Group Interim Report
First Quarter 2015

KBA
Koenig & Bauer Group

KBA Group in Figures

01.01. - 31.03. in €m	2014	**2015**
Order intake	241.5	**306.7**
Revenue	213.4	**177.3**
Order backlog at 31.03.	588.6	**546.7**
Export level in %	79.3	**80.1**
Earnings before interest and taxes (EBIT)	–10.2	**–16.2**
Earnings before taxes (EBT)	–12.1	**–17.7**
Net loss	–14.0	**–16.9**
Balance sheet total at 31.03. (prior year: 31.12.)	1,014.7	**1,023.1**
Equity at 31.03. (prior year: 31.12.)	227.2	**184.5**
Investment in intangible assets, property, plant and equipment	3.0	**8.7**
Depreciation on intangible assets, property, plant and equipment	6.8	**7.1**
Payroll at 31.03.	6,237	**5,321**
- thereof apprentices/trainees	364	**324**
Cash flows from operating activities	–51.3	**–29.3**
Earnings per share in €	–0.85	**–1.01**

Title photo
Print China in Guangdong in April was a resounding success for KBA with a high visitor turnout and a raft of new orders

The KBA Group's financial figures for the first quarter still paint a differentiated picture. It is especially pleasing that we were able to buck the industry trend by increasing order intake in all three segments and at €306.7m this was up 27% year-on-year. Thanks to the rise in new orders for sheetfed and special presses which both rose by over 30%, order backlog on 31 March of about €547m was some €130m higher than at the beginning of the quarter.

In contrast, we still have some catching up to do in terms of sales and earnings. At €177.3m Group sales were almost 17% down on the previous year primarily due to delivery schedules. Given the low sales volume in the first quarter, the delivery structure and capacity underutilisation at our German web press sites which in the meantime have been rescaled, Group earnings before taxes (EBT) of –€17.7m were lower than the prior-year figure of –€12.1m.

KBA will generate far more than 50% of Group sales in the second-half of the year with corresponding positive effects on earnings. In light of the solid number of new projects I am confident that we will be able to achieve our Group sales target for 2015 of over €1bn with a better EBT than in 2014 and an EBT margin of up to 2% in spite of the first two weaker quarters of this year.

In the following quarters we will actively push ahead with realigning our Digital & Web segment and gradually increase deliveries, whereby the high volume of deliveries scheduled for the second-half of the year and the fourth quarter in particular include larger security press orders.

For the first time this interim report contains the new break down of our business into the segments sheetfed offset presses (Sheetfed Solutions), digital and web offset presses (Digital & Web Solutions) and special presses (Special Solutions). All Group companies active in special print markets will be consolidated under Special Solutions. These include the companies in security printing belonging to KBA-NotaSys as well as the subsidiaries KBA-MetalPrint, KBA-MePrint, KBA-Metronic, KBA-Kammann and KBA-Flexotecnica active in packaging printing markets.

This change in reporting with three newly adapted segments is expected to improve transparency. The de-central company structure proposed has the same objective. A decision regarding this topic will be made at the AGM on 21 May.

Accordingly, KBA-Sheetfed Solutions responsible for the sheetfed offset business at our site in Radebeul and KBA-Digital & Web Solutions in charge of digital and offset web presses in Würzburg are to be spun-off from the Parent, Koenig & Bauer AG, as autonomously operating business units. Group-wide production (KBA-Industrial Solutions) and security press activities in Würzburg (KBA-NotaSys) will form further legal entities. In the future these spun-off companies are expected to each have a German legal status of an AG & Co. KG (limited partnership) with the Parent as a public limited company and sole general partner. Koenig & Bauer AG as a holding with a management board consisting of three members will take over central and strategic tasks. The other members of the management board will become managing directors of the operating companies.

