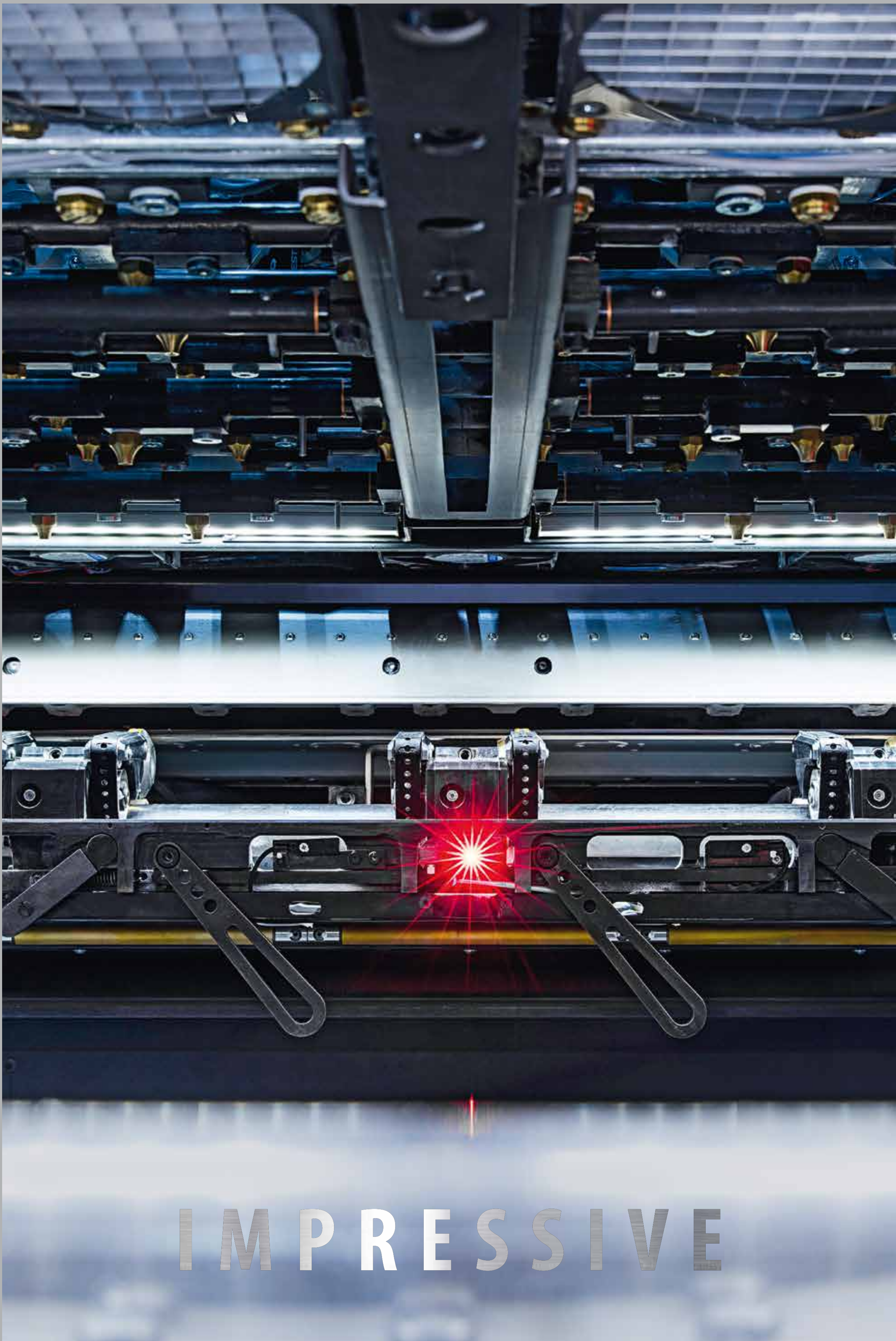
KOENIG & BAUER



IMPRESSIVE

ANNUAL REPORT 2016

KOENIG & BAUER IN FIGURES

in €m	2015	**2016**	Change in %
Order intake	1,182.7	1,149.7	–2.8
Order backlog at 31.12.	574.9	557.5	–3.0
Revenue	1,025.1	1,167.1	13.9
Earnings before interest and taxes (EBIT)	35.9	87.1	142.6
EBIT margin in %	3.5	7.5	114.3
Earnings before taxes (EBT)	29.7	81.0	172.7
EBT margin in %	2.9	6.9	137.9
Net profit	26.9	82.2	205.6
Balance sheet total	976.9	1,085.5	11.1
Intangible assets, property, plant and equipment	224.2	239.5	6.8
Equity	258.4	337.8	30.7
Equity ratio in %	26.5	31.1	17.4
Cash flows from operating activities	–15.3	21.9	243.1
Investment in intangible assets, property, plant and equipment	28.4	31.9	12.3
Depreciation on intangible assets, property, plant and equipment	29.1	27.7	–4.8
Payroll: annual average	5,286	5,287	–
Earnings per share in €	1.62	4.98	207.4
Dividend per share in €	–	0.50	–

#1

IN CARDBOARD AND BANKNOTE PRINTING, METAL AND GLASS DECORATING

HIGHEST

PROFIT MARGIN IN THE LAST 199 YEARS

€168m

NET LIQUIDITY

31%

EQUITY RATIO

COMPANY PROFILE

The Koenig & Bauer Group is a customer-oriented partner to the global printing industry with annual revenue of €1.2bn and 5,300 employees. Throughout its 200-year history, it has been driven by innovation and technological progress. Systematically oriented to meeting customer requirements, our high-tech printing presses and systems permit highly efficient printing, finishing and postpress processing. Our comprehensive range of services includes new services meeting customers' requirements as well as the networked printing factory under the "KBA 4.0" label. Koenig & Bauer has solid balance-sheet structures and a strong financial profile.

SEGMENT ALLOCATION

SHEETFED

- Sheetfed offset and digital printing
- Finishing and postpress solutions
- Workflow and logistics solutions
- Services

DIGITAL & WEB

- Digital and offset web presses
- Flexo presses for flexible packaging and corrugated board
- Workflow and logistics solutions
- Service

SPECIAL

- Solutions for banknote and security printing
- Special equipment for metal decorating
- Industrial marking and coding systems
- Glass and hollow container decorating
- Services

REVENUE BY REGION IN %

14.5	33.2	14.7	26.8	10.8
GERMANY	REST OF EUROPE	NORTH AMERICA	ASIA/ PACIFIC	AFRICA/ LATIN AMERICA

IMPRESSIVE...

INNOVATIVE

EFFICIENT AND ECONOMICAL HIGH-TECH SYSTEMS

FLEXIBLE

PROFIT-BOOSTING

ALIGNED TOWARDS THE FUTURE

RELIABLE

MARKET AND TECHNOLOGICAL LEADER

STRONG FINANCES AND BALANCE SHEET

HIGH PRINTING QUALITY

FRIENDLY

PRECISION MACHINERY AND PLANT ENGINEERING

TAILOR-MADE SOLUTIONS

CUSTOMER-ORIENTED

CONTENTS

Dear shareholders, ladies and gentlemen,

Underpinned by a good fourth quarter, the KBA Group achieved the guidance for 2016 that we had raised again upon announcing our Q3 figures. What is more, the medium-term targets issued at the beginning of 2015 with unprecedently high margins were for the most part also achieved or even exceeded thanks to a significant increase in revenue and profit in 2016. In addition to growth in service business, the market share gains in the growth areas of packaging and digital printing reflect the success of our strategic realignment.

At €1,167.1m, Group revenue reached the top end of the target corridor specified in our guidance for 2016 of €1.1 – 1.2bn. Driven by growth in the markets of the future, Group revenue exceeded the previous year's figure by 13.9% and the medium-term revenue target of €1,150m. Despite persistently challenging global economic and political conditions, the Group recorded robust order intake of €1,149.7m. At €557.5m, the order backlog remained at a high level at the end of the year.

As all of the restructuring goals were achieved or even exceeded, the mandatory write-ups of property, plant and equipment and the recognition of deferred tax assets generated non-recurring income. Adjusted for the non-recurring income, Group earnings before taxes rose sharply from €29.7m to €56.8m, with the EBT margin widening from 2.9% to 4.9%. Accordingly, the guidance for the 2016 EBT margin of up to 5% and the medium-term EBT margin goal of 4 – 6% were achieved. The Group net profit of €82.2m and the margin of 7% are the highest figures reported by the Company in the last 199 years.

With all segments operating profitably, we were able to achieve a further goal. Thanks to the growth of the market for cardboard packaging and substantial market share gains, the Sheetfed segment posted a 9.5% increase in revenue. Despite the heavy fair and development costs, the positive earnings momentum continued thanks to increased revenue accompanied by improved margins and high capacity utilisation. With revenue of €615m and an EBIT margin of 5.1%, Sheetfed again exceeded the medium-term segment goals that had already been achieved in 2015 (EBIT margin of 3 – 4% on revenue of €550m).

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn
CFO

Underpinned by growth in service business and in new digital printing applications, Digital & Web performed well, returning a profit. Revenue grew by 59% to €156.5m, thus substantially exceeding the medium-term goal of €125m. Development expense for digital printing projects and flexo printing on corrugated board exerted pressure on segment earnings. At 1.2%, the EBIT margin has not yet reached the medium-term goal of 3–4%.

The favourable performance of the packaging printing solutions addressed by the Special segment caused order intake to climb to €491.4m. Revenue grew by 11.6% to €472m, thus almost reaching the medium-term goal of €475m. Following a segment profit of €27.7m in the previous year, EBIT of €42.8m was recorded in 2016. At 9.1%, the EBIT margin exceeded the medium-term goal (5–6%) as in 2015 (6.6%).

The profitable growth was generated in existing and new packaging markets, from industrial applications in digital web printing and the continued expansion of service business in connection with the Group-wide service initiative launched at the beginning of 2016. By offering innovative products, tailor-made solutions, premium quality and convincing service, we want to enhance our customers' competitiveness to achieve the highest possible customer satisfaction and loyalty.

We substantially outgrew the packaging printing market, which expanded by around 4%. This growth was driven by market share gains as well as new products and our entry into die-cutting business. With the internally developed rotary die-cutter, which has already been sold several times, and the flatbed die-cutters acquired from Iberica, we widened our extensive portfolio for packaging customers with postprint processing equipment. Our alliance with HP for digital pre-prints of corrugated liners was particularly encouraging. Since the market launch in December 2015, HP orders have significantly exceeded our expectations. With the re-entry into flexo-based direct corrugated printing, we are widening our range of offerings in the large corrugated board market. We have made progress in the fastest-growing segment of flexible packaging, widening our share of the global market from 4% to 6% in the last three years but still see further potential for growth with the high-tech products and our international sales and service network. With a current revenue split with new presses of around 70% for packaging, 20% for security printing and 10% for media-related business, we have been able to massively reduce our former dependence on cyclical security and media-oriented publications printing.

In addition to the HP press, we have successfully transferred our web printing expertise to markets offering potential for the future thanks to first successful applications of our RotaJET platform in digital decor and book printing. We want to strengthen our position in digital web printing with further industrial applications for attractive markets.

One highlight of the second quarter was Drupa, the leading industry exhibition, which was a major success for KBA. Numerous demonstrations and printing tests focused on our customers' requirements. In addition, we were able to set ourselves apart with our broad product range and provide an indication of future developments in our solutions.

In addition to these basic preparations for forays into the growth markets of the future, the Management Board is concentrating on optimising all relevant internal processes and structures and lowering complexity costs. With our strong cash flow and earnings, we have additionally enhanced our solid financial profile and balance sheet. Capital spending was financed and liquidity expanded from the cash flow. In addition to the liquidity reserve required for operating business, funding is available for intensifying activities in growth markets and for spending on efficient production and IT processes. In order to reduce longevity-related risks in the balance sheet and to ease the pressure on future cash flows, we have decided to fund a part of the company pension provisions externally. This will be implemented in five annual steps from 2017. Koenig & Bauer AG is able to distribute a dividend again thanks to the high net profit for the year. Accordingly, we will be asking our shareholders to approve a dividend of €0.50 per share.

After a decade which saw revenue decline, we are orienting the KBA Group to profitable growth in markets of the future, in which all segments are to make a positive contribution. Alongside service growth, our main strategic focus is on packaging and industrial printing. We are reviewing the options available to us for generating growth in security printing as market conditions are limiting the scope that we have for increasing printing press revenue. In the medium term, we want to increase revenue organically by around 4% per year until 2021 and, depending on global macro, end markets and growth-related spending, achieve an EBIT margin of 4–9%. An €70m profit increase is to be generated through the optimisation of the security printing business and growth in service business together with an integrated production network and strategic purchasing.

Despite the persistently challenging conditions in the global economy particularly in the light of recent political developments, we are facing 2017, the year of our Company's 200th anniversary, with confidence. Should conditions for our global business not significantly deteriorate, we target an organic growth of up to €1.25bn in Group revenue and an EBIT margin of around 6% in 2017.

We thank our shareholders, customers, suppliers and all business partners for their confidence in Koenig & Bauer. The Management Board and Group management also wish to express their gratitude to all executives and staff for their commitment to the Company.

Würzburg, 21 March 2017
Koenig & Bauer AG Management Board

Claus Bolza-Schünemann
President and CEO

Dear shareholders,

Four regular, four extraordinary and one constitutive meeting of the Supervisory Board were held in the year under review. At the regular meetings, the current business, financial position and earnings of Koenig & Bauer AG, the Group and the individual segments were discussed at length. In addition to business performance and the competitive situation in key markets, the Management Board reported to the Supervisory Board in detail on key elements of the Company's business policy, corporate planning and strategic further development. The extraordinary meetings of the Supervisory Board, which were held either as telephone conferences or physically, were convened to pass urgent resolutions and to discuss the quarterly figures and strategic issues. Following the possible shortcomings in corruption prevention at KBA-NotaSys SA in the past, we closely monitored the legal proceedings which the Swiss subsidiary had initiated by self-reporting. The proceedings were settled on 20 February 2017.

The agenda of the extraordinary meeting held on 3 February 2016 entailed acquisition projects and compliance-related matters as well as a report by the Management Board on the current status of work on the annual financial statements. In addition to this, we discussed the results of the Supervisory Board's efficiency study. The proposal to adjust Supervisory Board remuneration was duly approved.

On 22 March 2016, the Supervisory Board dealt at length with the annual financial statements, the audit reports and the combined management report for Koenig & Bauer AG and the Group as of 31 December 2015. In response to the proposal of the nomination committee and additionally also a proposal submitted by shareholders holding more than 25% of the voting rights in Koenig & Bauer AG, Dr Andreas Pleßke was nominated for the position as a shareholder representative on the Supervisory Board that had become vacant following the departure of Professor Horst Peter Wölfel. As Mr Hatschek had agreed to stand for reelection to the Supervisory Board for a further period, it accepted the nomination committee's proposal and nominated him as a candidate for the Supervisory Board elections to be held at the annual general meeting. The agenda for the annual general meeting with various motions was approved. In addition, the Supervisory Board approved the acquisition of Iberica AG and the profit transfer agreements with KBA-MetalPrint GmbH and KBA Deutschland GmbH.

A telephone conference was held on 11 May 2016 on the Q1 figures. In addition to preliminary discussion on the annual general meeting, the Supervisory Board's meeting of 18 May 2016 dealt with the Company's current business performance as well as personnel and strategic matters. The newly formed Supervisory Board held a constitutive meeting on 19 May 2016 following the annual general meeting to elect its chairman and deputy chairman as well as the committee chairs and to reconstitute the committees.

Dr Martin Hoyos
Chairman of the Supervisory Board

One main item of the agenda of the meeting held on 10 August 2016 involved the plans to restructure the company pension system and to fund part of the pension obligations externally. In addition, current business performance as well as compliance and strategy matters were discussed.

At its meeting of 9 November 2016, the Supervisory Board again dealt at length with the revamping of the company pension scheme. After providing an overview of current business performance, the Management Board presented the forecast for 2016, the corporate planning for 2017 to 2019 and the investment plan for 2017, which we then duly approved. The new Group Compliance Officer outlined the content, structure, processes and culture of the compliance management system as well as the compliance plan for 2017.

At the extraordinary meeting held on 24 November 2016, we discussed remaining questions concerning the external funding of the company pension system. Held in the form of a telephone conference, the extraordinary Supervisory Board meeting of 14 December 2016 approved the measures to restructure the company pension system and to fund parts of it externally.

The Supervisory Board and its committees performed the duties imposed on them by law, the Company's articles of association and the rules of procedure. We supported, guided and monitored the activities of Koenig & Bauer AG's Management Board continuously and were involved in all decisions of key importance at an early stage. Any necessary resolutions were passed after detailed examination and intensive discussion.

Between the plenary meetings, the chairman of the Supervisory Board coordinated its work and performed his advisory and monitoring duties in talks with the Management Board. In this connection, the Company's strategy, plans and business performance as well as the risk situation and compliance matters were discussed at length. The chairman regularly informed the other members of the Supervisory Board of the results of these talks.

Five committees assist the Supervisory Board in the performance of its duties by preparing the resolutions to be passed by the Supervisory Board and the matters to be discussed in the plenary sessions. The audit and personnel committee met four times, the strategy committee five times and the nomination committee for new members of the Supervisory Board representing the shareholders once. It was again not necessary for the mediation committee appointed under section 27 (3) of the Codetermination Act to convene in 2016.

In addition to the quarterly reports, one of the main tasks of the audit committee is to carefully review the annual financial statements and consolidated financial statements of Koenig & Bauer AG and the KBA Group as well as the combined management report and the corresponding audit reports. During the discussion of the annual financial statements, the representatives of the statutory auditor reported to the committees on the results of their audit and were available to answer any questions. Further matters dealt with at the committee meetings included the risk management system and the KBA Group's risk situation, internal auditing, the determination of the main points of the statutory audit to be addressed and Group compliance. For the most part, the members of the Management Board attended the meetings.

