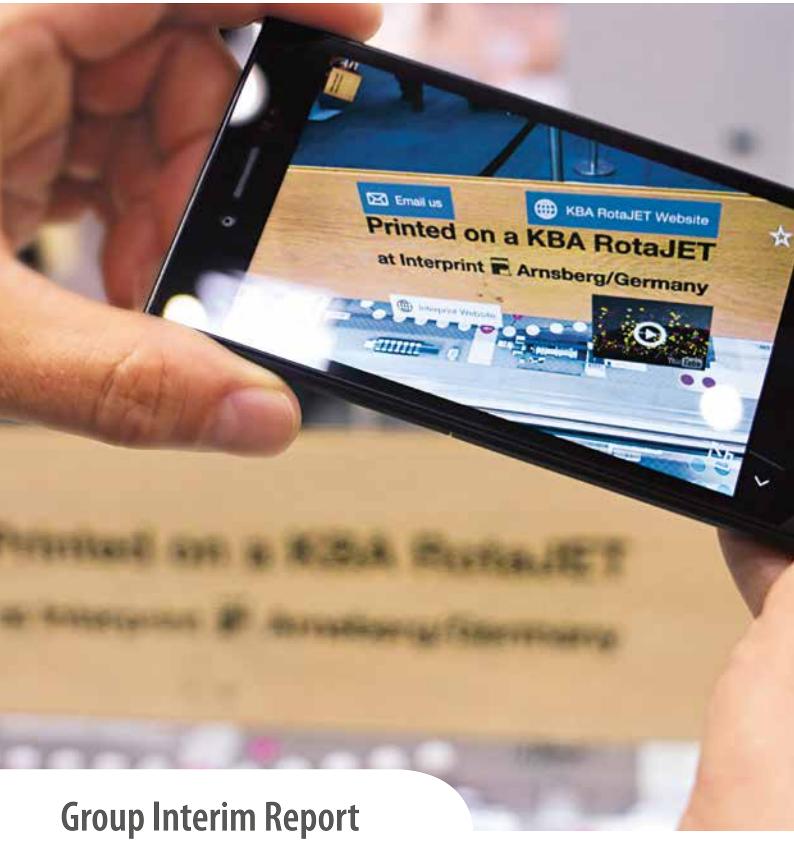


Group Interim Report
Third Quarter 2016

KBA
Koenig & Bauer Group

KBA Group in Figures

01.01. - 30.09. in €m	2015	**2016**
Order intake	859.6	**869.8**
Revenue	679.7	**831.4**
Order backlog at 30.09.	597.3	**613.3**
Export level in %	85.4	**85.2**
Earnings before interest and taxes (EBIT)	6.1	**39.2**
Earnings before taxes (EBT)	2.1	**34.9**
Net profit	2.4	**32.5**
Balance sheet total at 30.09. (prior year: 31.12.)	976.9	**1,014.8**
Equity at 30.09. (prior year: 31.12.)	258.4	**261.8**
Investment in intangible assets, property, plant and equipment	18.2	**19.6**
Depreciation on intangible assets, property, plant and equipment	21.6	**19.9**
Payroll at 30.09.	5,285	**5,332***
- thereof apprentices/trainees	384	**363**
Cash flows from operating activities	–28.6	**–5.0**
Earnings per share in €	0.16	**1.98**

* including 58 following the acquisition of Iberica AG in July

Title photo
The KBA RotaJET digital printing series uses augmented reality to combine highly individualised printing products with intelligent, Internet-based concepts

Letter to Shareholders

Following a good third quarter, the KBA Group took a large step towards achieving its growth targets for revenue and earnings in the current year. The Group's order intake in the first nine months and order backlog at the end of the quarter exceeded the previous year's very good level slightly. Group revenue and earnings rose sharply over 2015. At the same time, the KBA Group was able to widen its share of the market in the less cyclical high-growth packaging and industrial printing sectors and additionally expand its service business. Project business with special presses for security printing and the contract production of digital web presses for HP also achieved growth.