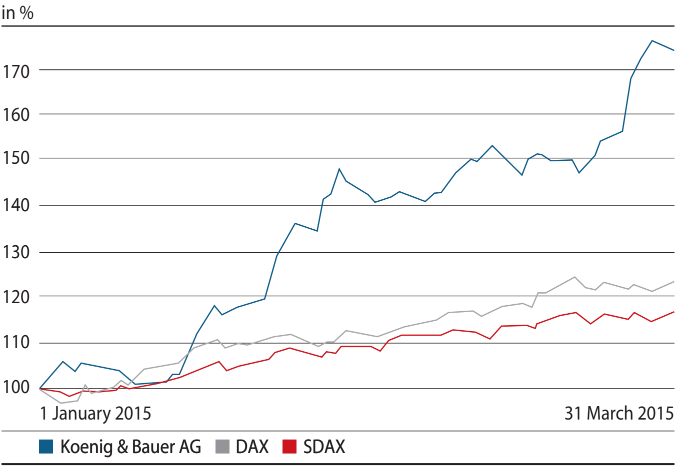
We expect this reorganisation to provide a clear allocation of management responsibility including targets for all business units as well as more strategic flexibility. Cross-subsidies between the business units will not be tolerated and we will invest the capital available in order to achieve long-term higher returns on capital in the interests of our shareholders. The new company structure will be implemented from 1 January 2015 retrospectively upon approval by the AGM. The internal organisational structure has been in place for one year.

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

KBA Shares

Despite ongoing political and economic risks, European shares markets hit new highs in the first quarter of 2015 due to the European central bank's more expansive monetary policy and the devaluation of the euro. The German DAX and SDAX share indexes were up 22% and 17.1% respectively. In this buoyant stock market environment Koenig & Bauer share prices were above average with a 70.7% increase compared to the closing figure for 2014 (€10). At the end of March shares stood at €17.07. Following the wide implementation of our restructuring programme, noticeable progress regarding the realignment of KBA's product portfolio and capacities as well as strengthening Corporate Governance contributed to the rise in the company's share price. Along with mid-term earnings targets, the Group consolidated financial statements for 2014 published on 20 March subsequently drove our share price up. The response from capital markets on developments in sales, earnings, cash flow and working capital, which surpassed expectations, was positive. In April shares continued to increase with daily prices of over €21, a seven-year high.

Koenig & Bauer shares



Group Management Report

Market and Industry Environment

Heterogeneous development of our regional markets and of those market segments addressed by KBA continued in the first quarter of 2015. This applies to the entire mechanical engineering industry. The German Machinery and Plant Manufacturer's Association (VDMA) therefore entitled its current economic report "Uneven development". Overall we are seeing more momentum in terms of demand than the previous year's quarter and its impact on our order books despite sizeable regional and sector-related disparities. Growing packaging markets continue to gain importance for KBA and already contribute over 60% of our total business volume today.

Business Performance

In the first three months of 2015 **Group order intake** was up 27% to €306.7m year-on-year (€241.5m). All three newly adapted segments posted a growth in new orders, albeit with differing dimensions. At €177.3m **Group revenue** was down 16.9% on the prior-year figure of €213.4m caused by an accumulation of deliveries scheduled in the second-half of the year.

Compared to 2014 an €8.8m decrease in domestic sales to €35.3m raised the export level from 79.3% to 80.1%. Deliveries to other parts of Europe fell from €66.1m to €46.3m. This region's contribution to Group sales was below average at 26.1% (2014: 31%). Business in North America jumped from €24.4m to €30.2m, or 11.4% to 17% of the total, thanks to a rise in sheetfed press shipments. The proportion generated by Asia and the Pacific stood at 28.5%. Given the dip in demand in China the total sales volume of €50.5m in this region was below the prior-year figure (€64.9m). At €15m revenue attributable to emerging markets Latin America and Africa came to 8.5% of sales (2014: 6.5%).

At €546.7m **Group order backlog** on 31 March was almost €130m higher than at the beginning of the year, but 7.1% down on the previous year (€588.6m).

Earnings, Finances and Assets

Earnings

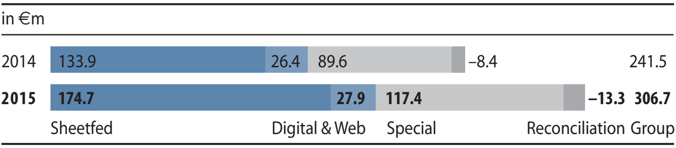
Earnings were hit by lower quarterly sales, product mix and capacity underutilisation which has not been completely eliminated. Our **gross profit margin** shrank from 25.4% to 20.6%. At €13.4m our R&D costs were down slightly on the prior-year figure (€14.2m). The same is true of our distribution costs at €27.9m (2014: €28.4m). In contrast, administration expenses rose from €19m the year before to €21.6m due to external consulting expenses associated with the

Group realignment. Other operating income and expenses came to +€10.2m and our **EBIT** stood at –€16.2m (2014: –€10.2m). A slight net interest loss of €1.5m led to a Group **pre-tax loss** (EBT) this quarter of €17.7m (2014: –€12.1m). After deducting income tax expenses, **Group results** to 31 March were –€16.9m compared to the prior-year figure of –€14m. This corresponds to **earnings per share** of –€1.01 (2014: –€0.85).