In the year under review, Management Board matters dominated the meetings of the personnel committee. The nomination committee prepared the recommendations for two candidates representing the shareholders for approval by the Supervisory Board for the upcoming elections at the annual general meeting. The strategy committee dealt in detail with the possibilities presented by the Management Board for ensuring the Group's sustained growth as well as acquisition projects. The committees reported on the results of their meetings to the Supervisory Board regularly and comprehensively.

On 10 February 2017, the Supervisory Board and Management Board duly issued and published an updated declaration of compliance on the Company's website. Apart from justified company-specific exceptions, KBA complies with the principles and recommendations of the latest version of the German Corporate Governance Code of 5 May 2015, see the Corporate Governance Report on pages 30 and 31. No conflict of interests on the part of the members of the Management Board and the Supervisory Board were reported in the year under review. The meetings of the Supervisory Board and the committees were attended by all members during the year under review save for a few exceptions.

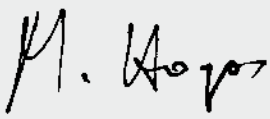
The annual financial statements of Koenig & Bauer AG and the consolidated financial statements of the KBA Group as of 31 December 2016 including the combined management report prepared by the

Management Board together with the bookkeeping were audited by KPMG Bayerische Treuhandgesellschaft AG, Nuremberg, and granted an unqualified auditor certificate. The statutory auditor also confirmed that the Management Board had established a risk early detection system meeting the requirements of section 91 (2) of the German Stock Corporation Act. The aforementioned documents together with the auditor's reports were submitted to the members of the Supervisory Board in good time. The audit committee presented the results of its intensive examinations to the Supervisory Board. The responsible auditors were available to answer the questions of the members of the Supervisory Board at the meeting at which the financial statements were acknowledged. At its meeting of 21 March 2017, the Supervisory Board duly acknowledged the annual financial statements and the consolidated financial statements and, having performed examinations of its own, did not raise any objections to the consolidated financial statements, the annual financial statements of Koenig & Bauer AG or the combined management report. Accordingly, they were adopted and approved at the meeting. The consolidated financial statements and the combined management report were also examined carefully and duly approved.

The following changes arose on Koenig & Bauer AG's Supervisory Board. At the end of the annual general meeting on 19 May 2016, Willi Eisele, Klaus Schmidt, Claus Weihmann and Professor Horst Peter Wölfel left the Supervisory Board. We wish to thank these gentlemen for their long-standing commitment. The Germany-based employees of the KBA Group had previously elected their representatives to the Supervisory Board on 27 April 2016. Julia Cuntz and Christopher Kessler were elected to the Supervisory Board for the first time. Marc Dotterweich, Walther Mann and Gottfried Weippert were re-elected. Ms Simone Walter was appointed to the Supervisory Board on 24 May 2016 by the court to achieve the proportion of women on the employee side stipulated by section 7 (3) of the Codetermination Act. At the annual general meeting on 19 May 2016, Dr Andreas Pleßke was elected and Mr Matthias Hatschek re-elected to the Supervisory Board as shareholder representatives. Mr Carl Ferdinand Oetker stood down from the Supervisory Board effective 31 December 2016. We thank Mr Oetker for his services on the Supervisory Board. On 13 March 2017 the register court in Würzburg appointed Mr Carsten Dentler.

The Supervisory Board thanks all employees, the Management Board, Group management and all executives and employee representatives in the Group for their dedication and contribution to KBA's success in 2016. Our thanks also go out to our shareholders for their trust in the Company.

Würzburg, 21 March 2017
Koenig & Bauer AG Supervisory Board



Dr Martin Hoyos
Chairman of the Supervisory Board

OUR STRATEGY

REQUIREMENTS & SOLUTIONS

By offering innovative products, tailor-made solutions, premium quality and convincing service, we want to enhance our customers' competitiveness to achieve the highest possible customer satisfaction and loyalty. In addition to our activities in commercial, industrial and publication printing, we are a leading supplier in packaging and security printing. We are number one in cardboard and banknote printing, metal and glass decorating. At the same time, we have established an attractive market position in flexible packaging and marking and coding.

GROWTH & EARNINGS

Following comprehensive restructuring and strategic realignment to focus on packaging, digital and industrial printing, we achieved the highest profit margin of the past 199 years in 2016, underpinned by positive contributions in all segments. On the basis of this solid groundwork, profitable growth in all business fields has become the central pillar of our endeavours. In addition to an organic growth rate of around 4 % p.a. plus an EBIT margin of 4 – 9 % in the period from 2017 to 2021, management is seeking to reduce volatility and risks.

INTERNATIONAL & LOCAL ROOTS

The Koenig & Bauer Group is active in virtually all countries around the world, with an export ratio mostly well above 80 %. 40 % of this is accounted for by markets of the future. Production is based in Europe, primarily in Germany. Further production sites are located in Italy, Austria, Spain and the Czech Republic.

PRODUCT INNOVATIONS – SHEETFED

TO 25 %

INCREASE IN GLOBAL SHARE OF THE SHEETFED OFFSET MARKET

PIONEER IN LED UV PRINTING

With its brilliant colours even on natural papers, energy-saving LED UV printing allows the product to be immediately processed. The KBA Rapida systems are increasingly being fitted with LED UV systems. Shown here is the KBA Rapida 106, which is known as a world champion in make-ready and speed with up to 20,000 sheets per hour.

45 %

GLOBAL MARKET SHARE IN CARDBOARD PRINTING

KBA RAPIDA 145 WITH NEW FEATURES

Frequently used for printing folding boxes, the KBA Rapida 145 was the largest and most efficient sheet-fed offset press at Drupa 2016. The many new features of the Rapida 145 include the increase in production speed to a maximum of 18,000 sheets per hour, the press operation via tablet and the double-pile delivery.

4.2 %

GROWTH RATE FOR FOLDING CARTON P.A.

WIDER PORTFOLIO IN THE GROWTH DIE-CUTTER MARKET

The internally developed rotary die-cutter KBA Rapida RDC 106, which has already been sold several times, sets benchmarks with its high productivity of up to 15,000 sheets per hour. It opens up potential for growth in the large label market. Following the acquisition of Spanish company Iberica AG in summer 2016, we are now able to offer packaging printers flatbed die-cutters for cardboard, corrugated, plastic film and paper.

DEVELOPMENT

DIGITAL SHEETFED PRESS FOR FOLDING CARTON PRINTING

HYBRID SYSTEM KBA VARIJET

The KBA VariJET combines proven offset and finishing technology with inkjet printing. It supports regional and campaign-specific versions of packages, value added and infotainment packages as well as database-aided sales campaigns.

PRODUCT INNOVATIONS – DIGITAL & WEB

INDUSTRIAL PRINTING

A MARKET SEGMENT OFFERING GREAT POTENTIAL

KBA'S OWN DIGITAL PRINTING PLATFORM ROTAJET ADDRESSING A WIDE RANGE OF DIFFERENT MARKETS

Presented at Drupa and featuring outstanding printing results, the RotaJET L inkjet web press has a modular structure, allowing flexible modifications for a wide range of different applications such as industrial, packaging, commercial and publication printing. Following the successes achieved with the new-generation high-volume digital systems for decor and book printing, Digital & Web is currently enhancing the systems for new applications in industrial and packaging printing.

4.3 %

GROWTH RATE FOR CORRUGATED PACKAGING P.A.

PROMISING PARTNERSHIP WITH HP

The digital printing press co-developed with HP for corrugated packaging was particularly successful in the first year after being launched. Offering greater flexibility in formats and run length for digital pre-prints of corrugated liners, the HP T1100S inkjet web press is proving to be popular with packaging printers. As of the end of 2016, HP had already placed orders with KBA for nine of the world's largest inkjet printing presses (paper width of 2.8 m).

STRONG GROWTH IN SERVICE BUSINESS

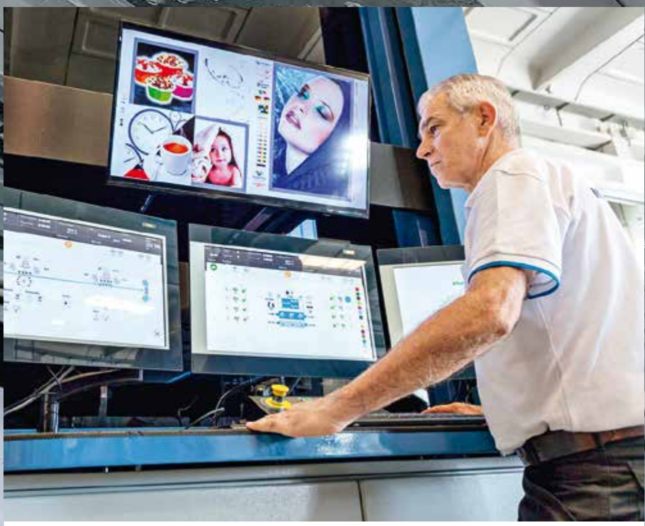
Koenig & Bauer remains the world's no. 1 in high-performance newspaper printing.

KBA CORRUGRAPH FLEXO PRESS FOR DIRECT CORRUGATED PRINTING

The development of a new-generation Corrugraph flexo press is paving the way for a return to the direct corrugated printing market. Marketing of the flexo printing press in the growing sector has commenced.

4.4 %

GROWTH RATE FOR FLEXIBLE PACKAGING P.A.



KBA-FLEXOTECNICA: MIGRATION-FREE PRINTING ON FLEXIBLE PACKAGING

For its new-generation flexo presses for flexible packaging materials, KBA-Flexotecnica focuses on migration-free printing with water-based inks, e.g. for food packaging.

PRODUCT INNOVATIONS – SPECIAL

3%

GLOBAL GROWTH IN BANKNOTE PRODUCTION P.A.

INNOVATIVE PRODUCTS AND SECURITY FEATURES IN BANKNOTE PRINTING

In addition to new applications and products, KBA-NotaSys worked intensively on innovative security features. Shown here, NotaCheck III for efficient and reliable quality checks of banknotes uses the latest technology with highly complex checking algorithms which can be adjusted to meet customer requirements. The new console technology offers an ergonomic worksite for the operator.

START-UP COVERNO

EXAMINES INTELLIGENT BANK-NOTES WITH ENTIRELY NEW AUTHENTICATION METHODS

BETAJET XENIO FOR COMPLEX PRINTING OF MONOCHROME BARCODES, LOGOS AND DETAILED GRAPHICS

KBA-Metronic has developed the betaJET xenio for marking difficult surfaces and materials made from plastic, glass, metal and even silicon with a high resolution. The special inks with high-contrast pigments are absolutely lightfast. One unique feature is the ability to accommodate the printing head in the assembly line to save space regardless of the assembly height of the control unit.

A BOOMING MARKET

ALUMINIUM CAPS (LONG CAPS) FOR PREMIUM-QUALITY SPIRITS

INDIVIDUAL DESIGN AND FINISHING

METAL DECORATING INNOVATIONS FROM KBA-METALPRINT

In addition to new automation modules for reducing make-ready times for the metal decorating lines established in the market, engineers at KBA-MetalPrint are working on innovative applications and new products in metal decorating. Shown here is the first Mailänder 280 printing and coating line which prints solely aluminium panels used for making caps for bottles of spirits, wine, sparkling wine and non-alcoholic beverages.

3.8 %

GROWTH RATE
FOR RIGID PLASTICS
P.A.

3.3 %

GROWTH RATE
FOR GLASS P.A.

INNOVATIVE DIGITAL PRINTING TECHNOLOGY FOR CONTAINERS BY KBA-KAMMANN

KBA-Kammann has developed a hybrid printing press with digital, screen-printing and hot-stamping modules for the flexible direct decoration of hollow containers made from glass and plastic in a new level of quality. Shown here is the innovative digital printing technology for containers made from glass, plastic and metal on the K1, K15 and K20 printing press range.

HIGHLIGHTS IN 2016

BANKNOTE HORIZONS A COMPLETE SUCCESS

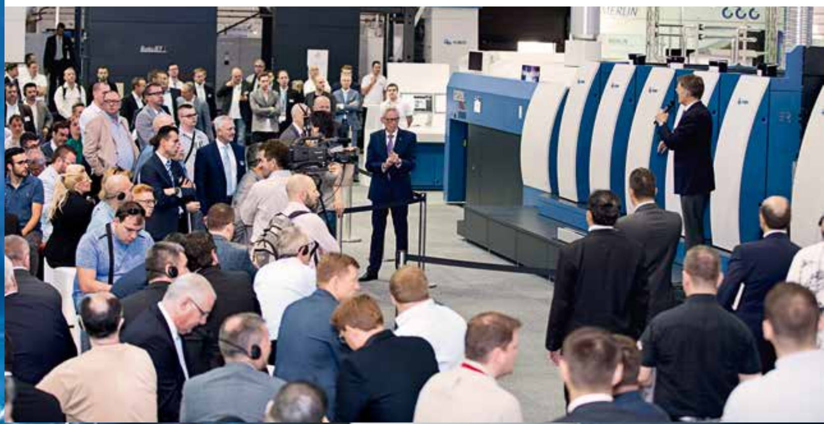
In June, banknote printers from all around the world gathered at KBA-NotaSys in Lausanne, Switzerland, to find out more about the latest developments and innovations in the production of secure and aesthetically pleasing banknotes. In addition to the launch of several new technologies, the presses in operation at the showroom showed off their strengths with a range of new security features and productivity gains.

EFFICIENT SECURITY

THE MOTTO OF BANKNOTE HORIZONS ATTENDED BY OVER 300 BANKNOTE PRINTERS FROM ALL AROUND THE WORLD

DRUPA A SUCCESS

Claus Bolza-Schünemann, President and CEO of Koenig & Bauer AG and Chairman of Drupa, was particularly pleased with Drupa: "Held in Düsseldorf from 31 May to 10 June 2016, the leading industry trade fair was a great success for Koenig & Bauer. The atmosphere and willingness to invest at our busy stand were exceptional."



DRUPA DEMONSTRATIONS

FOCUS ON OUR CUSTOMERS' REQUIREMENTS AND FURTHER ENHANCEMENTS TO OUR SOLUTIONS

€30M

INVESTED IN PROPERTY, PLANT AND EQUIPMENT TO BOOST EFFICIENCY

IMPROVED EFFICIENCY AND PRODUCTIVITY IN PRODUCTION PROCESSES

Via modernisation and replacement spending projects, we invested heavily on creating capable and highly-efficient centres of competence at our production sites. Highly efficient processing centres for special activities such as cylinder grinding went into operation at the Radebeul plant.

ROLL-OUT OF THE “MILKRUN” SYSTEM

The “milkrun” system for sourcing and distributions logistics was implemented for the production of small parts at our plant in Würzburg in order to safeguard the availability of material in line with requirements.

EXEMPLARY

TOP GRADES FOR OUR APPRENTICES EACH YEAR

OUTSTANDING
REPUTATION IN TRAINING

KOENIG & BAUER SHARES

ONE OF THE TOP PERFORMERS WITH GAINS OF 30%

After a three-fold increase in its price in the previous year, the KBA share continued to perform well despite the considerable volatility and febrile conditions in the financial markets. Disappointing economic data, political conflicts and unexpected developments such as the outcome of the Brexit referendum repeatedly triggered turbulence in the international financial markets. The ECB's accommodative monetary policy, the recovery in oil prices and the stimulus for the US economy and tax-cutting programme announced by US President Trump spurred equities.

After hitting a low of €22.67 on 11 February, the share recovered significantly, underpinned by investors' confidence thanks to the Group's good business performance and substantial increase in profits. At the same time, the capital market applauded the clear orientation to growth markets. Our share reached a high for the year of €51.31 on 29 July, after which profit-taking ushered in a consolidation phase that coincided with the exit by a principal shareholder and continued at the beginning of 2017. The share closed the year at €42.75, thus marking a gain of 29.9% within twelve months.

€51.31
High for the year 2016

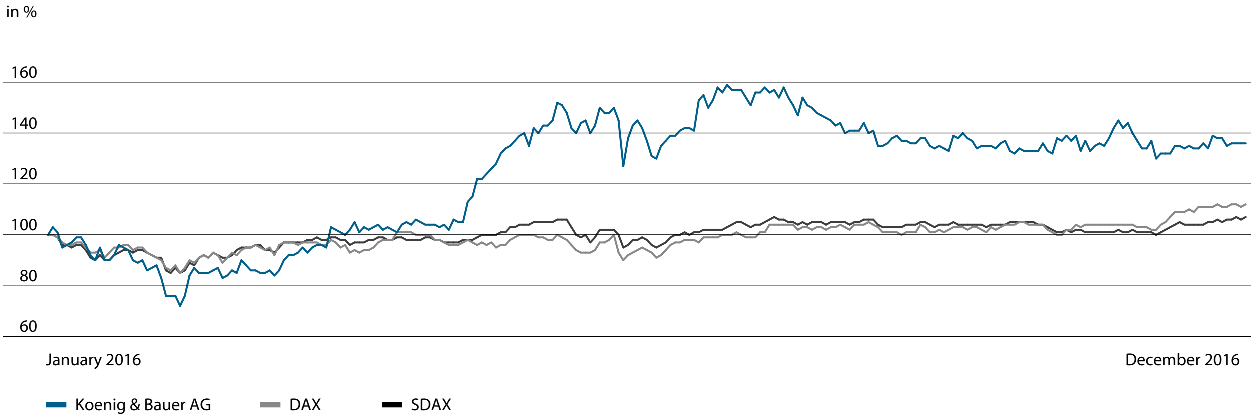
Consequently, the KBA share substantially outperformed the benchmark DAX and SDAX indices. After fluctuating sharply, the German benchmark index closed trading on 30 December 6.9% higher than on the same day of the previous year. The KBA share significantly outperformed the 50 SDAX shares that gained an average of 4.6% in the 2016 trading year.

With the announcement of a retained profit by Koenig & Bauer AG following the successful completion of the restructuring phase, the difficult years for KBA shareholders in which no dividend was distributed are now drawing to a close. The proposed dividend of €0.50 per share translates into an attractive dividend yield of 1.2% based on the end-of-year share price.