With underlying economic and political conditions still challenging, our heightened focus on the growth markets of packaging and digital printing backed by a wide range of products is paying off. Despite disparate trends in demand in the markets which we address, the KBA Group was able to increase order intake over the very strong previous year to €870m at the end of September. New orders exceeded Group revenue, which rose by 22% to over €831m. Order backlog widened to €613m, thus already ensuring full capacity utilisation of our plants until spring 2017.

Even more encouraging than the substantial revenue growth was the sizeable increase in earnings for the period under review underpinned by the high profit generated in the third quarter. With operating earnings (EBIT) of €39.2m and earnings before taxes (EBT) of €34.9m, we were able to substantially outperform the first nine months of the previous year (EBIT of €6.1m and EBT of €2.1m). All segments contributed to this performance with positive figures for the quarter and the first nine months.

New orders in the Sheetfed segment came to €430m in the period under review. As expected, this fell short of the extraordinarily high figure recorded in the previous year but was only slightly lower than revenue, which increased by 17.5% to €444m. In addition to softer demand in China and the weaker global economy, longer delivery periods placed a damper on order volumes. Moreover, the special impetus generated by the Drupa trade fair in the second quarter of 2016 caused a shift in the distribution of orders over the individual quarters in the current year compared with 2015. Our largest segment will continue to post gains in revenue and profit at the end of the year. The Digital & Web segment, which is operating profitably again, will expand substantially thanks to the 75% increase in revenue recorded up until the end of September and will close 2016 with the forecast profit. The outlook for the Special segment, which is benefiting from good demand for security and packaging printing, remains favourable. At the end of the third quarter, revenue in this segment was up 22% on the previous year, accompanied by a 38% increase in order backlog.

On the strength of the Group's favourable business performance, the Executive Board is again raising its guidance for the current year and now considers an EBT margin of up to 5% to be achievable on Group revenue between €1.1 and €1.2bn.

Despite the heightened challenges in the international market, we see our main task as being to stabilise the profitability of all segments and KBA companies and to additionally enhance it in the medium term. Alongside additions to our own range of products, the expansion of our sales network and the growth of our service business, we will also be forging partnerships with other companies. The success of the jointly developed inkjet web press for corrugated packaging which KBA-Digital & Web is building for HP testifies to the potential of such alliances.

The KBA Group is headed in the right direction and we will continue to keep you informed of all main developments.

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

KBA Shares

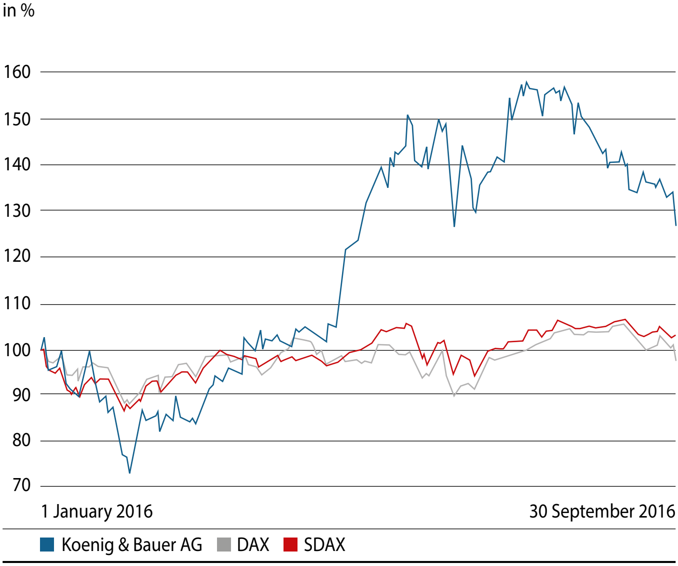
Disappointing economic data, political conflicts and shocks such as the outcome of the Brexit referendum repeatedly triggered turbulence in the international financial markets in the period under review. The recovery in oil prices and the ECB's resolutely expansionary monetary policy buoyed share prices. After fluctuating sharply, the DAX closed trading on 30 September 2.2% lower than on the last day of trading in 2015, while the SDAX posted gains of 2%. After a three-fold increase in its price in the previous year, the Koenig & Bauer share has continued to perform well in 2016 despite the considerable volatility and febrile conditions in the financial markets. The positive response to the Company's business figures and the capital market's approval of its decision to adopt a clear focus on growth markets led to substantial gains after the low of €22.67 on February 11. Our share reached a high of €51.31 on 29 July, after which profit-taking ushered in a consolidation phase. KBA shares closed the third quarter at €41.80, 27.1% up on the last day of trading in 2015.

