Francs from a large bank in Switzerland until the end of 2015 has been agreed. A further objective of our financial management activities is the limitation of risks associated with currency transactions, for which purpose the Group treasury unit deploys a number of instruments (see pages 46-48).

Strong cash flow

Due to the execution of large projects and the decline in orders of newspaper and commercial presses, customer prepayments fell from €198.9m to €164.3m. Nevertheless, cash flow from operating activities remained high at €83.3m (2011: €83.9m), a primary result of lower trade receivables. After deducting funds for investing activities, the free cash flow rose to €61.2m, up on the prior-year figure of €57.8m. Cash outflows from financing activities, which consisted of the repayment of loans, stood at €4.3m (2011: €11.9m).

Comfortable net liquidity level

Liquid assets soared to €206.3m (2011: €145.6m) due to positive cash flow. After deducting €31.6m for bank loans (see pages 87-88 in the Notes for more details), at €174.7m our net financial position was stronger than the previous year (2011: €109.7m). From the credit lines available, guarantee credit lines were only drawn to secure customer prepayments. None of the credit lines were drawn upon for cash purposes.

Above-average equity ratio of 40.2%

Share capital of €42.9m remained unchanged. Together with share premium of €87.3m and reserves of €342.9m, equity stood at €473.1m (2011: €466.6m) at the end of the year. The ratio of equity to the smaller balance sheet total climbed to 40.2% (2011: 38.2%) and thus well above the industry average.

Lower liabilities

A drop in other liabilities (–€38.9m), due to lower customer prepayments, and reduced bank liabilities (–€4.3m) contributed significantly to a €51.5m reduction in current and non-current liabilities from €756.2m in 2011 to €704.7m. Pension provisions lifted slightly from €106.6m to €108m, as did other provisions from €203.3m to €208.8m. Our debt-to-equity ratio improved from 162.1% to 149%.

The small-format waterless Genius 52UV offset press from KBA-MePrint prints smart cards, foils, stickers and many other advertising products on comparatively expensive substrates. This press services a premium quality niche market

The new generation of large-format Rapidas launched in 2012 underscores KBA's position as technology and market leader in this format class

Assets

Solid substance

Investment in intangible assets, property, plant and equipment totalled €22.6m (2011: €35.7m). Following the completion of refurbishment work on the foundry, soon the manufacturing of prismatic parts at the plant in Würzburg will be supported by two interlinking machining centres. At the plant in Radebeul, near Dresden, we invested in high performance drilling, turning and milling centres as well as in synchronised assembly lines. Alongside increasing productivity and efficiency with the latest production technology and more rational assembly processes, investments were aimed at installing a Group-wide manufacturing concept for core components. The expansion of location-specific know-how and higher capacity utilisation of capital-intensive machining centres in multi-shift operation will have positive impact on quality and efficiency. Investment represented 1.7% of sales (2011: 3.1%). With depreciation at €64.9m the investment rate came to 34.8% (2011: 100.6%). Adjustments in value reduced property, plant and equipment to €219.9m (31.12.2011: €248.6m). The solid financing structure is reflected in the equity-to-fixed assets ratio. Equity corresponds to 215.1% of property, plant and equipment. At the end of the year non-current assets were worth €303.5m, compared to €344.9m twelve months earlier.

Along with a rise of €60.7m in liquid assets, there was a slight reduction in current assets to €874.3m (2011: €877.9m) mainly attributable to a drop in receivables and other assets. Thanks to active cash management, trade receivables sunk from €310.4m to €255.1m. Inventories stood at €331.4m (2011: €328.1m) and working capital at €380.5m, compared to €342.9m in 2011. New projects in place should contribute to optimising net working capital.

By 31 December the Group balance sheet total sunk to €1,177.8m (2011: €1,222.8m).

Summary of the Economic Situation

In 2012 we increased our Group sales by 10.9% to €1,293.9m, compared to 2011. Order intake of €1,116.2m failed to reach last year's record high by 28.1%. While business with sheetfed presses rose by 17.1% triggered by trade shows, the number of new orders for web and special presses fell by more than half due to a reduction in large orders. At €648m our order backlog at the end of 2012 was still above the years 2008 to 2010.

Despite inadequate margins for web and sheetfed offset presses, the achieved cost savings and higher contribution margins resulted in an operating profit before special items of €43.1m, more than quadruple that of 2011. The special depreciation of fixed assets in the sheetfed division totalling €27.1m had a negative impact. We are focusing strongly on sustainably improving our profitability and on strengthening our good position in the face of global competition with increased bundling of production at our main plants, optimising processes, value-analysis measures to reduce manufacturing costs of our innovative products and the expansion of our activities in growth-orientated markets. The amendments to wage agreements in place from the beginning of 2013 to the end of 2014 to make working hours more flexible and the Group-wide bundling of purchasing activities should contribute to a significant improvement in the profitability of our core business in web and sheetfed offset presses. In the mid-term, we expect further positive effects from the expansion of our product range targeting the growing markets for digital printing and flexible packaging.

Strong cash flow allowed us to fund investments from our own resources and led to a jump in funds. A comfortable level of net liquidity and access to adequate credit lines provide a solid financial backing, which makes it easier for management to conduct business in a volatile environment. In addition, the Group maintains a healthy balance sheet, with a high equity ratio, a capital-to-assets ratio and above-average gearing. Financial and balance sheet ratios as well as other figures positively differentiate KBA from other vendors in the industry.

KBA-MetalPrint in Stuttgart has a strong footing globally in the metal-decorating market with the production of entire printing, coating and drying lines. The photo left shows one of several MetalStar presses in action at our user China Food Packaging

Sustainability Report

Commitment to environment and society

Proactive efforts to protect the climate and environment form an essential part of our sustainability strategy, which embraces the entire value-added chain from product design through to materials procurement to production. The quality, performance and reliability of our presses are just as important as their energy-efficiency and ease of operation. This is also true for our resource-saving products and processes. We fulfil our social responsibilities by supporting a range of social and cultural activities.

Climate protection starts in production

A raft of measures implemented in 2012 brought further reductions in our energy consumption, the volume of waste and emissions generated during production. The total refurbishment of the foundry completed in 2012 at our main plant in Würzburg contributed significantly to these reductions. Along with improving sound installation, KBA also invested in heat recovery systems to use heat emissions for heating and hot water.

Setting trends in eco-printing

The current debate on global warming has moved environmental issues to centre stage within the printing industry, where KBA is considered by many to be an innovative forerunner. When developing and improving new products we focused on cutting the consumption of energy and consumables as well as reducing noise, dust and carbon emissions during printing. For example, the four-quadrant drive technology found in Rapidas feeds the braking energy back into the electricity grid. Our drying systems are exceptionally energy efficient when finishing with coating. The KBA VariDry^BLUE dryer with heat recovery saves up to 50% of the energy needed compared to traditional systems. In 2012 KBA Radebeul developed a new energy-saving HR UV dryer, which is now ready to be marketed. KBA-MetalPrint as a systems supplier offers its customers the option to convert hot exhaust air produced during metal-decorating into useable energy using an integrated exhaust air purification system and a two-stage heat recovery. Power consumption is thus reduced and the carbon balance is significantly improved.

For many years now all of our Rapida sheetfed presses have been awarded with “emissions tested” eco-certificates issued by the BGDP, the industrial safety council for the printing and paper processing industry. KBA has also been the global leader in environmentally-friendly waterless offset technology for a long time. We also sponsor industry prizes, such as “eco printing plant of the year” to reward printers for their greener mindset.

Assuming social responsibility

KBA has a 150-year tradition of promoting social and cultural activities. Even today, despite our ongoing cost-cutting measures, we support social and cultural projects and initiatives at the various Group facilities within our own financial capabilities. Our longstanding sponsorship of the annual Bach festival in Würzburg is just one example. Together with other print and media enterprises in and around Würzburg, Koenig & Bauer also organised the seventh annual benefit concert in aid of regional scientific, cultural and social projects and charities. The proceeds from the most recent event, in November 2012, went to the “Spieli” children’s centre as well as to the Rita nuns for the renovation of a children’s day care centre. With 428 apprentices, KBA trains more than are actually needed in-house and offers its facilities to other interested regional companies. Promoting the career advancement of young people has always been a priority at KBA and it is a future investment of major social importance.

Human Resources and Welfare

Better qualifications are helpful in global competition

Despite the necessary adjustments to staff numbers resulting from fundamental shifts in the market environment, our highly qualified and dedicated staff remain our most important assets in the face of tough global competition with technologically demanding products. Especially compared to our foreign competitors, we train our young staff significantly more intensively and the further training of our specialists and executives continued to be a top priority at KBA despite these challenging times.

Advanced staff adjustments

At the end of December 2012 there were 6,187 employees on Group payroll. Following personnel adjustments at our web press plants this was 221 fewer than twelve months earlier. Excluding the newly consolidated Swiss subsidiary Print Assist in 2012, the reduction in staff would have totalled 237. The total will fall below 6,000 in the near future with approved phased retirement schemes and other measures coming into effect as well as the completion of downsizing measures, which began in 2009. In addition, employee representatives at the main plants in Würzburg and Radebeul agreed on even more flexible working times to offset capacity fluctuations. The wage agreements, which are valid until the end of 2014, will contribute to improving the earnings in our sheetfed and web offset press business.

High investment in young talent

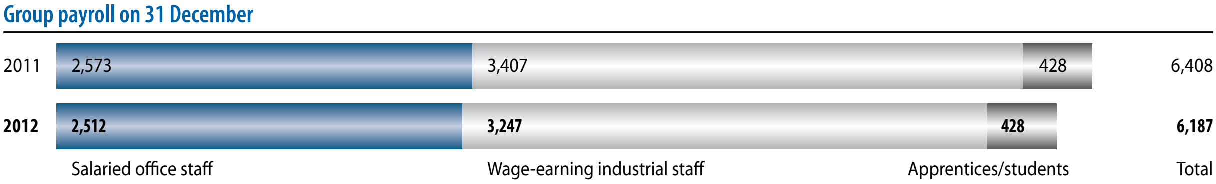
Despite the necessary job cuts in the past years much to the regret of all involved, the KBA Group continues to invest heavily in the training of many young people. As in the previous year the number of apprentices and student trainees in the Group was 428. The training rate rose from 6.7% of the workforce to 6.9%. Our training facilities and our state-certified training school in Würzburg do an outstanding job at qualifying our technical apprentices. For the thirteenth time in a row the Dresden chapter of the Chamber of Industry and Commerce (IHK) awarded our Radebeul plant with a certificate of excellence.