Intensive dialogue with the capital market

In addition to regular talks with financial analysts, many one-on-ones and telephone conferences were held with shareholders and investors. The Chief Financial Officer represented Koenig & Bauer at many capital market conferences. In addition to a Small/Mid Cap conference and a German Company Day in London, we attended the German Corporate Conference in January in Frankfurt and September in Munich as well as a Germany conference in Baden-Baden. We called on numerous investors in roadshows in Frankfurt, Geneva, London, Paris, Stuttgart and Zurich. The Capital Markets Day was held on 7 June 2016 during the Drupa fair in Düsseldorf. The annual general meeting forms a traditional component of our communications with the shareholders. Held on 19 May 2016 at the Vogel Convention Center (VCC), last year's annual general meeting was attended by around 400 shareholders, equivalent to 58% of the Company's capital. We keep shareholders and the general public posted on key developments and dates

KOENIG & BAUER SHARE PERFORMANCE IN 2016



via the KBA website. Financial information, quarterly and annual reports, presentations and press releases can be accessed there at all times.

Analysts recommend Koenig & Bauer

KBA shares are included in the SDAX, Deutsche Börse's small cap index. As it is listed in the Prime Standard quality segment, the share satisfies international transparency requirements. Numerous banks actively cover Koenig & Bauer and regularly publish analyses and sector studies. At the end of 2016, most analysts rated KBA shares as a buy. Individual analysts issued a hold recommendation on the basis of their models.

KOENIG & BAUER SHARE PERFORMANCE INDICATORS

in €

	2015	**2016**
Earnings per share	1.62	4.98
High for the year	35.79	51.31
Low for the year	9.89	22.67
Closing price	32.90	42.75
Market capitalisation in €m	543.7	706.4
Cash flow per share	−0.92	1.33
Dividend	–	0.50

CORPORATE GOVERNANCE REPORT

GOOD CORPORATE GOVERNANCE FIRMLY ENTRENCHED

With our divisional organisation structure, transparent segmentation and consistent self-responsibility of the autonomously operating segments and business units, we have established key principles of good corporate governance and supervision within the Koenig & Bauer Group. The management of each segment is independently responsible for achieving defined goals such as earnings and net working capital. Permanent losses are not tolerated, while the new structure effectively prevents any cross-subsidisation. Capital is consistently deployed in the light of strategic goals and the expected return.

Corporate compliance programme systematically continued

Declaration of compliance at: https://www.KBA.com/en/investor-relations/corporate-governance/declaration-of-compliance

We achieved further progress with the ongoing development of an appropriate, effective and sustainable compliance management system as well as in our attempts to strengthen a compliance ethos within the Group.

The corporate compliance manual, which combines the code of conduct, compliance rules and the main Group policies in a single document, is available in all main Group languages and has been distributed to all employees around the world via managers and compliance officers. These extended compliance rules together with online and face-to-face training on compliance-related matters illustrate and reinforce correct conduct in a wide range of different situations in day-to-day activities.

The existing compliance organisation has also been systematically enhanced. Koenig & Bauer AG's compliance organisation is headed by the Group Compliance Officer, who is responsible for ongoing monitoring and development of the compliance management system. To this end, he defines the overarching strategy for achieving the goals defined in the necessary measures, promotes group-wide communication of compliance-related matters and supports the compliance team by developing standard processes and documents. The Group Compliance Officer draws up the annual compliance plan in consultation with the Management Board. In addition, he reports to the Management Board and Supervisory Board appropriately and effectively on the development of the compliance management system, the compliance culture and any compliance risks.

The Koenig & Bauer Group's compliance team has a decentralised matrix structure. Each Koenig & Bauer AG subsidiary has named its own local compliance officer, who is responsible for communicating, implementing and monitoring the standards and processes. In addition, the local compliance officers have a special function as a direct contact and advisor for local staff on compliance-related matters and are required to report to the Group Compliance Officer. They are materially involved in the development of a sustainable compliance culture and entrench the compliance organisation as a source of active advice on preventing risks in company decisions. Separate compliance officers have also been appointed for specific areas, e.g. site safety, environmental management and data protection, in order to ensure competent advice and effective monitoring within the business processes.

On 20 February 2017, the Swiss security printing subsidiary settled the proceedings that had been commenced against it in Switzerland on account of shortcomings in its anti-corruption efforts. The company had initiated the proceedings itself by reporting the matter of its own accord because internal investigations into occurrences that for the most part had arisen in the distant past had failed to clarify the situation. The aim was to address past risks on a legally sound basis. KBA-NotaSys now has a modern prevention-oriented compliance system.

Declaration of compliance in accordance with section 161 of the German Stock Corporation Act

The Management Board and Supervisory Board of Koenig & Bauer AG issued a declaration of compliance on 10 February 2017 on the basis of the current version of the German Corporate Governance Code dated 5 May 2015. This declaration is available publicly at KBA's website on https://www.KBA.com/en/investor-relations/corporate-governance/declaration-of-compliance/. All the Code recommendations are observed with the following justified exceptions. The voluntary suggestions are also very largely fulfilled.

At present, the policy excess of €2,500 borne by members of the Supervisory Board for D&O liability insurance is lower than the amount recommended in provision 3.8 of the Code. An adjustment of the policy excess to at least one-and-a-half times the fixed annual remuneration will be discussed by the Supervisory Board this year.

In the Management Board contracts payments to the members whose contracts are terminated prematurely by KBA without serious cause are limited to an account corresponding to three years' fixed remuneration. 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 AG generally places an even stricter limit on the severance pay cap.

The rules of procedure of the Supervisory Board provide for an age limit. A limit on the length of service on the Supervisory Board (provision 5.4.1 of the Code) is not in the Company's interests as a rigid rule would fail to take account of the members' individual expertise and qualifications.

Composition of the Supervisory Board

Supervisory Board with comprehensive expertise and a proven track record

In submitting nominations to the annual general meeting for shareholder representatives, the nomination committee and the Supervisory Board take account of the criteria specified in provision 5.4.1 (2) of the Code. The Supervisory Board comprises independent executives with extensive international experience, technical knowledge and business acumen. The Supervisory Board has proven expertise in finance, accounting, auditing, production, law, compliance and other areas. As separate fulfilment by the shareholder and employee representatives has been agreed upon, the proportion of women required by the Act on the Equal Participation of Women and Men in Executive Positions in Private and Public Sector has been achieved. The Supervisory Board will include diversity as a criterion in future Management Board appointments.

DETAILED INDEX COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

CORPORATE STRUCTURES

COMPANY STRUCTURE AND BUSINESS ACTIVITY

Leading supplier in packaging and security printing

The Koenig & Bauer Group is a technology company that can look back on a history spanning almost 200 years with core activities in packaging, security, industrial, commercial and publication printing. Around 70% of the Group's new printing press business is accounted for by packaging printing, followed by security printing (20%) and media-related printing (10%). We are number one in cardboard and banknote printing, metal and glass decorating. At the same time, we have established an attractive market position in flexible packaging and coding. Our core skills lie in the development, production, distribution and servicing of technologically advanced and economical printing systems together with the related periphery. Systematically oriented to meeting customer requirements, our systems and services permit highly efficient printing, finishing and postpress processing. Our high-tech sheetfed and web printing presses use nearly all customary analogue and digital printing technologies to apply the ink efficiently and precisely on a wide range of different substrates. This broad footprint reduces business risks in the event of any economic or cyclical fluctuation. The comprehensive expertise derived from addressing many sub-markets provides a good basis for innovation and for new applications in the growth markets of packaging, digital and industrial printing, on which the Company is particularly concentrating.

70%
of new press business entails solutions for packaging printing

Global presence

The KBA Group is active in virtually all countries around the world, with an export ratio mostly well above 80%. In this connection, growth potential is shifting away from the advanced economies in Western Europe, North America and Asia towards the emerging markets on the European periphery, the Middle and Far East, Latin America and parts of Africa. Appropriate local presence is important. For this reason, we have invested in additional sales and service companies in Asia in particular over the last few years.

Decentralised organisation with a holding company structure

The KBA Group is composed of Koenig & Bauer AG as the holding company and its subsidiaries (see list on page 83 of the Notes). Our operating business is divided into three segments – Sheetfed, Digital & Web and Special. This decentralised corporate structure with autonomously operating business units strengthens the individual companies' own responsibility for achieving the goals defined for the respective market segment. Alongside greater internal and external transparency, this also improves the Management Board's strategic flexibility in responding to market changes.

Business activities of the segments

Sheetfed, the segment with the highest revenue, offers a broad range of sheetfed offset presses from half to super-large formats together with the relevant quality measurement and control systems, workflow and logistics solutions and services. The range also includes peripheral aggregates for finishing and postpress processing. In addition to its internally developed rotary die-cutting equipment, the segment now also offers flatbed die-cutters for cardboard, corrugated board, film and paper following the acquisition on 5 July 2016 of 100% of the shares in Spanish company Iberica AG, S.A.U. The domestic and foreign sales companies that mostly offer sales and service functions for several segments are allocated to the Sheetfed segment. Small branches in Eastern Europe, Russia, Scandinavia, Australia, Japan, Malaysia, Singapore, South Korea and Latin America are not included in the consolidated financial statements.

The Digital & Web segment encompasses our digital and offset web press business. Over half of its new business is accounted for by spare parts and services for the increasingly older printing press fleets used in newspaper and commercial printing. Orders for new publication printing presses contribute only around 20% of segment order intake and just under 3% of Group order intake. Digital printing has been progressing well with the HP printing press for corrugated board and the RotaJET platform for digital decor and book printing and will continue to be expanded with the addition of new industrial applications. Flexible packaging printing and the Group's own activities in the corrugated market will be allocated to this segment from 2017.

The Special segment is made up of special solutions for banknote and security printing and systems for industrial marking and coding as well as special systems for printing packaging made of metal, film and other plastics as well as for direct glass and hollow container decorating. Effective 1 December 2016, we sold the exhaust air purification specialist KBA-CleanAir, which had been assigned to metal decorating business (KBA-MetalPrint GmbH). In the interests of pooling growth forces, we want to concentrate on the core components of our highly complex printing, coating and drying lines for metal sheets. We are continuing to offer the popular eco solution with thermal purification facilities directly integrated in our dryers.

Together with its subsidiary KBA-Gießerei GmbH, KBA-Industrial Solutions AG & Co. KG is a production service provider for the business units operating in the market.

PLANNING, CONTROL AND MONITORING

Efficient Group management thanks to enhanced transparency

The business reporting system rolled out in the last two years with granulated cost-accounting and comprehensive planning and control instruments has now been firmly established. In addition to central Group controlling for overarching Group and segment management, the individual business units have access to controlling resources with a high degree of expertise. Management is provided with valid and reliable numerical data with minimum delay for operational controlling, efficient monitoring and strategic management of the KBA Group and the segments. The basic corporate governance principles adopted by the Group are systematically enforced.

Regular financial reviews

The controlling instruments undergo regular updating and include the annual integrated corporate budget with a planning horizon of three years, supplemented by upstream high-level business planning. The budgets prepared by the Group and the segments are based on detailed income statements, balance sheets and cash flow statements for all consolidated Group companies, on a monthly basis in the first year. At the same time as the quarterly financial statements, updated forecasts for the current year are prepared on the basis of the reported figures. Scenario analyses simulate different market and cost parameters on a case-by-case basis.

Detailed monthly reporting tracks the current business and earnings situation as well as trends in working capital. In addition, the newly introduced service reporting system permits efficient management of service activities to ensure achievement of the growth targets. Weekly 13-week and 12-month roll-over liquidity previews with cash management provide an accurate view of the financial situation. Regular reviews by Group management with the responsible segment managers addressing strategic matters as well as the economic and financial situation, current trends and forecasts supplement ongoing deviation analysis by controlling. Measures are immediately defined in the event of any negative deviation. Systematic implementation of the measures is tracked by close monitoring.

Opportunities and risks are detected at an early stage by means of a roll-over budget, forecast and reporting process. The necessary decisions can be made in a timely manner on the basis of this comprehensive assessment of Group and segment performance.

EBIT margin
the new target and performance indicator

The Koenig & Bauer Group uses revenue and the EBT margin calculated in accordance with the International Financial Reporting Standards (IFRS) as its main target and management indicators. Management reporting additionally tracks order intake, order backlog and service business indicators. Net working capital as a percentage of revenue is used to monitor the important capital deployment ratio. Net working capital is calculated by deducting trade payables and customer prepayments from inventories, payments for inventories and trade receivables. The original targets of an increase in revenue to around €1.1bn and an EBT margin of 3–4% as well as the guidance which had been adjusted upwards in the H1 and Q3 figures were achieved or exceeded in 2016. Starting in 2017, the EBT margin will be replaced by the more commonly used EBIT margin as a target and management parameter. There is only a minor difference between these two indicators due to the currently low interest result.

Target agreements providing for variable remuneration components tied to Group, segment and personal goals for the year for all executives and many employees help to encourage motivation and commitment towards achieving the Company's goals.

ORDERLY ACCOUNTING THROUGH INTERNAL MONITORING

The Koenig & Bauer Group's internal control system for the accounting process encompasses all principles, methods and measures for ensuring effective, economical and proper accounting in accordance with all applicable legal requirements. Work instructions and directives supplement the organisational and control structures.

In addition to accounting for the holding company and a number of subsidiaries, Koenig & Bauer AG holds responsibility for Group accounting and controlling as well as Group compliance/internal auditing, corporate finance/treasury, taxes and human resources/training. The individual Group companies have their own controlling, human resources, finance and compliance functions and in some cases also their own accounting. The responsibilities are clearly assigned with an unambiguous separation of functions in the units involved in the accounting process. All departments involved in the accounting process have the appropriate resources. The allocation of appropriate rights ensures that the IT systems used for financial and payroll accounting are protected from unauthorised access.

The KBA Group's IT environment, which has previously been characterised by proprietary developments, is gradually being migrated to the SAP system widely used in the machinery and plant engineering sector. Following careful planning of the enterprise-wide SAP project and an intensive period of fine-tuning, the staggered roll-out is now underway. The holding company, KBA-Gießerei and the large KBA-Industrial Solutions unit will be followed by other Group companies step by step.

Group accounting is performed on a monthly basis using a consolidation program. Meticulous checks are performed on a quarterly basis. Accounting and measurement guidelines ensure that the principles defined by the International Accounting Standards Board (IASB) are duly applied. The risk management manual defines the process for identifying risks and the procedure for disclosing reportable risks. This ensures early detection of any risks at

Koenig & Bauer AG and its subsidiaries and notification of the Management Board. The guidelines are regularly updated and expanded.

Random samples as well as manual or physical checks are performed to prevent any errors or omissions in accounting data. This includes annual inventory counts and work on the annual financial statements as well as asset counts in certain intervals. In addition, specially programmed plausibility checks are performed. The double sign-off principle is applied to all material transactions. Regular training and independent monitoring ensure that the consolidated financial statements comply with all applicable rules. Significant accounting-related processes and areas undergo analytical reviews particularly by internal auditing and controlling. The efficacy of the controls is verified by means of automated input, output and processing checks. External experts are also consulted where necessary, e.g. in the measurement of pension obligations.

Units granting approval are also separated from the units executing the transaction in question. In addition, write and read rights are assigned. There is a strict functional separation in the entry of transactions. Granulated requisitioning powers and access restrictions are applied to employees with respect to the IT applications. Individual employees in the functional areas do not have access rights to the complete accounting process level (incoming goods, inventories, invoice checking, payment approval, remittance).

The defined principles, methods and measures ensure that financial reporting complies with the statutory requirements. The Supervisory Board's audit committee is responsible for monitoring the accounting process, the audit of the annual financial statements and the efficacy of the risk early detection system.

RESEARCH AND DEVELOPMENT

New and enhanced solutions for growth markets

Our research and development activities focused on innovative products and services for the growth markets of packaging, digital and industrial printing. With respect to process-related innovations, high priority was assigned to approaches for boosting efficiency, lowering costs and reducing energy consumption such as LED UV printing in the Sheetfed segment. Further key aspects of our development work entailed low-migration technologies and consumables for food packaging as well as suitable inks for special digital printing applications. In addition, our experts worked on digital process networking with workflow solutions for the networked printing factory and new Industry 4.0 services. All told, the Group spent 5.1% of revenue (2015: 5.6%) on research and development in the year under review.

5.1%
R&D ratio of revenues

The Sheetfed segment is developing a digital sheetfed press for printing folding cartons characterised by a high degree of user orientation. This hybrid system combines proven offset and finishing technology with inkjet technology. The KBA VariJET supports regional and campaign-specific versions of packages, value added and infotainment packages as well as database-aided sales campaigns. Following the successful market launch of an internally developed rotary die-cutter for finishing applications, we are now turning our attention to the further development of flatbed die-cutters for cardboard and corrugated packaging following the integration of Iberica.

Presented at Drupa and featuring outstanding printing results, the RotaJET L inkjet web press has a modular structure, allowing flexible modifications for a wide range of different markets and applications. Following the successes achieved with the newly developed high-volume digital systems for decor and book printing, Digital & Web is currently enhancing the systems for new applications in industrial and packaging printing. The development of the new-generation Corrugraph flexo press is paving the way for a return to the sheetfed flexo market for corrugated board printing.

Heavy R&D expenses arose in the Special segment again for security printing. In addition to new applications, KBA-NotaSys worked intensively on innovative security features. For its new-generation flexo presses for flexible packaging materials, KBA-Flexotecnica focused on migration-free printing with water-based inks, e.g. for food packaging. The new laminating machine EVOLAM allows the use of solvent-free adhesives. KBA-Kammann developed a hybrid printing press with digital, screen-printing and hot-stamping modules for the flexible direct decoration of hollow bodies made from glass and plastic in a new level of quality. In addition to new automation modules for reducing make-ready times for the metal decorating lines established in the market, engineers at KBA-MetalPrint are working on innovative applications and new products in metal printing.