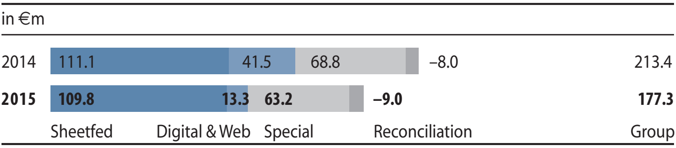
Finances

Cash flows from operating activities improved to –€29.3m compared to –€51.3m the previous year. This includes cash outflows of €9m for staff cuts. Fewer trade receivables (–€12.4m) and a rise in customer prepayments (+€32m) led to lower cash outflows. Despite a temporarily larger volume of work in progress we were able to reduce inventories by around €70m year-on-year thanks to active working capital management. After deducting funds for investing activities, at –€31.1m our **free cash flow** was more favourable than in the prior-year quarter (2014: –€54.4m). Along with ample credit lines, **funds** at 31 March came to €186m (31.12.2014: €207.6m). Less bank loans of €16.8m, net liquidity was solid at €169.2m. A further decrease in the discount rate for German pensions contributed significantly towards reducing equity to €184.5m and the equity ratio to 18%.

Group order intake



Group revenue



Assets

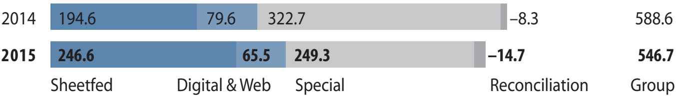
This quarter we invested €8.7m in intangible assets, property, plant and equipment (2014: €3m). The new thermal spraying centre at the Radebeul site has now been completed and new machining centres for large parts at the facility in Würzburg are in operation. Depreciation totalled €7.1m (2014: €6.8m). Overall, non-current assets increased slightly from €278.8m to €279.7m. The €7.5m rise in current assets to €743.4m was primarily a result of higher inventories (+€30.3m) for upcoming deliveries. In contrast, trade receivables fell by €12.4m and funds by €21.6m. The **Group balance sheet total** stood at €1,023.1m, up €8.4m on last year's closing figure.

Segment Performance

A rise in service orders and a significant increase in orders for medium and large-format presses drove order intake in the **Sheetfed Solutions** segment up 30.5% to €174.7m (2014: €133.9m). Demand for extensively equipped and highly automated machines for packaging printing was particularly brisk. At €109.8m sales were just below the prior-year figure of €111.1m. The growth in order backlog of 26.7% to €246.6m (2014: €194.6m) was triggered by a pleasing book-to-bill ratio. In spite of considerable progress with regard to costs and prices, at –€2.7m the segment loss posted was somewhat higher

Group order backlog

in €m



Group net loss

in €m

than the prior year (2014: –€1.6m) due to the low sales volume and unfavourable product mix. This loss was also a result of expenses arising from restructuring our international sales network.

The volume of new orders in the **Digital & Web Solutions** segment rose by 5.7% from €26.4m in 2014 to €27.9m. At €13.3m revenue fell clearly short of the previous year's figure of €41.5m. This was a result of the prior year's weak order intake. At the end of the first quarter the total volume of orders in this segment came to €65.5m (2014: €79.6m). Although quarterly sales were over two thirds less than in 2014, the segment's loss of €8.7m this quarter was only around 50% above the previous year's figure of –€4.3m. Savings resulting from the extensive adjustment to capacities and upcoming deliveries will have a positive impact on earnings in the course the year. Considerably more promising strategic opportunities have opened up for this new segment through addressing new business fields for the RotaJET press series and the alliance with HP in the digital printing market.

