Consolidated Financial Statements 2015

Koenig & Bauer Group

At a Glance

KBA Group in Figures

€m	2011	2012	2013	2014	2015
Order intake	1,552.1	1,116.2	1,012.2	956.9	1,182.7
Revenue	1,167.2	1,293.9	1,099.7	1,100.1	1,025.1
Order backlog at 31.12.	825.7	648.0	560.5	417.3	574.9
Earnings before interest and taxes (EBIT)	9.9	12.0	–130.7	13.3	35.9
Earnings before taxes (EBT)	3.3	3.7	–138.1	5.5	29.7
Net profit/loss	0.4	0.4	–153.7	0.3	26.9
Balance sheet total	1,222.8	1,151.8	1,098.0	1,014.7	976.9
Intangible assets, property, plant and equipment	275.0	243.1	227.5	228.7	224.2
Equity	466.6	441.3	277.9	227.2	258.4
Investment in intangible assets, property, plant and equipment	35.7	33.0	32.3	21.7	28.4
Depreciation on intangible assets, property, plant and equipment	35.5	64.9	59.6	30.5	29.1
Payroll: annual average	6,401	6,272	6,257	6,058	5,286
Cash flows from operating activities	83.9	83.3	34.1	43.2	–15.3
Dividend per share in €	–	0.40	–	–	–

The widest and most powerful digital web presses currently on the global market are assembled at the KBA Group's headquarters in Würzburg

Title photo:
Print has good future prospects in the field of functional printing which is not dependent on the media shift. This is why KBA is focusing on this growth sector

Contents


KBA

Major Events in 2015

January

Schur Pack Germany ordered three cutting-edge Rapida medium and large-format presses from KBA-Sheetfed Solutions with a total of 29 printing and coating units for its new production facility in Gallin, Germany. The order included the first Rapida 145 presses with a speed of 18,000sph and new double-pile delivery.

February

KBA-Digital & Web Solutions unveiled the new RotaJET L platform at the Hunkeler Innovationdays in Lucerne. The inkjet presses with web widths of 89 to 130cm can be extended after installation and flexibly configured for commercial and publications printing as well as for functional and packaging printing.

March

Investment in newspaper presses has decreased significantly in recent years, nevertheless, the KBA Commander CL holds the top spot in the top performance segment with 15 presses ordered. Several newspaper houses opted for this press in 2015.

April

Print China in Guangdong was extremely successful for KBA with a raft of visitors to the stand and over 200 printing units sold. The joint trade show presence under the banner “KBA: Print Solutions for All” received a great deal of attention from Chinese print experts.

May

One of the largest building projects at our Radebeul site in recent years was a new 2,000m^2 manufacturing hall with a new plant access road. The hall is equipped with new manufacturing equipment for the surface coating of cylinders and other press components.

June

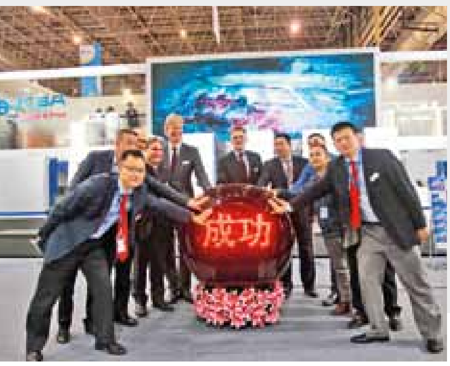
Some 50 representatives from the fields of politics, science, economics and the media as well as 1,000 active and former employees with their families attended the production open-house at the facility in Würzburg. They saw how the cradle of press engineering has been modernised technologically as part of the realignment.

From the left:

With a raft of orders and visitors Print China was extremely successful for KBA

The new hall for surface coating at the sheetfed offset plant in Radebeul

More than 1,000 visitors came to the production open day at KBA’s headquarters in Würzburg in June



July

Large customer events are a tradition at KBA-Sheetfed Solutions. In summer 2015 some 1,000 print experts from more than 30 countries participated in the "LED-UV & Traditional UV Conference" in Radebeul. This high level of interest shows just how important information exchange on current topics is to users.

August

KBA exports over 80 per cent of its presses and employs a raft of foreign staff. Our technicians are welcomed by customers the world over. KBA has trained two asylum seekers from Pakistan in electromechanics since August 2015, thus making a contribution to integrating the many new arrivals in Germany.

September

Following an intensive selection process, the Beijing Daily Group in the Chinese capital chose to extend its KBA Comet installed in 2010 by two printing towers and two folders. In addition, the order placed with KBA comprised adjusting production capabilities.

October

KBA is a trendsetter when it comes to launching future-focused LED-UV curing in sheetfed offset and is the only manufacturer to offer this energy and time-saving process in large format. Family-run company Oberdruck in Austria belong to its growing number of users.

November

Australian metal decorating firm Jamestrong Packaging ordered longest MetalStar 3 UV press line with eight colours, dryer and coater from KBA-MetalPrint. The line is expected to be installed by the end of 2016 and replaces two older presses.

December

KBA-Flexotecnica active in the growing flexible packaging market posted a significant rise in revenue. A ten-colour EVO XG for Dutch film printer Altacel Flexible Packaging was among the presses delivered within Europe.

From the left:

The training of asylum seekers is seen by KBA as a concrete contribution to integration

Austrian family firm Oberdruck also banks on LED-UV curing in its new Rapida 106

The new EVO XG from KBA-Flexotecnica at Altacel in Weesp, Netherlands

Letter to shareholders

We realigned the KBA Group in 2015. Major changes were made to the company structure, our strategy as well as to our focus on growth markets. This process was accompanied by introducing clear Corporate Governance and new, transparent segment reporting. The biggest restructuring programme in decades was implemented as scheduled and we achieved the turnaround in Group earnings targeted.

Koenig & Bauer management board (l-r):

Dr Andreas Pleßke,

Claus Bolza-Schünemann (president),

Dr Mathias Dähn

At €1,025.1m Group revenue reached our goal of over €1bn thanks to a strong fourth quarter. The decrease in revenue compared to 2014 (€1.1bn) was mainly the result of a weaker security press business. On the other hand, sales in our Digital & Web segment were as low as expected due to the realignment. However, good progress has been made with the management board's strategic goal of increasing revenue in growth markets packaging and digital printing and we have reduced our dependency on the cyclical security business and media-driven publication printing. Revenue generated in the packaging sector grew by 7% compared to 2014. Packaging now makes up some 70% of Group revenue with new presses, followed by security printing at around 20%. The proportion of media-related fields now only totals around 10%.

The realignment unlocks good prospects for earnings-driven growth for the KBA Group in the coming years. Despite a €75m fall in revenue, at €29.7m Group earnings before taxes (EBT) surpassed our forecast and the prior-year figure of €5.5m. Contrary to previous concerns, we were able to generate high revenue of €183.9m in our Sheetfed segment in the fourth quarter without any major additional costs and thus considerably improved both our segment and Group result. At €574.9m order backlog at the end of 2015 was €157.6m higher than the prior year due to a double-digit percentage rise in new orders in all segments. This ensures a solid level of capacity utilisation at our large sites until the industry's leading trade show, Drupa, at the end of May 2016.

We were particularly pleased with the earnings and volume of new orders in our Sheetfed segment. Thanks to growth in the cardboard packaging market and our strong position in customised presses we were able to increase this segment's revenue by 6.9% to €561.7m. After a loss the previous year, segment profit of €25.5m is a considerable success. The expansion of our service business and progress with regard to costs and prices for new machines contributed to this rise. The new financial year got off to a good start for this segment, which contributes to more than half of Group revenue, with order backlog up 55.8% to €282.8m year-on-year and solid capacity utilisation.

Our Digital & Web segment has been significantly scaled back and it achieved the turnaround with EBIT of €1.3m in the strong final quarter thanks to its lower cost base. Despite low annual revenue of €98.4m and higher development costs in digital printing, the segment result improved from –€13.3m in 2014 to –€10.9m in 2015. Given the 22.7% rise in order intake to €117.8m and gains in our digital and service business, we are confident that Digital & Web will generate higher sales and a profit by the end of 2016. We expect the alliance with HP in the corrugated packaging sector to make a growing contribution to our digital printing business. Additionally, we address the field of digital printing with our own RotaJET series with increasing success, especially for industrial applications.

The rise in order intake in our Special segment of 29.8% to €477.7m (2014: €367.9m) was primarily the result of a climb in new security press orders. The volume of new orders for coding equipment also grew sharply. In spite of higher sales in flexo and metal decorating, at €422.9m revenue in this segment for the entire year was below the figure for 2014 (€474.5m) due to lower security press sales. Compared to the prior-year figure of €57m segment profit thus sank to €27.7m.

Following the largely completed implementation of our Fit@All programme and the introduction of the new company structure, the management board can focus again on strategic decisions and growth in new markets. Our goal is to improve customer competitiveness with innovative products, tailor-made solutions, premium quality and a convincing service business. The more this occurs, the better it is for our customers and ourselves.

Along with expanding our product range in the cardboard market and in industrial digital printing, we predominantly see potential for growth in volume markets for flexible packaging and corrugated board. There is also potential for increasing sales and earnings with new products for metal decorating, glass and hollow container printing, marking and coding. The further expansion of our profitable service business and professional utilisation of the international KBA network for all companies is of great importance. Progress with expanding our business reduces our previously strong dependence on individual business fields, such as security printing, significantly. Diversification with a clear focus on the print market in all its diversity therefore remains a top priority on the management board's agenda.

After having almost completed our Fit@All restructuring programme by the end of 2016, personnel measures necessary for a sustained earnings improvement have also almost been fully implemented. These were painful for all concerned. Excluding staff on phased retirement schemes who are still listed in our personnel statistics and excluding apprentices, Group payroll is nearing our goal of some 4,500 employees.

Over the coming quarters we will see the beneficial effects of the successful realignment on our financial figures even more. We believe the KBA Group is on the right track and we will continue to follow this path with vigour. The management board's main goal remains sustained positive earnings in all segments. Only in this way can we maintain the financial scope for investments and expand our footing in growth markets.

Numerous political and economic hotspots within Europe and abroad currently make providing an outlook for the future more difficult. Assuming conditions for our global business do not deteriorate significantly, we are targeting an increase in Group revenue to around €1.1bn and an EBT margin between 3 and 4% in 2016. The solid order pipeline at the beginning of the year, stimulus from the industry's leading trade show Drupa which starts in two months' time, and effects from the fundamental restructuring of the company are becoming more noticeable and are expected to be beneficial.

We wish to thank you, our shareholders, for your trust in KBA and hope that you will continue to follow our progress with interest. Many thanks as well to our customers worldwide for your interest in our products and for your loyalty, some of you for many years. And a big thank-you to all our executives and staff for your dedicated and loyal conduct regarding the many changes for the benefit of the company.

Würzburg, 22 March 2016
Koenig & Bauer Management Board

Claus Bolza-Schünemann
President and CEO

Supervisory Board Report

Dr Martin Hoyos
Chairman, Koenig & Bauer AG

Four regular supervisory board meetings took place in 2015. Alongside progress with Fit@All and strategic developments, the central issues discussed were the current performance, financial position and earnings of Koenig & Bauer, the Group and its individual segments. Additionally, the management board provided a full and detailed report on corporate policy and planning as well as demand and competition in key markets. Current quarterly figures and personnel topics were at the centre of three extraordinary meetings held as telephone conferences. The election of two new supervisory board members as shareholder representatives resulted in a constituent supervisory board meeting immediately after the AGM with composing the committees.

The session on 19 March 2015 revolved around the discussion, examination and approval of the financial statements to 31 December 2014. On the basis of the nomination committee's suggestion, Dr Gisela Lanza and Carl Ferdinand Oetker were selected as candidates to fill the seats as shareholder representatives left vacant by the departure of Reinhart Siewert and Baldwin Knauf. The agenda for the AGM with proposed resolutions for the supervisory board and auditor appointments, legal changes as part of the planned spin-offs and the new articles of association were approved in addition to the sale of the site in Trennfeld. Moreover, the management board reported on the Group's subsidiaries, current performance of the Group and Fit@All.

Alongside a preliminary discussion about the AGM, in its session on 20 May 2015 the supervisory board was informed in particular about the current performance of the Group and status of Fit@All. The management board explained the options for action and backgrounds of its decision regarding the future and strategic development of KBA-Grafitec in detail. After rigorous scrutiny we agreed to the management board's concept. Expanding the compliance structure was also debated.

On 21 May 2015 Dr Gisela Lanza and Carl Ferdinand Oetker were elected by the AGM as shareholder representatives. The appointment of these two supervisory board members are each in effect for the period up to the end of the AGM which discharges duties for the 2019 business year. In the subsequent constituent supervisory board meeting chairman Dr Martin Hoyos and deputy Gottfried Weippert were confirmed in office and Dagmar Rehm was elected deputy chairman. Additionally, changes to the composition of the committees were agreed. The personnel, nomination and mediation committees are chaired by Dr Martin Hoyos, the audit committee by Dagmar Rehm and head of the strategy committee is Dr Gisela Lanza.

In the extraordinary meeting held as a telephone conference on 15 July 2015 deliberations focused mainly on issues relating to personnel. Further conference calls took place on 10 August regarding the first half-year and on 9 November 2015 for the nine-month figures.

The business development of the Group to 31 August 2015 and the forecast for 2015 were at the centre of the session on 24 September 2015. Following a report on the largely completed implementation of Fit@All, the management board presented residual structural and process optimisations as well as projects focusing on strategic development. The supervisory board approved the management board's rules of procedure which were altered given changes under company law and the new Group management board, as well as those for the supervisory board that were slightly modified. In accordance with the equal participation of women and men in executive positions in private and public sectors, on 29 September 2015 a resolution was passed setting a target for the proportion of women on the board. See page 56 of these statements for more details.

The new managing directors of KBA-Industrial Solutions (Michael Kummert), KBA-Digital & Web Solutions (Christoph Müller) and KBA-Sheetfed Solutions (Ralf Sammeck) who are part of the new Group management board resigned their seats on the Koenig & Bauer management board with effect from 28 October 2015. Ralf Sammeck is responsible for the Sheetfed segment and Christoph Müller for the Digital &Web segment.

The meeting on 19 November 2015 revolved around the forecast for 2015, the corporate planning for 2016 to 2018, projects following the restructuring programme Fit@All and compliance topics. After intense debate, the supervisory board voted in favour of the plan presented by the management board to reorganise KBA-MePrint. The supervisory board also approved the investment plan for 2016.

The supervisory board and its committees fulfilled their legal and statutory obligations. They supported, guided and monitored the activities of the Koenig & Bauer management board on a continual basis and its members were closely involved in all executive decision-making processes of any importance. Board resolutions were passed after rigorous scrutiny and discussion.

In addition to coordinating the work of the supervisory board the chairman fulfilled the monitory and advisory functions between plenary sessions in meetings and discussions with the management board, in particular the president. Strategy, planning and business developments as well as risks and compliance topics were deliberated in detail. The members of the supervisory board were regularly informed by the chairman about the results of these talks.

Five committees assist the supervisory board in the drafting of resolutions and formulating any issues to be raised at plenary sessions. In 2015 the audit committee held six meetings, the personnel committee met three times, the nomination committee for new supervisory board members on the shareholders' side convened twice and the strategy committee met once. The mediation committee appointed under section 27 (3) of the Law of Codetermination did not convene in 2015.

On 21 March 2016 the audit committee reviewed the financial statements for the KBA Group, the financial statements for Koenig & Bauer AG and the combined management report for 2015 as well as the corresponding audit reports. In this meeting the auditors' representatives summarised the major focus and results of their audit, as well as providing further information upon request. In addition, the planning of internal auditing for 2016 was agreed. Discussions in committee sessions in 2015 focused on interim reports, risks within the Group, defining the main areas of the audit, reviewing the annual and consolidated financial statements including the respective management reports for 2014 as well as the corresponding audit reports. Compliance in the Group was also a major topic. The management board attended the majority of the meetings.

Matters relating to the management board dominated the personnel committee's sessions in 2015. The nomination committee prepared candidate proposals for shareholder representatives for election at the AGM to fill vacant supervisory board posts. After focus was placed on the Fit@All project in 2014, the strategy committee turned their attention to prospects for the sustained development of the Group presented by the management board and recommended systematically pursuing promising projects. The supervisory board was informed about the conclusions of the committee meetings.

On 12 February 2016 the supervisory and management boards duly issued and published an updated declaration of compliance on the Group's website. Apart from company-specific justified exceptions, KBA complies with the principles and voluntary recommendations of the latest version of the German Corporate Governance Code from 5 May 2015, see the Corporate Governance Report on pages 20 and 21 for more details. There were no conflicts of interest among members of the supervisory and management boards.

Nuremberg-based KPMG Bayerische Treuhandgesellschaft, the auditors approved by the AGM for the 2015 business year, examined the financial statements for Koenig & Bauer AG and for the KBA Group to 31 December 2015, the combined management report and method of accounting, and awarded them the auditor's certificate unreservedly. The auditors confirmed that the management board has put in place an early warning system conforming to section 91 (2) of German Stock Corporation Law. The financial statements, reports and auditors' reports were distributed to the members of the supervisory board for perusal well in advance. The results of the audit committee's scrutiny were imparted to the supervisory board. The auditors responsible answered any questions the supervisory board members asked during the meeting. After conducting its own review the supervisory board raised no objections to the year-end financial statements for Koenig & Bauer AG and the Group and combined management report in the meeting on 22 March 2016. The Koenig & Bauer AG financial statements were approved. The Group financial statements and combined management report were also scrutinised and acknowledged.

The supervisory board would like to thank all Group employees, members of the Group management board, executives and staff representatives from all Group companies for their dedication, contribution and the constructive collaboration in 2015. And we thank you, our shareholders, for your confidence in KBA.

We wish to express our particular thanks to Reinhart Siewert and Baldwin Knauf who left the supervisory board in 2015. Over almost 50 years Reinhart Siewert in his roles as CFO, CEO and deputy chairman made a decisive impact on the development of the company demonstrating great expertise, vision and skill. Baldwin Knauf who joined the supervisory board in 2006 brought a host of helpful ideas and was a driving force to the supervisory board with broad expert knowledge and entrepreneurial experience.

Würzburg, 22 March 2016
Koenig & Bauer AG
Supervisory board

M. Hoyos

Dr Martin Hoyos
Chairman


18000
RAPIDA
145

KBA-Sheetfed Solutions is the international market and technology leader in large-format sheetfed offset presses for cardboard printing

KBA Shares

Share price more than tripled in twelve months

Koenig & Bauer share prices performed extremely well in what was at times a rather turbulent 2015. Following a low of €9.89 at the start of the year, on 19 November shares hit a high for the year of €35.79 and a new all-time high. With a closing figure of €32.90 the KBA share price more than tripled in twelve months. KBA ranked second with respect to share price performance out of the 50 SDAX company listings that ended 2015 with an average plus of 26.6%.

