Group Interim Report
First Quarter 2014

KBA
Koenig & Bauer Group

KBA Group in Figures

01.01. - 31.03. in €m	2013	2014
Order intake	200.0	**241.5**
Revenue	190.7	**213.4**
Order backlog at 31.03.	657.3	**588.6**
Export level in %	71.2	**79.3**
Operating loss	–16.9	**–10.2**
Earnings before taxes	–18.8	**–12.1**
Net loss	–18.5	**–14.0**
Balance sheet total at 31.03. (prior year: 31.12.)	1,098.0	**1,045.3**
Equity at 31.03. (prior year: 31.12.)	277.9	**254.7**
Investment in intangible assets, property, plant and equipment	5.2	**3.0**
Depreciation on intangible assets, property, plant and equipment	7.1	**6.8**
Payroll at 31.03.	6,187	**6,237**
- thereof apprentices/trainees	340	**364**
Cash flows from operating activities	–11.4	**–51.3**
Earnings per share in €	–1.12	**–0.85**

Title photo
Changing a sleeve on a flexo press from our new Italian subsidiary KBA-Flexotecnica, which serves the growth market for flexible packaging

2014 began far more successfully for the KBA Group than twelve months earlier. We have seen a double-digit increase in both order intake and Group sales to €241.5m and €213.4m respectively year-over-year. Notably our positive book-to-bill ratio is good news. Our sheetfed and special presses made a particular contribution to this growth in orders, whereas our web press business which is more strongly affected by the media shift remains disappointing.

We have made substantial progress in achieving the much needed improvements to our earnings. Our Group gross profit margin increased from 21.3% in 2013 to 25.4%. Although our operating result after three months was still negative due to sales, at –€10.2m it was noticeably less than in the corresponding prior-year quarter (–€16.9m). It is especially pleasing that our important sheetfed offset division with a contribution of more than 50% of sales has generated an operating profit of €1.2m once again after a prolonged period of time. This is a result of advances in terms of costs and prices. We aim to sustainably secure and strengthen this trend by 2016 with the Fit@All programme.

Orders, sales and earnings of web and special presses this quarter were heterogeneous. This segment, which in recent years has continually posted a profit, has long been affected by the heavily shrunken business with web presses for newspaper and commercial printing in terms of volume and earnings. This is in addition to delivery postponements for our profitable security presses in the first three months of 2014. The segment thus posted a loss of €11.4m. We expect the postponed shipments to have a positive impact on earnings in the upcoming quarters. Nevertheless, these latest developments underscore the necessity of the planned restructuring of our traditional web press business and its separation from special presses as part of Fit@All. Transparency for market-orientated, entrepreneurial action will be increased by establishing an autonomous business unit for web presses.

The realignment of our business towards more decentralised units announced in December 2013 makes sense given the gigantic structural shift in the print industry with its growing and shrinking market segments. The future structure which is planned for the Group is already implemented to a large extent at our relatively autonomous subsidiaries with their special presses for clearly distinct target groups. There is still need for restructuring in web offset, sheetfed offset and Group-wide production from an organisational point of view and with regard to company law. We aim to create the prerequisites necessary over the following months as part of our Fit@All programme.

We have made good progress with the capacity-orientated staff adjustments and preparing the relocation of production activities within the Group associated with the implementation of the Fit@All programme. By the end of April 2014 social compensation plans, cancellation agreements and phased retirement schemes were agreed with union and workforce representatives for around 700 employees at various locations. Given the periods of notice which must be observed, upcoming relocations and pending outsourcing options, the planned reduction of 1,100 to 1,500 jobs Group-wide will take place gradually until the end of 2015.

The realignment of the KBA Group does not just focus on reducing capacities for shrinking market segments, but also on the creation of new opportunities for growing markets, such as packaging printing. I am therefore pleased that the integration of KBA-Kammann for the direct decoration of glass and KBA-Flexotecnica active in the prosperous flexible packaging segment, both of which joined the Group in 2013, is well underway.

The current somewhat unstable economic and political environment urges caution. However, the management board is targeting Group sales of between €1bn to €1.1bn and a positive operating result before special items for 2014. Although the special expenses attached to Fit@All in 2014 will be much lower than in the previous year, Group earnings before taxes (EBT) are likely to be negative once again.