More orders in the **Special Solutions** segment for metal decorating, security, coding and flexible packaging printing systems boosted the total volume of incoming orders by 31% to €117.4m (2014: €89.6m). Sales were down 8.1% on the previous year (2014: €68.8m) to €63.2m due to fewer deliveries in all associated business fields. In this year's third quarter and fourth quarter in particular we anticipate a considerable upturn in this segment given the rise in new orders. Order backlog came in at €249.3m (2014: €322.7m). This quarter operating profit was hit by lower sales and the margin structure. It was down from €4m in 2014 to €1.2m.

Geographical breakdown of revenue

in %	2014	2015
Germany	20.7	19.9
Rest of Europe	31.0	26.1
North America	11.4	17.0
Asia/Pacific	30.4	28.5
Africa/Latin America	6.5	8.5

Given inter-segment supply relationships, in terms of figures there are differences between those accumulated for the segments and the Group, which are shown under reconciliation in the segment reporting (see pages 19 onwards in the Notes).

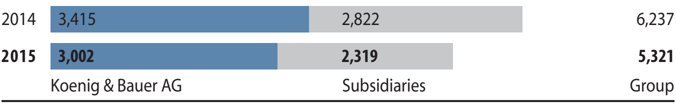
Research and Development

This quarter our engineers focused on practical testing and optimisation of new products, processes, operating concepts and applications. An example is trailblazing LED-UV printing in sheetfed offset, which along with advantages in terms of quality on critical substrates also delivers significantly shorter production times and substantial energy savings. Further examples are digital decorative printing with the first KBA RotaJET 168 in operation at German user Interprint and the development of a 2.8m-wide inkjet web press for the corrugated packaging market together with our American partner HP. Additionally, a raft of new developments are on the agenda for Drupa at the end of May 2016. They will also be at the centre of our R&D activities in coming months.

Human Resources

At the end of March 2015 there were 5,321 employees on Group payroll, 916 fewer than twelve months earlier (6,237). Excluding apprentices, trainees, employees exempted from their duties and staff on phased retirement schemes the Group workforce sank to 4,711. This total is expected to fall to around 4,500 following the completion of our Group restructuring programme in 2016. At 6.1% our training rate remains remarkable.

Payroll at 31 March



Risk Management

The Koenig & Bauer risk management system and major risks facing our business are described on pages 50 to 54 of the Group financial statements for 2014. There have been no significant changes in the profile detailed there this quarter. Despite the frail economic and political environment and the ongoing Group realignment in place until the end of 2015, we perceive no risks that could pose an existential threat to the KBA Group. The implementation of our Fit@All restructuring programme is on track and has progressed considerably. The expansion of our product portfolio for the growing packaging and digital printing markets, our strong footing in some special markets and solid financial base limit the potential for risks. The Group realignment is expected to reduce our dependence on shrinking markets and strengthen profitability in the long term.

Outlook

It is difficult to predict the mid-term impacts of the numerous conflicts worldwide, China's new priorities, the ECB's monetary policy and other external effects on the development of the global economy and our business. Despite ongoing risks many economic forecasts anticipate a stronger upturn, whereby the weak euro and low oil prices act as a catalyst for the mechanical engineering industry.

With new orders up almost 30% in the first quarter, KBA performed above average as, according to statistics from the VDMA (German Machinery and Plant Manufacturer's Association), over 12% fewer orders for German printing equipment were placed from January to March 2015 compared to the previous year.

The extremely positive trend in terms of incoming orders in our largest business segment, Sheetfed Solutions, has continued thanks to the resounding success of Print China in Guangdong for the KBA group in April. Our strong footing in packaging printing proved to be beneficial. KBA-NotaSys, KBA-Digital & Web, KBA-MetalPrint, KBA-Flexotecnica and other companies have also announced a raft of new orders.

In 2015 the delivery structure at KBA will change substantially. We have adjusted the Group to the fact that our web offset business will contribute less and less to Group sales. In contrast, high-volume digital inkjet printing is gaining in importance. Along with traditional markets, KBA-Digital & Web Solutions addresses new applications, such as industrial decor printing, with new press series. An inkjet web press for the corrugated market co-developed with HP opens up additional opportunities. It is being manufactured in Würzburg and will be unveiled to the industry in the fourth quarter.

Sheetfed offset presses and related systems generate over 50% of Group sales. Packaging printers dominate the business of KBA-Sheetfed Solutions and the majority of companies in the Special Solutions segment. In this segment presses and systems for producing banknotes make the largest contribution to sales and earnings. They mainly go to government clients not usually from industrialised countries. This limits our influence on decision-making and delivery time periods making planning within our security press business difficult. Nevertheless, the KBA Group's broad line up levels out segment-related fluctuations in demand and facilitates adjustments to market shifts.

