Group Interim Report
First Quarter 2016

Koenig & Bauer Group

KBA Group in Figures

01.01. - 31.03. in €m	2015	**2016**
Order intake	306.7	**266.3**
Revenue	177.3	**258.8**
Order backlog at 31.03.	546.7	**582.4**
Export level in %	80.1	**85.4**
Earnings before interest and taxes (EBIT)	–16.2	**2.1**
Earnings before taxes (EBT)	–17.7	**0.6**
Net profit/loss	–16.9	**1.6**
Balance sheet total at 31.03. (prior year: 31.12.)	976.9	**996.6**
Equity at 31.03. (prior year: 31.12.)	258.4	**252.1**
Investment in intangible assets, property, plant and equipment	8.7	**9.4**
Depreciation on intangible assets, property, plant and equipment	7.1	**6.9**
Payroll at 31.03.	5,321	**5,216**
- thereof apprentices/trainees	324	**298**
Cash flows from operating activities	–29.3	**15.4**
Earnings per share in €	–1.01	**0.11**

Title photo
KBA Service Complete also offers workflow solutions for networked printing plants under the brand KBA 4.0.

Letter to Shareholders

2016 started well for the KBA Group. We were able to significantly increase revenue and earnings in the first quarter year-over-year and boost order backlog further compared to the beginning of the year with robust order intake. Numerous optimisation measures are taking effect as planned. This quarter we thus improved earnings by over €18m to +€2.1m (EBIT) or +€0.6m (EBT) year-on-year. Revenue grew by a sizeable 46% to €258.8m compared to 2015, with new presses for packaging printing climbing slightly to over 70% of the total. With incoming orders of €266.3m, order backlog at the end of March stood at €582.4m (end of 2015: €574.9m).

Over the coming quarters we anticipate Group order intake to be stable as a result of stimulus from Drupa, steady demand from packaging markets, the continued solid project pipeline in security printing and from newly developed products. Our expanded service business is also expected to contribute to this.

All three segments posted considerable gains in sales. Our largest segment, Sheetfed, is on the right track with a 41% rise in revenue, a quarterly profit of €5.7m and a high order backlog of €264m. Digital & Web raised its order intake year-on-year by 23% and more than doubled revenue to €27.9m. At –€1.8m the segment loss was much lower than twelve months ago, the restructuring efforts are clearly paying off. Given the rise in order backlog to €77m we expect figures to be in the black for the whole of 2016. Order intake in our Special segment remained roughly on a par with the prior year due to gains in packaging markets and the unchanged good project pipeline in bank note printing. Revenue rose by around 40% to €88.6m primarily driven by higher contributions from packaging. At €0.2m profit this quarter was below the prior year (€1.2m), whereby the project execution of a security press order led to delays impacting on profit. Earnings are expected to improve as planned in the coming quarters given the solid project pipeline.

Despite economic problems in key sales markets I remain confident that Group revenue will rise to around €1.1bn in 2016 and that we will achieve the EBT margin of 3 to 4% announced. The substantial cut in cost base after completing the Group restructuring, improved capacity utilisation, necessary price adjustments and a stronger footing in less price-sensitive growth and special markets will be beneficial.

In future the management board will focus strongly on generating growth in existing and new packaging markets, on industrial applications in digital web printing and expanding the service business further. We pay special attention to robust earnings in all Group segments, a good cash flow and the further strengthening of our financial power for potential strategic options.

At the upcoming Drupa the KBA Group will be presenting innovative press concepts and production processes as well as the finishing technology developed internally for the first time. The focus of our presence at the trade show is on growing packaging and digital printing markets for traditional and new industrial applications, such as decor. As machines are no longer the be-all and end-all in a digitalised world, we will also showcase new service offerings and workflow solutions under the brand KBA 4.0.