Along with high market demands, the year 2014 brings additional challenges for our company, executives and staff arising from our Fit@All programme. Nevertheless, we must take this path for the future sustainability of KBA and to secure a return to sustained profitability by 2016 at the latest. We will continue to keep you, our shareholders, updated.

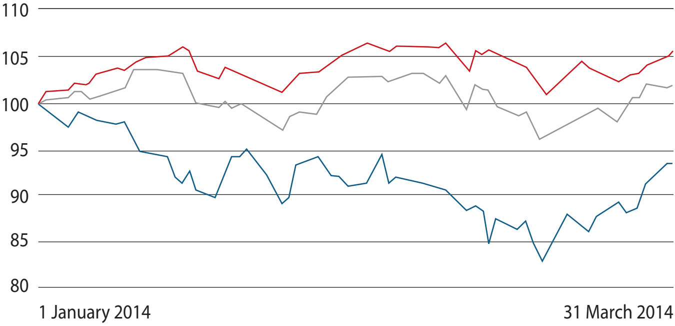
Claus Bolza-Schünemann
President and CEO of Koenig & Bauer AG

KBA Shares

Despite encouraging economic signals from the USA and Europe, in the first quarter of 2014 the international stock markets were extremely volatile given lower growth rates, negative currency effects in important threshold countries and uncertainty in the capital markets due to the crisis in the Ukraine. However, at the end of March the DAX was slightly positive and the SDAX was up 5.6% on the end of 2013. Investors in KBA shares reacted cautiously following the announcement of the Group realignment in December 2013. On 14 March our share price reached a low for the first quarter of €11.03. The Group figures for 2013 published on 21 March with an operating profit before high special items for the Fit@All programme assessed by many as courageous pushed Koenig & Bauer shares up to €12.30 at the end of the quarter, 4.5% down on the closing figure for 2013 of €12.88. In April KBA shares fluctuated around the €12 mark.

Koenig & Bauer shares

in %



Koenig & Bauer AG DAX SDAX

Management Report

Market and Industry Environment

In the first three months of 2014 development within the global market for printing presses was very heterogeneous in terms of region and application. The economic, political and currency-related decline in demand in emerging markets, such as Turkey, China and other threshold countries in Asia, Eastern Europe, Latin America and Africa, oppose signs of recovery in those European countries affected by the sovereign debt crisis and in the key market North America. Investment has also picked up in Germany. According to recent statistics issued by the VDMA (German Machinery and Plant Manufacturer's Association) significantly more orders for printing presses were placed worldwide in the first quarter of 2014 compared to the weak prior year. Although it is not certain that a stable trend will evolve from this, it is nevertheless a positive signal. Our sheetfed presses which are implemented in many fields benefitted from this development, whereas publication and newspaper web presses that are highly dependent on media trends have long felt the effects of investment reluctance.

Business Performance

In the first three months of 2014 **order intake** in our sheetfed division rose by 10.3% to €146.5m (2013: €132.8m). Along with our medium and large-format presses from our plant in Radebeul, currently ordered predominantly by packaging printers, and metal-decorating systems from KBA-MetalPrint in Stuttgart, demand for half-format sheetfed presses for commercial printing was high particularly in threshold countries. At €95m the volume of new orders in our web and special press division was significantly above last year's weak figure of €67.2m, but still below the average volume in the past. The main reason for this is the slump in demand for web presses. The volume of new orders for the special markets banknote printing and coding technology stood at a normal level. To sum up at €241.5m (€200m) Group order intake in the first quarter was 20.8% up on the prior year.

On 31 March **Group order backlog** of €588.6m was slightly higher than at the beginning of the year, but still 10.5% lower than the previous year (€657.3m). The backlog of orders for sheetfed offset presses grew by 14.1% to €237.1m (2013: €207.8m) triggered by a significantly positive book-to-bill ratio. The total volume of orders for our web and special presses came to €351.5m (2013: €449.5m).