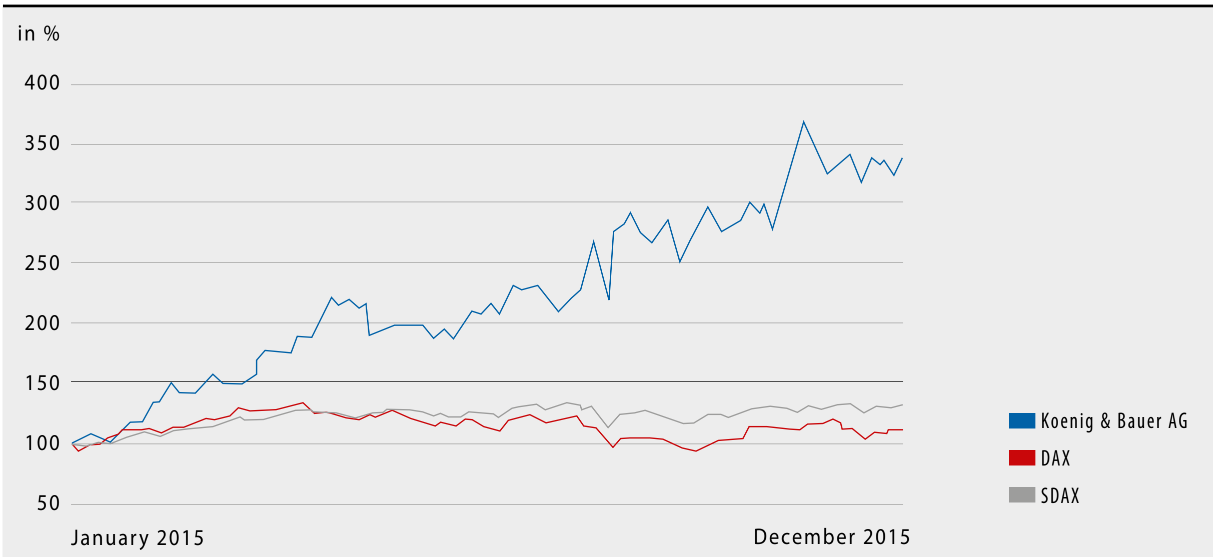
This dynamic share price performance was not without the volatility both upwards and downwards usual in a jittery stock market climate. Along with numerous political conflicts, the Greece and euro crisis which intensified in early summer, subsequent bad news from growth market China and other threshold countries often hindered growth. In contrast, the cash floodgates opened by the ECB and the weak euro acted as a lasting stimulus for European stock markets. As a consequence, Germany's leading share index, the DAX, reached a new all-time high of 12,390.80 points on 10 April and ultimately was up 9.6% in 2015, the fourth growth year in a row.

After difficult stock market years, the far above-average performance of KBA shares predominantly resulted from our investors' trust growing out of the consistent and speedy realignment of the company, capacity cut, strengthening Corporate Governance and a focus on growth markets. Additionally, high order intake and the positive development of various earnings and financial figures stated in our interim reports also triggered this upturn. The Sheetfed segment profit in the third quarter report published on 10 November exceeded capital market expectations and led to a temporary all-time high. Koenig & Bauer last recorded share prices of around €30 in 2007 before the outbreak of the financial crisis.

Permanent communication with the capital market

Along with continued talks with our shareholders, we have intensified dialogue with investors and financial analysts

Performance of KBA shares in 2015



further in a raft of one-on-one discussions and telephone conferences. Furthermore, KBA was again present at capital market conferences, such as the German Corporate Conference in January in Frankfurt and in September in Munich. We visited numerous investors at road shows in Düsseldorf, Edinburgh, Frankfurt, Hamburg, London and Stuttgart. A further pillar of our communication with shareholders is the AGM. Around 500 shareholders representing 60% of equity attended the event at the Vogel Convention Center (VCC) in Würzburg on 21 May 2015. Financial information, quarterly and annual reports, presentations, dates and press releases on important developments can be found on the KBA website.

Positive analyst appraisals

Following a one year interruption, KBA shares have been listed on the SDAX again since 22 June 2015. With its listing in the German stock market's Prime Standard KBA complies with the obligations of good Corporate Governance with prompt communication. A change in reporting with three reorganised segments in place since the start of the year has also contributed to more transparency with regards to market and business development. Various financial institutions publish regular studies on our company and shares. At the end of 2015 some analysts recommended buying KBA shares. Others changed their recommendation for Koenig & Bauer shares from buying to holding following the sharp upturn in share price given the profit takings expected.

Key data on ordinary KBA shares

	2014	**2015**
Earnings per share	€0.03	€1.62
Highest price	€13.15	€35.79
Lowest price	€9.65	€9.89
Closing price	€10.00	€32.90
Market capitalisation in €m	165.2	543.7
Cash flow per share	€2.61	–€0.92
Dividend	–	–

Corporate Governance

Corporate Governance improved across all areas

With the shift from a functional to a divisional organisation structure, the introduction of a holding organisation with autonomously operating business units and new segment reporting we improved our Group-wide Corporate Governance system further in 2015 with clear and consistent management responsibility as well as increased transparency. The management of each individual business unit is responsible for achieving defined earnings targets. Permanent losses are not tolerated and cross-subsidies are prevented effectively through the new structure. Capital is deployed systematically according to strategic goals and margins expected.

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

On 12 February 2016 the Koenig & Bauer management and supervisory boards issued the current declaration of compliance. The present declaration may be accessed by the general public on the Group's website at http://www.kba.com/en/investor-relations/corporate-governance/declaration-of-compliance/. The recommendations issued on 5 May 2015 by the German Corporate Governance Code are implemented with the following exceptions. Even voluntary recommendations are met as far as possible.

Policy excess borne by the supervisory board for D&O liability

At present the policy excess borne by members of the supervisory board for D&O liability insurance of €2,500 is lower than is recommended in provision 3.8 of the Code. We have no plans to adjust the excess to a minimum of one-and-a-half times the fixed annual remuneration because our supervisory board discharges its duties with conscientious dedication at all times and in full, irrespective of the level of such excess.

Management board compensation

In the management board member contracts payments to members of the management board whose contracts are terminated prematurely by KBA without serious cause are limited to an amount corresponding to three years' fixed remuneration including fringe benefits. Provision 4.2.3 of the Code recommends a severance pay cap of two years remuneration. As the payments are limited to the fixed basic salary Koenig & Bauer generally places an even stricter limit on the severance pay cap. Furthermore, provision 4.2.5 of the code stipulates that additional disclosures shall be provided regarding the individualised disclosure of management board remuneration. The AGM passed a resolution against the disclosure of individual management board remuneration on 16 June 2011 for the period ending with the 2015 business year. Accordingly, we waive the recommended disclosure of this additional information including the provision of two reference tables.

Supervisory board compensation

In the Notes the remuneration of individual members of the supervisory board is not disclosed (provision 5.4.6). We believe that this, together with the information on the remuneration agreements fixed in the articles of association and described in the management report, is an assessment of the adequacy of supervisory board remuneration and of the individual amount of remuneration possible.

Management and supervisory board shareholdings

At the end of December 2015 members of the management board owned 5.07% of equity capital, members of the supervisory board 0.02%. Since we feel that this separate disclosure is sufficient to meet shareholders' justifiable need for information, the figures for individual board members (provision 6.2) were not disclosed.

Board composition

In their proposal for shareholder representative candidates at the AGM the supervisory board and the nomination committee take the criteria in provision 5.4.1 section 2 of the Code into consideration. The supervisory board consists of independent executives with sound international experience, technical know-how and a good grasp of industrial economics also in the fields of accounting and auditing. Among the newest supervisory board members as shareholder representatives are Dagmar Rehm and Professor Gisela Lanza, independent and acknowledged experts in the fields of finance and production. According to the German law for the equal participation of women and men in management roles in the private and public sectors at a third the ratio of women necessary has already been met with two female supervisory board members as shareholder representatives. At the election in April 2016 workforce representatives aim to fill two seats each with one experienced and expert female member from the works council and from IG Metall. The supervisory board's selection criteria regarding future management board appointments also focuses on diversity.

The rules of procedure for the supervisory board stipulate an age limit. A limit for the length of membership to the supervisory board (provision 5.4.1 of the Code) is not in the interests of the company as a rigid regulation neglects the members' individual knowledge and professional qualifications.

Corporate compliance system developed further

Our existing compliance system was expanded in 2015 also. As part of legal changes and spin-offs the compliance team, which supports the Group compliance officer, was changed with regard to its set-up and the system of the local compliance representatives was examined and developed further. The local compliance officer is a direct contact person on-site for staff at the individual subsidiaries concerning relevant topics. Furthermore, the continuing development of compliance guidelines and its summary as a compliance manual were also on the agenda.

Combined Management Report

KBA-Kammann serves the special market for glass and hollow container packaging with screen and digital presses. This market is expanding primarily in Asia

In 2015 KBA-NotaSys recorded increased project activity and rising order intake in the cyclical field of security printing

Corporate Structures

Company Structure and Business Activities

De-central organisation active in many markets

Friedrich Koenig and Andreas Bauer laid the foundations for industrial printing with the invention of the cylinder press in 1812 in London. The two pioneers founded Schnellpressenfabrik Koenig & Bauer in Würzburg, Germany, in 1817. Since then manufacturing such machines and systems able to transfer ink precisely and efficiently onto various substrates has been the purpose and core competence of our company. The potential of various print products is by no means exhausted for KBA. With sales of almost $700bn the global print industry is larger than the car or music industry.

Today the KBA Group is the press manufacturer with the broadest product portfolio of all press vendors. The corporate risk of economic and cyclical fluctuations is reduced by serving many market segments while at the same time creating know-how for innovations, new applications and new partnerships.

Press technology for all

KBA began diversifying fifteen years ago through acquisitions in print markets not driven by the media. This focus on growth fields was continued in recent years with the entry into digital printing, glass direct decoration and flexible packaging printing. Today banknotes, metal cans, books, brochures, displays, decoration, labels, glass and plastic containers, cardboard and film packaging, catalogues, laminates, magazines, tyres, cables, smart cards, advertising flyers, newspapers and much more are printed and finished in part or processed on machines and systems made by the KBA Group. This is in addition to use of almost all conventional analogue and digital technologies. KBA already has a strong market footing in security and packaging printing. The relatively new business field of digital printing has made initial progress and will be expanded further. Moreover, strategic decisions and the introduction of a new company structure has strengthened our focus on future markets.

New holding structure enhances strategic flexibility

Koenig & Bauer became a public limited company in 1920 and went public in 1985. After approval by the AGM in May the de-central company structure with Koenig & Bauer as a holding and spun-off operating units was implemented from 1 January 2015 retrospectively. It was one of the largest structural changes in recent decades with impacts on reporting. Along with strengthening accountability for attaining goals in the respective market segment, the realignment is expected to lead to more transparency both within the Group and outside as well as more strategic flexibility.

The companies that were spun-off from the Parent are KBA-Sheetfed Solutions AG & Co. KG, KBA-Digital & Web Solutions AG & Co. KG, our security printing activities based in Würzburg as KBA-NotaSys AG & Co. KG as well as production in Würzburg and Radebeul as KBA-Industrial Solutions AG & Co. KG. Sheetfed, Digital & Web and Special are shown as individual segments in the new reporting breakdown valid since 2015. Revenue generated by Industrial Solutions as a production service provider with KBA-Gießerei based in Würzburg as a subsidiary will be assigned proportionately to the business units operating on the market.

In the Group reporting breakdown the Sheetfed segment constitutes medium and large-format sheetfed offset presses made in Radebeul as well as half-format presses from KBA-Grafitec in the Czech Republic. KBA-Sheetfed Solutions in Radebeul is responsible for the development and sales of all Rapida presses and their corresponding peripherals, and is ranked second in its market internationally. Sheetfed offset presses are our highest-revenue product field.

The Digital & Web segment encompasses our digital and web press business in Würzburg and KBA-FT Engineering's folder, special press and service activities in Frankenthal.

Our subsidiaries KBA-MetalPrint, KBA-Flexotecnica, KBA-MePrint, KBA-Metronic, KBA-Kammann which until now have been active in special markets with a focus on packaging and KBA-NotaSys companies operating in the security press business in Lausanne, Würzburg and Mödling are consolidated in the Special segment.

As part of the changes in accordance with company law and the new role of Koenig & Bauer AG as a holding from the 2015 financial year onwards there will be a combined management report instead of separate management reports for the Parent and the Group

International Group structure

KBA has always operated worldwide. Our export ratio is historically far over 80%. Shifts in demand continue from advanced economies in Western Europe, North America and Asia to threshold markets on the edge of Europe, in the Middle and Far East, Latin America and parts of Africa. New printing firms are even being founded here. On-site presence is accordingly of importance. In past years we have therefore invested in further sales and service subsidiaries in Latin America and Asia in particular.

Domestic and foreign sales and service subsidiaries which are active in several business fields are assigned to our largest segment, Sheetfed (see overview on page 81 in the Notes). Smaller sales offices in Russia, Eastern Europe, Scandinavia, Malaysia, Singapore, South Korea, Japan, Australia and Latin America have not been consolidated.

Corporate Planning, Control and Monitoring

More transparency supports Corporate Governance

The reporting breakdown introduced in 2015 for the segments sheetfed offset presses (Sheetfed), digital and offset web presses (Digital & Web) and special machines (Special) has significantly increased operational transparency. KBA uses a reliable set of figures for the efficient control and monitoring of the KBA Group and segments. The meaningful image that the figures portray also facilitates the consistent implementation of the basic principles anchored in the Group's Corporate Governance. These consist of no tolerance for loss-makers, no cross-subsidies and capital deployment in accordance with strategic goals and margins expected.

KBA's up-to-date controlling tools were sharpened further in 2015. Our three-year integrated corporate plan is drawn up annually. For the Group and segments the first planning year is prepared with detailed monthly planning with regard to income statements, balance sheets and cash flow statements. The two following years each indicate the respective quarterly figures. The frequency of our forecasts was increased. Now up-to-date forecasts are drawn up for the current financial year based on actual figures in parallel to our three quarterly financial statements.

Together with the weekly rolling 13-week and 12-month liquidity planning with cash management the detailed monthly reporting provides current feedback on the business situation, finances and earnings as well as the development of working capital. Along with permanent deviation analysis of target and actual figures, regular discussions with those responsible for the segments take place on strategic topics, the economic situation, current developments and forecasts. If negative deviations are detected, prompt and targeted measures to remedy and control the source are defined. Efficient controlling measures ensure consistent implementation. The rolling planning, forecasting and reporting process allows for the extensive evaluation of the Group and segment developments. Opportunities and risks can be identified and the necessary decisions can be made early on.

With a printing width of 2.25m and a printed surface area of up to 18,000m²/h the KBA RotaJET 225 inkjet web press is a highly efficient production tool for customised decor and laminates

The Koenig & Bauer Group uses central target and controlling figures based on the International Financial Reporting Standards (IFRS), such as revenue and EBT margins. In addition, our management reporting contains figures on order intake and order backlog. We met and surpassed our target of revenue of over €1bn with an EBT margin of up to 2% in 2015. Annual performance-related graduated bonuses with variable remuneration components orientated to Group, segment and personal targets for all executives and many employees serve to strengthen staff commitment to achieving company objectives.

The measures initiated in 2014 for strengthening controlling in the Group were completed from an organisational point of view. In parallel to central Group controlling for comprehensive Group management, we expanded the resources and components in controlling for the autonomous business units operating on the market.

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.

There are own departments in the individual companies responsible for controlling, human resources, payroll management, financing, accounting, audits and compliance. Group accounting, internal auditing and Group controlling as well as accounting also for some subsidiaries are managed by the Holding. The duties of the departments that are materially involved in accounting processes are explicitly segregated and their responsibilities are clearly assigned. Those departments involved in the accounting process are appropriately equipped.

The IT systems used for financial and payroll accounting are protected against unauthorised access. The Group's IT systems, which have been subjected to a raft of own developments in the past, will be gradually switched to SAP widespread in the machinery and project business. The business blueprint with the requirements for the business processes were complied with the goal of harmonising processes and data Group-wide. Preparations are currently being made for the system launch of SAP tools. With Industrial Solutions the first large unit in the Group will be switched over in the next twelve months followed by further companies. The CRM system Salesforce will be rolled-out to support sales activities at Industrial Solutions and Digital & Web Solutions. It has been used successfully at Sheetfed Solutions for some time. In 2015 the proven Cloud solution SAP Business ByDesign which already runs at other sales and service companies was implemented in KBA North America.

Group accounts are compiled with the aid of consolidation software monthly and are meticulously checked on a quarterly basis. Numerous Group-wide planning, forecasting and early warning procedures all promote transparency. Accounting and evaluation guidelines ensure that the principles set out by the International Accounting Standards Board (IASB) are applied. The risk management manual documents the process of recognising risks and the communication procedures for reporting risks in order to ensure their timely detection and prompt information to the management board on risks at the Koenig & Bauer and its subsidiaries. The reporting guidelines are regularly updated and extended.

The integrity and accuracy of accounting data are monitored regularly using random sampling in conjunction with manual or physical inspections that include annual inventories of stock and tasks associated with the year-end financial statements as well as inventories of property, plant and equipment at certain times. In addition, the software used carries out programmed plausibility checks. The four-eyes principle is applied to all key processes. Regular training and independent supervision ensure that our Group financial statements comply with the pertinent regulations. Fundamental accounting-specific procedures and fields in particular are subjected to analytical scrutiny by our internal auditing department and controlling. The efficiency of these checks is safeguarded by automated input, output and processing controls. Where necessary, external experts are enlisted for assistance, such as actuaries for the evaluation of pension obligations.

The authorising and implementing units are always segregated. Read/write authorisation is controlled and 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).

We can be confident that our financial reporting complies with statutory regulations with fixed principles, methods and measures. The supervisory board's audit committee monitors accounting practices, the end-of-year audit and the efficacy of the early warning system.

KBA-MetalPrint had another extremely successful year with printing and coating lines for metal sheets. Energy-efficient HighEcon dryers contribute to environmentally friendly production

Group Realignment

Fit@All programme implemented quickly and consistently

With a volume of almost $700bn the global market for print remains sizeable and overall continues to grow. Nevertheless, it has changed fundamentally in recent years and this has made it necessary also for KBA to adjust its business model. We had to minimise our dependence on shrinking or highly volatile markets, such as publications or security printing, accelerate the transformation of our portfolio into growing markets and sustainably increase earnings in all business fields. With Fit@All KBA thus started the biggest realignment programme in recent decades at the beginning of 2014. This extensive restructuring programme was largely implemented in only 24 months and already shows positive impacts on our figures for 2015.

We have fundamentally altered established processes and structures and established a holding organisation with autonomously operating business units. It was our goal to let our customers and suppliers feel the effects of the comprehensive restructuring as little as possible, and we have succeeded in doing so to a large extent. We have also made good progress with the required fine-tuning of the processes within and between the new business units. We do not anticipate any additional restructuring expenses with the corresponding need for provisions in 2016.

Capacity cut ends underutilisation
The reduction of some 1,400 jobs was an unavoidable part of the overall programme. Only a massive cut in capacity could put a lasting end to the market-driven era of capacity underutilisation and dependence on non-profitable orders. Fit@All contained numerous other changes alongside consolidation in our web press business and to our production footprint. It encompasses the Group-wide realignment of production with extensive relocations and specialisation of sites preventing parallel activities. With this aim in mind the inter-Group relocation of more than 50 machine tools and their re-installation in accordance with training measures were completed in 2015. The bundling of feeders and other parts for sheetfed presses in Radebeul, for example, has led to significant savings and contributed to the excellent Sheetfed segment profit.