70 youngsters started an established and hands-on practical apprenticeship in future-orientated professions at the Parent in autumn 2012. The most popular was electromechanics, followed by metalworking and industrial mechanics as well as electronics technician. In cooperation with a printing house based in Würzburg, an industrial mechanic is also qualifying in media technology. Along with commercial clerks and computer scientists, dual university degrees in engineering and electrical engineering also belong to the range of qualifications offered at KBA. The high standards of technical training we maintain also benefit other companies in the region, who send their staff to train at KBA.

Five top IHK and a regional best

65 apprentices from the Parent passed the qualifying examinations set by the Chamber of Industry and Commerce. Five of these were regional best in their

Group payroll on 31 December



chosen field and others came second or third. An apprentice industrial mechanic at our Radebeul plant carried off the title of best junior skilled worker in Saxony thanks to outstanding examination results.

KBA actively seeks contact to young people through diverse activities such as education fairs, information campaigns at schools, open days at our training centres and participation in longstanding country-wide and regional campaigns, such as a Girl's Day and a technology camp for girls. Some 230 pupils and students gained experience in plant engineering and construction via practical training courses and placements at the Parent's plants. Our global activities make us an attractive employer for young people, and in 2012 we filled our training vacancies with first-class applicants. We supervised undergraduates and masters theses and awarded undergraduate and postgraduate grants as a means of nurturing the engineering professions essential to our long-term survival.

Training and further education

Along with an apprenticeship, the professional and personal development of our employees is a focus of KBA's personnel work. The broad programme includes IT and product training, foreign language courses as well as various specialist seminars and additional training for first-aiders and in-house paramedics.

Continuous improvement process

The in-house suggestion scheme attracted employees with various incentives. In 2012, 283 of the 527 suggestions submitted at the Parent were awarded a prize and delivered considerable cost savings.

Programme to promote health in the workplace

At the end of 2012 the independent KBA health-insurance scheme (BKK) insured 9,634 members and 3,102 family members. A number of well-visited activities and campaigns promoted topics, such as "Good fats – bad fats" and "Fit at work – keeping hydrated in the workplace". The services offered also ranged from flu vaccinations to cardiovascular screening. Additionally, KBA also supported corporate sport days and employee participation in company runs.

Family-friendly staff policy

To help parents combine family and career we offer part-time contracts, job sharing, child care during the summer holidays, and by working closely with local child-care centres. The cooperation with a project which offers help and support concerning childcare, bridges any last-minute gaps. On a school-free day in November we held our fifth activity day organised by the human resources department in Würzburg, which attracted 140 children and adolescents from six to 14 years old.

Many longstanding employees

116 employees at Koenig & Bauer were honoured for their long service to the company: one for 50 years, 54 for 40 years and 61 reflected on 25 years of service at KBA. We wish to thank them all for their loyalty and dedication.

KBA-Metronic is at home in the growth market for industrial coding and marking. In 2012 our subsidiary unveiled new inkjet systems, such as the alphaJET mondo and the betaJET verso

Supplementary Statement

In an extraordinary session on 28 February 2013 the KBA supervisory board approved the acquisition of the press manufacturer Flexotecnica, an Italian company specialising in presses for the growing flexible packaging market. The final takeover by KBA is still subject to conditions which have to be met in the next few months, e.g. review by antitrust authorities.

Risks and Opportunities

Containing risks, using opportunities

Our Group-wide early warning 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 economic uncertainties and the ongoing sovereign debt crisis, we perceive no risks that could pose an existential threat to the KBA Group. Our solid capital base, good liquidity, the Group's positive earnings and our strong position in some less volatile niche sectors all serve to limit potential risks. Our systematic risk management helps to take advantage of opportunities to sustainably secure the company and its future growth.

Extensive risk management system

At KBA 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. A risk is a negative deviation from an established business plan. Risks are detected via regular, independent checks based on comparisons of targeted and actual performance. These standard procedures promote a systematic, homogenous analysis and assessment of risks. Management is responsible for taking the appropriate action.

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 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 reports. These are forwarded to the management board after being collated, quantified and classified. Group-wide business planning procedures, regular reports to the management board and an internal reporting system complete our systematic approach.

Clearly defined communication channels expedite the early detection of incipient risks. Half-yearly reports make critical market and corporate developments transparent, improve the accuracy of our planning procedures and heighten our overall risk awareness. Potential risks to Group earnings, finances and assets are detected well in advance and thus institutes prompt countermeasures.

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

For decades now our Swiss subsidiary, KBA-NotaSys, has made us the technological and market leader with systems for producing banknotes and securities. This sensitive market requires special know-how

Reporting of financial risks

Financial risks 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 foreign exchange contracts. Our operating units are expressively 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 euro exchange rate fluctuations of ±5%. 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. No commodity derivatives were held on the balance sheet date. In 2013 we do not expect a significant increase in prices in terms of materials and procurement.

Given the higher capital requirements for banks and the current situation in capital markets, it has become 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. Loan insurance combined with the monitoring of customer accounts down to individual project level, enables us to obviate bad-debt risks as far as possible. Customer creditworthiness is reviewed and collateral called in prior to shipment, and after shipment ownership is transferred only when full payment has been made. On top of this, credit checks are routinely carried out on new customers. Adequate adjustment or provision is made for potential bad debts. We expect the number of printing companies in industrial countries to sink further and the size of the remaining printing companies to grow due to structural changes in the print industry. 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 competent personnel.

Credit lines of €100m needed to balance current and projected fluctuations in cash flows in the cyclical plant engineering industry have been extended by three years by our domestic banks. Additionally, we have a further credit line of 100m Swiss Francs from a large Swiss bank until 2015. This allows us to accommodate imponderable fluctuations in our cash flow.

Market environment holds risks and opportunities

Along with economic developments, shifts in the media market and increasingly productive presses influence our customers' demand for new machinery. Established printed products for information, reading and advertising compete more and more with electronic media. This is particularly true for newspapers, magazines, catalogues and books, which are predominantly printed on web presses. Correspondingly, the annual market volume for new web presses has shrunk by about 70% over the past five years and in 2012, influenced by discussions about the future of the euro, it failed to meet our expectations at a little over €400m, below the prior-year figure of €500m. KBA recognised this development early. Accordingly, we have reduced capacity at our web facilities to a large extent over the last three years, expanded the range of products manufactured at our main plant in Würzburg with banknote and digital presses and intensified production for other business divisions. In addition, we have spun off the Frankenthal plant, which in

At Drupa KBA also presented a new high-tech B2 press, the Rapida 76, which contains many automation options from the world makeready champion, the Rapida 106 and it will be ready for delivery from mid-2013 the past also predominantly manufactured web presses, in the form of two different entities to open up opportunities for external companies. In 2012 further measures were agreed on the profit-oriented adjustment of this product division to market developments, such as the closure of the Trennfeld plant by the end of 2013.

In contrast consumer printed products, such as direct advertising and packaging which are not media-orientated, continue to offer good prospects. For success at the point-of-sale, packaging is becoming increasingly more elaborate and goods are more protected against increasing brand piracy. Our sheetfed division in particular profited from these developments. In 2012 Drupa also boosted demand. The global market volume for sheetfed offset presses increased slightly according to our calculations from €3.2bn to €3.4bn.

A stronger focus on markets less dependent on media, such as security, coding and packaging, which started even before the outbreak of the financial crisis, reduced the sales of web presses to just over 15% of Group sales. In offset packaging printing on paper, board, metal and film, KBA, with its cutting-edge medium- and large-format sheetfed presses, is well-positioned for the growth expected. Currently more than 25% of Group sales are attributable to presses for this promising market.

Even in the print industry new and successful business lines, such as Web2Print, have sprung up resulting from the internet. The print products, which are acquired via the worldwide web, are often produced in gang formes on large-format sheetfed offset presses as this is more economical. Our position as world market leader in large format means we profit from this trend. With a new generation of presses we can secure our technological lead in large formats and see good opportunities in this market.

Thanks to our years of know-how, KBA is the leading supplier in special markets, such as banknote and metal-decorating. In addition, there are still opportunities for expansion in coding technology principally for industrial applications outside of the printing industry. Over 30% of Group sales generated by presses and systems for these profitable niche markets differentiate KBA from its competitors in volume markets, reduce its susceptibility to economic influences and stabilise earnings.

Controlled entry into new markets

As mentioned elsewhere, in 2012 we continued with our strategy of controlled growth with risk diversification signalled by the entry into the promising market of digital print and flexible packaging. The RotaJET 76 digital press, developed together with an American printing group, is now ready for the market. Additionally, KBA-MePrint unveiled the variable-format Varius 80 web offset press for the flexible packaging market, which is yet to be processed. In the mid-term we expect a significant increase in sales and results from expanding our product range into growth markets. Parallel to consolidation in the shrinking segment for web presses, the establishment of supplementary and new business fields has a high priority. Alongside internal developments, acquisitions still remain an option. We are thus focusing primarily on print-related segments. The takeover of the Italian press manufacturer, Flexotecnica, announced at the end of February, signals our expansion into the growing flexible packaging market and the extension of our product portfolio to include flexo presses.

Opportunities from further corporate internationalisation

We are counteracting the sales risks in the core business resulting from economic or regional fluctuations in demand with an expansion of our sales and service network in countries, where we were not satisfactorily represented. The foundation in 2012 of own sales subsidiaries in South Korea, Japan and Mexico has already proved successful and compensated partly for the weaker demand in Southern Europe and other regions. Our after-sales service opens up further potential for increased sales and earnings. New offers could lead to an expansion of our profitable service business. For this reason PrintHouseService was founded in January 2012 for the web press division. It provides in particular services for presses from other manufacturers and offers on-site technical support at web printing plants.

Limiting risks in new orders and innovations

The movement of the euro against the US dollar and Japanese yen has a big impact on the competitiveness and sales prospects of German press manufacturers in key export markets like North America, China and the Middle East. The recent expansionary monetary policy of the Japanese central bank in weakening the Japanese yen has resulted in German products in key export markets becoming more expensive due to the euro, benefitting Japanese competitors. We have prepared ourselves for the euro to climb in value, however this trend is not yet stable.