The trade show comes at an unsettled time with many conflicts and callous terror attacks, also in Europe. However, we hope that we will be able to present our new products and services to a large, international audience. Those of you, our valued shareholders, who wish to experience the diversity of print close up are very welcome to visit the KBA stand.

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

KBA Shares

Global economic risks and numerous crises lowered prices on the international stock markets until mid-February 2016. Koenig & Bauer shares were not able to escape this trend following the threefold increase in share price the previous year. KBA shares stood at €22.67 on 11 February compared to €32.50 at the start of the year. The rise in oil price and the ECB's even more expansive monetary policy subsequently led to an uptrend on the stock markets with high volatility. The DAX, however, was unable to permanently remain above the 10,000-point mark and at the end of March was down 7.2% on last year's closing figure. The SDAX dipped to minus 3.2% at the end of the first quarter. The positive Group financial figures for 2015 published on 24 March pushed our share price up. With a quarterly closing figure of €32.30 on 31 March, the company's share price was close to that at the turn of the year.

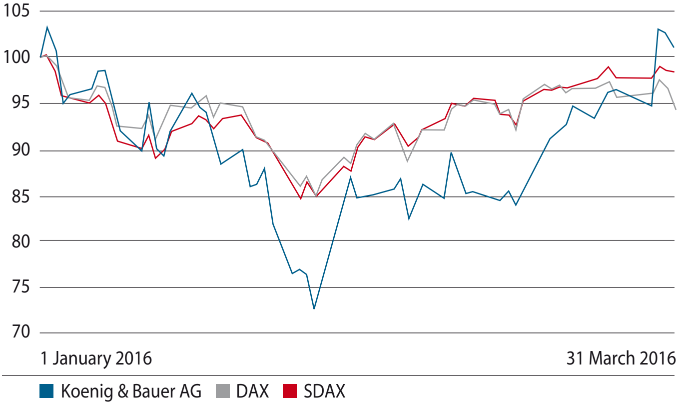
Group Management Report

Business Performance

In an economic scenario characterised by strong regional disparities and weaker demand from key export markets the KBA Group posted solid **Group order intake** of €266.3m in the first three months of 2016. In the quarter before Drupa opens its doors the volume of incoming orders in the Sheetfed segment was below the prior year's exceptionally high figure as expected.

Koenig & Bauer shares

in %



In contrast, **Group revenue** was 46% up on the previous year's weak figure of €177.3m to €258.8m. All three segments posted sizeable gains. The export level rose from 80.1% in 2015 to 85.4%, with 28.8% of deliveries going to other parts of Europe (2015: 26.1%). There was again noticeable sales growth primarily in Southern Europe. Business in North America contributed 18.7% to Group revenue (2015: 17%). In contrast, the proportion generated in Asia and the Pacific was lower year-over-year at 25% (2015: 28.5%). The figure for Latin America and Africa stood at 12.9% (2015: 8.5%).

At €582.4m **Group order backlog** on 31 March was even higher than at the start of the year (€574.9m) and 6.5% up on 2015 (€546.7m).

Earnings, Finances and Assets

Earnings

Strong earnings improvements in Sheetfed and Digital & Web had a positive impact on **earnings**. However, profit generated by our Special segment in the first quarter remained behind the positive development anticipated.

Our **gross profit margin** rose from 20.6% to 29.8%. At €12.8m R&D costs were roughly the same as the previous year (€13.4m) and primarily related to new products for Drupa and the Banknote Horizons event at KBA-NotaSys in Lausanne. Distribution costs rose from €27.9m to €32.6m due to increased deliveries. Our administration expenses climbed to €23.5m (2015: €21.6m) following the implementation of the Group-wide SAP project. Other operating income and expenses came to –€6m and our **EBIT** improved by over €18m to +€2.1m. In the first quarter of 2015 there was still a loss of €16.2m. A negative interest result of –€1.5m led to a **Group pre-tax profit** of €0.6m compared to –€17.7m the previous year. After deducting income tax expenses, **Group net profit** at 31 March was €1.6m (2015: –€16.9m). This corresponds to **earnings per share** of €0.11 (2015: –€1.01).