A further, ongoing topic which is looked at frequently is the optimisation of the depth of added value in terms of capacity utilisation and profitability. In this context we evaluated various outsourcing scenarios and carried out comprehensive make-or-buy analyses. One outcome was that due to commercial and strategic reasons KBA will keep its foundry that was renovated a few years ago at its site in Würzburg. KBA-Gießerei which is now a subsidiary of KBA-Industrial Solutions secures know-how and availability for complex large-part castings and in connection with its precision machining activities in Würzburg the foundry opens up improved opportunities for third-party production. It is already used by a raft of external customers. Given its advantages in terms of location our Czech production plant in Dobruška will be strategically developed after thorough examination.

New prospects
The union of the shrunken business with web offset printing with the growing field of web digital printing in our Digital & Web segment unlocks new potential. In 2015 this rescaled business unit proved its expertise and capability in close cooperation with HP to develop, assemble and commission the world's largest digital press. Furthermore, along with offset press lines for newspaper printing, the first KBA RotaJET digital presses for books and industrial decor printing were fired up. We expect this segment which has been especially affected by the structural shift in recent years to return to profitability in 2016.

The realignment of our security printing business consolidated in the Special segment consisting of KBA-NotaSys in Lausanne, Switzerland, KBA-NotaSys in Würzburg and KBA-Mödling in Austria delivers strategic advantages and savings in a challenging market with many government clients in threshold countries. The Group-wide management team speeds up decisions and ensures that common goals are pursued.

Eliminating loss-makers
The new company structure with Koenig & Bauer as a holding and spun-off operating business units strengthens the autonomy of the individual companies. Systematic Corporate Governance effectively prevents cross-subsidies. In addition, strategic flexibility for the management board is improved with regards to reacting to market changes. It also makes it easier to eliminate loss-makers, to reduce the break-even point in the Group for continued positive earnings and to generate the funds necessary for the growth strategy determined.

Research and Development

Innovations for Drupa and new markets

In 2015 R&D activities were strongly characterised in almost all segments by new and developed products and services for the industry's leading trade fair, Drupa. Innovations for growth markets digital and packaging printing were in the foreground as well as promising processes for commercial printing, such as energy and cost-saving LED-UV technology in sheetfed offset. Additionally, our engineers are focusing increasingly on digital process networking towards Print 4.0 in production, logistics, order processing, customer support and after-sales service in almost all KBA companies.

High R&D expenses for new security features at KBA-NotaSys ensure that the banknotes printed on our presses are extremely forgery-proof.

Further key development topics are low-migration technologies and consumables for food packaging and suitable inks for special applications in digital printing. KBA engineers work closely with appropriate suppliers on the extensive series of tests necessary.

Successful development partnership with HP

Along with the further practical optimisation of the KBA RotaJET platform for industrial applications, such as digital decor printing, a focus was the HP PageWide Web Press T1100S developed by Digital & Web together with HP in only 18 months for the corrugated market. The press which is currently the world's largest inkjet press with a web width of 2.8m was presented to international industry experts with great success at our headquarters in Würzburg in early December. Digital & Web will build this press for HP in the coming years and will install it together with HP experts at customer sites worldwide. HP had already ordered several presses by the end of 2015.

In 2015 investment in research and development was higher than the previous year at 5.6% of Group sales (2014: 5%).

Quality Management

Maximum customer satisfaction as a guideline

Our international reputation as a supplier of innovative, high-performance and reliable printing systems for various applications, and the satisfaction of our customers regarding our products and services are key success factors at KBA. The topic of quality therefore has an extremely high priority within the company. This is why in 2015 quality management focused again on optimising in-house processes from product creation to service support with the main goal of enhancing customer satisfaction further. Systematic control, acceptance and release processes in production and assembly, part purchasing and the launch of new features have led to a significant reduction in quality costs. Stricter rules when drawing up contracts and transferring the responsibility for quality management to the operating business units have proven useful.

Business Report

Economic Environment

Despite visible economic recovery in southern Europe, a stable economy in the USA, Great Britain and parts of eastern Europe, and advantages outside the eurozone delivered by a significantly weaker euro, international demand for German machinery lost steam in 2015. The main reasons for this were weaker growth rates in key market China, ongoing financial issues in a raft of threshold countries as well as uncertainty among investors concerning numerous hot spots in many regions worldwide. The ensuing risks strain the global economy and domestic investment propensity as well. Consequently, the German Machinery and Plant Manufacturer's Association (VDMA) forecasted zero growth at a high level for the industry in December 2015. After several years of occupying positions at the lower end of the ranking when it comes to demand, in 2015 press manufacturers fared better than average in the mechanical engineering industry. According to the VDMA, order intake for printing equipment in 2015 was up 8.8% year-on-year in real terms. However, extreme regional and segment-specific disparities in performance hide behind this positive figure.

Business Performance

Growth in future markets

In 2015 KBA profited from greater investment activity in the international packaging market in particular. This led to a sharp increase in orders from folding carton and other packaging printing sectors. Accordingly, the proportion of the number of new presses used for various types of packaging printing grew to around 70% of Group revenue. Ten years ago this stood at 25%. Media-related fields, such as book, magazine, catalogue or newspaper printing, now only make up some 10% of new press sales compared to 65% in 2005. The proportion of revenue attributable to the cyclical field of security printing sank to 20%. In 2015 the volume of incoming orders rose again. Digital printing still made a relatively small, but growing contribution to revenue. We have enjoyed success with our own inkjet presses primarily in new industrial markets. There has been initial, positive feedback regarding the high-volume digital press developed together with HP. With a plus of 23.6% to €1,182.7m Group order intake increased sharply year-on year (€956.9m).

Sales target met with strong Q4

The KBA Group met its sales target of over €1bn for 2015 thanks to a strong fourth quarter in all three segments. At €1,025.1m Group revenue with a changed sales structure focusing on future markets was below the prior-year figure of €1,100.1m due to lower revenue in the security press

Geographical breakdown of revenue

in %	2014	2015
Germany	16.4	15.0
Rest of Europe	35.5	29.4
North America	10.7	14.0
Asia/Pacific	23.9	32.7
Africa/Latin America	13.5	8.9

business and the reduced web offset volume in our Digital & Web segment.

Export level at 85%

At 85% the export level remained slightly above the previous year's high level (83.6%) as domestic sales of €153.3m (2014: €180.6m) dropped by 15.1%. Fewer new web and special press installations led to a decline in sales to other parts of Europe to €301m (2014: €389.8m). Accordingly, this core market's contribution to the Group total sank from 35.5% to 29.4%.

US economy boosts business in North America

Business in North America grew considerably thanks to the solid economic climate in the USA and currency movements. Gains were predominantly made with sheetfed offset machines, flexo presses and service. Revenue in this region rose from €117.6m the previous year to €144.1m, or from 10.7% to 14% of the Group total.

Revenue up in the Far East

Despite a visible drop in demand in the second half-year, revenue in China rose slightly year-on-year thanks to a very successful Print China trade show for KBA in April. Compared to 2014 (€263.4m) revenue in Asia and the Pacific rose to €335.6m due to success in other countries. There were also encouraging developments in deliveries of highly automated sheetfed offset presses to Japan. The growth in proportion of revenue generated from 23.9% to 32.7% underscores the increasing importance of this region. We aim to take this development into account by strengthening our sales and service network there.

Latin America and Africa at a normal level

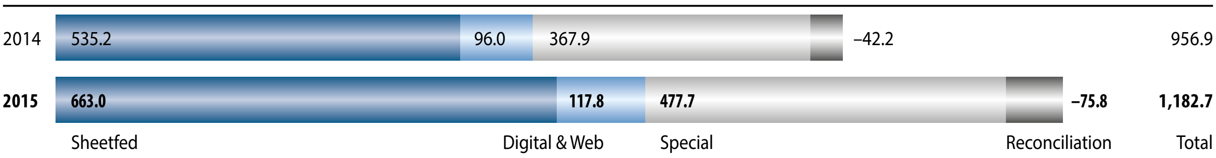
Above-average revenue of €148.7m generated by larger projects in the Special segment the previous year plummeted in threshold markets Latin America and Africa to €91.1m. Weak currencies in key markets, such as Brazil and South Africa, and the unstable political situation in North Africa continued to act as a brake on investment. The proportion of revenue in this region fell from 13.5% to 8.9% of the total.

High order backlog

At €574.9m to 31 December 2015 the KBA Group kicked off the new year with considerably more orders than

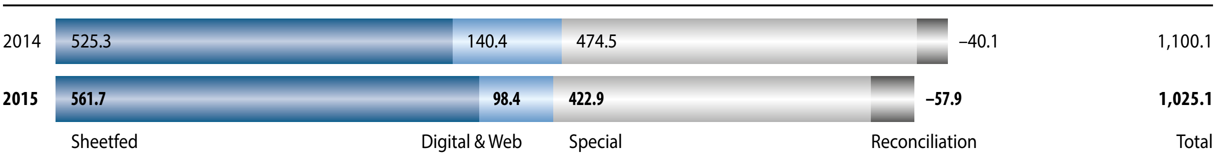
Group order intake

in €m



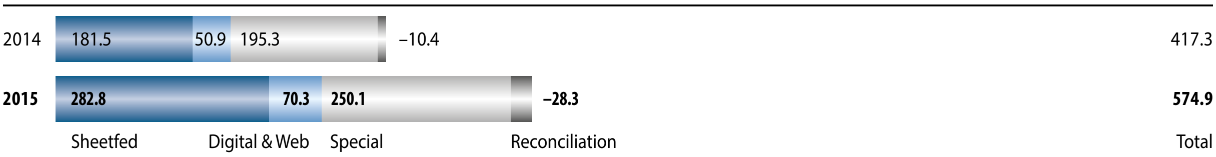
Group revenue

in €m



Group order backlog

in €m



twelve months ago (€417.3m). Order backlog was up €157.6m or 37.8% year-on-year.

Earnings, Finances and Assets

Earnings

Visible results of cut in cost base

Group earnings were bolstered primarily by a strong improvement in Sheetfed earnings. Restructuring production activities with relocations and plant closures aimed at eliminating redundancies between the sites and the fundamental reorganisation of the Digital & Web segment resulted in cost savings. These will become more noticeable from 2016 on. With Group earnings before taxes of €29.7m (2014: €5.5m) at 2.9% the EBT margin surpassed our forecast of up to 2% of sales. While business went according to plan in Digital & Web, our largest segment Sheetfed made a decisive contribution to this sizeable earnings improvement. Contrary to previous concerns in the fourth quarter we were able to generate high revenue of €183.9m in our Sheetfed segment without any large additional costs and delays in deliveries, and thus increase earnings for both the segment and Group.

Gross profit margin slightly below prior year

Our gross profit of €297.2m which was boosted by high-margin security press projects in 2014 fell to €274.5m. Alongside wage increases, additional costs in production to cushion peaks in capacity utilisation dampened the earnings upturn resulting from cost savings and a stronger service business. Overall, the gross profit margin sank from 27% the previous year to 26.8%.

EBIT of €35.9m

At €57.2m or 5.6% of revenue R&D costs were up on 2014 (€54.8m or 5%) propelled by higher development costs for new digital print markets as well as new products for Drupa and the parallel customer event Banknote Horizons. In contrast, compared to 2014 distribution costs fell from €134.5m to €123.4m and administrative expenses decreased from €80.8m to €77.8m. Other operating income of €89.4m and other operating expenses of €69.2m may seem relatively high. Given sales risks in the international special press business KBA is conservative in its accounting policies with the consequence of regularly making and reversing higher provisions. The significantly smaller net impact on earnings which included currency effects totalling +€6.8m stood at +€20.2m (2014: –€13m). To sum up, EBIT rose to €35.9m compared to €13.3m the year before. Earnings before interest, taxes, depreciation and amortisation (EBITDA) also improved to €65m. At €41.9m the prior-year figure contained special items of –€10m.

Net profit of almost €27m

At –€6.2m our interest result also improved compared to the previous year (2014: –€7.8m). While higher customer prepayments led to a climb in interest income from €2.7m to €3.2m, higher interest compounding on pension provisions resulted in a reduction in interest expenses to €9.4m (2014: €10.5m). Pre-tax earnings (EBT) were up from €5.5m to €29.7m. We posted a net Group profit of €26.9m in 2015 (2014: €0.3m) with current and deferred taxes on income of €2.8m. Correspondingly, earnings per share of €0.03 improved to €1.62. In view of the Holding's retained loss which has not been compensated by the net profit yet, we will not propose a dividend payment for 2015.

Finances

Strong finances despite high restructuring costs

The KBA Group still has solid net liquidity even after the costly restructuring. Clear working capital management made a decisive contribution towards this. Increasing liquidity by optimising working capital is a permanent goal of the management board. We still see upside potential with regard to the receivables structure and inventories. The credit lines available were largely only used for guarantees (see page 88 in the Notes for more details). No credit lines were used for cash purposes during the entire restructuring process.

Redundancy payments strain cash flow

Despite higher earnings and the rise in customer prepayments from €129.7m to €141.7m, cash flows from operating activities of –€15.3m were clearly below the prior-year figure of €43.2m. Payments amounting to some €40m as part of the restructuring were a decisive contributory factor. Furthermore, parts of the working capital could not be released by the balance sheet date due to the bundling of deliveries in the fourth quarter and the considerable rise in order backlog at the end of the year. After deducting funds for investments the free cash flow stood at –€23.7m (2014: €28.7m). Cash outflows from financing activities came to +€0.7m compared to –€6.5m the previous year.

High net liquidity

Funds at the end of 2015 totalled €186.3m (31.12.2014: €207.6m) and securities came in at €13.3m (prior year: €9.6m). After deducting bank loans of €15.8m (see page 87 onwards in the Notes for more details) from funds net liquidity stood at €170.5m on the balance sheet date (2014: €192.4m).

Equity base strengthened

The €31.2m rise in equity in 2015 to €258.4m (2014: €227.2m) was mainly a result of the net profit and a slight increase in the discount rate for pensions. The ratio of equity to the lower balance sheet total climbed to 26.5% (2014: 22.4%). Along with pushing forward with internal financing, improving our equity ratio further remains a major objective.

Lower total liabilities

The decrease in current and non-current liabilities from €787.5m to €718.5m was predominantly due to the drop in other provisions of €42.3m. They fell in parallel to the restructuring measures implemented. Changes in interest rates in particular led to a €3.2m reduction in pension provisions. Bank loans and other financial payables sank by €5.2m and trade payables were down €14.5m. In contrast, customer prepayments rose by €12m.

Assets

Investments raise productivity

The Group balance sheet total at 31 December 2015 sank to €976.9m and was thus €37.8m below the prior-year figure of €1,014.7m. Working capital stood at €259.9m (2014: €230.7m). Current assets dipped from €735.9m to €705.8m, as did non-current assets. At €271.1m these were lower than the year-end 2014 figure of €278.8m. Intangible assets amounted to €37.6m and property, plant and equipment totalled €186.6m (2014: €37.8m or €190.9m respectively). Equity corresponds to 138.5% (2014: 119%) of property, plant and equipment.

In 2015 we invested €28.4m (2014: €21.7m) in intangible assets, property, plant and equipment. Investment represented 2.8% of revenue (2014: 2%). With depreciation of €29.1m the investment rate came to 97.6% (previous year: 71.1%). Investment in property, plant and equipment as part of relocating production activities were mainly aimed at establishing higher performance competence centres at our main sites in Radebeul and Würzburg. Increasing productivity was the key focus of investments in the replacement and modernisation of equipment for burnishing castings and component manufacturing. The centre for surface coating was set up in a new hall at our facility in Radebeul and highly efficient machining centres for large parts went into operation in Würzburg.

Group income statement

as % of revenue	2014	2015
Cost of sales	–73.0	–73.2
Research and development costs	–5.0	–5.6
Distribution costs	–12.2	–12.0
Administrative expenses	–7.3	–7.6
Other income/expenses	–1.2	+2.0
Interest result	–0.7	–0.6
Income taxes	–0.5	–0.3
Net profit	+0.03	+2.6

The HP PageWide Web Press T1100S developed by HP and KBA-Digital & Web Solutions for the corrugated market was successfully presented to the industry at the KBA site in Würzburg in December

Summary of the Economic Situation

We improved our pre-tax earnings to €29.7m (2014: €5.5m) and strengthened our equity base with savings and efficiency gains from our Fit@All programme which is almost finished and a stronger focus on profitable fields, such as customer service and growth markets. With an EBT margin of 2.9% we have made significant progress in meeting our mid-term goal of 4 to 6%. Almost all major measures to eliminate loss-makers were implemented or initiated in 2015. We aim to complete residual optimisations in spring 2016, whereby we view decreasing the break-even point in our business units as an ongoing task. Our Group earnings and potential for dividend payments will profit sustainably from growth in future markets. The importance of the field of security printing for our overall results will fall further.

Despite high payments associated with the restructuring, KBA's existing net liquidity provides solid financial power. Together with the credit lines available this results in a sound financial base. We have improved our healthy balance sheet by increasing our equity base.

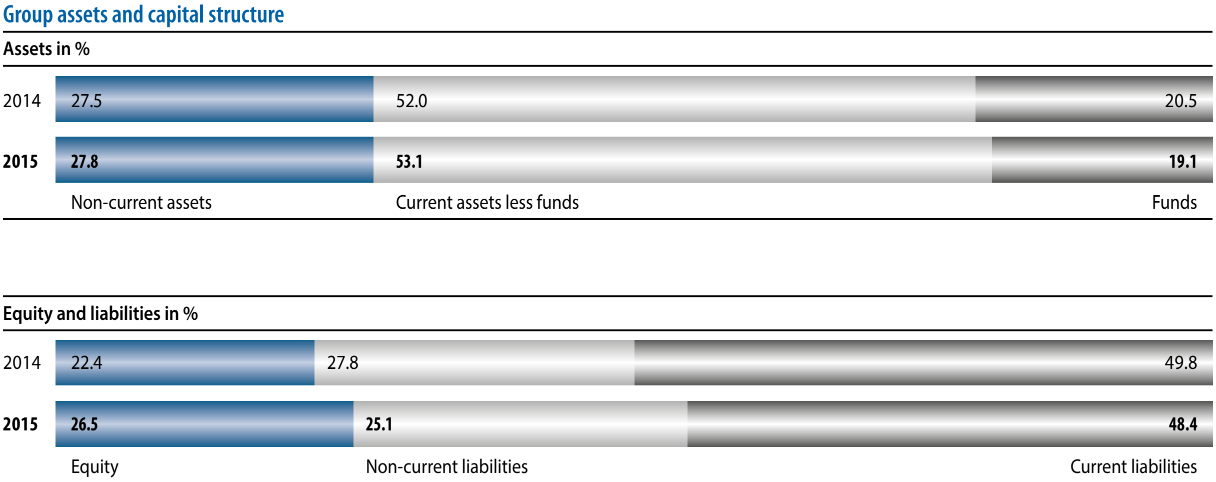
Segment Performance

Strong figures in Sheetfed

Our Sheetfed segment was particularly successful at acquiring new customers in 2015 and was able to raise its global market share for sheetfed offset presses to around 20%. Order intake was up 23.9% on 2014 (€535.2m) to €663m mainly due to strong demand from the packaging sector. The growing service business and extensively automated presses for commercial printing also contributed to this success. Along with the large-format Rapida 145 and 164 series which are especially popular with packaging printers, a major growth driver was the high-tech, medium-format Rapida 106. The new medium-format Rapida 105 PRO also posted solid incoming orders, while the Rapida 105 which has been extremely popular in Asia in recent years was affected by reduced demand from China. Order intake of the Rapida 75 manufactured by KBA-Grafitec exceeded expectations despite shrinking global market volume in B2 format.