As is typical for our industry, the KBA Group will once again generate far more than half of its sales in the second-half of the year. The same is true of our security press business. With this in mind, our sales target of over €1bn remains realistic. Furthermore, given the cost savings delivered by the restructuring programme which is at a very advanced stage and the anticipated increase in sales, management is targeting an improvement in earnings to an EBT margin of up to 2% of sales. Management will provide further information in due course on the development of our business.

Group Balance Sheet

Assets

in €m	31.12.2014	**31.03.2015**
Non-current assets		
Intangible assets, property, plant and equipment	228.7	226.7
Investments and other financial receivables	14.8	14.8
Other assets	0.1	0.2
Deferred tax assets	35.2	38.0
	278.8	**279.7**
Current assets		
Inventories	279.3	309.6
Trade receivables	198.8	186.4
Other financial receivables	15.4	17.7
Other assets	24.7	30.3
Securities	9.6	10.7
Cash and cash equivalents	207.6	186.0
Assets held for sale	0.5	2.7
	735.9	**743.4**
Balance sheet total	**1,014.7**	**1,023.1**

Equity and liabilities

in €m	31.12.2014	**31.03.2015**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	96.2	53.7
Equity attributable to owners of the Parent	**226.7**	**184.2**
Equity attributable to non-controlling interests	0.5	0.3
	227.2	**184.5**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	195.0	216.2
Other provisions	55.7	56.3
Other financial payables	10.1	13.1
Other liabilities	2.0	2.1
Deferred tax liabilities	19.5	19.8
	282.3	**307.5**
Current liabilities		
Other provisions	203.5	202.9
Trade payables	57.1	50.7
Bank loans	15.2	16.8
Other financial payables	63.4	79.3
Other liabilities	166.0	181.4
	505.2	**531.1**
Balance sheet total	**1,014.7**	**1,023.1**

Group Income Statement

01.01. - 31.03. in €m	2014	**2015**
Revenue	213.4	177.3
Cost of sales	–159.3	–140.8
Gross profit	**54.1**	**36.5**
Research and development costs	–14.2	–13.4
Distribution costs	–28.4	–27.9
Administrative expenses	–19.0	–21.6
Other operating income and expenses	–2.7	10.2
Earnings before interest and taxes (EBIT)	**–10.2**	**–16.2**
Interest income/expense	–1.9	–1.5
Earnings before taxes (EBT)	**–12.1**	**–17.7**
Income tax expense	–1.9	0.8
Net loss	**–14.0**	**–16.9**
- attributable to owners of the Parent	–14.0	–16.7
- attributable to non-controlling interests	–	–0.2
Earnings per share (in €, basic/dilutive)	**–0.85**	**–1.01**

Statement of Comprehensive Group Income

01.01. - 31.03. in €m	2014	**2015**
Net loss	**–14.0**	**–16.9**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	–0.6	0.7
Measurement of primary financial instruments	0.3	0.1
Measurement of derivatives	–0.5	–6.6
Deferred taxes	0.2	0.4
	–0.6	**–5.4**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–8.7	–20.6
Deferred taxes	0.1	0.2
	–8.6	**–20.4**
Losses recognised directly in equity	**–9.2**	**–25.8**
Total comprehensive income	**–23.2**	**–42.7**
- attributable to owners of the Parent	–23.2	–42.5
- attributable to non-controlling interests	–	–0.2

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2014	**43.0**	**87.5**
Net loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2014	**43.0**	**87.5**
01.01.2015	**43.0**	**87.5**
Net loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
31.03.2015	**43.0**	**87.5**

Reserves: Recognised in equity	Reserves: Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
11.5	**135.1**	**277.1**	**0.8**	**277.9**
–	–14.0	–14.0	–	–14.0
–9.2	–	–9.2	–	–9.2
–9.2	**–14.0**	**–23.2**	**–**	**–23.2**
–41.0	41.0	–	–	–
–38.7	**162.1**	**253.9**	**0.8**	**254.7**
–80.4	**176.6**	**226.7**	**0.5**	**227.2**
–	–16.7	–16.7	–0.2	–16.9
–25.8	–	–25.8	–	–25.8
–25.8	**–16.7**	**–42.5**	**–0.2**	**–42.7**
–106.2	**159.9**	**184.2**	**0.3**	**184.5**