Innovative products and services

QUALITY MANAGEMENT

Premium quality in the interests of the highest customer satisfaction

Group quality officers worked intensively on the further optimisation of all relevant internal processes to offer our customers the premium quality with our tailor-made, innovative and complex products and services. Koenig & Bauer attaches particular importance to quality in order to strengthen customer satisfaction and loyalty. Quality management covers the entire process chain from product development to after-sales service and was additionally enhanced. We systematically and consistently protect our high quality standards by means of clear rules for contracts, comprehensive control, acceptance and testing processes for the purchase of components, in the production and assembly phase and in the launch of new innovations. Overall, we have achieved great process in lowering our quality costs but want to go even further to become the undisputed quality leader.

High quality standards

BUSINESS REPORT

ECONOMIC ENVIRONMENT

The disappointing performance of the economy in China and other countries placed a damper on expectations with respect to the global economy in the course of 2016. Even so, the International Monetary Fund (IMF) assumes that global gross domestic product (GDP) expanded by 3.1%. Despite the sound state of the global economy and the weaker euro, international demand for German capital goods contracted by 2.1% over 2015 according to the German Mechanical and Plant Engineering Association (VDMA). Order receipts for printing presses in the Drupa year were down by as much as 6.9% over the previous year. The generally soft demand for capital goods was materially due to heavy political and economic uncertainty. In addition to conflicts in the Middle East and other regions as well as the financial problems afflicting a number of emerging markets, uncertainty over the consequences of the Brexit vote took its toll on capital spending. However, these muted VDMA figures conceal the growth achieved in individual segments of the machinery and plant engineering sector as well as the upbeat performance of many companies.

BUSINESS PERFORMANCE

Growth in packaging/digital printing and services

In this persistently challenging economic and political environment, Koenig & Bauer's decision to focus keenly on growth markets is increasingly paying off. With our diverse modern packaging printing solutions, our new press business is particularly benefiting from the growing consumption of packaging around the world as a result of rising consumer spending and the boom in online trading with its high returned-goods ratios. At the same time, the rising demands of consumer goods producers with respect to quality, flexibility and speed in the production of packaging is spurring capital spending. Orders were also up in the digital printing markets and for services. All told, the Group recorded robust order intake of €1,149.7m. The softer economy in China and in other export countries as well as the expected slowdown in post-Drupa business meant that the previous year's high figure of €1,182.7m was not quite reached.

13.9% increase in revenue

With the revenue structure continuing to shift in favour of the markets of the future, Group revenue came to €1,167.1m, 13.9% up on the previous year's figure of €1,025.1m. In addition to higher service revenue, this substantial increase was driven by growth in packaging and digital printing. Thanks to market share gains, revenue growth in the packaging segment was substantially stronger than in the global market as a whole (around 4%). At the same time, revenue from cyclical security printing was up on the previous year.

Share of European business widened

At 85.5%, the export ratio was slightly up on previous year's already high level (85.0%). More installed sheetfed presses in Southern Europe in particular combined with growth in other business areas caused the revenue generated in Europe excluding Germany to rise by 28.7% to €387.4m (2015: €301.0m). This core market accounted for 33.2% of total revenue, up from 29.4% in 2015.

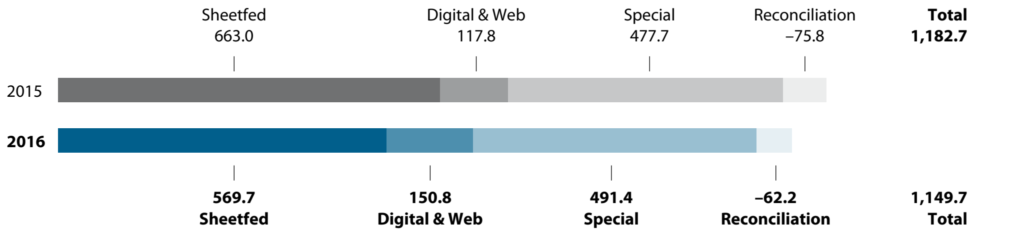
85.5%
Export ratio

Good North American business

Driven by growth in folding carton and flexible packaging printing as well as service business, revenue in North America rose by 19.2% to €171.8m (2015: €144.1m). With a regional ratio of 13.5% (previous year: 13.0%) the USA are the largest export market.

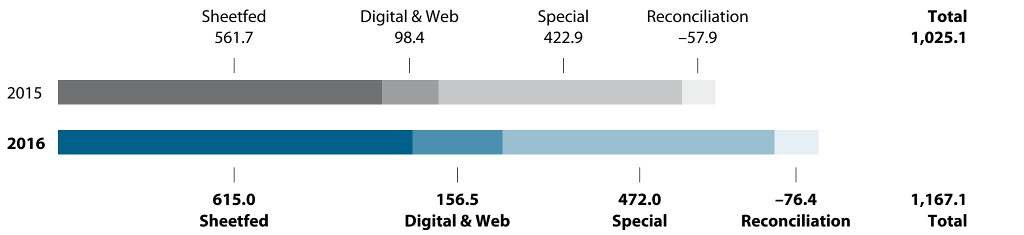
GROUP ORDER INTAKE

in €m



GROUP REVENUE

in €m



Weakness in China dragging down business in Asia/Pacific

Demand in China has cooled noticeably since the successful Print China fair in April 2015. The share contributed by this region contracted from 10.7% in the previous year to 7.8%. Despite encouraging business in Japan, India and other Asian countries, revenue in Asia/Pacific came to €313.0m, 6.7% down on the previous year (€335.6m). Given the favourable outlook for packaging printing in the Far East, we assume that the decline in the share contributed by this region of the future from 32.7% to 26.8% will be only a temporary phenomenon.

Growth in Latin America and Africa

Muted economic conditions and currencies in a number of key countries in this region such as Brazil took their toll on capital spending. Thanks to major security printing projects, revenue in Latin America and Africa reached €125.7m and was therefore well up on the previous year (€91.1m). These two regions contributed 10.8% to Group revenue (2015: 8.9%).

Highest
profit margin in the Company's 199-year history

GEOGRAPHICAL BREAKDOWN OF REVENUE

in %

	2015	**2016**
Germany	15.0	14.5
Rest of Europe	29.4	33.2
North America	14.0	14.7
Asia/Pacific	32.7	26.8
Africa/Latin America	8.9	10.8

Order book still at a high level

At €557.5m, the Group order backlog as of 31 December 2016 fell short of the previous year's figure of €574.9m by 3.0%.

EARNINGS, FINANCES AND ASSETS

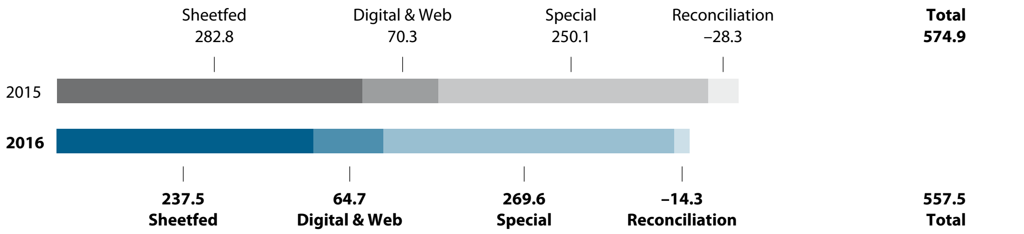
EARNINGS

Significant increase in profit to the highest level in the Company's history

In addition to the large contribution made by the Special segment, the increased profit generated by the Sheetfed segment strengthened the Group's earnings. Following restructuring and the transfer of our web printing technology and expertise to the future markets of digital and industrial printing, the Digital & Web segment changed the previous year's loss in a positive contribution to earnings. Across the Group, increased revenue accompanied by improved margins, consistently high capacity utilisation and the sustained reduction of the cost base following the successful completion of restructuring underpinned the increase in profit. Increases in wages, costs for Drupa and other customer events as well as expenses in connection with new products and additions to the product range exerted pressure on earnings. Besides these operating factors, earnings were driven by non-recurring income of €22.4m from the mandatory write-ups of property, plant and equipment and the recognition of deferred tax assets of €7.4m as all of the restructuring goals had been achieved or even exceeded.

GROUP ORDER BACKLOG

in €m



Substantial increase in gross profit and EBITDA margin

Gross profit climbed significantly to €346.6m, up from €274.5m in the previous year, with the gross profit margin widening from 26.8% to 29.7%. Earnings before interest, taxes, depreciation, amortisation and appreciations (EBITDA) also rose from €65.0m to €92.4m. The corresponding EBITDA margin as an indicator of operating performance widened from 6.3% to 7.9%.

EBIT margin entering a new dimension

At €59.3m, R&D costs were up on the previous year (€57.2m) and were driven by development expense in connection with new products and applications for digital, packaging and security printing. Distribution costs rose from €123.4m to €144.1m, reflecting increased deliveries as well as costs in connection with the Drupa trade fair and the Banknote Horizons customer event. Administrative expenses climbed to €80.4m (2015: €77.8m) following the implementation of the Group-wide SAP project. The non-recurring income of €22.4m from the reversal of the impairments that had been recognised on property, plant and equipment contributed to other operating income and expenses of €24.1m. The previous year's amount of €20.2m had particularly been buoyed by currency translation effects. All told, EBIT more than doubled over the previous year (€35.9m), reaching €87.1m. The EBIT margin widened from 3.5% to 7.5%. Adjusted for the non-recurring income, EBIT came to €62.9m and the EBIT margin to 5.4%.

EBT guidance of up to 5% reached

Lower interest expenses of €8.1m (previous year: €9.4m) and the decline in interest income from €3.2m to €2m resulted in a slight improvement in interest result of –€6.1m over the previous year (2015: –€6.2m). With earnings before taxes rising significantly from €29.7m to €81m, the EBT margin came to 6.9% (2015: 2.9%), thus entering a new dimension. Adjusted for the non-recurring income, EBT rose to €56.8m. At 4.9%, the EBT margin guidance of up to 5% was achieved.

Highest profit and margin in the last 199 years

Driven by the growth in profits as well as the improved outlook for the Group, a non-recurring tax income of €7.4m arose chiefly as a result of the recognition of deferred tax assets in connection with tax loss carry-forwards. This resulted in a tax income of €1.2m after the tax expense of €2.8m in the previous year. On balance, Group net profit for 2016 rose to €82.2m (2015: €26.9m), marking the highest profit achieved by the Company in its 199-year history. The profit margin of 7.0% (previous year: 2.6%) also marks a historical high. Net profit rose more than three-fold, translating into earnings per share of €4.98 (previous year: €1.62). On the strength of the Group's favourable earnings performance and the retained profit reported by the holding company Koenig & Bauer AG, we will be asking the shareholders to approve a dividend of €0.50 per share for 2016.

€0.50
Dividend per share proposed

GROUP INCOME STATEMENT

% of revenue

	2015	2016
Cost of sales	−73.2	−70.3
Research and development costs	−5.6	−5.1
Distribution costs	−12.0	−12.3
Administrative expenses	−7.6	−6.9
Other income/expenses	+1.9	+2.1
Interest result	−0.6	−0.5
Income taxes	−0.3	+0.1
Net profit	+2.6	+7.0

FINANCES

Further improvement in financial strength

The substantial net profit caused cash flows from operating activities to rise despite the increase in net working capital from €272.7m to €321.5m. As a percentage of revenue, it increased from 26.6% in the previous year to 27.5%. Accordingly, management sees further potential for improvement particularly with inventories and appropriate measures are already being worked on intensively. This ratio is expected to be lowered in the first half of 2017. The strong cash flow helped cash and cash

Strong financial profile with

€168m

net liquidity

equivalents to rise to €202.0m. The Group has high net liquidity of €168.1m plus securities of €19.9m that can be liquidated at any time. In addition to substantial guarantee facilities of €237.2m, the Group also has access to cash credit facilities of €80m. A large part of these cash and guarantee facilities are managed by the Group's subsidiary KBA-Finance GmbH, which operates as a captive bank.

Substantial increase in cash flow

Despite the increase in net working capital, cash flows from operating activities came to €21.9m, thus significantly surpassing the previous year's figure of –€15.3m, which had come under pressure from large restructuring payments. This was primarily achieved through the significant increase in earnings. Adjusted for capital spending and the acquisition of Iberica, free cash flow increased to €2.3m (previous year: –€23.7m). Cash flows from financing activities came to €13.9m, up from €0.7m in the previous year.

Ample liquidity

At €202.0m (31 December 2015: €186.3m), cash and cash equivalents were up at the end of 2016, while securities rose from €13.3m to €19.9m. Adjusted for bank borrowings of €33.9m (see page 89 in the Notes for more details), the net financial position came to €168.1m (2015: €170.5m).

Increase in equity ratio to 31%

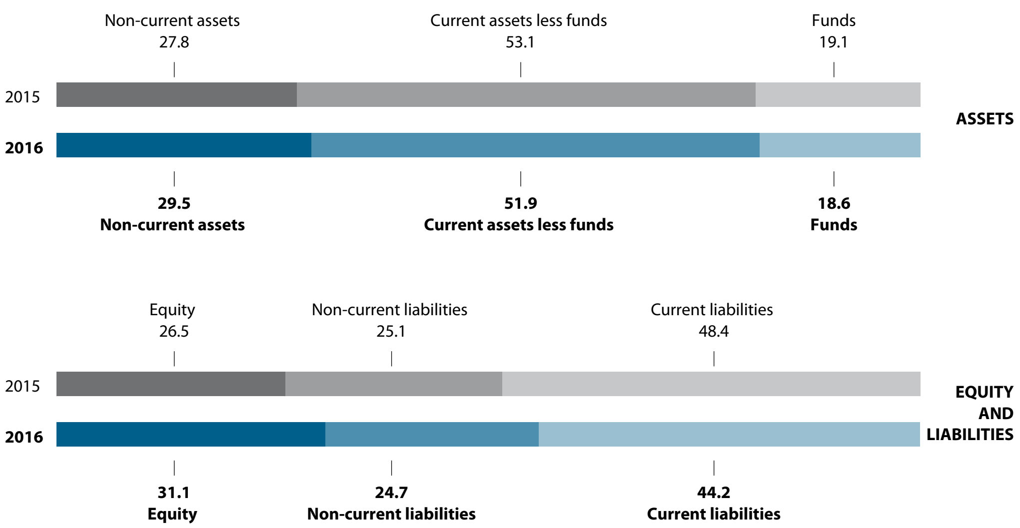
The increase of €79.4m in equity to €337.8m (2015: €258.4m) was primarily due to the high net profit. Conversely, the increase of €24.1m in pension provisions following the cut in the discount rate from 2.4% to 1.7% applied to domestic pensions resulted in a corresponding reduction in equity. This translates into an equity ratio of 31.1% in relation to the increased balanced sheet total (2015: 26.5%).

Lower other provisions

Other provisions dropped by €13.2m, whereas pension provisions increased from €191.8m to €212.5m primarily as a result of the changed interest rate. Bank loans and other financial payables increased by €20.4m and trade payables by

GROUP ASSETS AND CAPITAL STRUCTURE

in %



€16.4m. On the other hand, customer prepayments dropped by €17.5m. On balance, current and non-current liabilities rose to €747.7m over the previous year (€718.5m).

ASSETS

High capital spending to improve efficiency
The capital spending on intangible assets and property, plant and equipment of €31.9m (2015: €28.4m) involved replacement and modernisation projects with the primary aim of creating capable and highly efficient competence centres at our production sites. The "milkrun" system for sourcing and distributions logistics was implemented for the production of small parts at our plant in Würzburg in order to safeguard the availability of material in line with requirements. In addition to measuring facilities, highly efficient processing centres for universal production tasks and special activities such as cylinder grinding went into operation at the Radebeul plant. The ratio of capital spending to revenue came to 2.7% (2015: 2.8%). With depreciation of €27.7m a capital spending ratio of 115.2% (previous year: 97.6%) was recorded.

Non-current assets rose from €271.1m to €320.4m primarily due to the increase in deferred tax assets from €31.1m to €64.9m. This increase was additionally driven by write-ups, which caused property, plant and equipment to rise from €186.6m to €202.8m. Property, plant, and equipment are covered by equity at a rate of 166.6% (2015: 138.5%).

Current assets climbed to €765.1m (2015: €705.8m) due to higher inventories, trade receivables, cash and cash equivalents and securities. On the other hand, other financial receivables and assets were lower. KBA Group's balance sheet total climbed to €1,085.5m, as of 31 December 2016, up €108.6m on the previous year's figure of €976.9m

SUMMARY OF THE ECONOMIC SITUATION

Underpinned by the service initiative and the expansion of activities in the growing packaging and digital printing segment, the Koenig & Bauer Group's profitability improved considerably in 2016 thanks to the revenue increase and margin improvements achieved. The reduced cost base following the successful completion of the restructuring programme and the efficiency improvements gained played a material role in this respect. The medium-term revenue and margin goals for the Group and the segments were for the most part achieved or exceeded. In addition to the high earnings posted by the Special and Sheetfed segments, Digital & Web reached profit-making territory. Consequently, the contribution made by security business to total earnings is shrinking.

The strong cash flow helped cash and cash equivalents to rise. We are continuing to work towards achieving a sustained decline in net working capital. With its ample net liquidity as well as the cash and guarantee facilities, Koenig & Bauer has a stable funding base. The solid balance-sheet structure was additionally improved with the increase in the equity ratio to 31%. With the achievement of a retained profit at the level of the Koenig & Bauer AG holding company thanks to the high net profit, it is now possible for dividend distributions to be resumed.

Solid balance-sheet structure with
31%
equity ratio

SEGMENT PERFORMANCE

Positive earnings momentum continuing for Sheetfed
With its innovative tailor-made solutions for packaging, commercial and advertising printing as well as an expanded sales presence in the markets of the future, the Sheetfed segment widened its share of the global market for sheetfed offset to around 25%, up from roughly 15% ten years ago. In 2016 we received around two thirds of all orders in the large-format area, which is dominated by packaging printing, as a result of which our share of the global market reached an all-time high. In

Share of global sheet offset market widened to

25%

this connection, we attached particular importance to the quality of margins on new orders. After the expected slowdown in post-Drupa business we achieved with a good Q4 an order intake of €569.7m. The previous year's high figure of €663.0m was not reached due to weaker economic conditions in China and other export markets. New press business was also dampened by workload-driven longer lead times. On the other hand, revenue rose by 9.5% over 2015 (€561.7m) to €615.0m. In addition to encouraging service business, deliveries of large-format presses to packaging printers rose in particular. At €237.5m, the order backlog was down on the previous year (€282.8m) but still remained at a good level. Despite the Drupa costs and development expense in connection with the digital sheetfed press alongside other innovations, the additional revenue with better margins and the favourable capacity utilisation resulted in an increase in segment profit to €31.3m (2015: €25.5m).