Finances

Cash flows from operating activities were clearly positive at €15.4m (2015: –€29.3m) following improved earnings, reduced receivables and a rise in customer prepayments. At €11.3m our **free cash flow** was up significantly on the prior-year figure of –€31.1m. **Funds** at the end of March 2016 came to €195.6m (31.12.2015: €186.3m).

Less bank loans of €15.8m, net liquidity was €179.8m. Equity was reduced by a rise in pension provisions given the lower discount rate. The equity ratio sank from 26.5% at the end of 2015 to 25.3%.

Assets

The **Group balance sheet total** at 31 March was up €19.7m to €996.6m (31.12.2015: €976.9m). While receivables dropped, current assets rose to €726.9m (2015: €705.8m) primarily due to higher funds and inventories. We invested €9.4m in intangible assets, property, plant and equipment (2015: €8.7m), and depreciation totalled €6.9m (prior year: €7.1m). Non-current assets sank to €269.7m compared to €271.1m at the end of 2015.

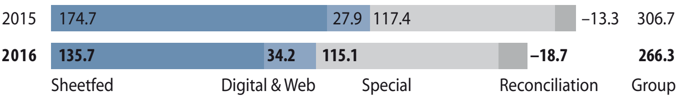
Segment Performance

This quarter our **Sheetfed segment** booked orders worth €135.7m despite longer lead times due to the high level of capacity utilisation. However, the unusually high order intake of €174.7m in the first quarter of 2015 was not reached as expected in the run-up to Drupa. Revenue was up 40.8% to €154.6m compared to the prior-year's weak figure (€109.8m). Our service business and all press series posted growth. At €264m order backlog at the end of March was 7.1% higher year-on-year (€246.6m). Increased revenue with better margins and solid capacity utilisation improved the segment result to +€5.7m (2015: –€2.7m).

The volume of new orders in the **Digital & Web segment** rose by 22.6% to €34.2m compared to 2015 (€27.9m). Further orders from HP for the inkjet web presses for corrugated packaging assembled at the site in Würzburg contributed to this rise. Revenue in the Digital & Web segment more than doubled from €13.3m the year before to

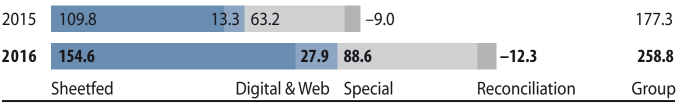
Group order intake

in €m



Group revenue

in €m



€27.9m. Order backlog was up 16.9% to €76.6m (2015: €65.5m). Higher sales with a lower cost base improved the segment loss to €1.8m (2015: –€8.7m). Positive earnings remains a goal of this realigned segment for the entire year.

At €115.1m (2015: €117.4m) the volume of incoming orders in the **Special segment** was stable with continuous demand for packaging solutions and an unchanged solid project pipeline in the security business. Increased deliveries recorded by all the companies in this segment led to a 40.2% rise in revenue to €88.6m (2015: €63.2m). At €276.6m order backlog at the end of March was 11% higher than twelve months ago (€249.3m). At €0.2m the quarterly profit was below the prior year (€1.2m), whereby the project execution of a security press order led to delays impacting on profit. Earnings are expected to improve as planned in the coming quarters given the solid project pipeline.

Supplementary Statement and Risks

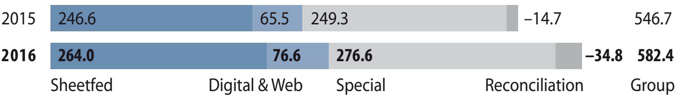
No events with a material impact on Group earnings, finances and assets occurred after 31 March 2016. The major risks facing our company and the early warning system are described in detail in the Group consolidated financial statements for 2015 (page 50 onwards). There have been no significant changes in the risk profile detailed there.