Group Management Report

Business Performance

With its product range benefiting in large parts from growing consumer spending and global packaging production, the KBA **Group's**

Koenig & Bauer shares



order intake rose by a further 1.2% over the strong previous year to €869.8m. Orders were also up in the digital printing markets and in security printing. The new sheetfed press orders generated at the Drupa trade fair in June 2016 have largely been placed on the books. Double-digit growth in all three segments caused **Group revenue** to rise by 22.3% to €831.4m (2015: €679.7m). At 85.2%, the export ratio remained at the previous year's high level (85.4%). Deliveries to other European countries stood at 30.5%. At 14%, North American business made almost the same percentage contribution to Group revenue as in the previous year. The share accounted for by Asia/Pacific (29.2%) was lower than in 2015 (33.6%). Latin America and Africa contributed 11.5% to Group revenue (2015: 8.3%). At €613.3m, the **Group order backlog** on 30 September exceeded the previous year's figure of €597.3m by 2.7%.

Earnings, Finances and Assets

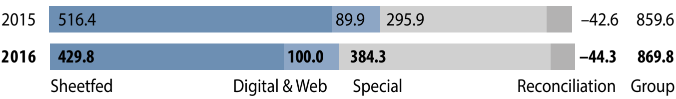
Earnings

In addition to the high contribution made by the Special segment, the increased profit generated by the Sheetfed segment particularly strengthened the **Group's earnings**. Following realignment and the transfer of knowledge from conventional web press business to the future markets of digital and functional printing, the Digital & Web segment also made a positive contribution to earnings at the end of the first nine months.

The **gross profit margin** widened from 26.6% in the previous year to 30.4%. At €41.4m, R&D costs were in line with the previous year (€42.6m) and were driven by development expense in connection with new products and applications for digital, packaging and security

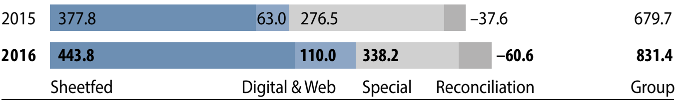
Group order intake

in €m



Group revenue

in €m



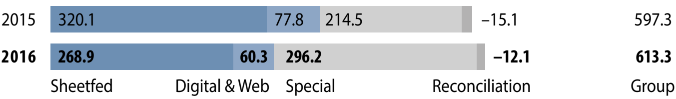
printing. Distribution costs rose from €91.4m to €111.2m, reflecting increased deliveries as well as costs for the Drupa trade fair and the Banknote Horizons customer event. Increased wages contributed to the higher administration expenses of €58.2m (2015: €57m). With other operating income and expenses coming to –€2.8m, **EBIT** rose by more than €33m to €39.2m (2015: €6.1m). The negative interest result of –€4.3m led to a **Group EBT** of €34.9m, compared with €2.1m in the previous year. After income taxes, **Group net profit** came to €32.5m (2015: €2.4m), equivalent to **earnings per share** of €1.98 (2015: €0.16).

Finances

Despite intensive optimisation efforts, the revenue growth planned for 2016 will temporarily increase working capital requirements in view of the printing equipment which is configured extensively to meet individual customer requirements. Accordingly, inventories rose by €69.6m ahead of the busy fourth quarter. **Cash flows from operating activities** improved to –€5m (2015: –€28.6m) thanks to the substantial earnings and increased trade payables notwithstanding the higher working capital. The **free cash flow** came to –€17m, compared with –€27.8m twelve months ago. At the end of September 2016, **cash and cash equivalents** stood at €158.9m, with securities valued at €18.3m (31.12.2015: €186.3m; €13.3m). Adjusted for bank loans, which were reduced to €11.4m, net liquidity equals €147.5m. The reduction in the discount rate for domestic pensions from 2.4% to 1.3% reduced equity by €33.3m. Despite the Group profit, equity rose only slightly from €258.4m to €261.8m. This translates into an equity ratio of 25.8% in relation to the increased balance sheet total (end of 2015: 26.5%).