Digital & Web growing in future markets

Growth in new digital printing applications

More service business and new digital printing applications caused order intake to rise by 28% to €150.8m (2015: €117.8m). The digital printing press co-developed with HP for corrugated packaging was particularly successful in the first year after being launched. As of the end of 2016, HP had already placed orders with KBA for nine of the world's largest inkjet presses. With its own RotaJET platform, KBA successfully entered the digital decor and book printing market. In addition to flourishing service business for web offset presses, we sold a number of web presses for newspaper and commercial printing. Revenue rose by 59% from €98.4m to €156.5m. At €64.7m, the order backlog remained at a high level (2015: €70.3m). EBIT came to €1.9m as planned (2015: –€10.9m) despite the pressure exerted by development expenses in connection with digital printing projects and the flexo press for corrugated packaging. Earnings were also influenced from non-recurring expenses of more than €5m in connection with the settlement of two long-standing legal disputes.

Order intake, revenue and profit up in the Special segment

Accompanied by further market share gains, orders for metal decorating, flexible packaging printing, glass and hollow container decorating and coding systems rose. In a competitive environment, we were able to maintain our leading international position in security printing with a market share of over 80%. With project business remaining generally favourable, volatility remained high due to frequently protracted order placement processes and the domination of large-scale projects. All in all, order intake in the Special segment rose by 2.9% to €491.4m (2015: €477.7m). Revenue grew by 11.6% from €422.9m in the previous year to €472m. The order backlog increased to €269.6m (2015: €250.1m). Following a segment profit of €27.7m in the previous year, EBIT of €42.8m was recorded in 2016. Security printing business, which is cyclical in nature and involves complex order execution activities in some cases, exerted a significant influence on earnings.

KBA SEGMENTS: ORDER INTAKE / REVENUE / ORDER BACKLOG

in €m

	2015	2016
Order intake		
Sheetfed	663.0	569.7
Digital & Web	117.8	150.8
Special	477.7	491.4
Revenue		
Sheetfed	561.7	615.0
Digital & Web	98.4	156.5
Special	422.9	472.0
Order backlog		
Sheetfed	282.8	237.5
Digital & Web	70.3	64.7
Special	250.1	269.6

SUSTAINABILITY REPORT

Environmentally oriented products and processes

KBA does justice to its responsibility for the environment and society through the sustained use of resource-sparing products and processes and its support for social and cultural concerns.

Environmental protection in production

In addition to economic and process-related matters, the achievement of ecological goals is accorded high priority at our production plants. Regular measurements and instructions ensure that internal and external environmental policies are observed. Many individual measures were taken in 2016 to improve the environmental footprint of production. In the period under review, KBA-Industrial Solutions and KBA-Gießerei successfully completed the quality and environmental audits required to achieve certification under DIN EN ISO 9001:2015 and DIN EN ISO 14001:2015. In addition, KBA-Gießerei has implemented an energy management system in accordance with DIN EN ISO 50001:2011.

Occupational health and safety of key concern

KBA is committed to providing optimum work conditions and to improving occupational safety. Progress was made in occupational safety and ergonomics by means of clear instructions, training and advice. KBA-Industrial Solutions and KBA-Gießerei have been certified under BS OHSAS 18001:2007 for occupational health and safety.

Ecological printing

In addition to steps for minimising energy and resource requirements in the operation of our printing presses and systems, the use of environment-friendly consumables and the reduction in noise, dust, odour and CO_2 emissions is of crucial importance for the users of our products. We systematically and consistently take account of such environmental aspects in the development of new products and the enhancements to existing ones. The Sheetfed segment is pioneering the use of low-energy and odour-neutral LED-UV drying technology for UV printing which is increasingly being used in sheetfed offset. KBA has joined other partners to develop the new VisuEnergy system in the interests of greater energy efficiency in printing operations. A further example of our active environmental policies is the low-migration KBA SensPrint ink for food packaging. The potentially migratory elements of this ecological ink are made from foods or food additives. The RotaJET platform was certified by the Deinking-Technik international research alliance for problem-free integration of its printed materials in existing paper recycling systems. The RotaColor polymer ink which Koenig & Bauer has continued to develop thus bridges the gap between outstanding deinkability and the greatest possible water resistance of printed products. Sponsored industry awards such as the KBA award for the environmentally minded printer of the year acknowledge printing companies' ecological commitment. Further technological innovations aim at improving occupational and process safety as well as convenience in the printing hall.

Sustainable products and processes

Social commitment

Local social and cultural projects and initiatives such as the "Würzburger Bachtage" have been sponsored by our Group companies for many years. The benefit concert organised with printing and media companies in Würzburg over the last ten years was given a new format in November 2016. The 1st crossover benefit concert generated proceeds of €40,000 that were used to support regional projects for the integration of refugees in the job market. As well as this, Koenig & Bauer is providing additional apprenticeships, thus making an active contribution to helping asylum seekers find employment.

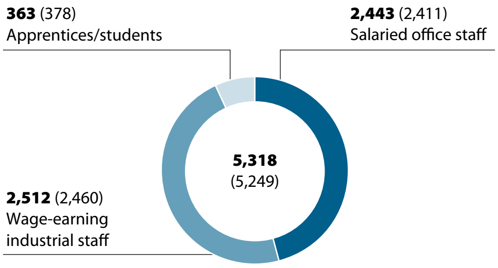
SOCIAL REPORT

Expansion into the markets of the future requiring highly qualified employees

In 2016, the Group workforce increased by 69 to 5,318 employees (31 December 2015: 5,249). 60 employees joined the Group with the acquisition of Iberica AG as part of the entry into the growing market for flatbed die-cutters. New employees were also recruited in specific areas to accommodate the expanding service business and new applications for the packaging and digital printing markets. Our employees' expertise forms the decisive basis for the planned expansion of our technologically complex international business. For this reason, we attach high priority to technical and commercial training of young people as well as ongoing further education for our specialists and executives.

WORKFORCE AS OF 31 DECEMBER

2016 (2015)



High percentage of apprentices of

6.8%

Professional training for young skilled staff

With 363 apprentices and students, the Group trainee ratio remains at a high 6.8% (2015: 7.2%). In addition to the KBA companies, various companies from the region make use of the highly acknowledged quality of the KBA training centres in Würzburg and Radebeul for intensive training of their own young potentials. The Dresden chamber of industry and commerce has acknowledged the career training facility in Radebeul as an exemplary training centre. 90 young people embarked on careers with the KBA Group in 2016. In line with the Company's requirements, most of these were mechatronics technicians as well as industrial and machining mechanics. They were joined by construction and foundry mechanics, electronics and IT specialists, commercial officers and warehouse logistics experts. In addition, KBA offers dual studies in mechanical engineering, mechatronics and electrical engineering. Female apprentices account for over 11% of the total, i.e. higher than the average for the metal-working industry. As part of endeavours to integrate asylum seekers in the labour markets, we have offered one young refugee an apprenticeship in mechatronics and a further one an apprenticeship in IT. The KBA plant in Radebeul has been training two asylum seekers as mechatronics technicians since August 2015.

Excellent test results

67 apprentices at the large Radebeul and Würzburg plants successfully sat for their final exams at the chambers of industry and commerce. Two chamber winners and numerous top marks testify to the high quality of the training offered by KBA. A machining mechanic from Radebeul won the prize awarded by the SACHSENMETALL employer association for best "young woman in a technical career".

Employer branding growing in importance

KBA successfully seeks qualified young people with new employer branding measures in social media as well as with proven instruments. The Würzburg vocational training centre held its "long night of training" in addition to open days at the training centre, vocational training days and participation in training fairs. Together with other regional companies and the Dresden chamber of industry and commerce, the Radebeul plant has forged partnerships with general schools. Parent evenings, career experience sessions for school students and guided tours of the plant provide school leavers with early career guidance. KBA has met many of its apprentices in this way. We want to increase the proportion of female technicians by regularly participating in "Girls' Day" and the technology camp for girls as well as an orientation day for girls interested in a technical career. We offer students internships and practical semesters to help them embark on their careers. A number of students are completing their theses at Koenig & Bauer.

Targeted personnel development

In addition to language courses, IT training and specialist seminars, the training offered during the year under review aimed at preparing employees for new or changed tasks.

Savings through employee ideas

In the year under review, our staff helped us to optimise our processes and products by suggesting numerous improvements. Many of the ideas submitted by employees were rewarded as they allowed us to cut costs.

Company health management

Many of the activities performed by the company health insurance fund BKK KBA, which is organised as a separate entity, for its 9,502 members and the 2,847 family members also covered sought to encourage a healthy lifestyle and to prevent health problems. A broad-based workplace programme held at the large-parts production facility in Würzburg encouraged employees to take responsibility for their own health and to work on a health-conscious basis. The courses specifically targeted at apprentices also focused on health-oriented conduct at work. The "Let's cycle to work" campaign was a great success again. Health and team spirit are encouraged by means of supporting company sports festivals and by inviting employees to participate in company runs.

Koenig & Bauer supports the compatibility of work and family

With special offers for working mothers and fathers as well as part-time working-hour models and job-sharing arrangements, KBA seeks to encourage the compatibility of work and family. The child-minding centre that has been adjacent to the company premises in Radebeul for the last ten years enjoys a high degree of acceptance by KBA employees as it is aligned to working hours. One of highlights again was the children's and young people's day held at the Würzburg plant on Repentance Day, which was a school holiday, attracting 110 children of employees.

Longstanding commitment to Koenig & Bauer

119 long-service staff celebrated their working anniversaries in Radebeul and Würzburg in 2016; 47 had been with the Company for 40 years and 72 for 25 years. We thank them all for their long-standing loyalty and commitment to the Company.

SUPPLEMENTARY STATEMENT

On 20 February 2017, the Swiss security printing subsidiary settled the proceedings that had been commenced against it in Switzerland on account of shortcomings in its corruption prevention. KBA-NotaSys SA in Lausanne had initiated the proceedings itself by self-reporting after internal investigations into occurrences that for the most part had arisen in the distant past had failed to clarify the situation. A symbolic fine of CHF 1.00 was imposed on the company. In addition, KBA-NotaSys accepted the skimming of profits of €27.8m from projects between 2005 and 2012 in four countries. The settlement of the proceedings does not have any impact on Group net profit. It enables the optimisation and review of strategic partnerships in the security business. In addition, the Group also actively reduced its risk profile by settling legal disputes. Over a period of five years, the company will be depositing a total of CHF 5m in an integrity fund to promote ethical conduct, transparency and compliance in companies. Established on 27 January 2017, the fund is managed by an independent board.

RISK REPORT

High transparency for pre-emptive, target-oriented activity

Group-wide risk early detection system

All business activity entails risks which may have an adverse effect on the definition and achievement of targets. At the same time, entrepreneurial activity means consciously accepting risks to act on opportunities for enhancing enterprise value. Risks arise from insufficient knowledge of all determinants influencing the occurrence of an event with a possibly negative impact. If risks are not detected, allowed for and addressed, they may pose a risk to the Company's successful performance.

The Management Board has implemented a Group-wide system for identifying and managing risks so that management is able to respond to the current risk situation by taking early and appropriate measures. This system ensures that possible risks to business performance are detected at an early stage and their extent shown transparently. In addition to reporting critical market and corporate developments complete with their possible impact on the Company's results of operations, financial condition and net assets, the early warning system encourages general risk awareness.

Risk management process

The risk early detection system covers the production units as well as the main sales and service companies. Koenig & Bauer's risk management structure is made up of the central risk coordination unit which reports to the Chief Financial Officer. The risk owners at the operating units perform semi-annual local risk inventories and submit corresponding reports. The management of the company in question then review the reports for any omissions and evaluates the risks.

Semi-annual risk inventory

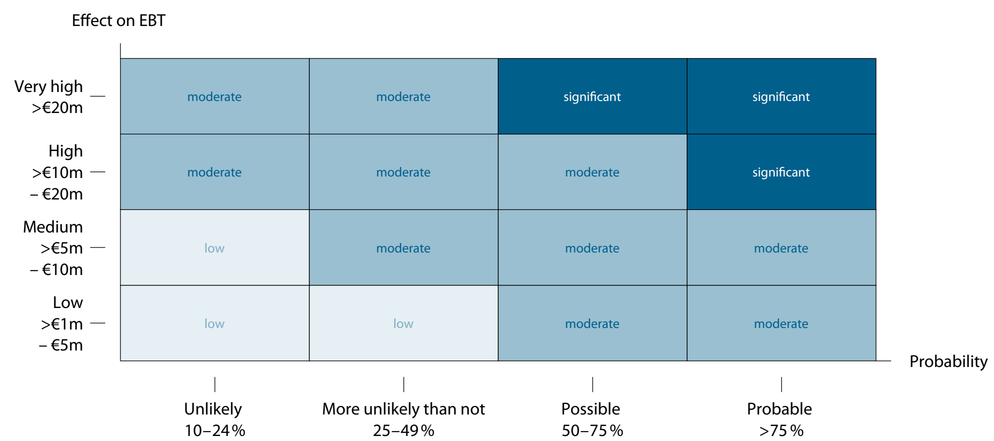
A bottom-up approach is applied in which possible risks are reported by the responsible executives combined with a top-down approach comprising a list of assumed basic risks defined by the Group. In addition, the owners of the main strategic projects and value-creation processes are responsible for monitoring project and process risks.

The Group-wide risk manual documents the instruments and reporting paths. The Koenig & Bauer Group's risk management system is based on the provisions of German company law and the German Accounting Standards as well as the principles and models of the IAA (Institute of Internal Auditors) and COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Systematic approach to risks

As of the 2016 reporting period, risk is calculated as a negative deviation from an expected figure and no longer as a negative deviation from the Company plans for the purpose of managing risk-avoidance and mitigation measures. This change systematically addresses risks that have already been included in the Company's plans as well as additional latent risks not expressly factored in.

RISK MATRIX



Risks are quantified on the basis of realistically described scenarios according to probability and potential impact. The risk-mitigation measures already established are deducted to produce a net view. The underlying assessment period extends to the end of the year following the reporting year. A standardised approach is applied to achieve a systematic and uniform appraisal and evaluation of risks. Quantitative or quality risks which either individually or together with other similar risks exceed a value of €1m or a probability of 10% are reported to the Management Board. These risks are sorted according to the matrix on page 48 and classified as low, moderate or significant.

In addition to monthly Group reporting, the system is supplemented with operating management elements which underwent further development in 2016. These particularly include regular financial reviews. The plans are reviewed during the year on the basis of controlling forecasts. In the event of any actual or expected deviations, suitable precautions and countermeasures are defined with minimum delay and implemented by management.

The risk early detection system installed by the Management Board is reviewed annually by the audit committee of the Supervisory Board and reviewed by the statutory auditor in accordance with statutory requirements. Internal auditing oversees the reporting process and checks it for plausibility.

Description of risks

The following section describes the material risks to which the Group is exposed. In the absence of any indication to the contrary, they are equally relevant for all segments. Group reporting categorises risks as follows: business risks, financial risks, operating risks and other risks. The order in which risks are described within the individual categories reflects the potential impact of the risk on the Group's performance. Risks with a higher potential impact are described before those with a lower impact.

BUSINESS RISKS

Economic and sector risks

Our business is influenced by underlying conditions in the global economy. Political decisions and policy changes, international conflicts and currency turmoil may impair sales of our products and exert an adverse effect on our forecasts and budgets. Following the successful Drupa trade exhibition and consistently good order intake throughout the entire year, our modern and highly specialised factories are working at high capacity. Flexible instruments such as working time accounts or leased employees can help to temporarily cushion any fluctuation in capacity utilisation.

We are addressing sales risks arising from regional fluctuation in demand by expanding our international sales and service network in the markets of the future. Our service initiative is unleashing further revenue and earnings potential. We were able to additionally expand our profitable service business by widening our offerings and implementing organisational measures.

Systematic tracking of risks by category

By clearly focusing the product range on the growth markets of packaging, digital and industrial printing, KBA is benefiting extensively from the increased consumption of packaging in the world, underpinned by rising consumer spending, the boom in online trade with its high returned-goods ratios and growth in the world population. The proportion of new press business, which is influenced by printed media such as magazines and books, has shrunk to around 10% of Group revenue. Koenig & Bauer is the global leader for packaging printing for cardboard, metal and glass. At the same time, we have established an attractive market position in flexible packaging and coding technology. We are addressing the digital printing market and the potential for the future that it offers with our own RotaJET series as well as the partnership with HP involving a large inkjet press for printing corrugated packaging. One main task is to continue shifting our range towards these new growth markets by means of new products and applications. In addition, we are currently developing a digital sheetfed press for printing folding cartons. Development of a sheetfed flexo press for the large corrugated market has been successfully completed. With our internally developed rotary die-cutter as well as the flatbed die-cutters from Iberica for postprint processing, we are systematically expanding our already strong position in the diverse packaging market.

Moderate economic and sector risks

We are the market and technology leader in security printing thanks to expertise that has been amassed and permanently developed over decades together with innovations and competitive differentiators in the area of security features. The customer structure is dominated by government bodies bound by mostly political decisions. This impairs forward visibility in security printing business, something that gives rise to corresponding capacity and financial risks. There has been a fundamental change in the market environment in the wake of heightened competition and the now predominant use of tender processes. We are addressing these specific market conditions by streamlining the process in this segment, launching new products with easy-to-authenticate security features and expanding our service business for the large installed printing press base. Despite the moderate growth expected in global banknote production over the next few years, our large share of the market limits the scope for any increase in revenue from printing presses. Accordingly, we are reviewing the strategic options available to us for generating growth in security printing.