At €561.7m revenue in this segment surpassed the prior-year figure of €525.3m by 6.9%. The growth in order backlog of 55.8% to €282.8m (2014: €181.5m) was triggered by a pleasing book-to-bill ratio. Increased revenue and cost savings led to a massive earnings improvement (EBIT) from a loss of €14m the previous year to a profit of €25.5m. A slight price increase was also conducive to this rise. Contrary effects resulted from higher procurement costs due to more purchases as a result of high workload during the restructuring of our production network. Following its completion in 2015, there are good prospects in the Sheetfed segment for an incremental improvement in earnings.

Group assets and capital structure



Turnaround for Digital & Web in Q4

A rise in orders for inkjet and offset web presses and the successful expansion of the service business for the market's aging press structure drove order intake in Digital & Web up 22.7% compared to 2014 (€96m) to €117.8m. KBA was able to defend its position as market leader in high-performance newspaper printing with orders for the flexibly automated Commander CL. The sale of another RotaJET VL with a web width of 2.25m for digital decor printing and three orders for the high-volume inkjet web press developed in conjunction with HP destined for the digital corrugated packaging market underscore our bright future prospects in the relatively young business field of digital printing.

Given low order backlog at the start of the year, revenue in this segment of €98.4m was below the previous year's figure of €140.4m which was still characterised by large web press orders. In contrast, order backlog climbed to €70.3m compared to 2014 (€50.9m). Insufficient capacity utilisation prior to the rescaling in the second quarter and sizeable development costs for new digital press markets strained this segment's results in the transition year 2015. Nevertheless, the segment loss of €10.9m was an improvement on the year before (–€13.3m). Higher revenue coupled with a significant cut in costs led to a turnaround in the fourth quarter with a profit of €1.3m. This positive earnings trend is expected to continue in the new business year.

Orders up 30% in Special segment

Success in KBA's relatively new market for flexible packaging and more orders for security printing and coding systems pushed the total volume of incoming orders in our Special segment up 29.8% to €477.7m (2014: €367.9m). KBA was able to maintain its leading role in security printing thanks to new products and security features. We currently have a good project pipeline, however, the order process is often lengthy. Order intake in metal decorating were below last year's figure, the highest figure in its history.

Although sales of coding systems and presses for metal decorating and flexible packaging rose, at €422.9m revenue in this segment was 10.9% down on the prior-year figure of €474.5m that was boosted by large security press orders. Growth prospects which did not fully come into effect in 2015, mainly in Asia, exist for the field of glass direct decoration. At the end of 2015 order backlog in our Special segment stood at €250.1m (2014: €195.3m). In 2015 the segment profit sank to €27.7m partly due to lower security press revenue and restructuring expenses in some companies compared to the prior-year figure of €57m. Banknote press orders now

Group business segments: order intake / revenue / order backlog

in €m

	2014	**2015**
Order intake		
Sheetfed	535.2	663.0
Digital & Web	96.0	117.8
Special	367.9	477.7
Sales		
Sheetfed	525.3	561.7
Digital & Web	140.4	98.4
Special	474.5	422.9
Order backlog		
Sheetfed	181.5	282.8
Digital & Web	50.9	70.3
Special	195.3	250.1

predominantly result from tenders. This has an impact on achieving long-term margins in new press sales. At the same we welcome this transparent process of awarding contracts as it offers our customers an objective, in-depth comparison of the solutions on offer. With an R&D ratio of around 10% in our security field, new products, innovative safety features and unique system expertise from the design to post-press finishing and handling of banknotes, KBA-NotaSys gladly rises to this challenge and was able to maintain its high market share of over 80% in 2015. KBA-NotaSys meets increasing pricing pressure on new press sales by expanding its service offerings.

Sustainability Report

Commitment to the environment and society

Along with minimising the consumption of energy and resources in our own production activities and in the operation of presses and systems from KBA, the use of environmentally friendly consumables and minimising noise, dust, odour and CO_2 emissions for ourselves and the users of our products is of central significance. In addition to economic and procedural topics, achieving our ecological goals while complying with corresponding guidelines is a high priority of our daily business and product development. Furthermore, we fulfil our social obligations by supporting a range of social and cultural activities.

Safety at the workplace

Regular inspections and improvements to our production processes in 2015 brought further reductions in the consumption of materials, the volume of waste generated and emissions at all our plants. Regular measurements and briefings ensure compliance with internal and external environmental regulations. In the interests of the machinery and plant engineering industry and our employees the key topic of work safety and ergonomics was addressed with clear guidelines, training and advice.

Ecology in print

Environmental aspects are systematically and consistently taken into account when developing and improving products. Sheetfed Solutions has taken over a leading role in the market by implementing energy-saving and odourless LED-UV curing technology for UV printing which is seeing increasing use in sheetfed offset. Together with partners KBA developed the VisuEnergy energy management system which serves to monitor and cut energy consumption in printing companies. It shows the primary energy consumers according to source and permits targeted action to permanently reduce energy costs. A further example is KBA SensPrint low-migration ink for food packaging. When it comes to this eco ink the potentially migrating properties are food or food additives. By sponsoring industry awards, such as the KBA award for the “eco printing plant of the year”, we reward printers for their greener mindset.

Social responsibility

The companies of the KBA Group have a long tradition of promoting social and cultural initiatives in their regions. The tenth annual benefit concert organised by Koenig & Bauer together with other print and media enterprises in Würzburg raised €100,000 in November 2015 for the Read foundation which promotes regional literacy projects. The company has supported this event since it began.

Human Resources and Welfare

Workforce realigned for future tasks

In recent years changing market conditions have led to personnel adjustments and redeployments within the Group. Highly qualified staff are a must for our technologically challenging, international business and its strategic advancement as well as for partnerships with other key suppliers. It is therefore important that we invest in the training and further education of our employees.

Personnel adjustment on the home straight

At the end of December 2015 the number of employees on Group payroll sank to 5,249 compared to 5,731 twelve months ago. Excluding apprentices, trainees, employees exempted from their duties and staff on phased retirement schemes, compared to 2014 (4,899) the workforce decreased by 254 to 4,645. Alongside job

In 2015 KBA-Flexotecnica profited from continually growing demand for flexible packaging and generated a sizeable increase in flexo web press revenue

cuts in production at the sites in Würzburg, Frankenthal and Mödling, in 2015 capacities at Digital & Web in Würzburg were adjusted permanently to the significantly shrunken web offset market and geared to new markets, such as digital decoration and packaging printing. Internal redeployments, phased retirement schemes, voluntary programmes and social compensation plans made the personnel measures as socially acceptable as possible. Nevertheless, redundancies could not be avoided completely. Minor personnel changes are expected to take place as part of the fine-tuning of structures and processes. By the end the final figure of some 4,500 Group employees excluding apprentices and those on phased retirement schemes announced earlier will be reached.

Training rate over 7%

With 378 apprentices and trainees the Group's training rate is remarkable at 7.2% (2014: 7.4%). Our state-certified training school in Würzburg founded almost 150 years ago and the training facilities at other sites do an outstanding job at teaching the next generation of skilled workers. Our training centre in Saxony was awarded a certificate of excellence for the sixteenth time in a row by the Dresden chapter of the Chamber of Industry and Commerce (IHK). Along with training our own specialists and the technical apprentices from subsidiary KBA-Metronic, we also train the staff of other companies in the region at our school in Würzburg.

77 youngsters started a comprehensive apprenticeship at the KBA Group in 2015. Electromechanics, metal-working and industrial mechanics were very popular, nevertheless, other apprenticeships included electronics technician in various fields, construction mechanic, technical product design, industrial clerk and computer science. Additionally, KBA offers dual degree programmes in engineering and electrical engineering. With regard to the necessary integration of refugees into the job market, two asylum seekers are being trained in electromechanics at the KBA plant in Saxony. As an international company, KBA sees this as a concrete contribution to the objectivity of the discussion about refugees. At 13% the proportion of female apprentices stands above the average in the metal sector.

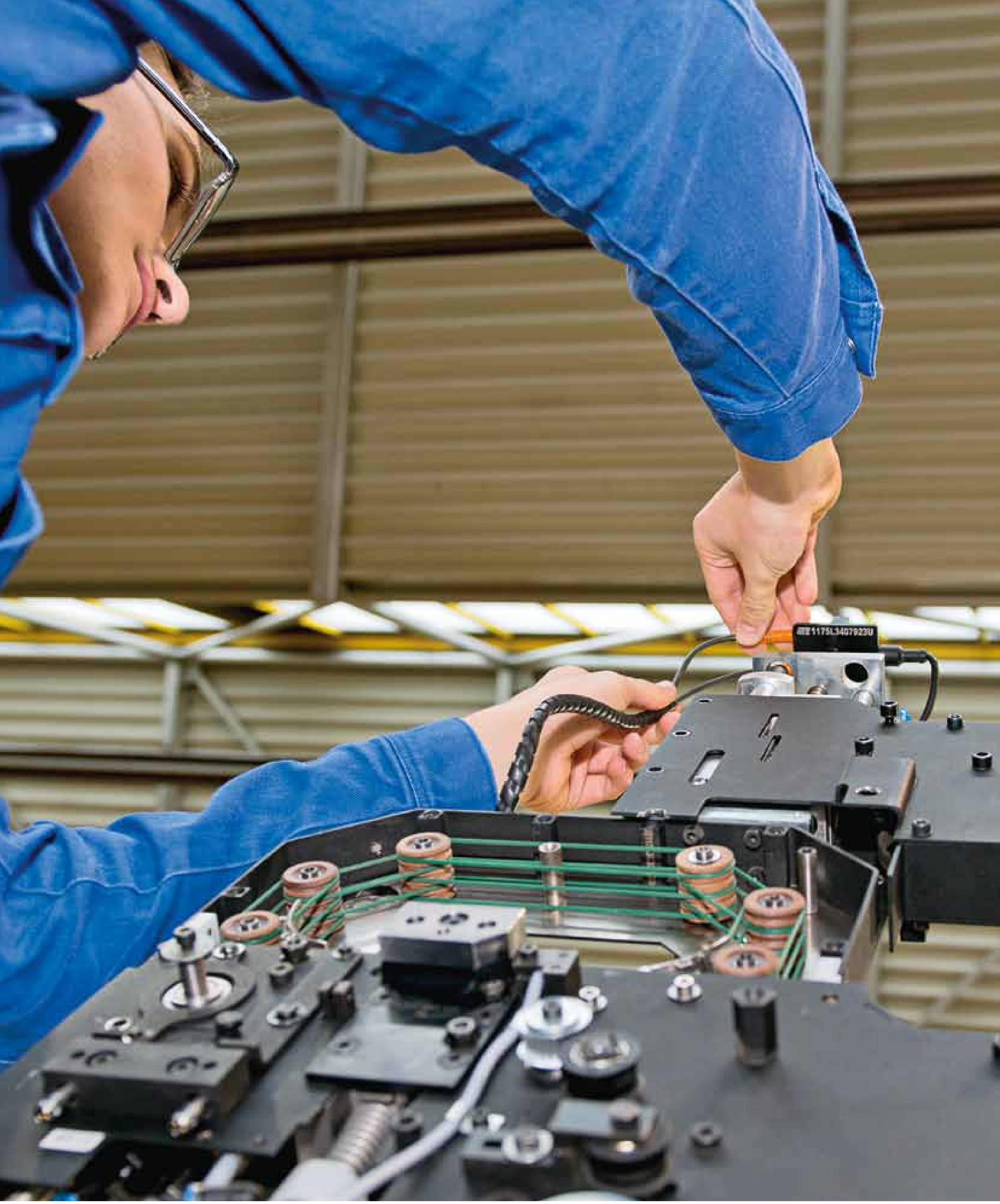
In view of demographic developments and the trend to study we have taken new paths for some time now in order to win over suitable young people for industrial and technical careers. Along with proven open days at our training centres, career information days and participation in education fairs, the Long Night of Apprenticeships took place for the first time at the training school in Würzburg. Together with other companies in the region our Radebeul facility and the Dresden chapter of the Chamber of Industry and Commerce (IHK) founded partnerships with mainstream schools. Parent evenings, work experience and plant tours offer good pre-conditions for school leavers to receive early career guidance. Many of our apprentices found out about KBA this way. We aim to increase the percentage of female professionals at KBA further with regularly taking part in Girls' Day, a technology camp for girls and an orientation day giving girls insights into technical vocations. KBA offers internships and practical semesters to help students with starting their career and supervises undergraduate and masters' thesis.

72 apprentices successfully passed their qualifying examinations set by the Chamber of Industry and Commerce at our large sites in Radebeul und Würzburg. Four of these were top of their IHK class and there were numerous second and third places demonstrating once again the high quality of our apprenticeships. An apprentice technical modelmaker from KBA Würzburg was the best in Bavaria. An electromechanic at our plant in Radebeul carried off the title of best junior skilled worker in Saxony in the category electrical occupations.

Fitness programme for new tasks

Along with foreign language courses, IT training and specialist seminars, our further education offerings in 2015 served to qualify staff for new or changed tasks.

Orders, revenue and earnings were especially pleasing in our Sheetfed segment in 2015.
The printing unit assembly lines at the KBA facility in Radebeul were extremely busy



Excellently trained specialists are essential to our technologically sophisticated press business and facilitate our entry into new business fields

Continual improvement

Once again our employees contributed to enhancing processes and products with numerous improvement suggestions. Many of the proposals submitted in Radebeul and Würzburg were awarded with a prize and their implementation has led to sizeable cost savings.

Promoting well-being and healthcare

At the end of December the KBA health-insurance scheme BKK KBA, which is run as an independent company, had 9,508 members and 2,876 family members in its list of insured persons. The popular training sessions on health matters looked at the topic of stress amongst other things. Furthermore, nutrition courses were offered online. Along with a seminar on addiction prevention, theoretical and practical training on well-being took place for apprentices directly at their work stations. The cycling initiative “People & Bike” again proved to be a great success.

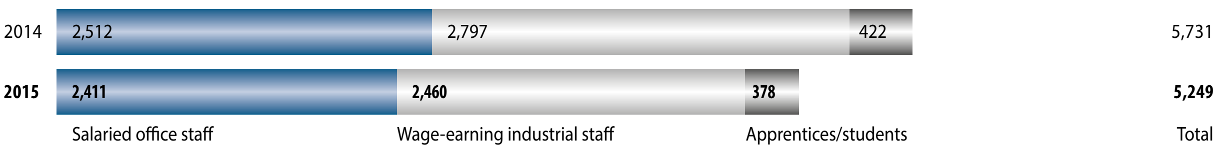
Uniting family and career

KBA promotes balancing career and family by offering part-time contracts, job sharing and partnerships with local child-care centres. Rooms for exchanging experiences are also provided for mothers and fathers on parental leave.

Many longstanding employees

In 2015 176 employees were honoured for their long service to the company at the big KBA sites in Radebeul and Würzburg: 4 for 50 years, 51 for 40 years and 121 reflected on 25 years of service. We wish to thank them all for their loyalty and dedication to the company.

Group payroll on 31 December



Supplementary Statement

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

KBA-Digital & Web Solutions has a strong footing in the shrunken market for cutting-edge newspaper offset presses with the flexibly automated Commander CL

Risks

Managing risks

KBA implements an early warning system for active Group risk management. Its aim is to provide prompt identification of potential risks for our business performance, quantify their possible consequences and support timely invention. Along with our reporting on critical market and corporate developments including their possible impacts on Group earnings, finance and assets, the early warning system improves the accuracy of our planning procedures and heightens our risk awareness in general.

Comprehensive risk management system

Along with our operating units, the early warning system also covers all of our sales and service companies. The detection, assessment and communication of significant dangers are systematically categorised in accordance with standard practices. The instruments for recognising and communicating risks are detailed in a dedicated manual. In addition to the provisions of stock corporation law and the German accounting standards, the KBA Group's risk management system is based on the principles and models of the IIA (Institute of Internal Auditors) and the COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Our risk management system comprises a central risk co-ordination unit under the CFO and dedicated central risk managers. The risk inventory with reporting is carried out de-centrally at half yearly intervals by the so-called risk owners of the operating business units. A risk is quantified as a negative deviation from an established business plan using probabilities. The risk managers report on their individual risks in accordance with the procedures laid down and clearly defined communication channels. These standard procedures promote a systematic, homogenous approach and assessment of risks. The bundled risks are forwarded to the management board after being collated, quantified and classified. Group-wide corporate planning procedures, regular financial reports to the management board during the course of the year, ad-hoc releases and forecasts by affiliate controlling and an internal Group reporting system complete our systematic approach. Management is responsible for taking the appropriate action.

The early warning system installed by the management board is discussed annually by the supervisory board's audit committee and is monitored by the auditor in accordance with statutory regulations. Internal auditing oversees the reporting procedure and performs plausibility checks.

The key risks are described below. They affect all segments equally as long as they are not specially allocated. The risks described are not necessarily the only imponderables facing the Group.

Economic and sector risks

The global economy and structural shifts in the print industry have an impact on our business. Political decisions, international conflicts and currency fluctuations can reduce the sales of our products and affect our outlooks and budgets. The developments in the media arena and ever more productive presses constrain demand in some segments.

Far-reaching adjustments have already been carried out in past years to reduce market and capacity risks resulting from sustained lower market volumes. The restructuring programme in place since the beginning of 2014 with the reduction of up to 1,500 jobs was completed to a large extent at the end of 2015. As part of the Group realignment the redundancies in production between the sites were eliminated. The management aims to improve the capacity utilisation of our cutting-edge and highly specialised facilities by expanding the business with third parties.

The diversification strategy in non-media-related markets, such as security, coding and packaging printing,

The new Rapida 105 PRO based on the same platform as the high-tech Rapida 106 was unveiled at Print China in Guangdong in April 2015 pursued for many years has reduced the contribution of new press sales influenced by digital media to around 10% of Group revenue. KBA already has a strong footing in the packaging printing market for paper, cardboard and metal. In 2013 we expanded our portfolio for the growing packaging markets for film and hollow containers with two acquisitions. We are addressing the future-focused digital printing market with our own RotaJET L and VL press platforms as well as the alliance with HP to co-develop a large inkjet press for digital corrugated packaging. An important task is to transform our portfolio quickly with new products and applications for new growth markets.