Group order backlog

in €m



Group net profit

in €m

Assets

We invested €19.6m (2015: €18.2m) in intangible assets, property, plant and equipment primarily to enhance production efficiency. Depreciation came to €19.9m, compared with €21.6m in the previous year. All told, non-current assets declined from €271.1m at the end of 2015 to €261.6m. With cash and cash equivalents lower, current assets rose to €753.2m (end of 2015: €705.8m) primarily as a result of higher inventories and securities. On balance, the **Group balance sheet total** rose by €37.9m to €1,014.8m on 30 September 2016 (31.12.2015: €976.9m).

Segment Performance

In the summer quarter, the **Sheetfed segment** was primarily involved in processing Drupa orders. With the economic slowdown in China and other export markets, the order intake of €429.8m fell short of the previous year's high figure (€516.4m) in line with expectations. New press business was also dampened by workload-driven longer lead times and the necessary price discipline. On the other hand, revenue rose by 17.5% over 2015 (€377.8m) to €443.8m. In addition to service business, deliveries of large-format presses to packaging printers rose in particular. At €268.9m at the end of September 2016, the order backlog was down on the previous year (€320.1m) but is still ensuring good capacity utilisation for the sheetfed offset production facilities until well into the first quarter of 2017. Despite the Drupa costs and development expense in connection with the digital sheetfed press, the additional revenue with better margins and the good capacity utilisation resulted in a substantial increase in segment profit to €17.3m (2015: €10.1m).

Order intake in the **Digital & Web segment** rose thanks to a number of orders for web offset presses for commercial and newspaper printing as well as further orders from HP for the inkjet web presses for corrugated packaging assembled at the site in Würzburg. New orders rose by 11.2% over the previous year (€89.9m) to €100m. Increased deliveries of digital and newspaper printing presses caused revenue to rise by 74.6% to €110m (2015: €63m). At €60.3m, the order backlog remained at a satisfactory level (2015: €77.8m). Despite the development expenses for digital printing projects and flexo printing on corrugated, EBIT came to +€0.6m (2015: –€12.2m), thus reaching the planned target already at the end of the first nine months.

Increased business in security, metal, coding and flexible packaging caused order intake in the **Special segment** to climb by 29.9% to

€384.3m (2015: €295.9m). Revenue rose by 22.3% to €338.2m (2015: €276.5m). With the order backlog growing by 38.1% over 2015 (€214.5m) to €296.2m, capacity utilisation is assured until well into next year. Following a segment profit of €6.8m in the third quarter, EBIT of €27.1m was recorded for the entire period under review (2015: €15.6m). Security business, which is cyclical in nature and involves complex order execution activities in some cases, exerted a significant influence on earnings performance in the individual quarters.

Supplementary Statement and Risks
No events with a material impact on Group earnings, finances and assets occurred after 30 September 2016. The major risks facing our business and the early warning system are described in detail in the Group consolidated financial statements for 2015 (page 50 onwards). There have been no material changes in the period under review.

Outlook
Numerous conflicts, regional economic and financial problems as well as uncertainty over the consequences of the Brexit vote and the US elections are currently exerting pressure on the global economy and investment propensity. This is leaving traces on the order books of German mechanical engineering companies, with the responsible industry association forecasting only slight growth barely above zero per cent for the industry in 2016 and 2017.

Despite the heightened international challenges, the KBA Group achieved a positive book-to-bill in the first nine months of the year particularly thanks to the high growth in new orders in the Special segment, accompanied by a 22.3% increase in Group revenue. The Group's order intake exceeded the increased revenue by more than €38m and will ensure continued high capacity utilisation for our plants until next spring.