The persistent surplus production capacities for sheetfed offset presses are prompting our competitors to respond to our market share gains by offering substantial price discounts in many cases. In addition to optimising our own cost structures, we are addressing the risks arising from this price pressure by reinforcing our customer-centric approach with innovative features and ongoing enhancements to the performance of our products. Reasonable mark-ups for technical benefits are supplemented by clear sales targets and ongoing checks of pricing for new and used presses.

In summary, we consider the economic and sector risks to be moderate in the light of the measures that have already been taken.

FINANCIAL RISKS

Currency, sales and financial risks

Credit-based finance, liquidity shortfalls, exchange-rate fluctuations and price changes may expose the Koenig & Bauer Group to financial risks.

Movements in the euro against other key currencies may exert a material effect on the sales prospects of our products in key export markets. On the basis of recent currency trends and in view of the financial instruments applied, we currently do not see any risks arising from exchange-rate fluctuation.

Fiscal conditions may exert strain on demand for printing presses and our business performance via their impact on the climate for capital spending and the scope that our customers have for new investments. Despite the consistently expansionary monetary policy pursued by the ECB and other central banks, many printing companies face considerable obstacles in obtaining credit-based finance for capital spending projects as loans are only granted with a relatively high risk premium. The section on customer finance describes the possibilities that we have to assist in financing printing press investments without adversely affecting our own risk profile.

KBA holds financial instruments whose fair value and the resultant cash flows are influenced by market interest rates. In selected cases, we make use of derivative financial instruments to hedge the interest rate risk. The notes to the consolidated financial statements set out the type, extent and market value of the financial instruments used by KBA. We currently do not see any country or counterparty risks liable to exert a material influence on our business performance next year.

As of 31 December 2016, the Koenig & Bauer Group had high net liquidity of €168.1m. In addition, it is able to draw on cash credit facilities of €80m and there are extensive guarantee facilities of €237.2m. A large part of these cash and guarantee facilities are managed by the Group's subsidiary KBA-Finance GmbH, which operates as a captive bank. Using the financial resources available to it, the Group is able to bridge any unexpected fluctuation in cash flows.

A daily liquidity status report tracks and measures the short-term solvency of the holding company and the subsidiaries. In addition to Group-wide cash management, an updated weekly Group liquidity and finance plan is prepared complete with reports. This roll-over planning system covers a period of twelve months. No risks are seen here as incoming and outgoing payments are monitored on an ongoing basis.

Customer finance

We pay particular attention to sales finance for sheetfed presses in particular in order to minimise our exposure to high-risk financial transactions. In line with customary market practice, Koenig & Bauer must offer its customers finance. In these cases we work, for example, with leasing companies with which we agree on customer-specific risk participation on a case-by-case basis. Credit insurance and receivables management at the level of the individual project provide a further effective means of preventing credit risks as far as possible. New customers always undergo a credit check. Credit checks and the request for predelivery collateral ensure an orderly transfer. After delivery, we retain the ownership rights pending full payment. Sufficient allowances or provisions have been recognised to cover potential defaults, repurchasing obligations and the returns of used presses. Given the structural change occurring in the printing industry, we expect the number of printing companies to continue declining in the industrialised nations, accompanied by an increase in the size of individual companies. As a result, the number of defaults is likely to lessen. There is no customer or regional clustering of credit risks. Management receives regular breakdowns of receivables by maturity and region. In this way, it is possible to detect any risk concentration at an early stage and to take suitable precautions. In view of the measures that have been taken and expected market trends, we consider this risk to be low.

Low financial risks

OPERATIONAL RISKS

Contract performance risks

Although we work closely with our internal and external suppliers, it is never possible to entirely exclude delays in the delivery of individual components with a corresponding effect on the recognition of revenue. The same thing applies to acceptance of deliveries by our international customers according to the agreed schedule. Delays may occur here, e.g. in the completion of printing press buildings. A delivery delay or contractual non-compliance for which Koenig & Bauer is responsible may result in contract penalties or customer credits, thus impairing margins. In addition to optimising internal coordination and quality assurance processes, we address this risk by insisting on appropriate contract terms providing for realistic project and implementation times. Accordingly, we consider this risk to be moderate.

Development risks

KBA regularly invests considerable amounts of money in the development of improved or entirely new products and processes in order to preserve its competitiveness, satisfy market requirements and gain new customers. This may lead to technical and market-related risks. Moreover there is a risk that it may not be possible for the expenses incurred to be recouped from sales of the products and services developed (return on investment). We address market risks by performing analyses prior to the commencement of development work and by executing marketing activities to accompany the product launch. Technical risks are reduced by means of comprehensive project and quality management as well as field-testing with beta users. The scope for lowering the quality costs for our technically complex products on a sustained basis exerts considerable influence on our earnings. In view of the ongoing processes and activities, we consider these risks to be moderate.

Human resource risks

Our success hinges materially on our ability to recruit and retain highly qualified engineers, specialists and executives. We are exposed to the risk of losing or failing to find qualified employees in the current job market. We address this risk by improving the way in which we are perceived as an attractive and innovative employer. In addition, the non-German production, service and sales companies, whose growth potential is regularly reviewed, have access to specialists in the international job markets. In view of the precautions that have been taken and current conditions in the job market, we consider the risk to be moderate.

IT risks

Low to moderate operating risks

Following the Group-wide roll-out of SAP, the Koenig & Bauer Group is exposed to risks in the event that future business processes do not run smoothly. To curtail these IT risks, KBA has retained the services of a renowned software consulting company and installed a SAP project group. If the ERP software is not installed on time and free of any disruptions, the resultant restrictions to operations or cost overruns for the SAP roll-out project may have considerable financial consequences. We consider the IT risks to be moderate due to experience gained with similarly complex projects and the close involvement of external experts.

Customer centricity

The end markets that we address call for a high degree of innovation and increasingly also bespoke solutions. Our customers' requirements and preferences are changing all the time. For this reason, it is of decisive importance to detect technical trends and customer requirements and to align the product range, services and sales structures to these in good time. There is a low risk of lost revenue if customer-related changes are not recognised or integrated in Group-wide processes early enough.

Acquisitions and alliances

As part of our strategic further development and the focus on markets of the future, acquisitions and alliances may arise. Such transactions may cause considerable acquisition and follow-up costs and therefore require careful prior analysis, frequently also with external assistance. The purpose of such activities and expenses is to achieve an appropriate degree of economic viability by means of a product portfolio oriented to future requirements. We consider the risk of such activities resulting in unforeseen costs in the performance of analyses to be low. This also applies to the risk of the expected positive impact on business failing to eventuate or not eventuating within the planned time period.

Legal risks

The Group is not involved in any litigation with a material impact on its overall economic position. Litigation exposes us to various risks for which we set aside provisions if we consider an obligation to be likely and an estimate is possible. Moreover, there is always the latent risk in technically demanding capital goods business of barely quantifiable harm to the Company's image in the event of quality problems, breaches of industrial property rights or the like. Generally speaking, we consider the risk of litigation having a negative impact to be low.

OTHER RISKS

Individual uncertainties are addressed by taking out insurances sufficient in most cases to fully cover the risks concerned. Adequate provisions are set aside to address other risks. The size of such provisions is very largely based on estimates, e.g. in the case of litigation. They are regularly reviewed in the form of quarterly litigation reports and financial reviews and adjusted in good time in the event of any changes. We currently do not see any risk of the insurances that have been taken out or the provisions that have been set aside being insufficient to cover risks in full.

SUMMARY OF RISK SITUATION

There has been no material change in the Koenig & Bauer Group's risk situation compared with the previous year.

Despite the global economic and political uncertainties, we currently do not see any risks that either individually or cumulative could jeopardise the Koenig & Bauer Group's going-concern status. Our extended product range for growth markets, the expansion of service business, our reinforced market position and financial strength as well as the progress made in improving our earnings place a cap on risk potential.

This risk report is necessarily based on available information as well as expectations and estimates believed to be true at the time of reporting and refer to future trends. It is not possible to exclude other or additional risks which may have an influence of the Group but are currently not known or believed to be significant. Moreover, risks may change during the forecast period in such a way that it becomes necessary to review their relevance.

OUTLOOK AND OPPORTUNITIES

Koenig & Bauer setting new corporate targets for 2017 – 2021

The International Monetary Fund (IMF) expects growth in global gross domestic product (GDP) to increase to 3.4% in 2017 compared with the previous year. In addition to the upgraded outlook for Europe, China and Japan, this projection assumes faster expansion of the US economy in the wake of the spending and tax-cutting programme announced by the new administration. However, high risks come from the numerous festering political conflicts, the upcoming presidential and parliamentary elections in core EU countries and Brexit. Uncertainty over the new course being steered by US economic policy with its focus on new restrictions on trade and its international impact could place a damper on global economic growth. With inflation picking up again, interest rate hikes by the central banks could trigger financial turbulence as a result of redirected capital flows and exchange-rate adjustments. Despite the low euro exchange rate, which is helpful for exports, underlying conditions in the global economy will remain as challenging as they have been in earlier years.

Revenue target for 2017 – 2021: organic growth rate p.a.

≈4%

VDMA projects slight growth for the German mechanical and plant engineering sector as a whole in 2017 but considers a further decline in demand for printing presses to be likely. However, the outlook varies according to sector. Packaging printing, in which the Koenig & Bauer Group already generates around 70% of its new press revenue, is growing in correlation with growth in global GDP and the global population. At the same time, demand for printing presses is being spurred by booming online trade with its high returned-goods ratios, the trend towards more sophisticated packaging and smaller sizes due to the increasing number of single-person households as well as increasingly more stringent statutory requirements. Regardless of possible fluctuation in spending on printing presses from quarter

Profit target for 2017 – 2021:

4–9%

EBIT margin

to quarter, the long-term growth outlook remains intact for packaging printing. Current studies project an annual increase of total global packaging of 4–5% between now and 2020. Flexible packaging, cardboard and corrugated packaging look set to benefit the most from this. We want to participate in this growth in the packaging markets with our existing, enhanced and new products. These include new-generation presses for flexible packaging printing, rotary and flatbed die-cutters for postprint processing of cardboard and corrugated, the Corrugraph flexo press for direct printing on corrugated and further innovations in the area of metal, glass/hollow container decorating and coding systems. Digital printing solutions are increasingly meeting with the interest of packaging printers thanks to their greater flexibility in terms for formats and run lengths. Most experts assume that digital printing will account for around 5% of total packaging printing presses by 2020. In addition to the successful partnership with HP for digital pre-prints of corrugated liners and our own RotaJET platform, we want to address this market by offering further digital printing solutions such as a sheetfed press for printing folding cartons.

Security printing contributes around 20% to our new press revenue. With our system expertise in design, prepress, printing and finishing as well as new security features as competitive differentiators, we want to additionally reinforce our market and technological leadership. Via the start-up company converno, research is being performed on intelligent banknotes that can be authenticated using entirely new methods in order to heighten banknote security. Although global banknote production is growing by more than 3% per year, our market share of over 80% will cap any further growth in press revenue. The Management Board is exploring further options for growth including strategic partnerships in the banknote life cycle. We are responding to heightened price pressure in new press business as a result of more frequent tender processes and intensified competition by offering a new service model for the large installed printing press base and by optimising security printing business.

We expect business in the media-related print areas, which contribute around 10% of our new press revenue, to remain stable. With growth in e-readers stalling, book printing is growing again. This will also spur our own digital printing platform RotaJET. We have been able to successfully apply the web press expertise that we amassed with inkjet technology and ink to industrial decor printing. However depending on printers' propensity to switch process, we see great potential for our RotaJET platform with a good outlook for the future in various industrial applications.

Launched at the beginning of 2016, our service initiative aims to boost service business in all areas. The consistent management of the service network that has now been introduced across all parts of the Group will allow us to leverage service potential efficiently in the growing installed printing press base. We want to gradually increase service revenue with a comprehensive package of initiatives and measures. These include new services meeting customers' requirements including the networked printing factory under the "KBA 4.0" label.

Our forecast for the Koenig & Bauer Group and its segments in 2017 is based on the expectations set out above with respect to general trends in the economy as well as the sector. It also includes the planned product initiatives focusing on flexible packaging and corrugated board as well as the ongoing service initiative. The forecast is also based on the high order backlog of €557.5m at the beginning of the year with its good margins. In the absence of any material deterioration in global economic and political conditions, we expect to achieve organic growth of up to €1.25bn in Group revenue and an EBIT margin of around 6% in 2017. We are now adopting the more common EBIT margin as our target earnings indicator as there is in any case only a minor difference between these two indicators given the currently low interest result. Improved press prices and expanding service business, reduced complexity costs, good capacity utilisation and the greater strategic alignment of purchasing should spur earnings.

Given our strong position in the growth market of cardboard printing and rising service and die-cut business, we project moderate revenue and earnings growth in the Sheetfed segment in 2017 compared with 2016.

Following its successful turnaround, we want to strengthen the profitability of the Digital & Web segment with growing service and digital printing business. We expect a higher revenue increase as the new flexo corrugated press as well as activities in flexible packaging, a market holding great potential for the future, will be assigned to this segment from 2017. With respect to web offset presses for newspaper and commercial printing, we project further growth in service business accompanied by new press business which is set to remain flat or continue levelling off.

Revenue and earnings in the Special segment should grow moderately in 2017 over 2016. On the strength of the large order backlog, we expect security printing business to perform well. Systems for metal, glass and hollow container decorating, marking and coding are continuing to benefit from growth in packaging volumes.

After largely achieving or exceeding in 2016 the unprecedented margin targets set at the beginning of 2015, Koenig & Bauer has set new Group targets for 2017 to 2021. The revenue target is an organic growth rate of around 4% p.a. More than half of this growth will be generated in packaging printing. Further growth is to be generated by the expansion of the service business in all segments as well as by market share gains. Following the realignment to focus on the growth markets of packaging, digital and industrial printing, the Company's strategy is aligned to ensuring that all business units make a positive contribution to growth in the future. As security printing is not expected to generate higher equipment revenues, strategic options for generating growth are being considered. The Group is targeting an EBIT margin of between 4% and 9% for the period 2017 to 2021 depending on global economy, end markets and the necessary investments in growth. An increase of €70m in profit is to be achieved through the optimisation of the security printing business as well as growth in services (around €20m in either case) together with an integrated production network and strategic purchasing (around €15m in either case). A further strategic goal entails efforts to strengthen the Group's stability by reducing volatility and risks. Greater earnings stability is to be achieved by lifting the share of revenue from service business to 30%. Starting in 2017, around one third of the pension liabilities will be funded externally in up to five annual steps to reduce risks in the balance sheet arising from longevity and fluctuation in interest rates. The Group is also seeking an equity ratio of over 45% and a net working capital target corridor of 20 – 25% of revenue. Not least of all, we want to make sure that our shareholders receive a fair portion of our Company's success. Accordingly, we are targeting a dividend ratio of 15 – 35% of Group net profit.

€70m
Increase in profit by 2021

LEGAL INFORMATION AND COMPENSATION REPORT

On 31 December 2016, the share capital of Koenig & Bauer AG, Würzburg, stood at €42,964,435.80, divided into 16,524,783 bearer shares with a nominal value of €2.60 each. In accordance with article 14.7 of the articles of association, each no-par share conveys one voting right. There are no restrictions on voting rights or the transfer of shares and no special rights imparting powers of control. To our knowledge, MKB Holding GmbH, Vienna, Austria holds 10.2% of the share capital and thus more than 10%. A number of other institutional and private investors have shareholdings of between 3 and 10% in KBA and account for a total of more than one quarter of the share capital.

Executive bodies

On 31 December 2016, the shares held by the executive bodies of Koenig & Bauer AG came to 5.08% of its share capital. The members of the Management Board held 5.07% (Mr Claus Bolza-Schünemann 5.07%) and the members of the Supervisory Board 0.01%.

See articles of association: www.KBA.com/investor-relations/corporate-governance/satzung/

The appointment and dismissal of the members of the Management Board and amendments to the articles of association comply with the statutory regulations (sections 84, 85, 179 of the German Stock Corporation Act, section 31 of the Codetermination Act). Under article 10.2 of the articles of association, the Supervisory Board can amend the articles in compliance with resolutions passed by the AGM. This authorisation particularly applies to the utilisation of authorised capital.

In accordance with the Act on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector, the Supervisory Board defined on 29 September 2015 a target of 0% for the proportion of women on the Management Board by 30 June 2017. On the same day, the Management Board passed a resolution to retain the current 0% proportion of women on the first management level beneath the Management Board and 7% on the second management level below the Management Board until 30 June 2017. There were no changes in these quotas in the period under review. In cases in which female and male candidates have comparable qualifications, the proportion of women is to be raised when new appointments are made.

Authorised capital and authorisation to purchase shares

Koenig & Bauer AG currently does not have any authorised capital. Koenig & Bauer AG may utilise up to 10% of the share capital prevailing at that time to acquire and resell treasury stock subject to the exclusion of shareholders' pre-emptive subscription rights. This authorisation granted by the shareholders expires on 18 May 2021 and allows the Company to offer treasury stock in the purchase of companies or equity interests at short notice. The Company did not hold any treasury stock on 31 December 2016.

Disclosures in accordance with section 315 (4) 8 and 9 of the German Commercial Code

Koenig & Bauer AG has not entered into any material agreements or special arrangements governing a change in or acquisition of control in the event of a takeover bid. Likewise, the Company has not entered into any agreement providing for compensation to be paid to members of the Management Board or employees in such an event.

Compensation report

Compensation for Supervisory Board members was converted to fixed amounts in 2015 and revised by the shareholders at the annual general meeting on 19 May 2016 (see article 13 of the articles of association). In addition to an attendance fee and the reimbursement of out-of-pocket expenses, each member receives fixed annual compensation of €28,000. The chairman receives twice and his deputies one-and-a-half times this amount. The chairman and the members of the audit committee receive €9,000 and €6,000 respectively, the strategy committee €7,500 and €5,000 respectively and the personnel committee €4,500 and €3,000 respectively per year. The members of the other committees do not receive any separate remuneration. Activities on the committees of the Supervisory Board are remunerated once. If a member sits on several committees, he or she receives the amount for the committee with the highest remuneration.