Thanks to our know-how built up over decades KBA is the leading supplier of banknote printing systems. These systems mainly go to government clients not usually from industrialised countries. This limits our influence in decision-making and delivery time periods making planning within our security press business difficult. It also results in financial risks. We are responding to these market-driven conditions by reducing our dependence on this business field, with new products and the expansion of our service activities for the large installed machine base.

Acquisitions and alliances will also occur as part of our strategic realignment. Such transactions can lead to considerable acquisition and follow-up costs, and therefore demand careful analysis in advance, often with external support. The goal of such activities and expenses is appropriate profitability delivered by a future-orientated product portfolio.

We are reducing sales risks resulting from economic and regional fluctuations in demand with an expansion of our international sales and service network in promising markets. Our after-sales service opens up further potential for increased sales and earnings. New offers and organisational measures led to an expansion of our profitable service business in Sheetfed and Digital & Web.

Currency, sales and financial risks

The further movement of the euro against the US dollar and Japanese Yen has a big impact on the sales prospects of our products in key export markets like North America, Asia and the Middle East. While the appreciation of the US dollar strengthens the competitiveness of German companies, the weaker Yen has made Japanese products cheaper at the expense of German suppliers.

Due to persistent overcapacity on the manufacturer’s side, pricing pressure for sheetfed and web presses continues. With clear sales targets and permanent controls on the pricing of new and used presses, as well as reasonable premiums on technical advantages, we limit the risks associated with the buyer’s market. Immediate adequate provision is made for obligations arising from unprofitable contracts.

Furthermore, we pay special attention to sales financing especially in the Sheetfed segment in order to reduce the amount of risk-bearing financing activities. Nonetheless, KBA has to be able to offer its customers the usual financing options. Occasionally customer-specific co-ventures are agreed with leasing companies we work with. 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 delivery ownership is transferred only when full payment has been made. On top of this, credit checks are routinely carried out on new customers. Adequate allowances or provisions are made for potential bad debts, repurchasing obligations and sales returns. We expect the number of printing companies to fall further and the size of these companies to increase in industrial countries as a result of the shift in the print sector. At present we can discern no customer-specific or geographical concentrations of credit risks.

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 price escalation clauses in customer contracts. No commodity derivatives were held on the balance sheet date. In 2016 we expect a reversal in price trends of some components due to rising raw material prices.

Although we are in close contact with our suppliers, delays in the delivery of individual components, which has a corresponding impact on the anticipated sales volume, can never be entirely ruled out. The same is true of the on-time readiness for acceptance by our international customers. Delays can occur, e.g. with the completion of printing house buildings.

Development risks

In order to maintain our competitiveness, fulfil market demands and access new customer groups, every year KBA invests substantial resources in improving existing and developing new products and processes. This causes technical and market-related risks. Before development begins we analyse the market and start marketing activities as part of launching products to counter market risks. We keep technical risks to a minimum by our comprehensive project and quality management, as well as ongoing beta testing. Given ever shorter innovation cycles the efforts to sustainably reduce quality costs for technically sophisticated products have a substantial impact on our earnings.

Financial risks

Financial risks mainly comprise credit, liquidity, currency and pricing risks. The type, scope and market value of the financial instruments used by KBA 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 maturity and region. Potential concentrations of risks can thus be promptly identified.

Foreign currency risks relate to balance sheet items and pending transactions in foreign currencies, primarily dollar-denominated transactions and receivables. Opposed foreign currency payment flows of a specific currency are used as natural hedges. Hedging (forward exchange transactions in particular) with banks secure remaining risk positions, where economically viable and based on the expected currency rate. We only do business of this kind with banks that have first-class credit ratings. Receivables and anticipated net positions of projected sales are secured by hedges. Our treasury unit assesses foreign-currency risks by calculating the value of the unhedged portion based on various sensitivity and scenario analyses. Detailed figures can be found in the Notes.

Despite the ongoing ECB's and other central banks' expansionary monetary policy, the print industry continues to face considerable obstacles with regard to the credit financing of investments as relatively high risk premiums are demanded for loans. In contrast, interest on savings is very low. Since we deploy financial instruments whose exposure to market interest rates may have an impact on their fair value or the cash flows they generate, in some cases we use derivatives to limit such risks, see pages 88 and 89 in the Notes for more details. A decrease in the discount rate could lead to an increase in pension provisions with a corresponding fall in equity.

The liquidity of the Parent and its subsidiaries is monitored and managed via daily status reports. In addition to this Group-wide 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.

We have credit and guarantee lines of €100m needed for fluctuations in cash flows in the cyclical machinery and plant manufacturing industry from our domestic banks until the end of 2016. The Group also has access to additional credit lines. This allows us to accommodate imponderable fluctuations in our cash flow.

Risks in human resources

Our success primarily depends on highly qualified engineers, specialists and executives. There is a risk that given the currently challenging situation in our sector we could fail to keep or gain qualified staff. We have flexible tools designed to alleviate fluctuations in capacity utilisation, such as working time accounts or temporary staff. The implementation of personnel adjustments as part of our restructuring programme is largely complete.

Legal risks

The Group is not currently involved in any court proceedings which would have an impact on our economic situation. Nevertheless, we are subject to various risks in connection with legal procedures from our usual field of business. We count compliance risks, which are increasingly growing in importance worldwide, as legal risks. We have continually improved our compliance organisation in past years. The same is true of 2015. We have set up compliance as a preventative organisation and particular effort is made to detect compliance risks at an early stage. At the same time we cannot rule out major compliance risks. They can lead to sanctions, compensation claims and damage our reputation which is difficult to quantify. We make provisions for legal risks when it is likely an obligation will occur and an estimation is possible. In addition, in our business with technically sophisticated capital goods there is always the latent risk of unquantifiable damage to our reputation through quality issues, infringements of property rights or similar issues.

IT risks

The planned Group-wide rollout of SAP poses risks for the KBA Group regarding the smooth handling of future business processes. To limit these IT risks KBA has hired the services of a renowned IT consultant and has formed a project group. Sizeable financial consequences could arise if the installation of the ERP software does not take place on time and without issues.

Other risks

Individual imponderables are covered by insurance with standard indemnity limits. Adequate provisions have been made against other risks. The assessment of provisions for losses resulting from orders, for restructuring expenses, legal disputes as well as warranty obligations is largely dependent on estimates.

Despite numerous economic and political uncertainties, we perceive no risks that could pose an existential threat to the KBA Group. The implementation of our Fit@All restructuring programme is almost complete. The expansion of our product portfolio for the growing packaging and digital printing markets, our strong position in some special markets and our continued solid financial base limit the potential for risks. The goal of the Group realignment is to reduce our dependency on shrinking market segments and sustainably strengthen our profitability.

Outlook

Bulging order books kick off Drupa-year

With the start of the 2016 business year the raft of fragile political and economic conditions that have existed for some time continued to worsen. Further threatening conflicts in the Middle East and on the Korean peninsula, collapsing oil prices, stock market turbulence in China and its effects on international stock markets as well as ongoing discord in the EU regarding solving the euro and the refugee crisis unsettle investors and thus also act as a brake on business in the engineering industry. Ultimately, the German Machinery and Plant Manufacturer's Association (VDMA) anticipates no real growth in 2016 despite the weak euro which boosts exports. There will again be considerable differences between the individual segments within the industry.

In 2015 press manufacturers who profited from strong demand for consumer goods in packaging and commercial printing markets performed better in terms of incoming orders than other machinery manufacturers who were confronted with weak demand for capital goods. It is unsure whether this positive trend for our industry will continue in 2016 after several disappointing years. In the fourth quarter VDMA statistics already showed a significant reduction in demand for printing and papermaking technology compared to the previous year. Further developments will mainly depend on a stable US economy, economic recovery in the eurozone as well as the raft of threshold countries battling with financial issues. Longstanding major growth engine China has started to stutter and we assume that investment activity will also be dampened in 2016.

It is not an easy task to compensate for lower sales expected in this large single market with more business in other countries. Our expanded portfolio for the growing packaging and digital market as well as our strong footing in special markets less driven by the economy, such as security printing, are beneficial.

Another advantage is that KBA kicked off the new year with higher order backlog. This was up €157.6m year-on-year to €574.9m. Solid order backlog secures the utilisation of our capacities until the Drupa trade fair at the end of May. Thanks to new and developed products for the future markets in focus we expect the trade fair to boost demand for the second half-year should the market climate remain reasonably stable.

Considerable order backlog for medium and large-format sheetfed offset presses in our largest segment, Sheetfed, will ensure a high workload at our plant in Radebeul throughout the first half-year. KBA-Industrial Solutions, our foundry in Würzburg and roller manufacturing activities in Frankenthal also profit from the solid order books in sheetfed as suppliers.

Order intake for digital and offset presses which was up substantially on the prior year in Digital & Web, the growing service business and our alliance with HP in digital corrugated printing will provide a satisfactory workload and improve revenue over the next few months. Short-time work and capacity underutilisation that characterised the previous year are in the past, which along with an increase in revenue will have a positive impact on future earnings.

Order intake and revenue of the companies active in various markets in our Special segment have always developed heterogeneously. This was the case last year in the security business in particular, where unforeseeable delays often arise. This is due to its specific customer base which is dependent on government decisions and political influences. Nevertheless, based on the increase in order intake we expect business in this field to perform satisfactorily in 2016. We are also planning a slight increase in revenue for the companies active in metal, film and glass container decorating. KBA-Metronic anticipates gains in revenue and earnings in coding.

Should conditions for our global business not significantly deteriorate, the management board targets an increase in Group revenue to €1.1bn and an EBT margin between 3 and 4% in 2016. Given the volatile climate, we will provide a more detailed outlook as part of our interim reports.

Sustained profitability in all business segments is our highest priority for 2016. Along with the expansion of our product portfolio for packaging printing which dominates with some 70% of revenue, the further optimisation of our organisation, working capital and cash generation at our sites remain ongoing management tasks. The management board aims to reduce the influence of individual cyclical business fields on Group earnings with clear Corporate Governance. This influence was too strong in the past. A positive earnings contribution in all segments is expected to stabilise Group earnings in the mid-term to an appropriate level for an international machinery manufacturer with an EBT margin of 4 to 6%.

Legal Information and Compensation Report

On 31 December 2015 the share capital of Koenig & Bauer AG, Würzburg, stood at €42,964,435.80, divided among 16,524,783 bearer shares with a nominal value of €2.60 apiece. In accordance with section 14.7 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. To our knowledge at 10.2% MKB Holding in Vienna, Austria, has an equity shareholding of more than 10%. Some other institutional and private investors have shareholdings between 3 and 10% of KBA and hold a total of around a third of share capital.

Executive bodies

The appointment and dismissal of management board members as well as 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 of Codetermination). According to section 10.2 of the articles of association the supervisory board can amend the articles in compliance with resolutions passed by the AGM, more specifically with regard to the utilisation of authorised capital.

On 29 September 2015 the supervisory board set a target for the proportion of women on the management board in accordance with the law for equal participation of women and men in executive positions in the private sector and public service. The supervisory board respects the goals pursued by introducing this gender quota and places importance on the equal treatment and equal opportunities for women and men. As there were no upcoming plans regarding new members of the management board in 2015, the proportion of women on the board is expected to remain at 0% until 30 June 2017.

Furthermore, as there are no changes in personnel in the foreseeable future, on 29 September 2015 the management board also decided to maintain both the current proportion of women in the top management level under the management board at 0% and at 7% in the second management level under the management board until 30 June 2017. In the years to come where possible we will increase the ratio of women regarding upcoming new additions if there are female and male applicants with comparable qualifications.

Approved capital and authority to purchase shares

On 31 December 2015 approved capital stood at €15,443,766 or 5,939,910 no-par shares which may be drawn upon until 15 June 2016 (section 5.3 of articles of association). Koenig & Bauer AG is authorised to purchase and allot company shares on a non-pre-emptive basis of up to a maximum of 10% of the share capital of €42,808,201.80 available. This authority is valid until 15 June 2016 and is purely a contingency measure permitting the company to purchase shares and offer them as a negotiating tool for acquisitions of other companies or shareholdings. On 31 December the Group had no such shares.

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

Koenig & Bauer AG has entered no basic agreements and made no special provisions governing a change in control

KBA-Sheetfed Solutions uses the possibilities of digital transformation for data-based business models and expanded services for sheetfed offset customers under the programme name KBA 4.0.

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.

Compensation report

With effect from 2015 supervisory board remuneration was changed to purely fixed compensation in accordance with the practice of many publicly listed companies. The remuneration rules that were passed by the AGM on 21 May 2015 are stated in section 13 of the articles of association. In addition to an attendance fee and the reimbursement of out-of-pocket expenses, each member receives a fixed compensation of €24,000 annually. The chairman's remuneration is twice the fixed total, his deputies' one-and-a-half times. The chairman and members of the committees receive an additional €6,000 or €3,600 respectively per year. Activities in the executive, mediation and nomination committees are, however, not additionally compensated. The same is true of the committee chairmanship if performed by the board's chairman or one of his deputies.

All members of the KBA management board draw a basic salary plus a bonus. All contracts have a duration of five years with the exception of the CRO, whose contract has a shorter duration until 30 April 2016 as a result of his primary responsibility for the implementation of our Fit@All programme. He has a higher fixed remuneration. Performance-related remuneration is based on the following provisions:

- All goals are geared to Group EBT (pre-tax earnings).
- 50% of the maximum variable remuneration achievable by members of the management board responsible for the segments acting until 28 October 2015 will be calculated in accordance with the segment's earnings and 50% according to Group earnings.
- Variable remuneration consists of a short-term and a long-term component. These are based on the targets for the EBT attainable. Sustainability is taken into account with the payment of long-term variable remuneration components over three consecutive years.
- Variable remuneration is limited to the maximum fixed annual remuneration for the short-term and long-term goals met.
- As the duration of the contracts was extended to five years a provision was added stipulating that severance pay is limited to a maximum of three years remuneration (not incl. performance-related bonuses) upon premature termination without serious cause. If the remaining contract duration is less than two years severance pay is granted pro rata accordingly.

Other compensation drawn by the management board covers pension commitments and the costs of sundry benefits, such as the provision of a company car. Share options and other share-based benefits generally form no part of KBA Group remuneration.

Koenig & Bauer AG

(Explanatory notes based on the HGB)

In contrast to the Group consolidated financial statements, the financial statements for Koenig & Bauer AG are not prepared in accordance with the International Financial Reporting Standards (IFRS), but are prepared under the German Commercial Code (HGB).

Corporate and economic conditions

As a holding, Koenig & Bauer AG comprises of central and strategic functions for the Group and does not carry out any operating business activities. The central functions for the KBA Group include controlling, corporate marketing and communication, investor relations, IT, technical standards, business development, Group accounting, patents and licensing, personnel, legal affairs, compliance, insurance, auditing and tax. Koenig & Bauer AG continues to provide IT hardware and a computing centre for Group operations and issues licences and trademark rights to subsidiaries. Excluding apprentices, trainees and employees exempted from their duties payroll stood at 222 on the balance sheet date.

Along with services invoiced to the operating Group companies and charges for the use of licences and trademark rights, the economic development of Koenig & Bauer AG depends on the subsidiaries' dividend income and/or payments and thus on their business performance. Koenig & Bauer AG directly or indirectly holds shareholdings of at least 20% in 56 companies, see the chapter on company structure and business activities on pages 25 and 26 and in the Notes. Koenig & Bauer's economic environment essentially corresponds to that of the KBA Group and is described on page 34 onwards in detail.

Earnings

There are no adequate comparison figures for 2014 given the new KBA Group structure in place retrospectively since 1 January 2015. Revenue of €71m was mainly due to offsetting shared service tasks carried out by Koenig & Bauer for the operating Group companies as well as charges for the use of licences and trademark rights. Cost of sales of €52.4m resulted in a gross profit of €18.6m. Including administration expenses of €20.4m and other operating income and expenses of +€8.7m operating profit came to €6.9m. Income from investments totalled €14.3m. Our interest result stood at –€3.5m and extraordinary earnings came to €0.9m. This led to a pre-tax profit of €18.6m that corresponds to net profit. The goals for 2015 of revenue of some €70m and positive EBT in the lower double-digit million euro range were met. In view of the retained loss of –€54m, the management and supervisory boards will not propose a dividend payment for 2015 to the AGM.

Assets and Finances

At 31 December 2015 the Koenig & Bauer AG balance sheet total came to €387.2m. Non-current assets totalled €240.7m of which intangible assets stood at €5.1m, €74.7m in property, plant and equipment and €160.9m in financial assets for affiliated companies and shareholdings. €4.2m was invested in intangible assets and property, plant and equipment in 2015. Depreciation totalled €5.7m.

At €104.1m other receivables and assets mainly consisted of receivables from affiliated companies of €81.8m from offsetting deliveries and services within the Group. Funds stood at €26m at the end of 2015. Seeing as the company does not have any bank loans, net liquidity corresponds to funds.

With equity standing at €182.4m the ratio of equity to the balance sheet total stood at 47.1% at the end of 2015.

Other provisions totalled €47.8m, pension provisions came to €67.3m and tax provisions stood at €2.8m. Liabilities of €84.3m predominantly result from inter-group financing to affiliated companies.

Supplementary Statement

No major event with material impact on our business occurred after the balance sheet date 2015.

Risks

Koenig & Bauer AG shares in the risks of its subsidiaries, the level of participation depends on the respective equity interest held. More information can be found in the KBA Group risk report on pages 50 to 54. In addition, negative impacts from contingencies between Koenig & Bauer AG and its subsidiaries can arise.

Outlook and Opportunities

The future economic development of Koenig & Bauer AG is tied closely to the continued operating performance of the Group. The outlook on pages 55 and 56 contains more information on our prospects and plans for the operating business.

Corporate Governance statement pursuant to section 289a of the HGB

The Corporate Governance statement pursuant to section 289a of the German Commercial Code is published on our website at http://www.kba.com/investor-relations/corporate-governance/erklaerung-zur-unternehmensfuehrung/ in German only. In accordance with section 289 (5) of the German Commercial Code the internal control system is described on pages 28 and 29 of the combined management report.