Earnings, Finances and Assets

Earnings

Group sales of €213.4m in the first quarter of 2014 were 11.9% up on the prior-year quarter (€190.7m). Sales of sheetfed offset presses increased by a remarkable 20.9% to €118.7m compared to €98.2m in 2013, whereas at €94.7m sales in the web and special press division were only slightly above the previous year's figure of €92.5m. Postponements on the customers' side in our project business have led to the majority of deliveries being scheduled in the second-half of the year.

A 19.7% slide in domestic sales raised the export level from 71.2% to 79.3%. Nevertheless, this figure still remains below the long-time average at KBA and is mainly a result of the relatively weak economic situation in some foreign markets. However, in the south of the EU there are signs of an economic revival. Accordingly, deliveries to other parts of Europe climbed slightly to €66.1m (2013: €56.9m) or 31% (2013: 29.8%) of Group sales. The proportion generated in North America also improved from 10.9% in 2013 to 11.4% driven by an upturn in sheetfed sales. Printing firms in Asia and the Pacific contributed €64.9m to the Group total (2013: €44.2m). Compared to the first quarter of 2013 the volume of sales attributable to this region rose from 23.2% to 30.4% with China once again playing a major role. The corresponding figure for Latin America and Africa was €13.9m or 6.5% (2013: 7.3%) of Group sales. Along with political and

Group order intake

in €m

Group sales

in €m

economic issues in parts of North Africa and South America, weak currencies predominantly in important sales countries, such as Brazil and South Africa, had a negative impact.

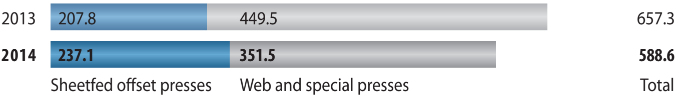
In spite of frictions associated with the extensive Group realignment, compared to the previous year higher quarterly sales, the forgoing of unprofitable contracts and impairments made at the end of 2013 all had a positive effect on **earnings**. Our **gross profit margin** widened from 21.3% to 25.4%. While R&D costs increased slightly to €14.2m (2013: €13.7m), at €28.4m distribution costs remained at the same level as 2013. In contrast administrative expenses rose from €16m to €19m due to higher costs for consultants. Other operating income and expenses came to –€2.7m and in comparison to 2013 we posted a significantly improved **operating loss** of €10.2m (2013: –€16.9m).

Our web and special press division accounted for a loss of €11.4m (2013: –€11m) as a result of below-target sales of security presses in the first quarter and insufficient capacity utilisation at our web press facilities. Higher sales, better margins of the presses delivered and a lower cost base all contributed to a profit of €1.2m above the break-even point in our sheetfed offset segment (2013: –€5.9m).

Following a slight financial loss of €1.9m, compared to the first quarter of 2013 (–€18.8m) we improved our **pre-tax loss** (EBT) by about a third to €12.1m. After tax deductions, **Group results** came to –€14m compared to the prior-year figure of –€18.5m. This corresponds to **earnings per share** of –€0.85 (2013: –€1.12).

Group order backlog

in €m



Group net loss

in €m

Finances

With a drop in receivables, at –€51.3m (2013: –€11.4m) **cash flows from operating activities** were clearly negative due to a temporarily high liquidity squeeze caused by bigger inventories, lower customer prepayments and trade payables. After deducting cash funds for investing activities, the **free cash flow** came in at –€54.4m compared to the previous quarterly figure of –€14.8m. Along with ample credit lines, **funds** at 31 March stood at €131.2m (31.12.2013: €185.4m). Less bank loans of €22.3m, net liquidity at €108.9m was solid once again. Our equity ratio was 24.4%, significantly above that of comparable companies in our industry.

The reduction in inventories in the web and special press segment due to higher deliveries in the following quarters and the optimisation of our working capital in our batch-based business as an important pillar of the Fit@All programme will have a positive impact on our cash flow. In parallel, during the implementation of Fit@All larger payments for redundancy and social compensation plans as part of personnel adjustments as well as for necessary investments, training measures and other restructuring expenses will affect cash. These will have an influence on the cash flow and liquidity status at the end of each quarter. The long-term advance planning and prompt control of internal and external funds available by our financial department makes the associated risks manageable.