Outlook

Numerous crises and conflicts, volatile oil prices and economic problems in key foreign markets strained the global economy and investment activity in the first quarter of 2016. The individual segments of the German mechanical engineering industry were

Group order backlog

in €m



Group net profit/loss

in €m

affected in different ways by this development. With a one-digit plus printing and papermaking technology was in the upper mid-range compared to the same period the previous year. Despite the weak euro and recovery in Southern Europe, the German Machinery and Plant Manufacturer's Association (VDMA) currently does not determine any stable signs of growth for the entire mechanical engineering industry for 2016.

Group order intake in the first quarter of 2016 was slightly below last year's high figure. Our book-to-bill ratio was favourable despite a high increase in revenue and the Drupa lull prior to the trade show at the end of May known from previous years especially in our Sheetfed segment was weak. Investment restraint in key sales markets and longer lead times had a stronger impact.

Our Sheetfed segment which compared to previous quarters had a solid workload ended the first quarter with a profit and strong order backlog. Its capacities are expected to operate at a high level well into autumn. We anticipate this pleasing trend to continue throughout the rest of the year. The growing service business as well as our own digital presses and those manufactured for other parties for packaging, decor and industrial printing make a growing revenue and earnings contribution to the Digital & Web segment. Based on the clear improvement in earnings in the first quarter we are targeting a profit until the end of the financial year. Following increased order backlog and the incremental settlement of existing customer orders we also expect a significant revenue and earnings improvement in the Special segment which is still strongly influenced by security printing. The companies active in special packaging markets in this segment also anticipate a rise in sales.

The KBA Group's stronger focus on growth markets, such as packaging, digital and functional printing, in parallel to the recent realignment will be reflected in our presence at Drupa 2016. Emphasis will be on analogue and digital printing solutions for various types of packaging and future-focused industrial applications.

We look ahead to the next few months with confidence given the continued solid order backlog and workload, plus stimulus expected from Drupa. The first quarter has not brought any changes to the management board's goals for the current financial year. Assuming conditions for our global business remain relatively stable we continue to target an increase in Group revenue to around €1.1bn and an EBT margin between 3 and 4% for 2016.

Group Balance Sheet

Assets

in €m	31.12.2015	**31.03.2016**
Non-current assets		
Intangible assets, property, plant and equipment	224.2	221.6
Investments and other financial receivables	15.7	16.7
Other assets	0.1	0.1
Deferred tax assets	31.1	31.3
	271.1	**269.7**
Current assets		
Inventories	258.8	279.0
Trade receivables	193.5	183.1
Other financial receivables	17.6	18.3
Other assets	36.3	35.9
Securities	13.3	15.0
Cash and cash equivalents	186.3	195.6
	705.8	**726.9**
Balance sheet total	**976.9**	**996.6**

Equity and liabilities

in €m	31.12.2015	**31.03.2016**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	127.3	121.2
Equity attributable to owners of the Parent	257.8	251.7
Equity attributable to non-controlling interests	0.6	0.4
	258.4	**252.1**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	191.8	204.0
Other provisions	28.3	31.5
Other financial payables	10.2	9.7
Other liabilities	1.4	3.1
Deferred tax liabilities	14.1	14.8
	245.8	**263.1**
Current liabilities		
Other provisions	188.6	193.8
Trade payables	42.6	34.6
Bank loans	15.8	15.8
Other financial payables	57.5	62.2
Other liabilities	168.2	175.0
	472.7	**481.4**
Balance sheet total	**976.9**	**996.6**