Total compensation paid to the Supervisory Board in 2016 came to €0.5m (previous year: €0.4m) and breaks down as follows:

in €

	2015				2016			
	Base compensation[3]	Additional compensation[3] for committee work	Meeting attendance fee	Total	Base compensation[3]	Additional compensation[3] for committee work	Meeting attendance fee	Total
Dr Martin Hoyos	48,000	0	1,250	49,250	56,000	4,500	1,750	62,250
Gottfried Weippert	36,000	3,600	1,250	40,850	42,000	6,000	1,750	49,750
Dagmar Rehm	32,000	2,400	1,250	35,650	42,000	9,000	1,500	52,500
Julia Cuntz	0	0	0	0	14,000	0	1,000	15,000
Marc Dotterweich	24,000	0	1,250	25,250	28,000	3,000	1,750	32,750
Willi Eisele	24,000	0	1,250	25,250	14,000	0	500	14,500
Matthias Hatschek	24,000	3,600	1,250	28,850	28,000	5,000	1,500	34,500
Christopher Kessler	0	0	0	0	14,000	2,500	1,000	17,500
Professor Gisela Lanza	16,000	4,000	750	20,750	28,000	7,500	1,750	37,250
Walther Mann	24,000	3,600	750	28,350	28,000	5,000	1,250	34,250
Carl Ferdinand Oetker	16,000	2,400	750	19,150	28,000	6,000	1,500	35,500
Dr Andreas Pleßke[1]	0	0	0	0	14,000	2,500	1,000	17,500
Klaus Schmidt	24,000	3,600	1,250	28,850	14,000	2,500	750	17,250
Simone Walter	0	0	0	0	14,000	0	750	14,750
Claus Weihmann	24,000	3,600	1,250	28,850	14,000	3,000	750	17,750
Professor Horst Peter Wölfel	24,000	0	1,250	25,250	14,000	0	1,000	15,000
Total[2]	**316,000**	**26,800**	**13,500**	**356,300**	**392,000**	**56,500**	**19,500**	**468,000**

[1] Dr Pleßke received fees of €173,194 for the provision of consulting services in 2016.
[2] The total for 2015 does not include the amount of €27,500 paid to the former Supervisory Board members Reinhart Siewert and Baldwin Knauf.
[3] The base and additional compensation is calculated on the basis of the members' function and length of service on the Supervisory Board (see page 101 in the Notes).

Under the current compensation system, the members of the Management Board received a fixed salary plus performance-tied remuneration. The CRO, who was a member of the Management Board until 30 April 2016, received a larger fixed component due to his primary responsibility for implementing the restructuring programme. The performance-tied remuneration is subject to the following provisions:

- All goals are geared to Group EBT (earnings before taxes).
- The variable remuneration comprises a short-term component and a component oriented to sustainability. This is calculated on the basis of the EBT targets. The sustainability-oriented component is paid out over a period of three years.
- Variable remuneration is capped at the annual fixed salary component for short-term and long-term target achievement.
- As the duration of the service contracts was extended to five years, a provision was added stipulating that termination benefits are limited to a maximum of three annual fixed salary components (excluding the performance-tied remuneration) in the event of premature termination in the absence of good cause. If the remaining contract duration is less than two years, the termination benefits are paid on a time-proportionate basis.

Other compensation paid to the Management Board includes pension commitments and the costs of fringe benefits such as the provision of a company car. The KBA Group does not have any share-option plans or other share-based remuneration schemes.

The members of the Management Board received the compensation set out below in 2016 (individualised figures).

BENEFITS GRANTED

in €

	Claus Bolza-Schünemann President and CEO			
	2015	**2016**	**2016** (Min)	**2016** (Max)
Non-performance-based components				
Fixed compensation	450,000	450,000	–	–
Fringe benefits[1]	22,281	22,868		
Total	**472,281**	**472,868**	**–**	**–**
Performance-based components				
One-year variable compensation	450,000	450,000	0	450,000
Multi-year variable compensation				
Plan description (Period payment 2016 – 18)	450,000	0	0	450,000
Plan description (Period payment 2017 – 19)	0	450,000	0	450,000
Total	**900,000**	**900,000**		
Service cost	180,316	202,183		
Total compensation	**1,552,597**	**1,575,051**		

[1] Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars, contributions toward the cost of insurance, the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations.

The following table sets out the amounts accruing in 2016 from fixed compensation, fringe benefits, one-year variable remuneration and multi-year variable remuneration broken down by the individual year of receipt as well as retirement benefit expenses. Contrary to the multi-year variable remuneration granted for 2016 described above, the following table shows the actual value of the multi-year variable remuneration granted in previous years and accruing in 2016.

ALLOCATION

in €

	Claus Bolza-Schünemann President and CEO	
	2015	**2016**
Non-performance-based components		
Fixed compensation	450,000	450,000
Fringe benefits[1]	22,281	22,868
Total	**472,281**	**472,868**
Performance-based components		
One-year variable compensation	432,000	450,000
Multi-year variable compensation		
Plan description (Period business year 2014)	41,139	30,854
Plan description (Period business year 2015)	0	175,824
Total	**473,139**	**656,678**
Service	0	0
Total compensation	**945,420**	**1,129,546**

[1] Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars, contributions toward the cost of insurance, the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations.

	Dr Mathias Dähn CFO				Dr Andreas Pleßke (until 30.04.2016) CRO			
	2015	**2016**	**2016** (Min)	**2016** (Max)	2015	**2016**	**2016** (Min)	**2016** (Max)
	350,000	350,000	–	–	600,000	200,000	–	–
	36,397	36,627			5,838	3,396		
	386,397	**386,627**	**–**	**–**	**605,838**	**203,396**	**–**	**–**
	350,000	350,000	0	350,000	400,000	166,666	0	166,666
	350,000	0	0	350,000	0	0	0	0
	0	350,000	0	350,000	0	0	0	0
	700,000	**700,000**			**400,000**	**166,666**		
	166,978	170,986			0	0		
	1,253,375	**1,257,613**			**1,005,838**	**370,062**		

	Dr Mathias Dähn CFO			Dr Andreas Pleßke (until 30.04.2016) CRO		
	2015	**2016**		2015	**2016**	
	350,000	350,000		549,291	180,716	
	36,397	36,627		5,838	3,396	
	386,397	**386,627**		**555,129**	**184,112**	
	204,167	350,000		66,667	566,666	
	19,442	14,582		0	0	
	0	136,752		0	0	
	223,609	**501,334**		**66,667**	**566,666**	
	0	0		0	0	
	610,006	**887,961**		**621,796**	**750,778**	

For payments to former members of the Management Board and their surviving dependents we recognised provisions of €2.9m in 2016 (previous year: €1.2m). Provisions of €23m were set aside for pension commitments towards former members of the Management Board and their surviving dependants as of 31 December 2016 (previous year: €22m).

KOENIG & BAUER AG (NOTES ACCORDING TO THE GERMAN COMMERCIAL CODE)

The annual financial statements of Koenig & Bauer AG were prepared in accordance with the provisions of the German Commercial Code (HGB).

Koenig & Bauer AG providing central and strategic functions for the Group

As the holding company, Koenig & Bauer AG does not engage in any operating business but provides central and strategic services for the Group. The central functions for the KBA Group include controlling, Group accounting, compliance/internal auditing, taxes, central marketing and communications, investor relations, IT, technical standards, business development, patents and licences, human resources, legal and insurance. In addition, Koenig & Bauer AG provides IT hardware and operates the computer centre for Group tasks and grants licences and brand rights to the subsidiaries. It had 271 employees excluding apprentices on the reporting date.

In addition to revenue from the services recharged to the operating Group companies and the fees for the use of licences and brand rights, Koenig & Bauer AG's business performance depends on the dividend income and distributions received from the subsidiaries and, hence, their business performance. Koenig & Bauer AG directly or indirectly holds shares of at least 20% in 61 companies; see the corresponding list in the Notes. The economic environment in which Koenig & Bauer AG operates is essentially the same as the Group's as described in detail on pages 38 onwards.

Earnings

At €73m, revenue was slightly up on the previous year (€71m) and chiefly comprised revenue from transfer pricing for shared services provided by Koenig & Bauer AG for the operating Group companies and fees for the utilisation of licences and brand rights as well as land and buildings. The cost of sales came to €52.4m and was therefore unchanged over the previous year. As a result, gross profit rose to €20.6m (2015: €18.6m). General administration costs dropped from €20.4m to €19.8m, while other operating income and expenses declined from €9.6m to €8.3m. Income from investments rose significantly from €14.3m in the previous year to €65.6m due to dividends received from a number of subsidiaries as well as appreciations. With interest result improving slightly from –€3.5m to –€2.6m, tax expense of €2.3m arose in 2016. Net profit rose from €18.6m to €69.8m and was sufficient to eliminate the retained loss of –€54m in the balance sheet existing as of 31 December 2015 and to increase reserves by €7.5m. On the basis of the remaining retained profit of €8.3m, the Management Board and Supervisory Board will be asking the shareholders on 23 May 2017 to approve a dividend of €0.50 per share.

Assets and finances

As of 31 December 2016, Koenig & Bauer AG's balance sheet total stood at €446.4m, up from €387.2m in the previous year. Non-current assets rose from €240.7m to €252m. Whereas intangible assets (€4.7m) and property, plant and equipment (€72m) were slightly down on the previous year (€5.1m and €74.7m respectively), financial assets for affiliated companies and shareholdings rose from €160.9m to €175.3m. Appreciations of a total of €8m due to the favourable earnings performance and outlook of a number of subsidiaries materially contributed to this increase. A sum of €4.5m was invested in intangible assets and property, plant and equipment in 2016 (2015: €4.2m), while depreciation came to €7.2m (previous year: €5.7m).

At €64.9m, cash and cash equivalents were well up on the previous year's figure of €26m at the end of December 2016. As the Company does not have any bank borrowings, net liquidity equals cash and cash equivalents. The receivables and other assets of €110m (2015: €104.1m) are primarily composed of receivables from affiliated companies of €64.3m (previous year: €81.8m) from recharged goods and services within the Group as well as dividend and loan claims. On balance, current assets climbed to €174.9m at the end of 2016 (2015: €130.2m).

The high net profit caused equity to increase from €182.4m in the previous year to €252.2m at the end of 2016. The equity ratio widened from 47.1% to 56.5% due to the substantially larger balance sheet total.

Provisions dropped from €117.9m in the previous year to €105.1m. This was due to the slight decline in pension provisions to €65.7m compared with 2015 (€67.3m) and the reduction in other provisions from €47.8m to €37.3m. The liabilities of €86.8m (2015: €84.3m) are mostly composed of amounts owed to affiliated companies (€78.7m) under internal group finance arrangements.

Supplementary Statement

No significant events have occurred since the end of 2016.

Risk report

Koenig & Bauer AG is exposed to the risks of its subsidiaries. The extent of such exposure depends on the size of its share in the respective company. Reference should be made to the KBA Group's risk report on pages 47 to 53 for further information. In addition, strain may arise from the contingent liabilities in existence between Koenig & Bauer AG and its subsidiaries.

Outlook and opportunities

Koenig & Bauer AG's future economic performance is closely linked to the Group's operating performance. Details of the outlook and our plans for our operating business can be found in the outlook and opportunities report on pages 53 to 55.

Corporate governance statement pursuant to section 289a of the German Commercial Code

The corporate governance statement in accordance with section 289a of the German Commercial Code has been published on the Company's website at http://www.KBA.com/investor-relations/corporate-governance/erklaerung-zur-unternehmensfuehrung/ in German only. The description required under section 289 (5) of the German Commercial Code of the internal control system can be found on pages 36 and 37 of the combined management report.

See:
http://www.KBA.com/investor-relations/corporate-governance/erklaerung-zur-unternehmensfuehrung/

DETAILED INDEX GROUP FINANCIAL STATEMENTS

GROUP BALANCE SHEET TO 31 DECEMBER 2016

in €m

	Note	31.12.2015	**31.12.2016**
ASSETS			
Non-current assets			
Intangible assets	**(1)**	37.6	36.7
Property, plant and equipment	**(1)**	186.6	202.8
Investments and other financial receivables	**(2)**	15.7	15.9
Other assets	**(2)**	0.1	0.1
Deferred tax assets	**(6)**	31.1	64.9
		271.1	**320.4**
Current assets			
Inventories	**(3)**	258.8	293.4
Trade receivables	**(2)**	193.5	209.0
Other financial receivables	**(2)**	17.6	14.2
Other assets	**(2)**	34.9	23.5
Current tax assets		1.4	3.1
Securities	**(4)**	13.3	19.9
Cash and cash equivalents	**(5)**	186.3	202.0
		705.8	**765.1**
		976.9	**1,085.5**
EQUITY AND LIABILITIES			
Equity	**(7)**		
Share capital		43.0	43.0
Share premium		87.5	87.5
Reserves		127.3	206.8
Equity attributable to owners of the Parent		**257.8**	**337.3**
Equity attributable to non-controlling interests		0.6	0.5
		258.4	**337.8**
Liabilities			
Non-current liabilities			
Pension provisions and similar obligations	**(8)**	191.8	212.5
Other provisions	**(9)**	28.3	23.2
Bank loans and other financial payables	**(10)**	10.2	9.4
Other liabilities	**(10)**	1.4	1.0
Deferred tax liabilities	**(6)**	14.1	22.0
		245.8	**268.1**
Current liabilities			
Other provisions	**(9)**	188.6	180.5
Trade payables	**(10)**	42.6	59.0
Bank loans and other financial payables	**(10)**	73.3	94.5
Other liabilities	**(10)**	166.9	142.8
Current tax liabilities		1.3	2.8
		472.7	**479.6**
		976.9	**1,085.5**

GROUP INCOME STATEMENT 2016

in €m

	Note	2015	2016 Earnings before taxes (EBT) before special items	special items	2016
Revenue	**(14)**	1,025.1	1,167.1	–	1,167.1
Cost of sales	**(15)**	–750.6	–825.8	5.3	–820.5
Gross profit		**274.5**	**341.3**	**5.3**	**346.6**
Research and development costs	**(15)**	–57.2	–59.3	–	–59.3
Distribution costs	**(15)**	–123.4	–144.1	–	–144.1
Administrative expenses	**(15)**	–77.8	–77.0	–3.4	–80.4
Other operating income	**(17)**	89.4	23.7	22.8	46.5
Other operating expenses	**(17)**	–69.2	–21.9	–0.5	–22.4
Other financial results	**(19)**	–0.4	0.2	–	0.2
Earnings before interest and taxes (EBIT)		**35.9**	**62.9**	**24.2**	**87.1**
Interest income		3.2	2.0	–	2.0
Interest expense		–9.4	–8.1	–	–8.1
Interest result	**(19)**	**–6.2**	**–6.1**	**–**	**–6.1**
Earnings before taxes (EBT)		**29.7**	**56.8**	**24.2**	**81.0**
Income tax expense	**(20)**	–2.8			1.2
Net profit		**26.9**			**82.2**
of which					
- attributable to owners of the Parent		26.8			82.3
- attributable to non-controlling interests		0.1			–0.1
Earnings per share (in €, basic/dilutive)	**(21)**	**1.62**			**4.98**

For further information concerning special items see explanatory Note (18).

STATEMENT OF COMPREHENSIVE GROUP INCOME 2016

in €m

	2015	2016
Net profit	**26.9**	**82.2**
Items to be reclassified to consolidated profit or loss		
Foreign currency translation	1.0	1.7
Measurement of primary financial instruments	−0.3	0.1
Measurement of derivatives	−3.9	0.1
Deferred taxes	0.3	–
	−2.9	**1.9**
Items not to be reclassified to consolidated profit or loss		
Defined benefit plans	6.5	−24.1
Deferred taxes	0.7	19.4
	7.2	**−4.7**
Gains/losses recognised directly in equity	**4.3**	**−2.8**
Total comprehensive income	**31.2**	**79.4**
of which		
- attributable to owners of the Parent	31.1	79.5
- attributable to non-controlling interests	0.1	−0.1

For further information see explanatory Note (7).

STATEMENT OF CHANGES IN GROUP EQUITY 2016

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-con-trolling interests	**Total**
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**
1 January 2016	**43.0**	**87.5**	**–81.8**	**5.3**	**–4.7**	**2.8**	**2.1**	**203.6**	**257.8**	**0.6**	**258.4**
Net profit/loss	–	–	–	–	–	–	–	82.3	82.3	–0.1	82.2
Gains/losses recognised directly in equity	–	–	–24.1	0.1	0.1	1.7	19.4	–	–2.8	–	–2.8
Total comprehensive income	**–**	**–**	**–24.1**	**0.1**	**0.1**	**1.7**	**19.4**	**82.3**	**79.5**	**–0.1**	**79.4**
31 December 2016	**43.0**	**87.5**	**-105.9**	**5.4**	**-4.6**	**4.5**	**21.5**	**285.9**	**337.3**	**0.5**	**337.8**

For further information see explanatory Note (7).

GROUP CASH FLOW STATEMENT 2016

in €m

	2015	2016
Earnings before taxes	29.7	81.0
Appreciation/depreciation on intangible assets, property, plant and equipment	25.2	5.3
Currency measurement	4.9	5.9
Non-cash interest income/expense	6.8	6.4
Other non-cash income/expenses	−3.3	−7.0
Gross cash flow	**63.3**	**91.6**
Changes in inventories	17.0	−25.9
Changes in receivables and other assets	0.4	−9.2
Changes in other provisions	−43.1	−13.7
Changes in payables and other liabilities	−49.5	−16.9
Interest received	1.9	1.1
Interest paid	−1.3	−0.8
Income tax paid	−5.7	−6.5
Income tax refunded	1.7	2.2
Cash flows from operating activities	**−15.3**	**21.9**
Proceeds from the disposal of intangible assets, property, plant and equipment	15.3	15.6
Payments for investment in intangible assets, property, plant and equipment	−22.5	−31.5
Proceeds from the disposal of investments	0.5	–
Payments for investments	−1.7	−0.3
Payments for the acquisition of consolidated companies	–	−3.4
Cash flows from investing activities	**−8.4**	**−19.6**
Free cash flow	**−23.7**	**2.3**
Proceeds from loans	0.6	22.8
Repayment of loans	–	−8.8
Changes in equity attr. to non-controlling interests	0.1	−0.1
Cash flows from financing activities	**0.7**	**13.9**
Change in funds	**−23.0**	**16.2**
Effect of changes in exchange rates	1.7	−0.5
Funds at beginning of period	207.6	186.3
Funds at end of period	**186.3**	**202.0**

For further information see explanatory Note (I).