Assets

The **Group balance sheet total** of €1,045.3m at 31 March 2014 was €52.7m down on last year's closing figure (€1,098m). One reason for this was a €48.2m decrease in current assets. Despite a rise in inventories (+€21.2m), this effect was caused by a drop in trade

Geographical breakdown of revenue

in %	2013	**2014**
Germany	28.8	20.7
Rest of Europe	29.8	31.0
North America	10.9	11.4
Asia/Pacific	23.2	30.4
Africa/Latin America	7.3	6.5

receivables (–€15.7m) as well as lower funds (–€54.2m). We invested €3m in intangible assets, property, plant and equipment, e.g. for the Group-wide bundling of production activities as part of Fit@All (2013: €5.2m). Depreciation totalled €6.8m (2013: €7.1m) and non-current assets fell by €4.5m to €267.6m compared to the end of 2013.

Research and Development

This quarter our research and development activities focused on the growing packaging market in all its breadth and diversity. The raft of new developments ranges from modular automatable logistics concepts for industrial sheetfed offset packaging printers, inline and offline coding and marking for packaging with various analogue and digital technologies up to the direct decoration of glass and other hollow containers with inkjet and other printing processes.

Human Resources

At the end of March 2014 there were 6,237 employees on Group payroll, compared to 6,187 twelve months earlier. Excluding KBA-Kammann and KBA-Flexotecnica which had not yet been consolidated in the first quarter of 2013, and not including apprentices, trainees, temporary employees and staff on phased retirement schemes, the Group workforce totalled 5,307. This was 166 fewer than the previous year. The total will fall significantly once again as part of the Fit@All Group restructuring programme. By the end of April 2014 social compensation plans, cancellation agreements and phased retirement schemes were agreed for around 700 employees at various locations. Negotiations with employee representatives regarding further measures for personnel adjustments at the affected sites were at an advanced stage at the end of the first quarter.

Payroll at 31 March

	Koenig & Bauer AG	Subsidiaries	KBA Group
2013	3,454	2,733	6,187
2014	**3,415**	**2,822**	**6,237**

Risk Management

The Koenig & Bauer risk management system and major risks facing the corporate development of our Group are described on pages 52 to 57 of the Group financial statements for 2013. There have since been no significant changes in the profile detailed there this quarter. Risks resulting from the Group realignment are limited by the provisions already carried out in the financial statements for 2013 as well as our solid financial base and liquidity resources. Despite current economic and political uncertainties, and persisting difficult market conditions for press manufacturing, we perceive no risks that could pose an existential threat to the KBA Group.

Outlook

Events in the Ukraine and other political conflicts, reduced growth in long-standing prosperous regions, such as China, India, Brazil and Turkey, and volatile exchange rates jeopardise the stronger growth of the global economy forecasted for this year. Advanced economies such as the USA and euro zone will have to make a greater contribution in terms of growth than in the first five and a half years after the outbreak of the financial crisis. At the same time a favourable consumer goods economy also has positive repercussions for the print industry and its suppliers. However, the strong euro is an additional hurdle for German manufacturers compared to Japanese and other competitors from outside the EU in price-sensitive markets in Asia and buying countries with a weak currency.

Following measures relating to restructuring and personnel adjustments started in the first quarter of 2014, the upcoming quarters at KBA will also be characterised by the implementation of Fit@All. This programme will realign the Group's traditional offset business to a significantly smaller and structurally fundamentally changed market environment. With effect from 1 May 2014 an experienced expert has been appointed as management board member responsible for restructuring operations (CRO) in order to press ahead with this process quickly and consequently, and to achieve the intended sustainable improvement to capacity and earnings as soon as possible. His interim term of office is restricted to the next 18 to 24 months.

The management board already took extensive precautions for the far-reaching restructuring of the Group in the financial statements for 2013 with appropriate provisions and impairments against earnings. The special expenses attached to this realignment in 2014 will be limited, but they will have an slight impact on this year's results once again as we have already projected.