Group Cash Flow Statement

01.01. - 31.03. in €m	2014	**2015**
Earnings before taxes (EBT)	–12.1	–17.7
Non-cash transactions	8.0	9.4
Gross cash flow	**–4.1**	**–8.3**
Changes in inventories, receivables and other assets	–2.9	–27.2
Changes in provisions and payables	–44.3	6.2
Cash flows from operating activities	**–51.3**	**–29.3**
Cash flows from investing activities	**–3.1**	**–1.8**
Free cash flow	**–54.4**	**–31.1**
Cash flows from financing activities	**0.8**	**1.3**
Change in funds	**–53.6**	**–29.8**
Effect of changes in exchange rates	–0.6	8.2
Funds at beginning of period	185.4	207.6
Funds at end of period	**131.2**	**186.0**

Notes to the Interim Accounts to 31 March 2015

1 Accounting Policies

This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The consolidated financial statements were prepared in accordance with the standards valid on that date, as issued by the International Accounting Standards Board (IASB), London, and all binding interpretations by the International Financial Reporting Interpretation Committee (IFRIC), with due regard for EU directives.

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

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

2 Consolidated Companies and Consolidation Principles

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

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

3 Segment information

At the beginning of 2015 the segments were newly formed to improve transparency.

The business segment Sheetfed Solutions ('Sheetfed') constitutes sheetfed offset presses for packaging, commercial, book and poster printing. The business segment Digital & Web Solutions ('Digital & Web') encompasses web presses for offset and digital printing. Systems for banknote/security printing, coding and packaging printing (on metal, labels, film, plastic, laminates, tubes, glass/hollow containers) are grouped under the business segment Special Solutions ('Special').

The reconciliation comprises holding functions and inter-segment consolidations, as well as non-segment related losses as part of the restructuring process.

4 Segment Information

4.1 Business Segments

01.01. - 31.03.

in €m	Revenue		EBIT		Capital investments	
	2014	**2015**	2014	**2015**	2014	**2015**
Segments						
Sheetfed	111.1	109.8	–1.6	–2.7	1.5	5.9
Digital & Web	41.5	13.3	–4.3	–8.7	0.2	0.3
Special	68.8	63.2	4.0	1.2	1.1	1.3
Reconciliation	–8.0	–9.0	–8.3	–6.0	0.2	1.2
Group	**213.4**	**177.3**	**–10.2**	**–16.2**	**3.0**	**8.7**

4.2 Geographical Breakdown of Revenue

01.01. - 31.03.

in €m	2014	**2015**
Germany	44.1	35.3
Rest of Europe	66.1	46.3
North America	24.4	30.2
Asia/Pacific	64.9	50.5
Africa/Latin America	13.9	15.0
Revenue	**213.4**	**177.3**

5 Earnings per Share

01.01. - 31.03.

in €m	2014	**2015**
Earnings per share	–0.85	–1.01

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

6 Balance Sheet

6.1 Intangible Assets, Property, Plant and Equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	84.5	46.7	37.8
Property, plant and equipment	640.8	449.9	190.9
Total at 31.12.2014	**725.3**	**496.6**	**228.7**
Intangible assets	84.6	47.1	37.5
Property, plant and equipment	625.6	436.4	189.2
Total at 31.03.2015	**710.2**	**483.5**	**226.7**

Investment in property, plant and equipment totalling €8.7m (first quarter 2014: €2.9m) primarily refers to additions of plant and machinery, factory and office equipment.

6.2 Inventories

in €m	31.12.2014	**31.03.2015**
Raw materials, consumables and supplies	63.7	60.6
Work in progress	201.2	236.2
Finished goods and products	14.4	12.8
	279.3	**309.6**

6.3 Liabilities

Current and non-current liabilities rose by €51.1m. This was primarily due to €32m in customer prepayments as well as €20.6m from recognising actuarial losses from changes in interest rates in pension provisions directly in equity.

Key Financial Dates

Koenig & Bauer Annual General Meeting
21 May 2015
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2015
11 August 2015

Interim report on 3rd quarter 2015
10 November 2015

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KBA
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