In 2015 KBA-Metronic active in the large market for industrial coding and marking technology increased its order intake and revenue with analogue and digital systems

Koenig & Bauer
Group Financial Statements 2015

Group Balance Sheet to 31 December 2015

Assets in €m	Note	31.12.2014	**31.12.2015**
Non-current assets			
Intangible assets	**(1)**	37.8	37.6
Property, plant and equipment	**(1)**	190.9	186.6
Investments and other financial receivables	**(2)**	14.8	15.7
Other assets	**(2)**	0.1	0.1
Deferred tax assets	**(6)**	35.2	31.1
		278.8	**271.1**
Current assets			
Inventories	**(3)**	279.3	258.8
Trade receivables	**(2)**	198.8	193.5
Other financial receivables	**(2)**	15.4	17.6
Other assets	**(2)**	22.6	34.9
Current tax assets		2.1	1.4
Securities	**(4)**	9.6	13.3
Cash and cash equivalents	**(5)**	207.6	186.3
Assets held for sale		0.5	–
		735.9	**705.8**
		1,014.7	**976.9**

Equity and liabilities in €m	Note	31.12.2014	**31.12.2015**
Equity	**(7)**		
Share capital		43.0	43.0
Share premium		87.5	87.5
Reserves		96.2	127.3
Equity attributable to owners of the Parent		**226.7**	**257.8**
Equity attributable to non-controlling interests		0.5	0.6
		227.2	**258.4**
Liabilities			
Non-current liabilities			
Pension provisions and similar obligations	**(8)**	195.0	191.8
Other provisions	**(9)**	55.7	28.3
Bank loans and other financial payables	**(10)**	10.1	10.2
Other liabilities	**(10)**	2.0	1.4
Deferred tax liabilities	**(6)**	19.5	14.1
		282.3	**245.8**
Current liabilities			
Other provisions	**(9)**	203.5	188.6
Trade payables	**(10)**	57.1	42.6
Bank loans and other financial payables	**(10)**	78.6	73.3
Other liabilities	**(10)**	162.2	166.9
Current tax liabilities		3.8	1.3
		505.2	**472.7**
		1,014.7	**976.9**

Group Income Statement 2015

in €m	Note	2014	2015
Revenue	(14)	1,100.1	1,025.1
Cost of sales	(15)	–802.9	–750.6
Gross profit		**297.2**	**274.5**
Research and development costs	(15)	–54.8	–57.2
Distribution costs	(15)	–134.5	–123.4
Administrative expenses	(15)	–80.8	–77.8
Other operating income	(17)	31.5	89.4
Other operating expenses	(17)	–44.5	–69.2
Other financial results	(18)	–0.8	–0.4
Earnings before interest and taxes (EBIT)		**13.3**	**35.9**
Interest income		2.7	3.2
Interest expense		–10.5	–9.4
Interest result	(18)	**–7.8**	**–6.2**
Earnings before taxes (EBT)		**5.5**	**29.7**
Income tax expense	(19)	–5.2	–2.8
Net profit		**0.3**	**26.9**
of which			
- attributable to owners of the Parent		0.5	26.8
- attributable to non-controlling interests		–0.2	0.1
Earnings per share (in €, basic/dilutive)	(20)	**0.03**	**1.62**

Statement of Comprehensive Group Income 2015

in €m	2014	2015
Net profit	**0.3**	**26.9**
Items to be reclassified to consolidated profit or loss		
Foreign currency translation	0.2	1.0
Measurement of primary financial instruments	1.1	–0.3
Measurement of derivatives	–1.4	–3.9
Deferred taxes	0.1	0.3
	0.0	**–2.9**
Items not to be reclassified to consolidated profit or loss		
Defined benefit plans	–52.3	6.5
Deferred taxes	1.3	0.7
	–51.0	**7.2**
Gains/losses recognised directly in equity	**–51.0**	**4.3**
Total comprehensive income	**–50.7**	**31.2**
of which		
- attributable to owners of the Parent	–50.4	31.1
- attributable to non-controlling interests	–0.3	0.1

For further information see explanatory Note (7).

Statement of Changes in Group Equity 2015

in €m			Reserves								
			Recognised in equity								
	Share capital	Share premium	Defined benefit plans	Primary financial instru-ments	Deriva-tives	Exchange diffe-rences	Deferred taxes	Other	**Equity attr. to owners**	Equity attr. to non-controlling interests	**Total**
1 January 2014	**43.0**	**87.5**	**–36.1**	**4.6**	**0.5**	**42.8**	**–0.3**	**135.1**	**277.1**	**0.8**	**277.9**
Net profit/loss	–	–	–	–	–	–	–	0.5	0.5	–0.2	0.3
Gains/losses recognised directly in equity	–	–	–52.2	1.1	–1.4	0.2	1.4	–	–50.9	–0.1	–51.0
Total comprehensive income	**–**	**–**	**–52.2**	**1.1**	**–1.4**	**0.2**	**1.4**	**0.5**	**–50.4**	**–0.3**	**–50.7**
Other changes	–	–	–	–	–	–41.0	–	41.0	–	–	–
31 December 2014	**43.0**	**87.5**	**–88.3**	**5.7**	**–0.9**	**2.0**	**1.1**	**176.6**	**226.7**	**0.5**	**227.2**
1 January 2015	**43.0**	**87.5**	**–88.3**	**5.7**	**–0.9**	**2.0**	**1.1**	**176.6**	**226.7**	**0.5**	**227.2**
Net profit	–	–	–	–	–	–	–	26.8	26.8	0.1	26.9
Gains/losses recognised directly in equity	–	–	6.5	–0.3	–3.8	0.9	1.0	–	4.3	–	4.3
Total comprehensive income	**–**	**–**	**6.5**	**–0.3**	**–3.8**	**0.9**	**1.0**	**26.8**	**31.1**	**0.1**	**31.2**
Other changes	–	–	–	–0.1	–	–0.1	–	0.2	–	–	–
31 December 2015	**43.0**	**87.5**	**–81.8**	**5.3**	**–4.7**	**2.8**	**2.1**	**203.6**	**257.8**	**0.6**	**258.4**

For further information see explanatory Note (7).

Group Cash Flow Statement 2015

in €m	2014	**2015**
Earnings before taxes	5.5	29.7
Appreciation/depreciation on intangible assets, property, plant and equipment	29.1	25.2
Currency measurement	–0.4	4.9
Non-cash interest income/expense	10.0	6.8
Other non-cash income/expenses	1.9	–3.3
Gross cash flow	**46.1**	**63.3**
Changes in inventories	72.6	17.0
Changes in receivables and other assets	32.9	0.4
Changes in other provisions	–38.8	–43.1
Changes in payables and other liabilities	–66.5	–49.5
Interest received	3.2	1.9
Interest paid	–1.0	–1.3
Income tax paid	–6.6	–5.7
Income tax refunded	1.3	1.7
Cash flows from operating activities	**43.2**	**–15.3**
Proceeds from the disposal of intangible assets, property, plant and equipment	3.6	15.3
Payments for investment in intangible assets, property, plant and equipment	–18.4	–22.5
Proceeds from the disposal of investments	0.5	0.5
Payments for investments	–1.8	–1.7
Investment subsidies received	0.6	–
Dividends received	1.0	–
Cash flows from investing activities	**–14.5**	**–8.4**
Free cash flow	**28.7**	**–23.7**
Proceeds from loans	–	0.6
Repayment of loans	–6.3	–
Changes in equity attr. to non-controlling interests	–0.2	0.1
Cash flows from financing activities	**–6.5**	**0.7**
Change in funds	**22.2**	**–23.0**
Effect of changes in exchange rates	–	1.7
Funds at beginning of period	185.4	207.6
Funds at end of period	**207.6**	**186.3**

For further information see explanatory Note (I).

Notes to the Group Financial Statements

(A) Preliminary Remarks

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

Consolidated financial statements for the Parent to 31 December 2015 were prepared in accordance with section 315a of the HGB (German Commercial Code), as was a combined 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 22 March 2016 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 2015 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 2015:

Sundry	Improvements to IFRS (2011 – 2013)
IFRIC 21	Levies

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

Sundry Improvements to IFRS (2011 – 2013)
Amendments resulting from the annual improvements project (2011 – 2013) affect the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40. The improvements mainly serve to clarify existing regulations. This has no considerable impact on the scope of KBA's consolidated financial statements.

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

		Date applicable
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	2016
IAS 19	Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	2016
IAS 27	Amendments to IAS 27 Equity Method in Separate Financial Statements	2016
IAS 16 / IAS 38	Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation	2016
IAS 16 / IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	2016
IFRS 10 / IAS 28	Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associates/Joint ventures	open
IFRS 10 / IFRS 12 / IAS 28	Amendments to IFRS 10, IFRS 12 and IAS 28 Application of the Investment Entities Exceptions	2016
IFRS 11	Amendments to IFRS 11 Acquisition of an Interest in a Joint Operation	2016
IFRS 9	Financial Instruments	2018
IFRS 14	Regulatory Deferral Accounts	2016
IFRS 15	Revenue from Contracts with Customers	2018
Sundry	Improvements to IFRS (2010 – 2012)	2016
Sundry	Improvements to IFRS (2012 – 2014)	2016

The annual improvements of IFRS to the cycles 2010 – 2012 and 2011 – 2013 as well as amendments to IAS 1, IAS 19, IAS 16 and IAS 38, IAS 16 and IAS 41, IAS 27 and IFRS 11 were adopted as part of the EU endorsement process.

IFRS 14 and the issues treated in the amendments to IAS 27, IAS 16 and IAS 41, IFRS 10, IFRS 12 and IAS 28 are irrelevant to the business activities of the entities included in the statements.

Amendment to IAS 1 Presentation of Financial Statements

The amendments place greater importance on the principle of materiality when presenting disclosures in the Notes to the financial statements. Insignificant disclosures are not to be disclosed even when these are explicitly stipulated in other standards. Furthermore, the balance sheet and the statement of comprehensive income should be broken down further in the future and if necessary presented with subtotals when this aids understanding. Ultimately, the presentation of shares valued at equity to be shown in the statement of comprehensive income is clarified. With the introduction of this amendment, if necessary, KBA will abstain from non-material disclosures.

Amendment to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. A relief is provided for contributions that are independent to the number of years of service. This has no significant impacts on KBA.

Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation

It is specified that a revenue-based method is not considered to be an appropriate basis for amortisation. In the future amortisation based on revenue for intangible assets with a limited useful life is only permissible in certain exceptional cases. These amendments have no considerable effects on the KBA Group.

Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associates/Joint ventures

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business in accordance with IFRS 3. A gain or loss may otherwise be recognised partially. These amendments could have an impact on business operations of the KBA Group.

Amendment to IFRS 11 Acquisition of an Interest in a Joint Operation

The amendments to IFRS 11 stipulate that acquirers of interest in a joint operation shall apply all of the principles on business combinations accounting in IFRS 3. The disclosure requirements of IFRS 3 must be adhered to. This might have an effect on KBA if it acquires an interest in joint operations.

IFRS 9 Financial Instruments

This standard is phase one 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.

In addition, IFRS 9 introduced a new hedge accounting model. The circle of qualified underlying items and hedging instruments was expanded in order to link the risk management system more to the financial reporting. In so far as underlying items can be individually qualified, the designation of groups of underlying items is possible as well as net and net zero positions. As a hedge every financial instrument recognised at fair value can be implemented in so far as one of the options described in phase one of IFRS 9 is performed. The premature termination of a hedging relationship is no longer possible as long as the underlying risk management strategy remains unchanged. Additionally, some default risks of financial liabilities can be recognised in OCI without the application of the standard’s remaining requirements.

The adoption of IFRS 9 will entail changes in the presentation of Group financial statements as well as in the expanded Notes but is not expected to have any major impact on recognition and measurement.

IFRS 15 Revenue from Contracts with Customers

The new standard provides a new five-step model to determine revenue recognition. Its framework determines when and if to recognise revenue and how much revenue to recognise. IFRS 15 replaces the existing revenue recognition guidance, including IAS 18 Revenue and IAS 11 Construction Contracts. The impacts of this for KBA in terms of changes in recognising revenue in the future are currently being analysed.

Sundry Improvements to IFRS (2010 – 2012)

Amendments resulting from the annual improvements project (2010 – 2012) affect the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The improvements mainly serve to clarify existing regulations but there are also changes to the disclosures in the Notes. This has no considerable impact on the scope of KBA’s consolidated financial statements.

Sundry Improvements to IFRS (2012 – 2014)

Amendments resulting from the annual improvements project (2012 – 2014) affect the standards IAS 19, IAS 34, IFRS 5 and IFRS 7. The improvements serve to clarify existing regulations. These amendments have no significant effects on the KBA Group.

(C) Accounting Policies

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

Measurement basis and judgements

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

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

Estimates and assumptions

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

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 integration 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 planned. 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 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 Group Management Report on page 26. 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%. 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 a 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 page 50 onwards. 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 insofar as they are material. 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, measurement changes in defined benefit plans and changes in the market value of financial instruments after taxes, recognised in other comprehensive income (OCI).

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 are recognised in reserves without an effect on profit or loss.

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 present value of the liability. The interest of the market value of plan assets is calculated with the discount rate of the pension obligation.

Current service costs are recognised in the individual functions. Interest income from plan assets as well as expenses from discounting obligations are recognised in the financial result.

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”.

Assets held for sale

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

Earnings

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. More details on the recognition of revenue from customer-specific construction contracts can be found on page 73.

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

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

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

Expenses by function

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

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

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

Administrative expenses included the amortisation of goodwill. Wherever possible, income and expenses were attributed to their respective functions; those that could not be attributed were disclosed under other operating income and expenses.

(D) Consolidated Companies and Consolidation Principles

Consolidated companies

In addition to Koenig & Bauer AG, Würzburg, the consolidated financial statements include 33 (previous year: 29) companies.

Altogether 21 (previous year: 20) subsidiaries were excluded from the consolidated financial statements since they were of minor significance to the Group's financial position and performance.

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 normally the same as their local currency. In the consolidated financial statements their assets and liabilities were therefore translated into the reporting currency at the closing rate, income and expenses at the average exchange rate for the year. The resulting exchange differences were disclosed in equity.

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

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

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

in €m	Cost					
	01.01.	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
2014						
Intangible assets						
Industrial property rights and similar rights	47.4	0.3	0.1	–	3.4	44.4
Goodwill	27.9	–	–	–	0.1	27.8
Product development costs	8.4	–	–	–	0.6	7.8
Prepayments and assets under construction	4.5	–	–	–	–	4.5
	88.2	**0.3**	**0.1**	**–**	**4.1**	**84.5**
Property, plant and equipment						
Land and buildings	267.4	1.2	0.2	1.0	5.0	264.8
Plant and machinery	250.4	7.9	–0.1	12.3	31.4	239.1
Other facilities, factory and office equipment	136.3	7.8	0.3	0.7	13.1	132.0
Prepayments and assets under construction	4.4	4.5	–	–3.7	0.3	4.9
	658.5	**21.4**	**0.4**	**10.3**	**49.8**	**640.8**
	746.7	**21.7**	**0.5**	**10.3**	**53.9**	**725.3**
2015						
Intangible assets						
Industrial property rights and similar rights	44.4	1.0	0.1	0.5	4.2	41.8
Goodwill	27.8	–	–	–	–	27.8
Product development costs	7.8	–	–	–	–	7.8
Prepayments and assets under construction	4.5	–	–	–0.5	–	4.0
	84.5	**1.0**	**0.1**	**–**	**4.2**	**81.4**
Property, plant and equipment						
Land and buildings	264.8	2.4	0.7	2.6	11.2	259.3
Plant and machinery	239.1	10.2	0.4	–	42.7	207.0
Other facilities, factory and office equipment	132.0	14.3	0.4	–	19.6	127.1
Prepayments and assets under construction	4.9	0.5	–	–2.6	0.3	2.5
	640.8	**27.4**	**1.5**	**–**	**73.8**	**595.9**
	725.3	**28.4**	**1.6**	**–**	**78.0**	**677.3**

[1] Sheetfed segment

(G) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

Given finance leases the total includes €7.6m for plant and machinery (previous year: €4.2m) and €2.9m (€6.3m) for other facilities, factory and office equipment as well as €4.5m for payments on intangible assets and €0.3m for land and buildings the previous year. 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 €4.3m (previous year: €5.2m).

Depreciation							Carrying amount	
01.01.	Annual depreciation	Impairments	Appreciation	Exchange differences	Disposals	**31.12.**	01.01.	**31.12.**
40.5	1.5	–	–	0.1	3.4	38.7	6.9	5.7
0.2	–	–	–	–	–	0.2	27.7	27.6
8.4	–	–	–	–	0.6	7.8	–	–
–	–	–	–	–	–	–	4.5	4.5
49.1	**1.5**	**–**	**–**	**0.1**	**4.0**	**46.7**	**39.1**	**37.8**
144.5	6.0	1.0	–	0.1	4.5	147.1	122.9	117.7
212.3	11.3	0.7	1.4	–0.1	31.1	191.7	38.1	47.4
113.1	9.8	0.2	–	0.2	12.2	111.1	23.2	20.9
0.2	–	–	–	–	0.2	–	4.2	4.9
470.1	**27.1**	**1.9**	**1.4**	**0.2**	**48.0**	**449.9**	**188.4**	**190.9**
519.2	**28.6**	**1.9**[1]	**1.4**[1]	**0.3**	**52.0**	**496.6**	**227.5**	**228.7**
38.7	1.3	–	0.1	0.1	4.2	35.8	5.7	6.0
0.2	–	–	–	–	–	0.2	27.6	27.6
7.8	–	–	–	–	–	7.8	–	–
–	–	–	–	–	–	–	4.5	4.0
46.7	**1.3**	**–**	**0.1**	**0.1**	**4.2**	**43.8**	**37.8**	**37.6**
147.1	5.7	–	2.2	0.5	8.2	142.9	117.7	116.4
191.7	11.8	–	1.5	0.4	40.0	162.4	47.4	44.6
111.1	10.3	–	0.1	0.3	17.6	104.0	20.9	23.1
–	–	–	–	–	–	–	4.9	2.5
449.9	**27.8**	**–**	**3.8**	**1.2**	**65.8**	**409.3**	**190.9**	**186.6**
496.6	**29.1**	**–**	**3.9**[1]	**1.3**	**70.0**	**453.1**	**228.7**	**224.2**

Intangible assets

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

Goodwill is made up as follows:

in €m	31.12.2014	31.12.2015
KBA-MetalPrint GmbH, Stuttgart, Germany	12.6	12.6
KBA-NotaSys SA, Lausanne, Switzerland	8.8	8.8
KBA-Kammann GmbH, Bad Oeynhausen, Germany*	5.4	5.4
KBA-Flexotecnica S.p.A., Tavazzano, Italy*	0.8	0.8
	27.6	**27.6**

* preliminary

KBA is obligated to pay KBA-Kammann GmbH's former shareholders a further consideration of €1.7m if measures to reduce personnel can be avoided until 31.12.2015. The fair value of the contingent consideration is still estimated at €0.9m as the payment is currently being clarified. A further contingent consideration of €0.8m resulted from the purchase of shares in KBA-Flexotecnica S.p.A in 2013. The sellers are entitled to this provided that no warranty claims from before the shares were purchased are made and it is accounted for in full.

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, Stuttgart, Germany	3	9.4 %	6.8 %
KBA-NotaSys SA, Lausanne, Switzerland	3	7.8 %	7.1 %
KBA-Kammann GmbH, Bad Oeynhausen, Germany	3	9.4 %	6.8 %
KBA-Flexotecnica S.p.A., Tavazzano, Italy	3	8.9 %	6.8 %

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 as well as other facilities, factory and office equipment. At €10.3m showroom presses were reclassified from inventories in 2014.

(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.

On 1 July 2015 KBA-Sheetfed Solutions AG & Co. KG in Radebeul, KBA-Digital & Web Solutions AG & Co. KG and KBA-NotaSys AG & Co. KG at the KBA site in Würzburg as well as the company KBA-Industrial Solutions AG & Co. KG with sites in Würzburg and Radebeul were spun-off from Koenig & Bauer AG with effect from 1 January 2015 retrospectively.