Notwithstanding this quarter's double-digit growth in Group order intake and sales compared to the previous year, management is targeting €1bn to €1.1bn in Group revenue for 2014, roughly on par with last year. This is in light of increased risks in the economic and political environment, and a sluggish order intake of web presses. At present we assume that KBA's relatively young field of digital printing technology as well as special presses and systems for various applications in packaging printing from our subsidiaries KBA-Metronic, KBA-MetalPrint, KBA-Kammann and KBA-Flexotecnica will make greater contributions to sales this year and in the future. Therefore given the stagnation in our core business, these will bring about a change in product mix of the KBA Group.

As in 2013, the management board is aiming once again for a positive operating result before special items despite negative impacts in connection with the comprehensive realignment of the company. According to our planning, the special expenses associated with Fit@All will be far lower in 2014 than the previous year. The profit-boosting effects following the implementation of a raft of measures included in the Fit@All programme will come into effect in 2015 partially and fully in 2016. Due to this Group earnings before taxes (EBT) are likely to be negative once again in 2014.

Assuming the economic and political climate, and the conditions in the press market remain reasonably stable, we anticipate a clear improvement to our operating and pre-tax earnings already in 2015. We expect the Group to return to sustainable profitability in 2016 following the completion of the realignment and the formation of a de-centrally organised enterprise with autonomous business units.

Management will provide prompt information on the significant progress and milestones regarding the implementation of Fit@All.

Group Balance Sheet

Assets

in €m	31.12.2013	**31.03.2014**
Non-current assets		
Intangible assets, property, plant and equipment	227.5	223.5
Investments and other financial receivables	16.7	16.9
Other assets	0.6	0.5
Deferred tax assets	27.3	26.7
	272.1	**267.6**
Current assets		
Inventories	357.2	378.4
Trade receivables	228.2	212.5
Other financial receivables	17.4	17.3
Other assets	34.8	33.9
Securities	0.9	2.4
Cash and cash equivalents	185.4	131.2
Assets held for sale	2.0	2.0
	825.9	**777.7**
Balance sheet total	**1,098.0**	**1,045.3**

Equity and liabilities

in €m	31.12.2013	**31.03.2014**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	146.6	123.4
Equity attributable to owners of the Parent	277.1	253.9
Equity attributable to non-controlling interests	0.8	0.8
	277.9	**254.7**
Liabilities		
Non-current liabilities		
Pension provisions	142.5	151.2
Other provisions	92.4	86.6
Other financial payables	15.3	13.6
Other liabilities	5.3	3.8
Deferred tax liabilities	15.9	15.8
	271.4	**271.0**
Current liabilities		
Other provisions	204.5	193.8
Trade payables	72.2	58.5
Bank loans	21.5	22.3
Other financial payables	55.2	61.3
Other liabilities	195.3	183.7
	548.7	**519.6**
Balance sheet total	**1,098.0**	**1,045.3**

Group Income Statement

01.01. - 31.03. in €m	2013	**2014**
Revenue	190.7	213.4
Cost of sales	–150.0	–159.3
Gross profit	**40.7**	**54.1**
Research and development costs	–13.7	–14.2
Distribution costs	–28.1	–28.4
Administrative expenses	–16.0	–19.0
Other operating income and expenses	0.2	–2.7
Operating loss	**–16.9**	**–10.2**
Financial result	–1.9	–1.9
Earnings before taxes	**–18.8**	**–12.1**
Income tax	0.3	–1.9
Net loss	**–18.5**	**–14.0**
Earnings per share (in €, basic/dilutive)	**–1.12**	**–0.85**

Statement of Comprehensive Group Income

01.01. - 31.03. in €m	2013	**2014**
Net loss	**–18.5**	**–14.0**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	–0.6	–0.6
Measurement of primary financial instruments	–0.2	0.3
Measurement of derivatives	–0.7	–0.5
Deferred taxes	0.3	0.2
	–1.2	**–0.6**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–1.6	–8.7
Deferred taxes	0.5	0.1
	–1.1	**–8.6**
Losses recognised directly in equity	**–2.3**	**–9.2**
Total comprehensive income	**–20.8**	**–23.2**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2013	**42.9**	**87.3**
Net loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Capital increase from authorised capital	–	0.1
31.03.2013	**42.9**	**87.4**
01.01.2014	**43.0**	**87.5**
Net loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2014	**43.0**	**87.5**