Due to overcapacity on the supply side, which still remains an issue, pricing pressure for sheetfed and web offset presses is continuing. With clear sales targets and permanent controls on the pricing of new presses and the return of used machinery, as well as reasonable price premiums on technical advantages, we limit the risks associated with the current buyer's market. At an early stage our clear guidelines for customer financing reduce the risks associated with financing activities, e.g. repurchasing obligations. Sufficient provisions have been made for obligations arising from unprofitable orders. We have implemented a variety of cost-saving measures simultaneously to counteract the danger of insufficient returns on the costs side.

To face global competition, KBA unveils innovations that are aimed at securing unique features and reasonable market share. In order to meet changing market trends and customer requirements, we analyse the market, technology and competition before developing future- and environment-orientated products. In 2012, the year of Drupa, we unveiled a raft of new press generations in several fields, whose market launches were not without risks considering the increasing complexity of today's presses. However, these risks are kept to a reasonable level by our comprehensive project and quality management, as well as ongoing beta testing. With ever shorter innovation cycles, the reduction of production costs and maintaining quality remain an ongoing task. Analytical value measures and the systematic documentation of the findings of our project management will help in achieving objectives.

Realignment in human resources

Dedicated and competent executives and employees are a key success factor. Nevertheless, a reduction in personnel was unavoidable given the significantly smaller market volume of sheetfed and web presses. Apart from ongoing phased retirement schemes and other smaller adjustments, realignment in the field of human resources is largely complete. A reduction in working times was introduced as a measure to counteract the temporary poor level of utilisation at our web press facilities in 2012. More flexible working times were introduced to alleviate fluctuations in capacity utilisation and amendments to wage agreements for 2013 and 2014 were agreed at our main plants in Würzburg and Radebeul to reduce costs. These amendments are, along with many other measures, an important contribution to increasing the earnings of the company's traditional sheetfed and web printing press business.

Provision for other risks

At present we discern no significant IT-related, environmental or legal hazards. Individual imponderables are covered by insurance with standard indemnity limits. The Group is not engaged in any litigation that would materially impair its financial position. Adequate provisions have been set aside as a hedge against other risks.

Orderly accounting through internal monitoring

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

The Parent and its subsidiaries all have their own 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. Group accounts are compiled with the aid of consolidation software, and are meticulously checked against subsidiaries' accounts on a quarterly basis. Group-wide planning, forecasting and early warning procedures, together with reporting guidelines for risk management, accounting and evaluation principles all promote transparency. Reporting guidelines are regularly updated. In 2012 the guidelines for provisions, revenue recognition and second-hand presses were 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 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). 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.

Outlook

Profitability takes priority over volume

Despite the economic slowdown in key foreign markets, in 2012 production in the German engineering industry rose once again by 1.3% in real terms. A growth of about 2% is forecasted for 2013 given the healthy order volume in some branches. As long as this rather optimistic picture does not become obsolete by new turmoil on the global economy, production in 2013 should approach the peak of 2008.

Compared to other branches in the engineering industry, printing presses have profited less from the upswing continuing since 2010. The fundamental shifts in the use of media for information, entertainment and advertising, triggered by the internet, have left a permanent mark on the printing scene and its machine market. At best these shifts are temporarily reduced or strengthened by economic influences, but not defeated. Growth can only be perceived in the areas not dependent on media, such as packaging printing, or in emerging countries which compared to established industrial countries still have a lower level of print consumption. China and India are often mentioned as examples of this.

Moderate growth outlook in 2013

The reduction in euro scepticism, achieved by decisions made by the European central bank and politics, and the changes in the central government in the key Chinese market have both contributed to stabilising the international economic and investment climate. After 2013 began most economic surveys showed a significant improvement in mood. However, the threatening budget cuts associated with the fiscal cliff in the USA and the results of the elections in Italy have led to further uncertainty. On the whole the growth forecasts for the German export industry in 2013 are dampened as a result of the unstable economic and political situation in

Newspaper printing means time pressure: the highly automated compact Cortina and Commander CT web presses (photo) ensure rapid edition changes. New plates can be inserted into the automatic plate changers while the press is still running many places. The upward tendency of the euro against the Japanese yen represents an additional obstacle. The World Bank and the International Monetary Fund (IMF) predict a growth in the global economy of 2.4% and 3.5% respectively. However, the difference between both projections demonstrates the uncertainty of economic experts. Even a slightly negative growth is not ruled out in the euro zone, whereas the overseas boom regions can expect a disproportionate increase once again.

Currently on the international market there is little evidence of a substantial growth in volume for the printing press sector and our company in 2013. Following an interim high around the time of the Drupa trade show, demand has returned to normal, subject to significant sectorial and regional differences. Above-average growth in sales announced by some individual manufacturers are hardly the result of an expanding market, but of an expansion of the service business, a gain in market share, statistical effects, the processing of orders placed in previous periods or – like at KBA – a footing in growing market segments.

China remains an important source of hope

China will remain a crucial large market in 2013. In May the China Print show, which with over 1,000 exhibitors and more than 180,000 visitors expected has in the meantime become the world's second-largest show after Drupa, will take place in Beijing. KBA expects a boost predominantly to sheetfed offset sales triggered by this trade show. Considering that the Chinese economy seems to be overcoming its dip in growth, there is a good chance that order intake will be as high as it was at the last big shows in this country. After all in the sheetfed sector, China has been our largest sales market for years now ahead of Germany and the USA. The well-known brands of high quality consumer goods, such as smartphones which are manufactured on a large-scale and exported all over the world from China, demand high quality and finishing of packaging. In addition, given the rapid increase in wages in the country's centres of commerce, productivity and manning have gained in importance. Today Chinese presses often do not fulfil the growing demands of customers, therefore the percentage of imported presses is increasing.

We also see opportunities for KBA's growth in other parts of Asia, in Turkey, Russia, Latin America and Africa. The foundation of sales subsidiaries in South Korea, Japan and Mexico in 2012 have already borne fruit. The football world cup in 2014 and the Olympic games in 2016 will breathe new life into the previously quieter Brazilian market. We are currently in the process of establishing our own sales and service location there, too. The bankruptcy of a former large German competitor resulted in KBA winning many new sheetfed customers and market shares in new countries. Internationally, metal-decorating and coding printing still offer potential. Traditional KBA markets, such as Italy and Spain, have fallen in the ranking of key sales markets due to their economic problems, but should gain in momentum and make the necessary replacement investments in the mid-term. Whereas in 2011 the sheetfed division still accumulated 75% of sales in the ten largest single markets, in 2012 it came to only 65% despite increased sales. This demonstrates that the further globalising our business activities promoted by the management makes sense.

Well positioned for further industry consolidation

KBA is technologically strong and financially healthy. With its uniquely broad product portfolio our company is less susceptible to fluctuations in demand in the volume markets than competitors who target only one or two segments. In an industry undergoing consolidation, the KBA Group moved up in the ranking of the world's largest press manufacturers from the third to second place and reduced the gap to the number one. However, the fact the Group as a whole has consistently posted positive results since 2009 and has coped with the adjustment process necessary without a considerable financial loss is more important than its ranking in highly-competitive markets. This provides management with the resources necessary to take action.

Adjusting capabilities to a smaller market over the last five years was bound with the reduction in employees by over 2,000 and corresponding high financial expenses. In 2012 the number of staff on Group payroll continued to fall and is now close to 5,500, not including our apprentices and staff involved in phased retirement schemes. After implementing all the measures approved, adjustments to staff numbers and the associated impact are now essentially complete. Management can now focus more strongly on a detailed optimisation of the company, increasing profitability and expanding the product range to target growth markets.

Outlook: similar sales to 2012 with moderately better results

The KBA Group achieved its target announced in spring 2012 of a single-digit growth in Group sales to over €1.2bn with a 10.9% rise in sales to €1,293.9m to a great extent. At €43.1m the operating result before special items was more than four times higher than the prior-year figure of €9.9m. Although pre-tax profit rose to €6.1m (2011: €3.3m), due to a special depreciation on fixed assets in our sheetfed division it failed to meet targets. On the other hand, this special depreciation based on our expectations did not result in cash flows and reduces the future danger of negative special items on earnings.

With similar sales to 2012, we envisage a further slight increase in results for 2013 on the basis of the current order, project and market situation. The missing contribution margins resulting from a further modest decline in sales expected for traditional web presses as well as a slight decline in sales for banknote and security presses have to be counteracted with cost-cutting measures in the web division. In the sheetfed division, the changed strategy of not concentrating purely on sales volume is accompanied by austerity measures especially with regard to manufacturing costs. The focus of the KBA Group on improving internal processes and the further diversification of our product range will cause additional expenses. Management knowingly invests in this plan of action for the future of the company.

The overall economic situation, shifts in the media market, the investment behaviour in the web press segment as well as changes within the printing press sector will all decide how close we will come to meeting our goals. Given the many volatile parameters surrounding us, it is difficult to predict exactly how the market will develop. The management board will therefore clarify its views further in the interim reports to come.

Given the continued moderate increase in sales, management have set an improvement in pre-tax earnings at Group level as a target for 2014. Despite our stronger focus on activities in less media-dependent print markets, over the next years the further development of print media will remain an important pillar of our business. The search for viable business lines is ongoing considering that the pieces of the information and advertising pies haven't been finally redistributed yet between print and online media. Here, according to experts the possibility of a print media comeback given its higher level of credibility and sustainable advertising impact is not ruled out.

Other Reports

The Rapida 106 in operation at Amcor Tobacco Packaging in Rickenbach, Switzerland, with 19 printing and finishing units sets a new record in medium-format sheetfed packaging printing worldwide

KBA Shares

Industry mood hinders share performance

In 2012 the price of Koenig & Bauer shares notably outperformed the SDAX and other shares in the sector. KBA shares also performed well against the DAX, but did not take part in the end-of-year rally. Negative reports from the print sector strengthened investors cautious attitude towards the relevant supplier industry. KBA's financial figures, which are significantly better than others, and the Group's broad product range were not adequately reflected by its share price. On the basis of the Group's book value, its outstanding technological and market position as well as the advanced realignment, KBA shares are undervalued.