As part of the preparations for the annual financial statements, we are reviewing the possibility of funding part of our pension provisions externally in order to ease the pressure on future cash flows and to address longevity and interest-rate risks. In addition, we are seeking to settle a number of legal disputes concerning long-standing matters, some of which involve government agencies in different countries. Provisions to cover possible risks were previously recognised in earlier years. As all the restructuring goals have been achieved or even exceeded, we are currently determining whether it is necessary for any of the impairment losses recognised on certain assets to be reversed, in which case non-recurring income could arise. For the same reason, we are reviewing as part of our tax planning the scope for recognising deferred tax assets and this may also result in a once-only addition to net income.

In Sheetfed, which is the largest segment, the decline in orders over the outstanding previous year had been expected. However, order intake is still sufficient for us to achieve the revenue and earnings growth targeted for 2016. In addition, market successes in the fourth quarter of 2016 will determine the extent to which the order backlog extends beyond the first quarter of 2017. Given the good order backlog, our strong position in the growth market of folding carton printing and the expansion in service business, we are confident about the first half of 2017, although there are currently no signs indicating that the underlying economic conditions will provide any support, while our competitors are frequently responding to our gains in market share by offering considerable discounts on their prices.

We also expect the Digital & Web segment to post substantially better full-year figures than in 2015 in view of the growth in revenue, orders and earnings in past nine months. After several years of losses, the segment is expected to achieve an operating profit in 2016 despite the ongoing development expenses for new products and applications. We want to stabilise this turnaround next year.

The Special segment is benefiting from a strong propensity for investing in printing presses for metal, flexible packaging and industrial coding, while the project pipeline for security printing presses remains favourable. We expect this segment to post substantially higher revenue at the end of the year in tandem with a considerable increase in earnings over 2015 as well as a good order backlog for the new year.

In the light of the performance outlined above, the Executive Board is raising its guidance for 2016 again over the forecast published in the first half-year report. With Group revenue expected to be between €1.1 and €1.2bn, we project an EBT margin of up to 5%. This does not include the possible positive special items mentioned above.

Group Balance Sheet

Assets

in €m	31.12.2015	**30.09.2016**
Non-current assets		
Intangible assets, property, plant and equipment	224.2	214.3
Investments and other financial receivables	15.7	16.1
Other assets	0.1	0.4
Deferred tax assets	31.1	30.8
	271.1	**261.6**
Current assets		
Inventories	258.8	328.4
Trade receivables	193.5	192.3
Other financial receivables	17.6	15.3
Other assets	36.3	40.0
Securities	13.3	18.3
Cash and cash equivalents	186.3	158.9
	705.8	**753.2**
Balance sheet total	**976.9**	**1,014.8**

Equity and liabilities

in €m	31.12.2015	**30.09.2016**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	127.3	130.9
Equity attributable to owners of the Parent	257.8	261.4
Equity attributable to non-controlling interests	0.6	0.4
	258.4	**261.8**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	191.8	228.3
Other provisions	28.3	24.5
Bank loans	–	1.6
Other financial payables	10.2	8.9
Other liabilities	1.4	0.8
Deferred tax liabilities	14.1	14.6
	245.8	**278.7**
Current liabilities		
Other provisions	188.6	187.3
Trade payables	42.6	54.4
Bank loans	15.8	9.8
Other financial payables	57.5	57.3
Other liabilities	168.2	165.5
	472.7	**474.3**
Balance sheet total	**976.9**	**1,014.8**