Reserves: Recognised in equity	Reserves: Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
15.7	**295.4**	**441.3**	**–**	**441.3**
–	–18.5	–18.5	–	–18.5
–2.3	–	–2.3	–	–2.3
–2.3	**–18.5**	**–20.8**	**–**	**–20.8**
–	–	0.1	–	0.1
13.4	**276.9**	**420.6**	**–**	**420.6**
11.5	**135.1**	**277.1**	**0.8**	**277.9**
–	–14.0	–14.0	–	–14.0
–9.2	–	–9.2	–	–9.2
–9.2	**–14.0**	**–23.2**	**–**	**–23.2**
–41.0	41.0	–	–	–
–38.7	**162.1**	**253.9**	**0.8**	**254.7**

Group Cash Flow Statement

01.01. - 31.03. in €m	2013	**2014**
Earnings before taxes	–18.8	–12.1
Non-cash transactions	10.1	8.0
Gross cash flow	**–8.7**	**–4.1**
Changes in inventories, receivables and other assets	–29.3	–2.9
Changes in provisions and payables	26.6	–44.3
Cash flows from operating activities	**–11.4**	**–51.3**
Cash flows from investing activities	**–3.4**	**–3.1**
Free cash flow	**–14.8**	**–54.4**
Cash flows from financing activities	**–2.3**	**0.8**
Change in funds	**–17.1**	**–53.6**
Effect of changes in exchange rates	–0.2	–0.6
Funds at beginning of period	206.3	185.4
Funds at end of period	**189.0**	**131.2**

Notes to the Interim Accounts to 31 March 2014

1 Accounting Policies

This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The consolidated financial statements were prepared in accordance with the standards 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.

The interim accounts conform to IAS 34. Taxes on income were disclosed at the average national tax rate applicable.

Individual items in the balance sheet and the income statement were aggregated to clarify presentation. Figures represent million euros (€m), unless stated otherwise.

2 Consolidated Companies and Consolidation Principles

There were no changes in our consolidated companies and consolidation principles.

The financial statements of foreign entities were translated at the closing rate or at an average exchange rate for the period, as specified in IAS 21.

3 Segment Information

3.1 Business Segments

01.01. - 31.03.	Web and special presses		Sheetfed offset presses	
in €m	2013	**2014**	2013	**2014**
Revenue	92.5	94.7	98.2	118.7
Operating profit/loss	–11.0	–11.4	–5.9	1.2
Capital investments	2.1	1.9	3.1	1.1

3.2 Geographical Breakdown of Revenue

01.01. - 31.03.		
in €m	2013	**2014**
Germany	54.9	44.1
Rest of Europe	56.9	66.1
North America	20.8	24.4
Asia/Pacific	44.2	64.9
Africa/Latin America	13.9	13.9
Revenue	**190.7**	**213.4**

4 Earnings per Share

01.01. - 31.03.		
in €m	2013	**2014**
Earnings per share	–1.12	–0.85

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,524,783 no-par shares, previous year: 16,487,314 no-par shares).

5 Balance Sheet

5.1 Intangible Assets, Property, Plant and Equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	88.2	49.1	39.1
Property, plant and equipment	658.5	470.1	188.4
Total at 31.12.2013	**746.7**	**519.2**	**227.5**
Intangible assets	86.6	47.9	38.7
Property, plant and equipment	658.9	474.1	184.8
Total at 31.03.2014	**745.5**	**522.0**	**223.5**

Investment in property, plant and equipment totalling €2.9m (first quarter 2013: €5.1m) primarily refers to additions of plant and machinery, factory and office equipment.

5.2 Inventories

in €m	31.12.2013	**31.03.2014**
Raw materials, consumables and supplies	68.1	66.5
Work in progress	259.5	278.9
Finished goods and products	29.6	33.0
	357.2	**378.4**

5.3 Liabilities

Current and non-current liabilities fell by €29.5m. This was due to €16.5m in other provisions, €13.7m in trade payables and customer prepayments of €9.1m. In contrast, pension provisions recognised directly in equity rose by €8.7m.

Key Financial Dates

Koenig & Bauer Annual General Meeting
28 May 2014
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2014
12 August 2014

Interim report on 3rd quarter 2014
11 November 2014

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