Group Income Statement

01.01. - 31.03. in €m	2015	**2016**
Revenue	177.3	258.8
Cost of sales	–140.8	–181.8
Gross profit	**36.5**	**77.0**
Research and development costs	–13.4	–12.8
Distribution costs	–27.9	–32.6
Administrative expenses	–21.6	–23.5
Other operating income and expenses	10.2	–6.0
Earnings before interest and taxes (EBIT)	**–16.2**	**2.1**
Interest result	–1.5	–1.5
Earnings before taxes (EBT)	**–17.7**	**0.6**
Income tax expense	0.8	1.0
Net profit/loss	**–16.9**	**1.6**
- attributable to owners of the Parent	–16.7	1.8
- attributable to non-controlling interests	–0.2	–0.2
Earnings per share (in €, basic/dilutive)	**–1.01**	**0.11**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2015	**43.0**	**87.5**
Net loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
31.03.2015	**43.0**	**87.5**
01.01.2016	**43.0**	**87.5**
Net profit/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
31.03.2016	**43.0**	**87.5**

Statement of Comprehensive Group Income

01.01. - 31.03. in €m	2015	**2016**
Net profit/loss	**–16.9**	**1.6**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	0.7	–0.1
Measurement of primary financial instruments	0.1	0.2
Measurement of derivatives	–6.6	4.6
Deferred taxes	0.4	–0.6
	–5.4	**4.1**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–20.6	–12.1
Deferred taxes	0.2	0.1
	–20.4	**–12.0**
Losses recognised directly in equity	**–25.8**	**–7.9**
Total comprehensive income	**–42.7**	**–6.3**
- attributable to owners of the Parent	–42.5	–6.1
- attributable to non-controlling interests	–0.2	–0.2

Reserves Recognised in equity	 Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
–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**
–76.3	**203.6**	**257.8**	**0.6**	**258.4**
–	1.8	1.8	–0.2	1.6
–7.9	–	–7.9	–	–7.9
–7.9	**1.8**	**–6.1**	**–0.2**	**–6.3**
–84.2	**205.4**	**251.7**	**0.4**	**252.1**

Group Cash Flow Statement

01.01. - 31.03. in €m	2015	2016
Earnings before taxes (EBT)	–17.7	0.6
Non-cash transactions	9.4	12.8
Gross cash flow	**–8.3**	**13.4**
Changes in inventories, receivables and other assets	–27.2	–15.5
Changes in provisions and payables	6.2	17.5
Cash flows from operating activities	**–29.3**	**15.4**
Cash flows from investing activities	**–1.8**	**–4.1**
Free cash flow	**–31.1**	**11.3**
Cash flows from financing activities	**1.3**	**–0.1**
Change in funds	**–29.8**	**11.2**
Effect of changes in exchange rates	8.2	–1.9
Funds at beginning of period	207.6	186.3
Funds at end of period	**186.0**	**195.6**

Notes to the Interim Accounts to 31 March 2016

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.

2 Segment Information

2.1 Business Segments

01.01. - 31.03. in €m	Revenue		EBIT		Capital investments	
	2015	**2016**	2015	**2016**	2015	**2016**
Segments						
Sheetfed	109.8	154.6	–2.7	5.7	5.9	1.9
Digital & Web	13.3	27.9	–8.7	–1.8	0.3	0.2
Special	63.2	88.6	1.2	0.2	1.3	6.6
Reconciliation	–9.0	–12.3	–6.0	–2.0	1.2	0.7
Group	**177.3**	**258.8**	**–16.2**	**2.1**	**8.7**	**9.4**

2.2 Geographical Breakdown of Revenue

01.01. - 31.03. in €m	2015	**2016**
Germany	35.3	37.9
Rest of Europe	46.3	74.6
North America	30.2	48.3
Asia/Pacific	50.5	64.6
Africa/Latin America	15.0	33.4
Revenue	**177.3**	**258.8**

Key Financial Dates

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

Published by:
Koenig & Bauer AG
Postfach 60 60
97010 Würzburg, Germany
Contact:
Investor Relations
Dr Bernd Heusinger
Tel: (+49) 931 909-4835
Fax: (+49) 931 909-6015
E-mail: bernd.heusinger@kba.com
www.kba.com

Koenig & Bauer Group