Company, location	Capital share in %	Equity in €m
Consolidated affiliates		
KBA-Industrial Solutions Management GmbH, Würzburg, Germany	100.0	0,0
KBA-Industrial Solutions AG & Co. KG, Würzburg, Germany	100.0	–1.7 [2]
KBA-Sheetfed Solutions Management GmbH, Radebeul, Germany	100.0	0.0
KBA-Sheetfed Solutions AG & Co. KG, Radebeul, Germany	100.0	39.4
KBA-Digital & Web Solutions Management GmbH, Würzburg, Germany	100.0	0.0
KBA-Digital & Web Solutions AG & Co. KG, Würzburg, Germany	100.0	7.6
KBA-NotaSys Management GmbH, Würzburg, Germany	100.0	0.0
KBA-NotaSys AG & Co. KG, Würzburg, Germany	100.0	28.9
KBA-Gießerei GmbH, Würzburg, Germany [1]	100.0	3.0
KBA-FT Engineering GmbH, Frankenthal, Germany	100.0	2.0
Albert-Frankenthal GmbH, Frankenthal, Germany	100.0	1.6
KBA Deutschland GmbH, Radebeul, Germany	100.0	0.6
KBA-MePrint AG, Veitshöchheim, Germany	100.0	5.6
KBA-Metronic GmbH, Veitshöchheim, Germany [1]	100.0	12.3
KBA-MetalPrint GmbH, Stuttgart, Germany	100.0	7.4
KBA-Kammann GmbH, Bad Oeynhausen, Germany	85.0	0.4
KBA-Mödling GmbH, Mödling, Austria	>99.9	33.5
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	0.8
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	0.5
KBA ITALIA SPA, Tavazzano, Italy	100.0	0.5
KBA-Flexotecnica S.p.A., Tavazzano, Italy	90.0	2.6
KBA (UK) Ltd., Watford, UK	100.0	–4.6 [2]
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	12.7
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	30.9
KBA-NotaSys SA, Lausanne, Switzerland [1]	100.0	90.1
KBA-NotaSys International SA, Geneva, Switzerland [1]	100.0	0.2
Print Assist AG, Höri, Switzerland [1]	100.0	2.6
KBA North America Inc., Wilmington, DE, USA	100.0	12.6
KBA (HK) Company Ltd., Hongkong, China	100.0	2.4
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	2.4
Non-consolidated affiliates		
PrintHouseService GmbH, Würzburg, Germany	100.0	0.1
KBA NORDIC A/S, Værløse, Denmark	100.0	–5.3 [2 3]
KBA CEE Sp. z o.o., Warsaw, Poland	100.0	0.6
KBA RUS OOO, Moscow, Russia	100.0	–1.3 [2]
KBA-Kammann USA, Inc., Portsmouth, NH, USA [1]	85.0	3.9
KBA LATINA S A P I DE CV, Mexico City, Mexico	60.0	0.5
Koenig & Bauer do Brasil Comércio de Impressoras e Serviços Ltda., São Paulo, Brazil	80.0	–1.0 [2]
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur/Malaysia	100.0	1.0
KBA KOREA CO., LTD., Goyang-si, South Korea	100.0	0.1
KBA Japan Co., Ltd, Tokyo, Japan	100.0	–1.0 [2]
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.4 [2]
KBA NotaSys India Private Limited, New Delhi, India [1]	100.0	0.6
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.4

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

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

in €m	31.12.2014	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2015**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade receivables						
- from affiliates	10.5	10.5	–	9.0	9.0	–
- from companies in which interests are held	0.8	0.8	–	1.0	1.0	–
- from third parties	187.5	173.7	13.8	183.5	176.7	6.8
	198.8	**185.0**	**13.8**	**193.5**	**186.7**	**6.8**
Investments	3.9	–	3.9	4.5	–	4.5
Other financial receivables						
- from affiliates	5.6	5.6	–	6.1	6.1	–
- derivatives	0.4	0.4	–	0.6	0.6	–
- sundry other financial receivables	20.3	9.4	10.9	22.1	10.9	11.2
	30.2	**15.4**	**14.8**	**33.3**	**17.6**	**15.7**
Other assets						
- payments for inventories	9.5	9.5	–	14.5	14.5	–
- tax receivables	10.5	10.5	–	17.8	17.8	–
- prepayments	2.7	2.6	0.1	2.7	2.6	0.1
	22.7	**22.6**	**0.1**	**35.0**	**34.9**	**0.1**
	251.7	**223.0**	**28.7**	**261.8**	**239.2**	**22.6**

Adopting the percentage of completion method resulted in €61.6m (previous year: €9.2m) being carried in **trade receivables**.

Sundry **other financial receivables** included €1.4m (previous year: €1m) from customer finance leases totalling €1.6m (previous year: €1.2m) and an interest share of €0.2m (€0.2m), with those due in less than one year representing €0.3m (€0.1m) of a total of €0.4m (€0.2m) and other receivables representing €1.1m (€0.7m) of a total of €1.2m (€0.8m) having terms to maturity of one to five years. 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	31.12.2014	**31.12.2015**
Raw materials, consumables and supplies	63.7	59.8
Work in progress	201.2	187.8
Finished goods and products	14.4	11.2
	279.3	**258.8**

The carrying amount of inventories balanced at net realisable value was €91.4m (previous year: €114.3m). Total value adjustments were reduced by €15.7m (previous year: €10.7m).

(4) Securities

These refer to shares in a fund combining stocks and bonds. The market value of the fund was €34.4m (previous year: €34.6m). In so far as the securities are pledged to employees in order to hedge phased retirement schemes, a balancing of the market value with the other provisions takes place.

(5) Cash and cash equivalents

in €m	31.12.2014	**31.12.2015**
Cheques, cash in hand	0.1	0.1
Balances with banks	207.5	186.2
	207.6	**186.3**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2014	**31.12.2015**	31.12.2014	**31.12.2015**
Assets				
Intangible assets, property, plant and equipment	1.1	0.9	8.0	8.6
Inventories	4.6	13.5	1.7	2.7
Financial receivables and other assets	0.9	0.8	1.1	7.9
Securities	–	0.1	–	–
Equity and liabilities				
Equity	–	–	0.1	–
Provisions	18.4	16.4	10.4	2.9
Financial payables and other liabilities	7.3	6.1	6.9	10.6
	32.3	**37.8**	**28.2**	**32.7**
Tax loss carryforwards	11.6	11.9	–	–
Offset	–8.7	–18.6	–8.7	–18.6
	35.2	**31.1**	**19.5**	**14.1**
- of which current deferred taxes	7.9	8.5	2.6	4.4

At the end of the year there were loss carryforwards totalling €445.9m (previous year: €452.9m) and temporary differences of €71.2m (€106.2m) for which no deferred tax assets were disclosed. €13.4m of the unrecognised tax loss carryforwards are time-limited to 2029 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 €8.4m (€11.8m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €1.2m (previous year: €1.3m), since a reversal in the foreseeable future was highly improbable.

(7) Equity

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

Changes in shareholders' equity are described in a separate schedule on page 64 and capital management methods on page 37 onwards.

Share capital

The Parent's share capital at 31 December 2015 totalled 16,524,783 (2014: 16,524,783) 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 to 2013. The remaining €15.4m 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 was no change to capital reserves compared to the previous year.

Reserves

The use of hedge accounting reduced reserves by €3.8m (previous year: €1.2m). During completion of the underlying transactions –€0.1m was recognised as an expense (previous year: –€0.2m).

Deferred taxes increased reserves by €1m (previous year: €1.4m), with defined benefit pension plans accounting for €0.7m (previous year: €1.3m), derivatives of €0.2m (–€0.3m) and primary financial instruments of €0.1m (€0.4m).

Due to changes in the functional currency of the foreign subsidiaries to the euro, €41m of reserves from currency translation not recognised on the balance sheet were reclassified in other reserves the previous year.

(8) Pension provisions and similar obligations

The KBA-Group provides a number of employees with retirement, disability and surviving dependents' benefits.

In Germany the pension benefits are defined as a fixed amount with rates of increase or are determined by the wages and salary group upon retirement, invalidity or death. The benefits are paid monthly as a pension payment. The plans are generally unfunded.

In Switzerland retirement benefits include legally defined benefits that are secured by pension funds. Employers' and employees' contributions are paid into these pension funds. Employees can choose between a one-off payment or regular payments upon retirement, invalidity or death. The plans are fully funded by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

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

The discount rate of 2.4% (previous year: 2%) in Germany was determined using the Mercer Yield Curve approach which was transferred to a standardised data base in 2015. If the pension obligation had been valued using an interest rate determined by the method used the previous year, the pension obligation would have been around €5.8m lower. The impact of this change in approach on net interest components was +0.1%.

Other European companies use a discount rate of 0.7% to 3.75% (previous year: 1.3% to 3.5%). Calculations were further based on a pay increase of 1.5% (1.7%) and a fluctuation rate of 2.7% (2.8%). Pension adjustments were calculated at 1.4% (1.8%). 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 pension obligations		Fair value of plan assets		Net obligation/ Net asset	
	31.12.2014	**31.12.2015**	31.12.2014	**31.12.2015**	31.12.2014	**31.12.2015**
Status at 01.01.	**239.3**	**305.5**	**–96.8**	**–110.5**	**142.5**	**195.0**
Recognised in profit or loss						
Current service cost	9.6	9.9	–	–	9.6	9.9
Past service cost	1.5	–0.2	–	–	1.5	–0.2
Interest cost/income	7.3	5.6	–2.2	–1.8	5.1	3.8
	18.4	**15.3**	**–2.2**	**–1.8**	**16.2**	**13.5**
Recognised in other comprehensive income						
Actuarial gain/loss						
- financial assumptions	57.3	–6.2	–5.8	0.3	51.5	–5.9
- experience adjustments	0.8	–2.0	–	1.4	0.8	–0.6
	58.1	**–8.2**	**–5.8**	**1.7**	**52.3**	**–6.5**
Other						
Contributions paid by employer	–	–	–5.6	–3.9	–5.6	–3.9
Contributions paid by plan beneficiaries	–	–	–1.6	–1.8	–1.6	–1.8
Benefits paid	–14.6	–12.0	3.7	5.0	–10.9	–7.0
Foreign currency changes	2.8	13.5	–2.4	–11.3	0.4	2.2
Other changes	1.5	2.1	0.2	–1.8	1.7	0.3
	–10.3	**3.6**	**–5.7**	**–13.8**	**–16.0**	**–10.2**
Status at 31.12.	**305.5**	**316.2**	**–110.5**	**–124.4**	**195.0**	**191.8**

Pension provisions and similar obligations constituted the following:

in €m	31.12.2014	**31.12.2015**
Present value of non-funded obligations	173.4	160.0
Present value of funded obligations	132.1	156.2
Present value of obligations	**305.5**	**316.2**
Fair value of plan assets	–110.5	–124.4
Pension provisions and similar obligations	**195.0**	**191.8**

Plan assets comprised €44.2m (previous year: €40.2m) from shares and equity securities, €49.5m (€44.4m) from loans, €6.2m (€4.5m) from liquid assets and €24.5m (€21.4m) from other assets. All equity securities and loans have quoted prices in active markets. All loans are bonds issued by European governments and are rated AAA or AA, based on rating agency ratings.

The actual return on plan assets was €1.6m (previous year: €8m). The anticipated rate of return is 1.4% (previous year: 2%), based on returns in previous years.

Plan contributions for 2016 are estimated at €3.5m (previous year: €3.3m).

The impacts of a change to an actuarial parameter on the present value of a pension obligation, whereby residual parameters remain unchanged, were as follows:

in €m	Benefit obligation			
	Increase		Decrease	
	31.12.2014	**31.12.2015**	31.12.2014	**31.12.2015**
Discount rate (0.5% change)	–27.0	–29.2	30.9	29.7
Salary increase rate (0.5% change)	4.3	2.6	–4.0	–5.4
Pension increase rate (0.5% change)	19.1	18.4	–17.6	–20.1
Fluctuation rate (0.5% change)	–0.2	–1.8	0.3	–1.7
Life expectancy (1 year change)	7.6	6.9	–7.7	–7.1

The weighted duration of pension obligations is 19 years (previous year: 19.1). In 2015 pension payments totalled €12m (previous year: €14.6m).

Defined-benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

Expenses for defined-contribution plans totalled €30m (previous year: €32.7m).

(9) Other provisions

in €m	Status at 01.01.2015	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Exchange differences	Reclassifi-cations	**Status at 31.12.2015**
Other provisions								
- for employees	76.5	34.4	4.2	8.3	0.1	0.4	–0.1	46.6
- for sales	105.2	26.5	17.5	36.6	–	0.8	1.4	100.0
- for sundry other purposes	77.5	27.3	35.0	52.7	–	3.7	–1.3	70.3
	259.2	**88.2**	**56.7**	**97.6**	**0.1**	**4.9**	**–**	**216.9**
of which								
- long-term provisions	55.7							28.3
- short-term provisions	203.5							188.6
	259.2							**216.9**

Provisions for employees included expenses relating to the realignment of the KBA Group as part of the Fit@All programme as well as long-service bonuses, performance bonuses and credits for phased retirement plans, in so far as these have not been settled with securities.

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 compliance risks, liability insurance premiums, archiving costs and similar obligations.

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

(10) Financial and other liabilities

in €m	31.12.2014	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2015**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade payables						
- to affiliates	0.6	0.6	–	0.3	0.3	–
- to companies in which interests are held	1.3	1.3	–	–	–	–
- to others	55.2	55.2	–	42.3	42.3	–
	57.1	**57.1**	**–**	**42.6**	**42.6**	**–**
Bank loans	15.2	15.2	–	15.8	15.8	–
Other financial payables						
- from derivatives	1.6	1.5	0.1	0.7	0.6	0.1
- to affiliates	0.2	0.2	–	–	–	–
- sundry other financial payables	71.7	61.7	10.0	67.0	56.9	10.1
	88.7	**78.6**	**10.1**	**83.5**	**73.3**	**10.2**
Other liabilities						
- from payments received	129.7	129.7	–	141.7	141.7	–
- from taxes	25.9	25.9	–	18.6	18.6	–
- sundry other liabilities	8.6	6.6	2.0	8.0	6.6	1.4
	164.2	**162.2**	**2.0**	**168.3**	**166.9**	**1.4**
	310.0	**297.9**	**12.1**	**294.4**	**282.8**	**11.6**

Bank loans were secured by mortgages to the value of €8m (previous year: €8m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of inventory and trade receivables totalling €4m (€4m). The carrying amounts of property, plant and equipment pledged as collateral came to €8.2m (€10m), of trade receivables €5.2m (€5.5m) and of securities (other financial receivables) €1.2m (€1.2m). Failure to fulfil contractual obligations may result in the seizure of collateral.

Management controls Group liquidity by monitoring and planning the cash flow on an ongoing basis, taking into account agreed credit lines and the maturity structure of financial assets and liabilities. Lines of credit not drawn down by the KBA Group at the balance sheet date totalled €55.9m (previous year: €56.4m).

Sundry **other financial payables** included finance leases to the sum of €12.9m (previous year: €17.2m). 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	31.12.2014	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	31.12.2015	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years
Minimum lease payments	18.4	9.4	7.8	1.2	14.0	4.4	8.0	1.6
Interest portion	–1.2	–0.6	–0.6	–	–1.1	–0.4	–0.7	–
Present value of finance lease	**17.2**	**8.8**	**7.2**	**1.2**	**12.9**	**4.0**	**7.3**	**1.6**

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

Furthermore, sundry other financial liabilities in particular comprised Group obligations for outstanding supplier invoices and liabilities to employees for holiday entitlements and overtime.

Other liabilities included payments received of €24.6m (previous year: €2.8m) for construction contracts.

(11) Derivatives

Forward contracts with a maturity of up to 1 year (previous year: up to 1 year), which were used to hedge the calculation rate of other foreign currency trade contracts, correlated with underlying transactions with the same maturity. The currencies hedged were primarily USD, GBP and JPY. The fair value of forward contracts qualifying as hedges with a nominal amount totalling €83.5m (previous year: €81.8m) was €0.01m (–€0.9m).

Interest rate swaps with a maturity of up to 4.5 years (previous year: 2.5 years) covered subsidiaries’ existing interest risk.

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

in €m	Nominal amount Total 31.12.2014	Nominal amount Term to maturity more than 1 year	Market value 31.12.2014	Nominal amount Total 31.12.2015	Nominal amount Term to maturity more than 1 year	Market value 31.12.2015
Forward contracts	90.0	–	–1.1	90.5	–	–
Interest rate hedges	1.0	1.0	–0.1	1.0	1.0	–0.1
	91.0	**1.0**	**–1.2**	**91.5**	**1.0**	**–0.1**

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
2014						
Loans and receivables	413.2	357.7	30.6	10.0	6.1	8.8
Gross amount due from customers for contract work	9.2	6.0	2.4	0.8	–	–
Assets held to maturity	8.2	8.2	–	–	–	–
Assets available for sale	15.2	15.2	–	–	–	–
Financial instruments recognised at fair value	0.1	0.1	–	–	–	–
	445.9	**387.2**	**33.0**	**10.8**	**6.1**	**8.8**
2015						
Loans and receivables	336.4	299.6	20.7	10.6	1.5	4.0
Gross amount due from customers for contract work	61.6	59.0	2.5	–	0.1	–
Assets held to maturity	8.3	8.3	–	–	–	–
Assets available for sale	19.5	19.5	–	–	–	–
Financial instruments recognised at fair value	–	–	–	–	–	–
	425.8	**386.4**	**23.2**	**10.6**	**1.6**	**4.0**

in €m

		31.12.2014	Carrying value	
	Category under IAS 39*	Carrying amount	Amortised cost	Fair value recognised in profit or loss
Assets				
Investments and other financial receivables				
- interests in affiliates	afs	3.9	3.9	–
- other financial receivables from finance leases	lar	1.0	1.0	–
- other financial receivables from derivatives	rafv	0.1	–	0.1 [2]
- other financial receivables from hedge accounting	–	0.3	–	–
- sundry other financial receivables	htm	8.2	8.2	–
	afs	1.7	–	–
	lar	15.0	15.0	–
		30.2	**28.1**	**0.1**
Trade receivables	lar	189.6	189.6	–
Gross amout due from customers for contract work	lar	9.2	9.2	–
Securities	afs	9.6	–	–
Cash and cash equivalents	lar	207.6	207.6	–
		446.2	**434.5**	**0.1**
Liabilities				
Bank loans and other financial payables				
- bank loans	ofp	15.2	15.2	–
- other financial payables from finance leases	ofp	17.2	17.2	–
- other financial payables from derivatives	rafv	0.4	–	0.4 [2]
- other financial payables from hedge accounting	–	1.2	–	–
- sundry other financial payables	ofp	54.7	54.7	–
		88.7	**87.1**	**0.4**
Trade payables	ofp	57.1	57.1	–
		145.8	**144.2**	**0.4**

* lar = loans and receivables
htm = held to maturity
rafv = recognised at fair value
afs = available for sale
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. This is calculated from forward exchange transactions based on forward exchange rates, for interest rate swaps the expected future cash flows are discounted using current market interest rates.

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.