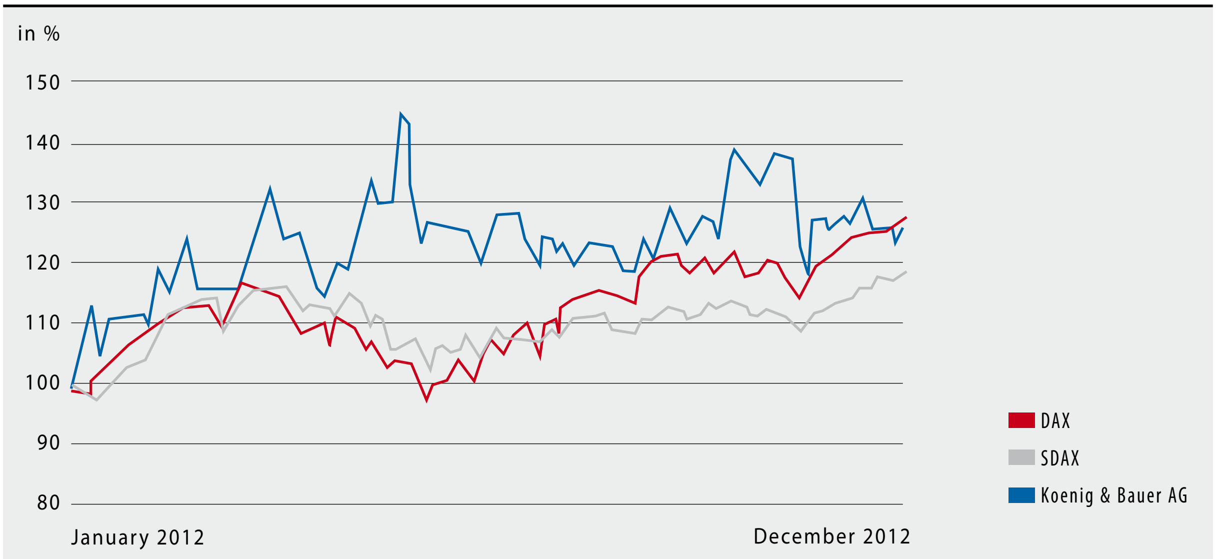
28% jump in share price places KBA amongst top performers

The opening price of €10.33 at the beginning of the year was also the annual low of 2012. In subsequent months KBA shares followed an upward trajectory driven by predominantly positive Group figures and good news from Drupa. A nervous stockmarket resulting from the sovereign debt crisis and temporary economic anxiety caused share performance to be volatile. Following a temporary high of €13.76 on 28 March, our share price hit its high for the year of €14.99 on 25 May. Negative reports from the industry finally led to a slide. In the summer months prices fluctuated between €12.28 and €13.41. Spurred on by the participation in the German Investment Conference in Munich and talks with investors at road shows KBA shares jumped again to €14.40 in mid-October.

The nine-month figures published on 14 November failed to meet all of the expectations and resulted in a drop in share price to €12.21. Nevertheless, the year-end figure of €12.76 is still a 28% increase on the prior-year. With a plus of 29.1%, the leading German DAX index was only a fraction better. Of the 50 companies listed in the SDAX, which increased by an average of 18.7%, KBA ranked thirteenth.

At the beginning of 2013 our share price was boosted and rose to over €16 in February.

Performance of KBA shares in 2012



Proposed dividend of 40 cents per share

In view of the much improved Group operating profit before special items compared to 2011 and sufficient retained earnings at the Parent, the management and supervisory boards will table a motion at the AGM on 13 June proposing a dividend payment of 40 cents per share. This represents a yield of 3.1% on the year-end share price.

Intensified investor communication

Our AGM and annual investor and analyst conference have been important pillars of our communication with the capital market for many years now. Some 500 shareholders, representing 73.9% of KBA equity, attended our 87th AGM at the Vogel Convention Center (VCC) in Würzburg. Last year our analyst conference which ended with a tour of the KBA stand at Drupa, was held on 15 May close to the end of the industry's leading international trade fair in Düsseldorf. Moreover, we have intensified talks with our shareholders, institutional and private investors, financial analysts and the media. Along with individual meetings, interviews and telephone conferences, KBA has increased its participation in investment conferences, such as the German Equity Forum in Frankfurt, and went on several road shows in Germany and abroad. Economic and industry issues as well as the company's performance were the main topics. Our website is also an important instrument for our financial communication. Financial reports, dates, interim reports, presentations and press releases about important developments in the KBA Group are all accessible. The CEO's speech at the AGM was broadcasted live on our website.

Analysts appraisals largely positive

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 is monitored by several financial institutions, which publish regular studies on KBA and the printing-press industry. Following a strong upturn in share price which continued into October 2012, some analysts changed their recommendation for Koenig & Bauer shares to holding. At the end of the year most recommended holding or buying our shares.

Key data on ordinary KBA shares

	2011	**2012**
Earnings per share	€ 0.02	€ 0.14
Price-earnings ratio	–	91.1
Highest price	€ 19.30	€ 14.99
Lowest price	€ 9.50	€ 10.33
Closing price	€ 9.97	€ 12.76
Market capitalisation in €m	164.4	210.4
Cash flow per share	€ 5.09	€ 5.05
Dividend	–	€ 0.40

Corporate Governance

Compliance with the principals in the Code

Koenig & Bauer as a global player in printing-press manufacturing with an international customer, supplier and shareholder base, places great importance on a confidence-building corporate culture. KBA management is guided by the standards of transparency and responsibility defined in Germany's Corporate Governance Code. We believe that these values form the basis for sustainable corporate development. With just a few justifiable exceptions we comply with the recommendations and proposals contained in the Code. The principals of the Corporate Governance Code are permanently amended by the Government Commission, such as revised in May 2012 and are incorporated without delay in our internal rules of procedure and guiding principles.

Board composition

Alongside a balance of qualifications, the supervisory board and its nomination committee have long sought to maintain the diversity when proposing new candidates from shareholder representatives at the AGM. Selection criteria focus increasingly on independent entrepreneurs and executives with a broad international horizon, 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 in the board, in the long-term corporate interest the qualifications of candidates continue to govern the selection and proposal of candidates. Selection criteria of the supervisory board for the management board composition focuses also on diversity.

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

Every year the Koenig & Bauer supervisory and management boards declare whether the recommendations contained in the Code were or will be complied with. If recommendations are not complied with this is justified accordingly. On the basis of the recommendations issued on 15 May 2012 by a government commission on the German Corporate Governance Code the Koenig & Bauer supervisory and management board issued a declaration of compliance on 15 February 2013. The current and past declarations issued may be accessed on the Group website at http://www.kba.com/investor-relations/corporate-governance/.

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 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

The remuneration of individual members of the supervisory board is not disclosed in the Notes (provision 5.4.6). The total sum which has long been stated as fixed and variable components provides from our point of view sufficient information for assessing the propriety of the remuneration given to the supervisory board. We believe that this together with the information on the remuneration system anchored in the articles of association and in the compensation report detailed on page 19, allows for adequate transparency.

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

Management and supervisory board shareholdings

The individual equity holdings of the members of the supervisory and management boards are not disclosed separately (provision 6.6). The disclosure of the shareholdings separated into management and supervisory board detailed in the Notes we feel is sufficient to meet shareholders' justifiable need for information.

KBA-MePrint's Varius 80 launched at Drupa 2012 targets the high-growth market for flexible packaging. KBA wants to strengthen its footing in this market segment which has not been serviced by us so far

Group Financial Statements

Group Balance Sheet to 31 December 2012

Assets in €m		31.12.2011	**31.12.2012**
	Note		
Non-current assets			
Intangible assets	**(1)**	26.4	23.2
Property, plant and equipment	**(1)**	248.6	219.9
Investments and other financial receivables	**(2)**	22.1	16.4
Other assets	**(2)**	0.2	0.1
Deferred tax assets	**(6)**	47.6	43.9
		344.9	**303.5**
Current assets			
Inventories	**(3)**	328.1	331.4
Trade receivables	**(2)**	310.4	255.1
Other financial receivables	**(2)**	24.3	23.1
Other assets	**(2)**	39.8	26.9
Current tax assets		1.0	1.2
Securities	**(4)**	28.7	30.3
Cash and cash equivalents	**(5)**	145.6	206.3
		877.9	**874.3**
		1,222.8	**1,177.8**

Equity and liabilities in €m		31.12.2011	**31.12.2012**
	Note		
Equity	**(7)**		
Share capital		42.9	42.9
Share premium		87.3	87.3
Reserves		336.4	342.9
Capital attributable to equity holders of the Parent		**466.6**	**473.1**
Liabilities			
Non-current liabilities			
Pension provisions	**(8)**	106.6	108.0
Other provisions	**(9)**	65.9	60.3
Bank loans and other financial payables	**(10)**	20.8	17.9
Other liabilities	**(10)**	0.1	2.8
Deferred tax liabilities	**(6)**	27.8	21.9
		221.2	**210.9**
Current liabilities			
Other provisions	**(9)**	137.4	148.5
Trade payables	**(10)**	64.2	65.7
Bank loans and other financial payables	**(10)**	101.2	91.0
Other liabilities	**(10)**	225.5	183.9
Current tax liabilities		6.7	4.7
		535.0	**493.8**
		1,222.8	**1,177.8**

Group Income Statement 2012

in €m	Note	2011	2012 Operating profit before special items	2012 Operating profit special items	2012
Revenue	(14)	1,167.2	1,293.9		1,293.9
Cost of sales	(15)	–895.1	–948.1	–19.0	–967.1
Gross profit		**272.1**	**345.8**	**–19.0**	**326.8**
Research and development costs	(15)	–56.4	–54.7	–3.6	–58.3
Distribution costs	(15)	–147.0	–154.8	–1.9	–156.7
Administrative expenses	(15)	–60.4	–73.3	–2.6	–75.9
Other operating income	(17)	48.3	36.2	–	36.2
Other operating expenses	(17)	–46.7	–56.1	–	–56.1
Operating profit		**9.9**	**43.1**	**–27.1**	**16.0**
Other financial results		–			–1.7
Interest income		5.5			3.7
Interest expense		–12.1			–11.9
Financial result	(19)	**–6.6**			**–9.9**
Earnings before taxes		**3.3**			**6.1**
Income tax expense	(20)	–2.9			–3.8
Profit for the period attributable to equity holders of the Parent		**0.4**			**2.3**
Earnings per share (in €, basic/dilutive)	(21)	**0.02**			**0.14**

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

Statement of Comprehensive Group Income 2012

in €m	2011	2012
Net profit	**0.4**	**2.3**
Foreign currency translation	9.1	1.4
Measurement of primary financial instruments	–	1.8
Measurement of derivatives	–2.9	2.4
Deferred taxes	0.9	–0.9
Gains recognised directly in equity	**7.1**	**4.7**
Total comprehensive income attributable to equity holders of the Parent	**7.5**	**7.0**

For further information see explanatory Note (7).