Group Income Statement

01.01. - 30.09. in €m	2015	2016
Revenue	679.7	831.4
Cost of sales	–498.6	–578.6
Gross profit	**181.1**	**252.8**
Research and development costs	–42.6	–41.4
Distribution costs	–91.4	–111.2
Administrative expenses	–57.0	–58.2
Other operating income and expenses	16.0	–2.8
Earnings before interest and taxes (EBIT)	**6.1**	**39.2**
Interest result	–4.0	–4.3
Earnings before taxes (EBT)	**2.1**	**34.9**
Income tax expense	0.3	–2.4
Net profit	**2.4**	**32.5**
- attributable to owners of the Parent	2.6	32.7
- attributable to non-controlling interests	–0.2	–0.2
Earnings per share (in €, basic/dilutive)	**0.16**	**1.98**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2015	**43.0**	**87.5**
Net profit/loss	–	–
Gains recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
30.09.2015	**43.0**	**87.5**
01.01.2016	**43.0**	**87.5**
Net profit/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
30.09.2016	**43.0**	**87.5**

Statement of Comprehensive Group Income

01.01. - 30.09. in €m	2015	**2016**
Net profit	**2.4**	**32.5**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	0.7	0.6
Measurement of primary financial instruments	–0.3	0.4
Measurement of derivatives	–2.0	3.5
Deferred taxes	0.2	–0.2
	–1.4	**4.3**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	11.4	–33.3
Deferred taxes	–0.1	–0.1
	11.3	**–33.4**
Gains/losses recognised directly in equity	**9.9**	**–29.1**
Total comprehensive income	**12.3**	**3.4**
- attributable to owners of the Parent	12.5	3.6
- 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**
–	2.6	2.6	–0.2	2.4
9.9	–	9.9	–	9.9
9.9	**2.6**	**12.5**	**–0.2**	**12.3**
–70.5	**179.2**	**239.2**	**0.3**	**239.5**
–76.3	**203.6**	**257.8**	**0.6**	**258.4**
–	32.7	32.7	–0.2	32.5
–29.1	–	–29.1	–	–29.1
–29.1	**32.7**	**3.6**	**–0.2**	**3.4**
–105.4	**236.3**	**261.4**	**0.4**	**261.8**

Group Cash Flow Statement

01.01. - 30.09. in €m	2015	2016
Earnings before taxes (EBT)	2.1	34.9
Non-cash transactions	22.0	30.2
Gross cash flow	**24.1**	**65.1**
Changes in inventories, receivables and other assets	–7.7	–64.8
Changes in provisions and payables	–45.0	–5.3
Cash flows from operating activities	**–28.6**	**–5.0**
Cash flows from investing activities	**0.8**	**–12.0**
Free cash flow	**–27.8**	**–17.0**
Cash flows from financing activities	**1.2**	**–8.7**
Change in funds	**–26.6**	**–25.7**
Effect of changes in exchange rates	2.4	–1.7
Funds at beginning of period	207.6	186.3
Funds at end of period	**183.4**	**158.9**

Notes to the Interim Accounts to 30 September 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 Consolidated Companies

100% of the shares in Iberica AG S.A., El Prat de Llobregat near Barcelona, Spain, were acquired effective 5 July 2016. Iberica produces flatbed die-cutters for cardboard and corrugated packaging.

3 Segment Information

3.1 Business Segments

01.01. - 30.09.

	Revenue		EBIT		Capital investments	
in €m	2015	**2016**	2015	**2016**	2015	**2016**
Segments						
Sheetfed	377.8	443.8	10.1	17.3	8.7	7.4
Digital & Web	63.0	110.0	–12.2	0.6	2.2	0.9
Special	276.5	338.2	15.6	27.1	4.1	8.9
Reconciliation	–37.6	–60.6	–7.4	–5.8	3.2	2.4
Group	**679.7**	**831.4**	**6.1**	**39.2**	**18.2**	**19.6**

3.2 Geographical Breakdown of Revenue

01.01. - 30.09.

in €m	2015	**2016**
Germany	99.0	122.9
Rest of Europe	200.1	253.3
North America	96.0	116.6
Asia/Pacific	228.5	242.6
Africa/Latin America	56.1	96.0
Revenue	**679.7**	**831.4**

Key Financial Dates

Annual report 2016
22 March 2017

Interim report on 1st quarter 2017
9 May 2017

Koenig & Bauer Annual General Meeting
23 May 2017
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2017
9 August 2017

Interim report on 3rd quarter 2017
8 November 2017

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