	31.12.2014	31.12.2015	Carrying value			31.12.2015
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
–	–	4.5	4.5	–	–	–
–	1.2	1.4	1.4	–	–	1.6
–	0.1	–	–	–	–	–
0.3 [2]	0.3	0.6	–	–	0.6 [2]	0.6
–	8.2	8.3	8.3	–	–	8.3
1.7 [1]	1.7	1.7	–	–	1.7 [1]	1.7
–	15.0	16.8	16.8	–	–	16.8
2.0	**26.5**	**33.3**	**31.0**	**–**	**2.3**	**29.0**
–	189.6	131.9	131.9	–	–	131.9
–	9.2	61.6	61.6	–	–	61.6
9.6 [1]	9.6	13.3	–	–	13.3 [1]	13.3
–	207.6	186.3	186.3	–	–	186.3
11.6	**442.5**	**426.4**	**410.8**	–	**15.6**	**422.1**
–	15.2	15.8	15.8	–	–	15.8
–	17.1	12.9	12.9	–	–	12.6
–	0.4	0.1	–	0.1 [2]	–	0.1
1.2 [2]	1.2	0.6	–	–	0.6 [2]	0.6
–	54.7	54.1	54.1	–	–	54.1
1.2	**88.6**	**83.5**	**82.8**	**0.1**	**0.6**	**83.2**
–	57.1	42.6	42.6	**–**	**–**	42.6
1.2	**145.7**	**126.1**	**125.4**	**0.1**	**0.6**	**125.8**

The maximum **credit risk** relating to financial assets corresponded to the carrying amounts, with no perceptible risks relating to financial 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 €20.3m (previous year: €24.7m) within the next twelve months, €4.4m (€6m) in one to three years and €5.1m (€2.9m) 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
31.12.2014						
Loans and receivables	–8.7	2.0	–5.8	4.6	–9.5	–
Gross amount due from customers for contract work	2.0	–	2.0	–	–	–
Assets available for sale	–0.7	0.1	–	–	–	–0.8
Financial instruments recognised at fair value in profit or loss	–1.0	–	–	–1.0	–	–
Other financial payables	–2.7	–3.2	–	0.5	–	–
	–11.1	**–1.1**	**–3.8**	**4.1**	**–9.5**	**–0.8**
31.12.2015						
Loans and receivables	–3.1	–0.1	–0.5	7.8	–10.3	–
Gross amount due from customers for contract work	0.6	–	0.1	0.5	–	–
Assets available for sale	–0.3	0.1	–	–	–	–0.4
Financial instruments recognised at fair value in profit or loss	0.2	–	–	0.2	–	–
Other financial payables	–6.0	–1.8	–	–4.2	–	–
	–8.6	**–1.8**	**–0.4**	**4.3**	**–10.3**	**–0.4**

Value adjustments were made of €0.4m (previous year: €3.6m) on trade receivables and €0.2m on investments and other financial receivables the previous year.

Foreign currency risks were assessed using a sensitivity analysis based on the premise that key currencies for the KBA-Group fluctuate in value by +/– 5% relative to the euro. On the balance sheet date the KBA Group was exposed to a foreign currency risk amounting to €86.3m (previous year: €126.7m), primarily relating to the category "available for sale" (previous year: "available for sale"). The effects of changes in currency exchange rates on equity and the net profit/loss are shown in the following table.

in €m	Equity		Net profit/loss	
	31.12.2014	**31.12.2015**	31.12.2014	**31.12.2015**
Devaluation USD by 5%	1.5	–0.1	–1.3	–2.5
Revaluation USD by 5%	–1.7	0.1	1.4	2.8
Devaluation CHF by 5%	–4.2	–0.6	–4.2	–0.6
Revaluation CHF by 5%	4.6	0.7	4.6	0.7

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	31.12.2014	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2015**	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years
Commitments from:								
- operating leases	6.0	2.8	3.2	–	8.0	3.1	4.6	0.3
- rental and service contracts	33.3	12.6	15.0	5.7	26.2	9.5	13.1	3.6
- investment plans	5.7	5.7	–	–	0.9	0.8	0.1	–
- sundry other activities	0.5	0.5	–	–	0.4	0.4	–	–
	45.5	**21.6**	**18.2**	**5.7**	**35.5**	**13.8**	**17.8**	**3.9**

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: €3.9m) were carried in the income statement. Commitments from operating leases were stated at the minimum lease payments.

Investment plans included commitments to invest in property, plant and equipment to the value of €0.3m (previous year: €5.7m).

Contingent liabilities

These comprised contingencies totalling €32.6m (previous year: €44.6m) 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 €4.1m (previous year: €6.7m) 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 €736.4m (previous year: €823.1m), other sales totalled €288.7m (€276.9m).

Construction contract revenue totalled €126m (previous year: €53.6m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €138.2m (€18.2m).

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

(15) Expenses by function

Cost of sales

Cost of sales included €0.2m (previous year: €0.9m) 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 €102.2m (previous year: €14.1m).

Research and development costs

Research and development costs of €57.2m were €2.4m higher than the previous year due to expenses associated with industry trade show, Drupa 2016, and the parallel customer event Banknote Horizons.

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

Distribution costs and administrative expenses

Distribution costs sank by €11.1m to €123.4m compared to the previous year.

Administrative expenses also fell by €3m to €77.8m. This encompasses a subsidy of €0.2m for the vocational training school in Würzburg from the government of Lower Franconia.

(16) Expenses by nature

Material costs

in €m	2014	**2015**
Cost of raw materials, consumables, supplies and purchased goods	430.4	398.5
Cost of purchased services	80.4	86.4
	510.8	**484.9**

Personnel costs

in €m	2014	**2015**
Wages and salaries	311.3	310.5
Social security and other benefits	59.1	55.2
Pensions	11.5	10.7
	381.9	**376.4**
Average payroll		
- wage-earning industrial staff	3,063	2,527
- salaried office staff	2,609	2,409
- apprentices/students	386	350
	6,058	**5,286**

Reimbursements from the Federal Employment Agency for social security expenses relating to short-time work reduced personnel expenses by €0.2m (previous year: €0.8m).

(17) Other operating income and expenses

in €m	2014	**2015**
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	1.4	8.2
Foreign currency gains	3.9	14.1
Currency measurement	6.5	6.8
Reversal of write-downs	9.3	8.4
Sundry other operating income	10.4	51.9
	31.5	**89.4**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–1.2	–1.5
Foreign currency losses	–3.8	–2.4
Currency measurement	–6.1	–11.7
Creation of write-downs	–13.1	–8.8
Sundry other operating expenses	–20.3	–44.8
	–44.5	**–69.2**
Other operating income and expenses	**–13.0**	**20.2**

Sundry other operating income included €40.2m (previous year: €4.5m) from the release of provisions. It also included insurance and compensation claims and other refunds.

Sundry other operating expenses included the loss of receivables outstanding, customer credit notes, warranty claims and contributions to provisions for legal, sales and compliance risks.

(18) Financial result

in €m	2014	**2015**
Other financial results		
Income from interests in affiliates	0.8	0.1
Impairments in investments	–1.6	–0.5
	–0.8	**–0.4**
Interest income/expense		
Other interest and similar income	2.7	3.2
- of which affiliates	(0.4)	(0.5)
Other interest and similar expenses	–10.5	–9.4
- from pension obligations	(–5.1)	(–3.8)
	–7.8	**–6.2**
Financial result	**–8.6**	**–6.6**

(19) Income taxes

in €m	2014	**2015**
Earnings before taxes	**5.5**	**29.7**
Group tax rate	30.0 %	30.0 %
Expected taxes	**–1.7**	**–8.9**
Tax effects from		
- variances due to different tax rates	5.3	2.6
- tax-free earnings	0.2	0.2
- write-downs	–6.9	3.9
- decreases and increases	–2.9	–0.4
- other	0.8	–0.2
Income tax	**–5.2**	**–2.8**

in €m	2014	**2015**
Actual tax expense	–7.6	–2.3
Deferred taxes from loss carryforwards	2.5	0.3
Deferred tax income from temporary differences	–0.1	–0.8
	–5.2	**–2.8**

The approach of previously unrecognised tax losses relating to subsidiaries led to deferred tax income of €0.1m (previous year: €2.3m). Their use as well as the use of previously unrecognised temporary differences reduces the actual tax expense by €9.1m (previous year: €2.3m).

The recognised goodwill is non-tax-deductible.

(20) Earnings per share

	2014	**2015**
Net profit attributable to owners of the Parent in €m	0.5	26.8
Weighted average of ordinary shares issued	16,524,783	16,524,783
Earnings per share in €	**0.03**	**1.62**

In 2014 and 2015 no employee shares 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 €186.3m (previous year: €207.6m) included cash and cash equivalents.

(J) Segment Information

Business segments

In accordance with IFRS 8 segment information for the KBA Group distinguishes between the business segments Sheetfed, Digital & Web and Special.

The business segment Sheetfed constitutes sheetfed offset presses for packaging, commercial, book and poster printing as well as workflow solutions. The business segment Digital & Web encompasses digital and offset web presses for newspaper, commercial and industrial printing. The business segment Special contains special presses for banknote and security printing, systems for industrial coding technology and special machines for printing packaging made of metal, film and other plastics as well as glass.

Segment information was based on the same accounting and consolidation procedures as the consolidated financial statements. Internal Group transactions contained in the segment result (earnings before interest and taxes (EBIT)) were classed as arm's length transactions.

Inter-segment sales and other reconciliation effects between the business segments are contained in the reconciliation.

in €m

	Revenue		EBIT		Depreciation		Major non-cash expenses		Capital investments	
	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**
Segments										
Sheetfed	525.3	561.7	–14.0	25.5	13.0	13.1	29.3	38.9	14.0	17.6
Digital & Web	140.4	98.4	–13.3	–10.9	1.3	1.4	5.1	6.1	1.2	1.5
Special	474.5	422.9	57.0	27.7	9.9	9.9	50.4	47.6	4.6	5.0
Reconciliation	–40.1	–57.9	–16.4	–6.4	4.4	4.7	6.5	5.1	1.9	4.3
Group	**1,100.1**	**1,025.1**	**13.3**	**35.9**	**28.6**	**29.1**	**91.3**	**97.7**	**21.7**	**28.4**

Geographical breakdown

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

in €m

	Revenue		Capital investments		Non-current assets	
	2014	**2015**	2014	**2015**	2014	**2015**
Germany	180.6	153.3	18.6	24.3	156.2	158.8
Rest of Europe	389.8	301.0	2.8	3.9	71.1	64.2
North America	117.6	144.1	0.2	0.1	0.9	0.8
China	103.5	109.2	0.1	0.1	0.6	0.5
Rest of Asia/Pacific	159.9	226.4	–	–	–	–
Africa/Latin America	148.7	91.1	–	–	–	–
Reconciliation	–	–	–	–	50.0	46.8
Group	**1,100.1**	**1,025.1**	**21.7**	**28.4**	**278.8**	**271.1**

(K) Notes to Section 285 no. 17 HGB

The auditors, KPMG Bayerische Treuhandgesellschaft, received €0.5m remuneration for their auditing services as well as €0.1m for other services for 2015.

(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	2014	**2015**
Other current financial receivables at 31.12.	5.6	6.1
Trade receivables at 31.12.	11.3	10.0
Trade payables at 31.12.	1.9	0.3
Other current financial liabilities at 31.12.	0.2	–
Revenue	54.8	48.0

One supervisory board member is the owner of a company which conducted business with the Group during the year. The business transactions involved ordinary deliveries and services that were carried out at market terms. In this context the Group generated revenue of €0.7m in 2015.

Short-term management board remuneration totalled €5.4m (previous year: €4.4m), with the fixed portion representing €2.1m (€2.4m). The variable portion was based on net profit. Pension provisions were increased by €0.7m (previous year: €0.6m) for the current service cost. The remuneration mentioned contains the remuneration of those members of the management board who resigned their seats on 28.10.2015, proportionally until this time.

Remuneration for former members and their survivors stood at €1.2m (€1.2m). Supervisory board remuneration totalled €0.4m (€0.4m), of which €0.4m (€0.3m) was fixed.

In accordance with the guidelines stated in IAS 19 (revised) €26.9m (previous year: €34.5m) 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). The management board's total remuneration in accordance with German commercial law corresponds to the short-term benefits mentioned.

At 31 December 2015 members of the management board held 5.07% and members of the supervisory board 0.02% of Koenig & Bauer's share capital, giving a total of 5.09%.

Supervisory Board

Dr Martin Hoyos
Chairman
Independent corporate consultant
Vienna / Austria

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert (until 21.05.2015)
Deputy chairman
Business economist
Würzburg

Dagmar Rehm
Deputy chairman (from 21.05.2015)
Financial director engineering, automation & control and vice-president of Bilfinger SE (until 29.02.2016)
Langen

Marc Dotterweich* (from 22.01.2015)**
Cutting machine operator
Birkenfeld

Willi Eisele* **
Representative of IG Metall
Dresden

Matthias Hatschek
Entrepreneur
St Martin / Austria

Baldwin Knauf (until 21.05.2015)
Deputy chairman of the shareholders' committee, Knauf Gips KG
Iphofen

Professor Gisela Lanza (from 21.05.2015)
University Professor
Karlsruhe Institute of Technology
Karlsruhe

Walther Mann*
Representative of IG Metall
Würzburg

Carl Ferdinand Oetker (from 21.05.2015)
Managing partner of FO Holding GmbH
Managing director of WINK Verwaltungsgesellschaft mbH
Bielefeld

Klaus Schmidt*
Director Corporate Communications, KBA
Hettstadt

Claus Weihmann*
Gear grinder
Radebeul

Professor Horst Peter Wölfel
Department of Structural Dynamics (ret.)
Technical University Darmstadt
Würzburg

* workforce representative
** appointed by the register court

Committees

Mediation committee as per section 27(3) of the Law on Codetermination
Dr Martin Hoyos (chairman)
Klaus Schmidt
Gottfried Weippert
Professor Horst Peter Wölfel

Personnel Committee
Dr Martin Hoyos (chairman)
Dagmar Rehm
Gottfried Weippert

Financial Audit Committee
Dagmar Rehm (chairman)
Carl Ferdinand Oetker
Claus Weihmann
Gottfried Weippert

Strategy Committee
Professor Gisela Lanza (chairman)
Matthias Hatschek
Walther Mann
Klaus Schmidt
Gottfried Weippert

Nomination Committee
Dr Martin Hoyos (chairman)
Matthias Hatschek
Dagmar Rehm

Committee appointments to 31 December 2015

Management Board

Claus Bolza-Schünemann
President and CEO
Würzburg

Dr Mathias Dähn
CFO
Krailling

Michael Kummert (until 28.10.2015)
Executive vice-president for production business unit
Höchberg

Christoph Müller (until 28.10.2015)
Executive vice-president for digital & web business unit
Würzburg

Dr Andreas Pleßke
CRO
Herrsching am Ammersee

Ralf Sammeck (until 28.10.2015)
Executive vice-president for sheetfed offset business unit
Radebeul

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

	Member of the supervisory board at:
Dr Martin Hoyos Chairman	AMG Advanced Metallurgical Group N.V., Amsterdam/Netherlands CAG Holding GmbH, Marktl/Austria Korian Medica SA, Paris/France
Dagmar Rehm Deputy chairman	O'Donovan Consulting AG, Bad Homburg/Germany
Prof. Gisela Lanza	Bosch Rexroth AG, Lohr am Main/Germany Aichele Group GmbH & Co. KG, Herrenberg/Germany Balluff GmbH, Neuhausen a.d.F./Germany
Carl Ferdinand Oetker	STADA Arzneimittel AG, Bad Vilbel/Germany Erfurter Teigwaren GmbH, Erfurt/Germany EWABO Chemikalien GmbH & Co. KG, Wietmarschen/Germany Hela Gewürzwerk Hemann Laue GmbH, Ahrensburg/Germany Lampe Privatinvest Management GmbH, Hamburg/Germany WINK Stanzwerkzeuge GmbH & Co. KG, Neuenhaus/Germany Cloverfield Inc., Chicago, IL/USA
Klaus Schmidt	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/declaration-of-compliance/

Würzburg, 22 March 2016
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

Dr Andreas Pleßke

Auditor's Report

We have audited the consolidated financial statements prepared by Koenig & Bauer AG, Würzburg, comprising the group balance sheet, the group income statement, the statement of comprehensive group income, the statement of changes in group equity, the group cashflow statement and notes, and its report on the position of the Company and the Group for the business year from January 1 to December 31, 2015. 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, 22 March 2016

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[Original German version signed by:]

Janz	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 combined management report includes a fair view 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, 22 March 2016
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

Dr Andreas Pleßke

Balance Sheet for Koenig & Bauer AG to 31 December 2015

under the German Commercial Code (HGB)

Assets in €m	31.12.2014	01.01.2015	**31.12.2015**
Non-current assets			
Intangible assets	8.9	4.8	5.1
Property, plant and equipment	105.2	78.4	74.7
Financial assets	58.6	144.4	160.9
	172.7	**227.6**	**240.7**
Current assets			
Inventories less payments received	56.3	–	–
Trade receivables	62.9	0.8	0.1
Other receivables and assets	137.9	106.4	104.1
Cash and cash equivalents	68.2	67.8	26.0
	325.3	**175.0**	**130.2**
Deferred income	**1.2**	**1.2**	**0.4**
Positive difference from asset allocation	**7.3**	**7.3**	**15.9**
	506.5	**411.1**	**387.2**

Equity and liabilities in €m	31.12.2014	01.01.2015	**31.12.2015**
Equity			
Share capital	43.0	43.0	43.0
Share premium	87.5	87.5	87.5
Reserves	105.9	105.9	105.9
Loss carried forward	–122.0	–72.6	–72.6
Net profit	49.4	–	18.6
	163.8	**163.8**	**182.4**
Special items with equity portion	**3.0**	**2.8**	**2.6**
Provisions			
Pension and similar provisions	83.1	62.8	67.3
Tax provisions	2.7	2.7	2.8
Other provisions	149.6	47.4	47.8
	235.4	**112.9**	**117.9**
Liabilities			
Trade payables	32.0	4.0	0.8
Other liabilities	72.3	127.6	83.5
	104.3	**131.6**	**84.3**
	506.5	**411.1**	**387.2**

Income Statement for Koenig & Bauer AG for 2015

under the German Commercial Code (HGB)

in €m	2014	2015
Revenue	706.6	71.0
Cost of sales	–601.5	52.4
Gross profit	**105.1**	**18.6**
Distribution costs	–52.0	–
Administrative expenses	–45.1	–20.4
Other operating income	26.8	11.0
Other operating expenses	–60.5	–2.3
Profit/loss from operations	**–25.7**	**6.9**
Financial result	76.9	10.8
Profit from ordinary activities	**51.2**	**17.7**
Extraordinary profit/loss	–1.5	0.9
Earnings before taxes	**49.7**	**18.6**
Income taxes	–0.3	–
Net profit	**49.4**	**18.6**
Loss carried forward	–122.0	–72.6
Retained loss	**–72.6**	**–54.0**

Key Financial Dates

Interim report on 1st quarter 2016
12 May 2016

Koenig & Bauer Annual General Meeting
19 May 2016
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2016
11 August 2016

Interim report on 3rd quarter 2016
10 November 2016

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Consolidated Financial Statements

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