Statement of Changes in Group Equity 2012

in €m	Share capital	Share premium	Reserves: Recognised in equity: Primary financial instruments	Derivatives	Exchange differences	Deferred taxes	Other	**Total**
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**
1 January 2012	**42.9**	**87.3**	**2.4**	**–2.3**	**43.0**	**–0.5**	**293.8**	**466.6**
Total net profit	–	–	–	–	–	–	2.3	2.3
Gains/losses recognised directly in equity	–	–	1.8	2.4	1.4	–0.9	–	4.7
Profit/loss for the period	**–**	**–**	**1.8**	**2.4**	**1.4**	**–0.9**	**2.3**	**7.0**
Other changes	–	–	–	–	–	–	–0.5	–0.5
31 December 2012	**42.9**	**87.3**	**4.2**	**0.1**	**44.4**	**–1.4**	**295.6**	**473.1**

For further information see explanatory Note (7).

Group Cash Flow Statement 2012

in €m	2011	2012
Earnings before taxes	3.3	6.1
Depreciation on intangible assets, property, plant and equipment	35.5	64.9
Currency measurement	–6.1	–1.8
Non-cash interest income/expense	5.1	9.2
Changes in pension provisions	2.0	1.4
Other non-cash income/expenses	-3.8	2.8
Gross cash flow	**36.0**	**82.6**
Changes in inventories	–23.8	4.6
Changes in receivables and other assets	63.2	72.0
Changes in other provisions	–34.7	4.8
Changes in payables and other liabilities	52.6	–73.0
Interest received	3.9	2.8
Interest paid	–5.5	–1.8
Income tax paid	–10.2	–10.3
Income tax refunded	2.4	1.6
Cash flows from operating activities	**83.9**	**83.3**
Proceeds from the disposal of intangible assets, property, plant and equipment	10.4	0.5
Payments for investment in intangible assets, property, plant and equipment	–35.7	–22.6
Proceeds from the disposal of investments	0.1	1.0
Payments for investments	–1.0	–1.1
Investment subsidies received	0.1	0.1
Cash flows from investing activities	**–26.1**	**–22.1**
Free cash flow	**57.8**	**61.2**
Proceeds from capital contributions	0.3	–
Proceeds from loans	1.4	–
Repayment of loans	–8.7	–4.3
Dividends paid	–4.9	–
Cash flows from financing activities	**–11.9**	**–4.3**
Change in funds	**45.9**	**56.9**
Effect of changes in exchange rates	6.9	1.3
Effect of changes in consolidated companies	1.8	2.5
Funds at beginning of period	91.0	145.6
Funds at end of period	**145.6**	**206.3**

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 Aktiengesellschaft (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 2012 were prepared in accordance with section 315a of the HGB (German Commercial Code), as was a Group management report, and will be published in the *Bundesanzeiger* (Federal Gazette).

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

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

On 21 March 2013 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 2012 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 2012:

IAS 12	Amendments to IAS 12 Income Taxes: Recovery of Underlying Assets
IFRS 1	Revised IFRS 1 First-time Adoption of International Financial Reporting Standards: Hyperinflation
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures

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 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.

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 1	Amendments to IAS 1 Presentation of Financial Statements: Components of Other Comprehensive Income	2013
IAS 19	Revised IAS 19 Employee Benefits	2013
IFRS 1	Amendments to IFRS 1 Government Loans	2013
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting a Financial Asset and a Financial Liability	2013
IFRS 13	Fair Value Measurement	2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	2013
Sundry	Improvements to IFRS (2009-2011)	2013
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements – Separate Financial Statements	2014
IAS 28	Amendments to IAS 28 Investments in Associates	2014
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting a Financial Asset and a Financial Liability	2014
IFRS 10	Consolidated Financial Statements	2014
IFRS 11	Joint Arrangements	2014
IFRS 12	Disclosure of Interests in Other Entities	2014
IFRS 10 / IFRS 11 / IFRS 12	Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – Transition Guidance	2014
IFRS 10 / IFRS 12 / IAS 27	Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Consolidated and Seperate Financial Statements – Investment Entities	2014
IFRS 9	Financial Instruments	2015
IFRS 7 / IFRS 9	Amendments to IFRS 7 and IFRS 9 – Mandatory Effective Date and Transition Disclosures	2015

IFRS 10, IFRS 11, IFRS 12, IFRS 13, IFRIC 20 as well as amendments to IAS 1, IAS 19, IAS 27, IAS 28, IAS 32 and IFRS 7 were adopted as part of the EU endorsement process.

IFRS 11, IFRIC 20 and the issues treated in the amendments to IAS 27, IAS 28, IFRS 1, IFRS 10, IFRS 12 are irrelevant to the business activities of the entities included in the statements.

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 €30.7m increase in pension provisions at 31 December 2012. 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.

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

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 thus result in individual amendments in presentation.

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

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

IFRS 12 Disclosure of Interests in Other Entities

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

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

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

IFRS 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. For KBA this may give rise to differences in balance sheet items compared to previous regulations.

IFRS 9 Financial Instruments: Classification and Measurement and
Amentments to IFRS 7 and IFRS 9 – Mandatory Effective Date and Transition Disclosures

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.

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

(C) Accounting Policies

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

Measurement basis and judgements

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

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

Estimates and assumptions

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

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

Restructuring provisions were created based on the measures 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 50
Plant and machinery	3 to 15
Other facilities, factory and office equipment	2 to 12

If there was any indication that intangible assets, property, plant and equipment might be impaired these assets were tested for impairment on the balance sheet date as per IAS 36. The recoverable amount was defined as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Cash-generating units are the smallest group of units defined by the entity whose products are available for sale on an active market. The discounted free cash flow is the amount recoverable for the unit and corresponds to the value in use, with the discount calculated at post-tax interest rates, which correspond to the weighted average cost of capital. It comprises a risk-free interest rate for equity components, adjusted for business risks, and the Group's average borrowing rate of interest for debts, tax-adjusted for each unit. Future cash flows are calculated on the basis of the three-year integrated plan approved by the management at the time when the impairment test is valid. Further details can be found in the Management Report on page 27. The three-year planning will be extended by two further years in some cases. Cash flows which surpass the planning period are calculated using a growth rate of 0.8% (2011: 0.8%). Where the recoverable amount was lower than the carrying amount the difference was disclosed as an impairment loss. If the reason for an impairment no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

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

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

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

Financial assets

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

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

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

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

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

Cash and cash equivalents were disclosed under loans and receivables.

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

Derivatives

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

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

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

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

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

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

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

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

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

These risks are contained by a risk management system. The principles laid down ensure that risk is assessed and documented in accordance with systematic and uniform procedures. Further information can be found on pages 46 f. 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 and services rendered. 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: 19) companies.

Altogether 17 (previous year: 15) 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 other administrative expenses.

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

(E) Foreign Currency Translation

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

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

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

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

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

in €m	Cost						
	01.01.	Group additions	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
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**
2012							
Intangible assets							
Industrial property rights and similar rights	41.5	–	0.8	–	–	1.2	41.1
Goodwill	21.7	–	–	–	–	–	21.7
Product development costs	8.2	–	0.2	–	–	–	8.4
	71.4	**–**	**1.0**	**–**	**–**	**1.2**	**71.2**
Property, plant and equipment							
Land and buildings	253.2	3.2	2.8	0.4	8.1	1.9	265.8
Plant and machinery	251.5	–	7.8	0.6	5.8	2.8	262.9
Other facilities, factory and office equipment	127.7	0.7	20.4	0.1	0.2	10.8	138.3
Assets under construction	15.6	–	1.0	–	–14.1	–	2.5
	648.0	**3.9**	**32.0**	**1.1**	**–**	**15.5**	**669.5**
	719.4	**3.9**	**33.0**	**1.1**	**–**	**16.7**	**740.7**

[1] Business segment sheetfed offset presses

Depreciation 01.01.	Group additions	Annual depre-ciation	Impair-ments	Exchange differences	Disposals	31.12.	Carrying amount 01.01.	31.12.
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**
39.4	–	1.2	–	–	1.2	39.4	2.1	1.7
0.2	–	–	–	–	–	0.2	21.5	21.5
5.4	–	0.3	2.7	–	–	8.4	2.8	–
45.0	**–**	**1.5**	**2.7**	**–**	**1.2**	**48.0**	**26.4**	**23.2**
105.3	1.9	7.5	12.6	0.2	1.4	126.1	147.9	139.7
197.1	–	13.6	4.6	0.5	2.3	213.5	54.4	49.4
97.0	0.7	15.2	7.2	0.1	10.2	110.0	30.7	28.3
–	–	–	–	–	–	–	15.6	2.5
399.4	**2.6**	**36.3**	**24.4**	**0.8**	**13.9**	**449.6**	**248.6**	**219.9**
444.4	**2.6**	**37.8**	**27.1**[1]	**0.8**	**15.1**	**497.6**	**275.0**	**243.1**

(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 (previous year: €0.3m), €2.9m (previous year: €3.2m) for plant and machinery, and €15.4m (€8.8m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €5.7m (previous year: €6.4m).

Intangible assets

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

Goodwill

in €m	31.12.2011	**31.12.2012**
Bauer+Kunzi GmbH, Stuttgart, Germany (since 1.1.2012 merged with KBA-MetalPrint)	3.4	–
KBA-MetalPrint GmbH, Stuttgart, Germany	9.2	12.6
KBA-NotaSys SA, Lausanne, Switzerland	8.9	8.9
	21.5	**21.5**

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

Cash-generating unit	Number of planning periods	Pre-tax interest rate	Post-tax interest rate
KBA-MetalPrint GmbH	3	9.7 %	7.1 %
KBA-NotaSys SA	3	8.5 %	7.6 %

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

Property, plant and equipment

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

Given anticipated market developments in the sheetfed business and an expansion of the ongoing turn-around scheme implemented by the management to improve profitability, an impairment test was conducted for the cash-generating unit, which included the sheetfed operations at the Parent and KBA-Mödling AG as well as KBA Deutschland GmbH and KBA North America Inc. Given the growing importance of the Chinese market, in 2012 this cash-generating unit was joined by the subsidiaries KBA (HK) Company Ltd. and KBA Printing Machinery (Shanghai) Co., Ltd., which operate on commission and have been consolidated since 2011. The value in use of production systems (based on the future cash flows ascertained in a 5-year plan, discounted with 7.1%) was compared to the carrying amount for the impairment test. The carrying amount exceeding the value in use led to an impairment loss of €27.1m.

(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	6.1
KBA-FT Engineering GmbH, Frankenthal, Germany	100.0	0.1
KBA Deutschland GmbH, Radebeul, Germany	100.0	0.1
KBA-MePrint AG, Veitshöchheim, Germany	100.0	8.1
KBA-Metronic GmbH, Veitshöchheim, Germany [1]	100.0	8.5
KBA-MetalPrint GmbH, Stuttgart, Germany	100.0	2.0
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	–0.5 [2]
KBA ITALIA SPA, Milan, Italy	100.0	0.8
KBA (UK) Ltd., Watford, UK	100.0	–0.7 [2]
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	1.0
KBA-Mödling AG, Mödling, Austria	>99.9	47.9
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	72.7
KBA-NotaSys SA, Lausanne, Switzerland [1]	100.0	94.2
Print Assist AG, Höri, Switzerland [1]	100.0	2.6
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	4.6
KBA North America Inc., Wilmington, Delaware, USA	100.0	1.1
KBA (HK) Company Ltd., Hong Kong, China	100.0	1.3
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	2.1
Non-consolidated affiliates		
PrintHouseService GmbH, Würzburg, Germany	100.0	0.1
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.6 [2]
KBA NORDIC A/S, Herlev, Denmark	100.0	–3.5 [2]
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	0.9
KBA CEE Sp. z o.o., Warsaw, Poland	100.0	–0.7 [2]
KBA RUS OOO, Moscow, Russia	100.0	–1.9 [2]
MABEG Machinery (Shanghai) Co., Ltd., Shanghai, China	80.0	2.5
KBA KOREA CO., LTD., Goyang-si, South Korea	100.0	–
KBA LATINA S A P I DE CV, Mexico City, Mexico	60.0	–0,1 [2]
KBA Japan Co., Ltd, Tokyo, Japan	100.0	–0.4 [2]
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.3 [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 2012 the sales and service subsidiary Print Assist AG, Höri, Switzerland was consolidated for the first time in the Group accounts. On 1 January 2012 Bauer+Kunzi GmbH merged with KBA-MetalPrint GmbH, Stuttgart, Germany. Also on 1 January 2012 domestic sales at the Koenig & Bauer AG facility in Radebeul were spun off as KBA Deutschland GmbH, Radebeul, Germany.

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

in €m	31.12.2011	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2012**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade receivables						
- from affiliates	7.7	7.6	0.1	14.0	13.9	0.1
- from companies in which interests are held	0.9	0.9	–	7.0	7.0	–
- from third parties	301.8	271.6	30.2	234.1	206.6	27.5
	310.4	**280.1**	**30.3**	**255.1**	**227.5**	**27.6**
Investments	6.8	–	6.8	2.8	–	2.8
Other financial receivables						
- from affiliates	0.4	0.4	–	1.5	1.5	–
- derivatives	–	–	–	0.6	0.6	–
- sundry other financial receivables	39.2	23.9	15.3	34.6	21.0	13.6
	46.4	**24.3**	**22.1**	**39.5**	**23.1**	**16.4**
Other assets						
- payments for inventories	20.3	20.3	–	14.5	14.5	–
- tax receivables	16.7	16.7	–	10.4	10.4	–
- prepayments	3.0	2.8	0.2	2.1	2.0	0.1
	40.0	**39.8**	**0.2**	**27.0**	**26.9**	**0.1**
	396.8	**344.2**	**52.6**	**321.6**	**277.5**	**44.1**

Adopting the percentage of completion method resulted in €18.1m (previous year: €38.8m) being carried in **trade receivables.**

Sundry other financial receivables included €1.3m (previous year: €1.6m) from customer finance leases totalling €1.6m (previous year: €2m) and an interest share of €0.3m (€0.4m), with those due in less than one year representing €0.1m (€0.3m) of a total of €0.2m (€0.4m) and other receivables representing €0.6m (€0.6m) of a total of €0.8m (€0.8m) having terms to maturity of one to five years. The terms to maturity of the remainder were less than seven years. Value adjustments of €2.1m in the prior year 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. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2011	**31.12.2012**
Raw materials, consumables and supplies	62.2	67.2
Work in progress	221.8	233.7
Finished goods and products	44.1	30.5
	328.1	**331.4**

The carrying amount of inventories balanced at net realisable value was €121.2m (previous year: €130.9m). Total value adjustments were reduced by €1.1m (previous year: €4.4m) 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 €30.3m (previous year: €28.7m). This was pledged to employees in order to hedge phased retirement credits.

(5) Cash and cash equivalents

in €m	31.12.2011	**31.12.2012**
Cheques, cash in hand	0.2	0.2
Balances with banks	145.4	206.1
	145.6	**206.3**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**
Assets				
Intangible assets, property, plant and equipment	0.9	1.0	15.9	10.6
Inventories	50.1	30.3	2.6	2.3
Financial receivables and other assets	0.4	0.7	9.1	3.1
Securities, cash and cash equivalents	–	–	0.1	0.3
Equity and liabilities				
Equity	–	–	0.3	0.3
Provisions	22.1	18.9	2.7	3.4
Financial payables and other liabilities	1.8	8.0	50.7	33.7
	75.3	**58.9**	**81.4**	**53.7**
Tax loss carryforwards	25.9	16.8	–	–
Offset	–53.6	–31.8	–53.6	–31.8
	47.6	**43.9**	**27.8**	**21.9**
- of which current deferred taxes	5.2	7.9	10.2	9.6

At the end of the year there were loss carryforwards totalling €265.9m (previous year: €235.4m) and temporary differences of €10.5m (€10.9m) for which no deferred tax assets were disclosed. €18.9m of the unrecognised tax loss carryforwards are time-limited to 2024 or later. Restructuring activities in recent years and other proposed reorganisational measures gave rise to positive earnings projections and the recognition of deferred tax assets totalling €18.7m (€21.5m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €5.5m (previous year: €4.5m), since a reversal in the foreseeable future was highly improbable.

(7) Equity

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

Changes in shareholders’ equity are described in a separate schedule on page 66, capital management methods on page 36.

Share capital

The Parent’s share capital at 31 December 2012 totalled 16,485,953 (2011: 16,485,953) no-par shares with a nominal value of €2.60. Part of the €15.6m capital authorised by the shareholders’ meeting on 16 June 2011 represents the issue of employee shares in 2011. Further shares will be issued at the beginning of 2013, as part of the employee share scheme 2012. 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

There are no changes in share premium compared to the previous year.

Reserves

The use of hedge accounting increased reserves by €3.5m (previous year: €2.5m decrease). During completion of the underlying transactions €1.1m was recognised as an expense (previous year: €0.4m).

Deferred taxes trimmed reserves by €0.9m (previous year: –€0.9m), with derivatives accounting for €0.5m (–€0.8m), primary financial instruments €0.5m and foreign currency translation –€0.1m (–€0.1m).

(8) Pension provisions

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

Calculations were based on a discount rate of 3.7% (previous year: 5.3%) in Germany and 1.8% to 4.1% (2.5% to 4.9%) in the rest of Europe. Calculations were further based on a pay increase of 2.8% (2.5%) and a fluctuation rate of 2.7% (2.7%). Pension adjustments were calculated at 1.5% (1.3%). 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	
	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**
Status at 01.01.	**194.1**	**191.0**	**–77.2**	**–81.2**
Current service cost	6.9	6.5	–	–
Interest cost	7.4	7.7	–	–
Actuarial gain/loss	–9.9	31.7	3.1	–2.7
Expected return on plan assets	–	–	–3.4	–3.5
Contributions paid by employer	–	–	–6.4	–5.0
Contributions paid by plan beneficiaries	–	–	–0.1	–1.4
Benefits paid	–10.0	–7.3	5.0	2.3
Changes in consolidated companies	–	4.4	–	–4.2
Foreign currency changes	2.4	0.8	–2.2	–0.7
Settlements/other changes	0.1	–3.6	–	3.4
Status at 31.12.	**191.0**	**231.2**	**–81.2**	**–93.0**

The following costs and returns were recognised:

in €m	31.12.2011	**31.12.2012**
Current service cost	6.9	6.5
Interest cost	7.4	7.7
Expected return on plan assets	–3.4	–3.5
Cost (+)/return (–) for the year	**10.9**	**10.7**

Pension provisions constituted the following:

in €m	31.12.2011	**31.12.2012**
Present value of non-funded obligations	103.3	131.9
Present value of funded obligations	87.7	99.3
Present value of obligations	**191.0**	**231.2**
Current market value of plan assets	–81.2	–93.0
Current market value of obligations (offset)	**109.8**	**138.2**
Unrecognised actuarial gains/losses	–5.9	–34.9
Balance sheet value at 31.12.	**103.9**	**103.3**
- of which pension provisions	106.6	108.0
- of which assets	2.7	4.7

Plan assets comprised €32.8m (previous year: €28.5m) from shares and equity securities, €38.5m (€37.9m) from loans, €7.3m (€8m) from liquid assets and €14.4m (€6.8m) from other assets.

The actual return on plan assets was €6.2m (previous year: €0.3m). The anticipated rate of return is 3.8% (previous year: 4.2%), 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	31.12.2008	31.12.2009	31.12.2010	31.12.2011	**31.12.2012**
Present value of obligations	104.8	114.9	194.1	191.0	231.2
Current market value of plan assets	–8.4	–10.0	–77.2	–81.2	–93.0
Net liability	**96.4**	**104.9**	**116.9**	**109.8**	**138.2**
Experience adjustments of liabilities	–0.9	–	1.9	–2.4	–1.7
Experience adjustments of assets	0.9	–0.4	–0.4	–0.4	0.6

Expenses for defined-contribution plans totalled €34.6m (previous year: €34.9m).

Payments for pension obligations in 2013 are estimated at €10m (previous year: €11.5m). Plan contributions for 2013 are estimated at €3.9m (previous year: €4.6m).

(9) Other provisions

in €m	Status at 01.01.2012	Group additions	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Exchange differences	**Status at 31.12.2012**
Other provisions								
- for employees	74.9	0.3	19.5	4.9	13.2	1.8	–	65.8
- for sales	95.9	0.2	32.8	11.5	37.0	–	–	88.8
- for sundry other purposes	32.5	0.3	26.6	0.5	48.4	–	0.1	54.2
	203.3	**0.8**	**78.9**	**16.9**	**98.6**	**1.8**	**0.1**	**208.8**
of which								
- long-term provisions	65.9							60.3
- short-term provisions	137.4							148.5
	203.3							**208.8**

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	31.12.2011	Term to maturity		**31.12.2012**	Term to maturity	
		up to 1 year	more than 1 year		up to 1 year	more than 1 year
Trade payables						
- to affiliates	0.7	0.7	–	0.5	0.5	–
- to companies in which interests are held	–	–	–	0.3	0.3	–
- to others	63.5	63.3	0.2	64.9	60.7	4.2
	64.2	**64.0**	**0.2**	**65.7**	**61.5**	**4.2**
Bank loans	35.9	27.9	8.0	31.6	31.6	–
Other financial payables						
- from derivatives	3.4	3.4	–	0.1	0.1	–
- sundry other financial payables	82.7	69.9	12.8	77.2	59.3	17.9
	122.0	**101.2**	**20.8**	**108.9**	**91.0**	**17.9**
Other liabilities						
- from payments received	198.9	198.9	–	164.3	164.3	–
- from taxes	15.1	15.1	–	13.2	13.2	–
- sundry other liabilities	11.6	11.5	0.1	9.2	6.4	2.8
	225.6	**225.5**	**0.1**	**186.7**	**183.9**	**2.8**
	411.8	**390.7**	**21.1**	**361.3**	**336.4**	**24.9**

Bank loans (financial liabilities) were secured by mortgages to the value of €17.3m (previous year: €19.2m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of inventory and trade receivables totalling €4.1m (€4.4m). The carrying amounts of secured items of property, plant and equipment came to €24.6m (previous year: €25.6m), of trade receivables €16.2m (€28.5m), of inventories €4.7m (€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 €54.9m (previous year: €55.5m).

Sundry other financial payables included finance leases to the sum of €19.8m (previous year: €13.6m). 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	31.12.2011	Term to maturity			**31.12.2012**	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	15.4	4.6	10.2	0.6	21.7	5.8	15.1	0.8
Interest portion	–1.8	–0.7	–1.1	–	–1.9	–0.8	–1.1	–
Present value of finance lease	**13.6**	**3.9**	**9.1**	**0.6**	**19.8**	**5.0**	**14.0**	**0.8**

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

Other liabilities included total payments received of €21.5m (previous year: €43.4m) for construction contracts.

(11) Derivatives

Forward contracts with a maturity of up to 2 years (previous year: 3 years), which were used to hedge the calculation rate of other foreign currency trade contracts, correlated with underlying transactions with the same maturity. The currencies hedged were primarily US dollars. The fair value of forward contracts qualifying as hedges with a nominal amount totalling €19.4m (previous year: €45.6m) was €0.2m (–€2.5m).

Interest cap transactions with a maturity of 1.5 years covered a subsidiary's existing interest risk.

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

in €m	Nominal amount Total 31.12.2011	Nominal amount Term to maturity more than 1 year	Market value 31.12.2011	Nominal amount Total 31.12.2012	Nominal amount Term to maturity more than 1 year	Market value 31.12.2012
Forward contracts	72.8	2.5	–3.3	37.4	–	0.5
Interest rate hedges	7.7	6.0	–0.1	6.0	6.0	–
	80.5	**8.5**	**–3.4**	**43.4**	**6.0**	**0.5**

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
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**
2012						
Loans and receivables	469.2	356.1	70.5	20.8	7.1	14.7
Gross amount due from customers for contract work	18.1	8.4	4.7	1.6	–	3.4
Assets held to maturity	8.6	8.6	–	–	–	–
Assets available for sale	34.7	34.7	–	–	–	–
Financial instruments recognised at fair value	0.4	0.4	–	–	–	–
	531.0	**408.2**	**75.2**	**22.4**	**7.1**	**18.1**

in €m	Category under IAS 39*	31.12.2011 Carrying amount	Amortised cost	Fair value recognised in profit or loss
			Carrying value	
Assets				
Investments and other financial receivables				
- interests in affiliates	afs	6.7	6.7	–
- other financial receivables from finance leases	lar	1.6	1.6	–
- other financial receivables from derivatives	rafv	–	–	–
- other financial receivables from hedge accounting	–	–	–	–
- sundry other financial receivables	htm	9.4	9.4	–
	afs	1.5	–	–
	lar	27.2	27.2	–
		46.4	**44.9**	**–**
Trade receivables	lar	271.6	271.6	–
Gross amout due from customers for contract work	lar	38.8	38.8	–
Securities	afs	28.7	–	–
Cash and cash equivalents	lar	145.6	145.6	–
		531.1	**500.9**	**–**
Liabilities				
Bank loans and other financial payables				
- bank loans	ofp	35.9	35.9	–
- other financial payables from finance leases	ofp	13.6	13.6	–
- other financial payables from derivatives	rafv	0.8	–	0.8 [2]
- other financial payables from hedge accounting	–	2.6	–	–
- sundry other financial payables	ofp	69.1	69.1	–
		122.0	**118.6**	**0.8**
Trade payables	ofp	64.2	64.2	–
		186.2	**182.8**	**0.8**

* 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.

	31.12.2011	31.12.2012	Carrying value			31.12.2012
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
–	–	2.8	2.8	–	–	–
–	1.7	1.3	1.3	–	–	1.4
–	–	0.4	–	0.4 [2]	–	0.4
–	–	0.2	–	–	0.2 [2]	0.2
–	9.4	8.6	8.6	–	–	8.6
1.5 [1]	1.5	1.6	–	–	1.6 [1]	1.6
–	27.2	24.6	24.6	–	–	24.6
1.5	**39.8**	**39.5**	**37.3**	**0.4**	**1.8**	**36.8**
–	271.6	237.0	237.0	–	–	237.0
–	38.8	18.1	18.1	–	–	18.1
28.7 [1]	28.7	30.3	–	–	30.3 [1]	30.3
–	145.6	206.3	206.3	–	–	206.3
30.2	**524.5**	**531.2**	**498.7**	**0.4**	**32.1**	**528.5**
–	35.9	31.6	31.6	–	–	31.6
–	13.8	19.8	19.8	–	–	19.6
–	0.8	0.1	–	0.1 [2]	–	0.1
2.6 [2]	2.6	–	–	–	–	–
–	69.1	57.4	57.4	–	–	57.4
2.6	**122.2**	**108.9**	**108.8**	**0.1**	**–**	**108.7**
–	64.2	65.7	65.7	–	–	65.7
2.6	**186.4**	**174.6**	**174.5**	**0.1**	**–**	**174.4**

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 €37.4m (previous year: €32.6m) within the next twelve months, €12m (€13m) in one to three years and €2.2m (€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 interest	from subsequent measurement: due to impairment	from subsequent measurement: currency impact	from disposal	Other
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**	**–**
31.12.2012						
Loans and receivables	–21.7	2.8	–12.6	–0.5	–11.4	–
Gross amount due from customers for contract work	–3.8	0.2	–3.8	–0.2	–	–
Assets available for sale	–1.5	0.2	–	–	–	–1.7
Financial instruments recognised at fair value in profit or loss	1.3	–	–	1.3	–	–
Other financial payables	–5.7	–4.2	–	–1.5	–	–
	–31.4	**–1.0**	**–16.4**	**–0.9**	**–11.4**	**–1.7**

Value adjustments were made of €15.6m (previous year: €8.5m) on trade receivables and €0.8m (–€4.3m) 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 €0.7m (previous year: €2.5m) and reduced income by €0.7m (€0.5m) on the balance sheet date, whereas a 5% revaluation would have reduced equity by €0.8m (€2.7m) and increased income by €0.8m (€0.6m). On the balance sheet date the KBA Group was exposed to a foreign currency risk amounting to €25.4m (previous year: €88.2m), primarily relating to the category “available for sale” (previous year: “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	31.12.2011	Term to maturity up to 1 year	1 to 5 years	more than 5 years	31.12.2012	Term to maturity up to 1 year	1 to 5 years	more than 5 years
Commitments from:								
- operating leases	7.7	2.8	4.3	0.6	7.4	2.7	4.3	0.4
- leasing and service contracts	13.1	7.6	5.5	–	9.4	7.4	2.0	–
- investment plans	2.7	2.7	–	–	2.7	2.7	–	–
- sundry other activities	0.7	0.2	0.5	–	0.1	0.1	–	–
	24.2	**13.3**	**10.3**	**0.6**	**19.6**	**12.9**	**6.3**	**0.4**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €4.1m (previous year: €4.4m) 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: €2.7m).

Contingent liabilities

These comprised contingencies totalling €52.3m (previous year: €64m) from financial guarantees, primarily relating to repurchase obligations to lessors and banks. The guaranteed repurchase price decreased over the term of the repurchase obligation.

Provisions totalling €5.7m (previous year: €6.2m) 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 €1,073.9m (previous year: €933.7m), other sales totalled €220m (€233.5m).

Construction contract revenue totalled €173.8m (previous year: €181.5m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €367.2m (€320.3m).

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

(15) Expenses by function

Cost of sales

Cost of sales included €0.9m (previous year: €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 €352.9m (previous year: €327.3m).

Research and development costs

Despite higher development expenses associated with products launched at trade shows and other projects, research and development costs before special items fell slightly by €1.7m.

Government research grants for expenses already incurred were recognised at the time of approval, reducing research and development costs by €0.3m (previous year: €0.7m).

Distribution costs and administrative expenses

A higher volume of deliveries, expenses for Drupa and big customer events in Radebeul and Lausanne swelled distribution costs before special items by €7.8m, compared to the previous year.

Administrative expenses rose by €12.9m before special items due to a wage increase and costs associated with the processing and implementation of the turn-around scheme.

(16) Expenses by nature

Material costs

in €m	2011	**2012**
Cost of raw materials, consumables, supplies and purchased goods	474.4	507.2
Cost of purchased services	93.3	114.6
	567.7	**621.8**

Personnel costs

in €m	2011	**2012**
Wages and salaries	320.5	332.8
Social security and other benefits	60.9	61.3
Pensions	8.2	5.7
	389.6	**399.8**
Average payroll		
- wage-earning industrial staff	3,451	3,345
- salaried office staff	2,579	2,556
- apprentices/students	371	371
	6,401	**6,272**

Reimbursements from the Federal Employment Agency for social security expenses relating to short-time work reduced personnel expenses by €0.2m (previous year: €0.6m).

(17) Other operating income and expenses

in €m	2011	**2012**
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	4.6	0.7
Foreign currency gains	6.8	8.6
Currency measurement	11.0	4.1
Reversal of write-downs	7.6	2.8
Sundry other operating income	18.3	20.0
	48.3	**36.2**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–0.8	–1.9
Foreign currency losses	–13.7	–9.6
Currency measurement	–4.9	–2.3
Creation of write-downs	–11.9	–19.2
Sundry other operating expenses	–15.4	–23.1
	–46.7	**–56.1**
Other operating income and expenses	**1.6**	**–19.9**

Sundry other operating income included €9.9m (previous year: €10.3m) from the reversal of sales-related provisions. It also included insurance and compensation claims and other refunds.

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

(18) Special Items

Following the extensive staff and rationalisation measures which have already been carried out in previous years, management has developed a further turn-around scheme for 2013 and 2014. This resulted in a depreciation on intangible assets, property, plant and equipment of €27.1m.

(19) Financial result

in €m	2011	**2012**
Other financial results		
Impairments in investments	–	–1.7
	–	**–1.7**
Interest income/expense		
Other interest and similar income	5.5	3.7
Other interest and similar expenses	–12.1	–11.9
- from pension obligations	(–7.4)	(–7.7)
	–6.6	**–8.2**
Financial result	**–6.6**	**–9.9**

(20) Income taxes

in €m	2011	**2012**
Earnings before taxes	**3.3**	**6.1**
Group tax rate	30.0 %	30.0 %
Expected taxes	**–1.0**	**–1.8**
Tax effects from		
- variances due to different tax rates	8.4	7.8
- tax-free earnings	0.4	0.3
- write-downs	–9.9	–9.6
- decreases and increases	–1.9	–1.3
- other	1.1	0.8
Income tax	**–2.9**	**–3.8**

in €m	2011	**2012**
Actual tax expense	–8.1	–6.6
Prior-period income taxes	0.7	–0.3
Deferred taxes from loss carryforwards	10.0	–9.2
Deferred tax income from temporary differences	–5.5	12.3
	–2.9	**–3.8**

The recognition of previously unrecognised tax losses relating to subsidiaries as well as previously unrecognised temporary differences led to a €1.7m (2011: €3.8m) deferred tax income. Their use reduced the actual tax expense by €0.8m (€0.4m).

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

(21) Earnings per share

	2011	**2012**
Group profit for the period in €m	0.4	2.3
Weighted average of ordinary shares issued	16,470,226	16,485,953
Earnings per share in €	**0.02**	**0.14**

The increase in the weighted average of ordinary shares issued resulted from the issue of 21,260 employee shares in the third quarter of 2011. In 2012 no employee share were issued. 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 €206.3m (previous year: €145.6m) 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, digital, banknote and security presses, as well as systems for industrial coding.

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

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

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

in €m	Web and special presses		Sheetfed offset presses		Group	
	2011	**2012**	2011	**2012**	2011	**2012**
Revenue	583.6	650.7	583.6	643.2	1,167.2	1,293.9
Operating profit/loss before special items	28.0	54.7	–18.1	–11.6	9.9	43.1
Operating profit/loss after special items	28.0	54.7	–18.1	–38.7	9.9	16.0
Depreciation	18.8	19.5	16.7	18.3	35.5	37.8
Major non-cash expenses	24.0	57.4	38.3	43.0	62.3	100.4
Capital investments	23.6	12.9	20.6	20.1	44.2	33.0

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	
	2011	**2012**	2011	**2012**	2011	**2012**
Germany	182.3	152.1	33.9	23.0	184.8	153.1
Rest of Europe	414.8	395.9	9.7	9.6	88.7	88.5
North America	100.7	134.1	0.2	0.2	1.1	1.0
China	179.9	178.7	0.4	0.2	0.6	0.5
Rest of Asia/Pacific	139.7	134.1	–	–	–	–
Africa/Latin America	149.8	299.0	–	–	–	–
Reconciliation	–	–	–	–	69.7	60.4
Group	**1,167.2**	**1,293.9**	**44.2**	**33.0**	**344.9**	**303.5**

(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 and Group audits for 2012.

(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	2011	**2012**
Other current financial receivables at 31.12.	0.4	1.5
Trade receivables at 31.12.	8.6	21.0
Trade payables at 31.12.	0.7	0.8
Revenue	30.0	29.1

Management board remuneration totalled €1.6m (previous year: €2.2m), with the fixed portion representing €1.6m (€1.3m). The variable portion was based on net profit.

Pension provisions were increased by €0.3m (previous year: €0.3m) for the current service cost. Remuneration for former members and their survivors stood at €1.2m (€1.1m). Supervisory board remuneration totalled €0.4m (€0.4m), of which €0.1m (€0.1m) was variable.

€15.4m (previous year: €15.3m) 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 2012 members of the management board held 2.7% and members of the supervisory board 0.1% of Koenig & Bauer's share capital, giving a total of 2.8%.

Supervisory Board

Dieter Rampl
Chairman
Banker
Munich

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert
Deputy chairman
Business economist
Würzburg

Michael Gasbarri*
Lathe operator
Frankenthal

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

Claus Weihmann*
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
Dieter Rampl
Claus Weihmann
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

Claus Bolza-Schünemann
President and CEO
Head of sheetfed and web (until 1 June 2012) press engineering, web press production, sheetfed press production, purchasing and logistics (until 2 April 2012), human resources, legal affairs and insurance
Würzburg

Dr Axel Kaufmann
Deputy president
CFO
Head of information technology and quality management
Munich

Michael Kummert (since 2 April 2012)
Executive vice-president production, purchasing and logistics
Höchberg

Christoph Müller
Executive vice-president web press sales, marketing, service, purchasing and logistics (until 2 April 2012), web press engineering (since 1 June 2012)
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	FC Bayern München AG, Munich, Germany
Chairman	KKR Management LLC, New York, USA
	Mediobanca S.p.A., Milan, Italy
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	Dachser GmbH & Co. KG, Kempten, Germany
Baldwin Knauf	Knauf Group, Iphofen, Germany
	Lindner AG, Arnstorf, Germany
Günter Hoetzl	Tyco Electronics AMP GmbH, Speyer, Germany
Walther Mann	Braun GmbH, Marktheidenfeld, 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/

(M) Proposal for the Utilisation of Retained Earnings

The single-entity statements for Koenig & Bauer AG were prepared under German accounting and reporting laws.

The dividend payable to shareholders was based on retained earnings disclosed in the financial statements for Koenig & Bauer AG. In erly 2013 20,420 employee shares were issued relating to 2012. They are fully entitled to dividend payments. With the approval of the supervisory board a proposal will be submitted to the AGM to utilise retained earnings totalling €6,612,510.78 as follows:

Payment of a dividend of 40 cents per ordinary share on 16,506,373 no-par shares	€6,602,549.20
Transfer to other retained earnings	€ 9,961.58

(N) Events after the Balance Sheet Date

In an extraordinary session on 28 February 2013 the KBA supervisory board approved the acquisition of the press manufacturer Flexotecnica, an Italian company specialising in presses for the growing flexible packaging market. The final takeover by KBA is still subject to conditions which have to be met in the next few months, e.g. review by antitrust authorities.

Würzburg, 21 March 2013
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Axel Kaufmann
Deputy president

Michael Kummert

Christoph Müller

Ralf Sammeck

Auditor's Report

We have audited the consolidated financial statements prepared by KOENIG & BAUER Aktiengesellschaft, Würzburg, comprising 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 2012. 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, 21 March 2013

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, 21 March 2013
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Axel Kaufmann
Deputy president

Michael Kummert

Christoph Müller

Ralf Sammeck

Balance Sheet for Koenig & Bauer AG to 31 December 2012

under the German Commercial Code (HGB)

Assets in €m	31.12.2011	**31.12.2012**
Non-current assets		
Intangible assets	0.9	0.7
Property, plant and equipment	119.7	112.1
Financial assets	63.2	62.5
	183.8	**175.3**
Current assets		
Inventories less payments received	48.2	37.4
Trade receivables	136.2	123.1
Other receivables and assets	175.7	121.0
Securities	26.3	26.3
Cash and cash equivalents	38.6	91.5
	425.0	**399.3**
Prepayments	**1.5**	**0.7**
	610.3	**575.3**

Equity and liabilities in €m	31.12.2011	**31.12.2012**
Equity		
Share capital	42.9	42.9
Share premium	87.3	87.3
Reserves	99.3	105.9
Retained earnings	11.3	6.6
	240.8	**242.7**
Special items with equity portion	**3.9**	**3.6**
Provisions		
Pension and similar provisions	67.9	70.0
Tax provisions	3.5	1.6
Other provisions	188.7	168.7
	260.1	**240.3**
Liabilities		
Bank loans	7.8	7.8
Trade payables	28.2	36.9
Other liabilities	69.5	44.0
	105.5	**88.7**
	610.3	**575.3**

Income Statement for Koenig & Bauer AG for 2012

under the German Commercial Code (HGB)

in €m	2011	**2012**
Revenue	715.4	970.9
Cost of sales	–650.3	–819.1
Gross profit	**65.1**	**151.8**
Distribution costs	–66.9	–67.5
Administrative expenses	–30.4	–37.3
Other operating income	38.0	24.2
Other operating expenses	–74.9	–68.5
Profit/Loss from operations	**–69.1**	**2.7**
Financial result	81.1	0.8
Profit from ordinary activities	**12.0**	**3.5**
Extraordinary loss	–1.4	–1.4
Earnings before taxes	**10.6**	**2.1**
Income taxes	0.7	–0.2
Net profit	**11.3**	**1.9**
Profit carried forward	–	11.3
Transfer to other reserves	–	–6.6
Retained earnings	**11.3**	**6.6**

Key Financial Dates

Interim report on 1st quarter 2013
14 May 2013

Koenig & Bauer Annual General Meeting
13 June 2013
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2013
9 August 2013

Interim report on 3rd quarter 2013
11 November 2013

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Consolidated Financial Statements

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