NOTES TO THE GROUP FINANCIAL STATEMENTS

(A) PRELIMINARY REMARKS

The KBA Group engineers, manufactures, distributes globally 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, listed in the commercial register at the local court, Würzburg, under HR B-No. 109. The consolidated financial statements include the Parent and all consolidated affiliates.

Consolidated financial statements for the Parent to 31 December 2016 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 21 March 2017 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 2016 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 2016.

IAS 1	Amendments to IAS 1 Presentation of Financial Statements
IAS 19	Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 27	Amendments to IAS 27 Equity Method in Separate Financial Statements
IAS 16 / IAS 38	Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation
IAS 16 / IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
IFRS 10 / IFRS 12 / IAS 28	Amendments to IFRS 10, IFRS 12 and IAS 28 Application of the Investment Entities Exceptions
IFRS 11	Amendments to IFRS 11 Acquisition of an Interest in a Joint Operation
Sundry	Improvements to IFRS (2010–2012)
Sundry	Improvements to IFRS (2012–2014)

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.

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.

Amendments 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 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.

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.

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 7	Amendments to IAS 7 Disclosure Initiative	2017
IAS 12	Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	2017
IAS 40	Amendment to IAS 40 Transfers of Investment Property	2018
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 2	Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	2018
IFRS 4	Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018
IFRS 9	Financial Instruments	2018
IFRS 15	Revenue from Contracts with Customers	2018
IFRS 15	Amendment to IFRS 15 Clarifications to IFRS 15	2018
IFRS 16	Leases	2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2018
Sundry	Improvements to IFRS (2014–2016) - Amendments to IFRS 12	2017
Sundry	Improvements to IFRS (2014–2016) - Amendments to IFRS 1 and IAS 28	2018

IFRS 9 and IFRS 15 have been endorsed by the EU.

The matters covered by the amendments to IFRS 2 and IFRS 4 do not have any relevance for the companies included in the consolidated financial statements.

IAS 7: Amendments to IAS 7 – Disclosure Initiative

The purpose of the amendments to IAS 7 is to improve the information on changes in the entity's financing. In the future, it is necessary to disclose changes to all financial liabilities and other financial payables shown in the cash flow from financing activities, e.g. in the form of a reconciliation statement between opening and closing balances in the balance sheet. In order to satisfy the new disclosure requirements, the Group plans to make appropriate adjustments to the consolidated cash flow statement.

IAS 12: Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments govern the recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. We do not expect this to result in any material changes for KBA.

IAS 40: Amendment to IAS 40 – Transfers of Investment Property

The recognition of properties under construction was previously not clear. This gap has now been addressed by the amendment to IAS 40. This may occasionally result in changes in the case of future large construction projects.

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.

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 none 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. In view of the new model for reporting defaults, we expect an increase in impairments, although this currently cannot be quantified.

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 application of the percentage-of-completion method may in particular affect the recognition of revenue at KBA. We have already commenced an analysis but are currently unable to provide any specific quantitative details.

IFRS 15: Amendment to IFRS – Clarifications to IFRS 15

The amendments to IFRS 15 clarify various recommendations and simplification options for reducing the complexity and the costs of adoption arising from contracts that are either entered into at or before the beginning of the earliest reported period.

IFRS 16: Leases
Under IFRS 16, leases are to be uniformly recognised on the lessee's balance sheet in the future. The lessee recognises its right to use the underlying leased item as an asset and its payment obligation as a liability. Simplification options are available for short-term leases and leases of minor-value assets. The lessor continues to make a distinction between operating and finance leases.

KBA has currently not yet commenced any analysis of the possible impact of applying IFRS 16 to the consolidated financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration
IFRIC 22 clarifies that foreign-currency transactions containing prepayments made or received must be translated at the exchange rate applying on the date on which the asset arising from the prepayment made or the liability arising from the prepayment received is recognised for the first time. We currently do not expect this interpretation to have any significant impact on the consolidated financial statements.

Sundry Improvements to IFRS (2014 – 2016)
The annual improvements (2014 – 2016) concern IFRS 12, IFRS 1 and IAS 28. The amendments primarily clarify existing guidance on notes disclosures and the exercise of a measurement option. This is not expected to have any effect on KBA.

(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 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.

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 of the balance sheet (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 or that the reason for such an impairment might have become obsolete 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 35. 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, reversals of impairment losses were disclosed as other operating income.

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, impairments and impairment reversals 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 47 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 76.

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 35 (previous year: 33) companies.

Altogether 24 (previous year: 21) 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.	Group additions	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
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**
2016							
Intangible assets							
Industrial property rights and similar rights	41.8	1.2	1.6	–	4.0	1.5	47.1
Goodwill	27.8	–	–	–	–	–	27.8
Product development costs	7.8	–	–	–	–	–	7.8
Prepayments and assets under construction	4.0	–	0.2	–	–4.0	–	0.2
	81.4	**1.2**	**1.8**	**–**	**–**	**1.5**	**82.9**
Property, plant and equipment							
Land and buildings	259.3	–	0.2	–0.1	–	0.6	258.8
Plant and machinery	207.0	1.5	11.2	–	0.4	36.2	183.9
Other facilities, factory and office equipment	127.1	0.9	11.9	–	0.1	6.5	133.5
Prepayments and assets under construction	2.5	–	6.8	–	–0.5	0.4	8.4
	595.9	**2.4**	**30.1**	**–0.1**	**–**	**43.7**	**584.6**
	677.3	**3.6**	**31.9**	**–0.1**	**–**	**45.2**	**667.5**

[1] Sheetfed segment
[2] Sheetfed segment €1.1m, Special segment €0.7m, Reconciliation €20.6m

	Depreciation							Carrying amount	
	01.01.	Group additions	Annual depreciation	Appreciation	Exchange differences	Disposals	**31.12.**	01.01.	**31.12.**
	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**
	35.8	1.2	2.7	–	–	1.5	38.2	6.0	8.9
	0.2	–	–	–	–	–	0.2	27.6	27.6
	7.8	–	–	–	–	–	7.8	–	–
	–	–	–	–	–	–	–	4.0	0.2
	43.8	**1.2**	**2.7**	**–**	**–**	**1.5**	**46.2**	**37.6**	**36.7**
	142.9	–	5.5	19.5	–	–	128.9	116.4	129.9
	162.4	1.4	10.4	1.6	–	27.6	145.0	44.6	38.9
	104.0	0.8	9.1	1.3	–	4.7	107.9	23.1	25.6
	–	–	–	–	–	–	–	2.5	8.4
	409.3	**2.2**	**25.0**	**22.4**	**–**	**32.3**	**381.8**	**186.6**	**202.8**
	453.1	**3.4**	**27.7**	**22.4** [2]	**–**	**33.8**	**428.0**	**224.2**	**239.5**

(G) EXPLANATORY NOTES TO THE BALANCE SHEET

(1) INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

Given finance leases the total includes €4.7m for plant and machinery (previous year: €7.6m) and €0.8m (€2.9m) for other facilities, factory and office equipment. 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 €3.8m (previous year: €4.3m).

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	31.12.2015	31.12.2016
KBA-MetalPrint GmbH, Stuttgart, Germany	12.6	12.6
Business Unit Security	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**

In the year under review, a payment of €1.3m was made to the former shareholders of KBA-Kammann GmbH for the acquisition of the shares in 2013. Of this, an amount of –€0.4m was recorded through profit and loss.

A further payment of €0.5m arises from the acquisition of the shares in KBA-Flexotecnica S.p.A. in 2013. There is a contingent liability of €0.3m (previous year: €0.8m) towards the sellers that must be settled if none of the warranty claims arising in the period prior to the acquisition of the shares are asserted, full allowance has been made for this.

The acquisition of IBERICA AG, S.A.U. in 2016 led to a contingent liability of €0.6m towards the former shareholders for the settlement of warranty claims arising prior to the consolidation of this company, this amount has been 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	8.9%	6.5%
Business Unit Security	3	7.5%	6.8%
KBA-Kammann GmbH, Bad Oeynhausen, Germany	3	9.0%	6.5%
KBA-Flexotecnica S.p.A., Tavazzano, Italy	3	8.7%	6.6%

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.

The extensive restructuring programme Fit@All was successfully implemented from 2014 to 2016. This resulted in a test of the cash-generating unit of the former sheetfed offset press segment to identify any need to reverse impairments. The new cash-generating unit that arose as a result of restructuring comprises KBA-Industrial Solutions AG & Co. KG together with KBA-Sheetfed Solutions AG & Co. KG, KBA-Digital & Web Solutions AG & Co. KG and KBA-NotaSys AG & Co. KG on account of their heavy dependence on production as well as all of the Group's service and sales companies. For this purpose, the value in use of the production equipment (future cash flow calculated on the basis of a 3-year forecast, discounted at an average rate of 6.1%) was compared with the corresponding carrying amounts. Impairments of a total of €21.7m which had been recognised in 2008, 2012 and 2013 on property, plant and equipment at the Radebeul plant were reversed. Of this, €1.1m was allocated to the Sheetfed segment and €20.6m to the Reconciliation.

A further reversal of €0.7m concerns the buildings held by KBA-Mödling GmbH in Austria.

(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. Capital share corresponds to the number of voting rights.

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	–9.2[2]
KBA-Sheetfed Solutions Management GmbH, Radebeul, Germany	100.0	0.0
KBA-Sheetfed Solutions AG & Co. KG, Radebeul, Germany	100.0	50.7
KBA-Digital & Web Solutions Management GmbH, Würzburg, Germany	100.0	0.0
KBA-Digital & Web Solutions AG & Co. KG, Würzburg, Germany	100.0	–4.5[2]
KBA-NotaSys Management GmbH, Würzburg, Germany	100.0	0.0
KBA-NotaSys AG & Co. KG, Würzburg, Germany	100.0	43.2
KBA-Finance GmbH, Würzburg, Germany	100.0	0.0
KBA-Gießerei GmbH, Würzburg, Germany[1]	100.0	2.3[3]
KBA-FT Engineering GmbH, Frankenthal, Germany	100.0	2.3[3]
Albert-Frankenthal GmbH, Frankenthal, Germany	100.0	1.2[3]
KBA Deutschland GmbH, Radebeul, Germany	100.0	0.4
KBA-MePrint AG, Veitshöchheim, Germany	100.0	9.7
KBA-Metronic GmbH, Veitshöchheim, Germany[1]	100.0	14.8
KBA-MetalPrint GmbH, Stuttgart, Germany	100.0	6.1
KBA-Kammann GmbH, Bad Oeynhausen, Germany	85.0	1.1
KBA-Mödling GmbH, Mödling, Austria	>99.9	16.2
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	0.9
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	1.6[3]
KBA ITALIA S.R.L., Lainate, Italy	100.0	0.7[3]
KBA-Flexotecnica S.p.A., Tavazzano, Italy	90.0	0.7[3]
IBERICA AG, S.A.U., El Prat de Llobregat, Spain	100.0	4.9
KBA (UK) Ltd., Watford, UK	100.0	–3.1[2]
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	14.5
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	12.7[3]
KBA-NotaSys SA, Lausanne, Switzerland[1]	100.0	96.3[3]
KBA-NotaSys International SA, Geneva, Switzerland[1]	100.0	0.3
Print Assist AG, Höri, Switzerland[1]	100.0	1.7
KBA North America Inc., Wilmington, DE, USA	100.0	17.9
KBA (HK) Company Ltd., Hongkong, China	100.0	1.1
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	2.1
Non-consolidated affiliates		
PrintHouseService GmbH, Würzburg, Germany	100.0	0.1
KBA NORDIC A/S, Værløse, Denmark	100.0	–5.4[2,3]
KBA CEE Sp. z o.o., Warsaw, Poland	100.0	0.9
KBA RUS OOO, Moscow, Russia	100.0	–1.5[2]
KBA-Kammann USA, Inc., Portsmouth, NH, USA[1]	85.0	4.2
KBA LATINA S A P I DE CV, Mexico City, Mexico	60.0	0.9
Koenig & Bauer do Brasil Comércio de Impressoras e Serviços Ltda., São Paulo, Brazil	80.0	–1.3[2]
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	1.1
KBA KOREA CO., LTD., Goyang-si, South Korea	100.0	0.1
KBA Japan Co., Ltd, Tokyo, Japan	100.0	–0.8[2]
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.2[2]
KBA NotaSys India Private Limited, Neu Delhi, India[1]	100.0	0.7
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.4

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

100% of the capital of IBERICA AG, S.A.U. with registered offices in El Prat de Llobregat, Spain, was acquired effective 5 July 2016 to expand KBA's product portfolio. IBERICA produces flatbed die-cutters for cardboard and corrugated cardboard packaging. With 57 employees, it generated revenue of €12.3m and a loss of €0.9m in 2016.

KBA-Finance GmbH, Würzburg, was incorporated on 19 May 2016 to support liquidity and finance management within the Group.

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

in €m		Term to maturity			Term to maturity	
	31.12.2015	up to 1 year	more than 1 year	**31.12.2016**	up to 1 year	more than 1 year
Trade receivables						
- from affiliates	9.0	9.0	–	9.1	9.1	–
- from companies in which interests are held	1.0	1.0	–	0.4	0.4	–
- from third parties	183.5	176.7	6.8	199.5	190.9	8.6
	193.5	**186.7**	**6.8**	**209.0**	**200.4**	**8.6**
Investments	4.5	–	4.5	4.7	–	4.7
Other financial receivables						
- from affiliates	6.1	6.1	–	4.3	4.3	–
- derivatives	0.6	0.6	–	1.0	1.0	–
- sundry other financial receivables	22.1	10.9	11.2	20.1	8.9	11.2
	33.3	**17.6**	**15.7**	**30.1**	**14.2**	**15.9**
Other assets						
- payments for inventories	14.5	14.5	–	11.4	11.4	–
- tax receivables	17.8	17.8	–	10.7	10.7	–
- prepayments	2.7	2.6	0.1	1.5	1.4	0.1
	35.0	**34.9**	**0.1**	**23.6**	**23.5**	**0.1**
	261.8	**239.2**	**22.6**	**262.7**	**238.1**	**24.6**

Adopting the percentage of completion method resulted in €82.3m (previous year: €61.6m) being carried in **trade receivables.**

Sundry **other financial receivables** included €0.6m (previous year: €1.4m) from customer finance leases totalling €0.6m (previous year: €1.6m) and an interest share of €0.2m the previous year, with those due in less than one year representing €0.2m (€0.3m) of a total of €0.2m (€0.4m) and other receivables representing €0.4m (€1.1m) of a total of €0.4m (€1.2m) having terms to maturity of one to five years. Other financial 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	31.12.2015	**31.12.2016**
Raw materials, consumables and supplies	59.8	75.5
Work in progress	187.8	205.5
Finished goods and products	11.2	12.4
	258.8	**293.4**

The carrying amount of inventories balanced at net realisable value was €113m (previous year: €91.4m). Total value adjustments were reduced by €5m (previous year: €15.7m).

(4) SECURITIES

These refer to shares in a fund combining stocks and bonds. The market value of the fund was €34.7m (previous year: €34.4m). 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	31.12.2015	**31.12.2016**
Cheques, cash in hand	0.1	0.1
Balances with banks	186.2	201.9
	186.3	**202.0**

(6) DEFERRED TAXES

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2015	**31.12.2016**	31.12.2015	**31.122016**
ASSETS				
Intangible assets, property, plant and equipment	0.9	1.9	8.6	14.6
Inventories	13.5	26.9	2.7	3.8
Financial receivables and other assets	0.8	0.5	7.9	10.5
Securities	0.1	0.4	–	–
EQUITY AND LIABILITIES				
Provisions	16.4	37.7	2.9	3.6
Financial payables and other liabilities	6.1	6.8	10.6	25.4
	37.8	**74.2**	**32.7**	**57.9**
Tax loss carryforwards	11.9	26.6	–	–
Offset	−18.6	−35.9	−18.6	−35.9
	31.1	**64.9**	**14.1**	**22.0**
- of which current deferred taxes	8.5	2.8	4.4	6.6

At the end of the year there were loss carryforwards totalling €389.4m (previous year: €445.9m) and temporary differences of €14.8m (€71.2m) for which no deferred tax assets were disclosed. €12.4m 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 €3.4m (€8.4m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €0.6m (previous year: €1.2m), 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 67 and capital management methods on page 41 onwards.

Share capital

The Parent's share capital at 31 December 2016 totalled 16,524,783 (2015: 16,524,783) no-par shares with a nominal value of €2.60. The Management Board was authorised by the annual general meeting of 19 May 2016 to acquire treasury stock of up to 10% of the Company's share capital of €43.0m. This authorisation expires on 18 May 2021.

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 increased reserves by €4.3m (previous year: –€3,8m). During completion of the underlying transactions –€4.2m was recognised as an expense (previous year: –€0.1m).

Deferred taxes increased reserves by €19.4m (previous year: €1.0m), with defined benefit pension plans accounting for €19.4m (previous year: €0.7m), derivatives of €0.1m (€0.2m) and primary financial instruments of –€0.1m (€0.1m).

(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. A reduction in the conversion rates used by the pension fund to determine the retirement pension resulted in a positive effect of €5.4m on past service cost.

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

The discount rate of 1.7% (previous year: 2.4%) in Germany was determined using the Mercer Yield Curve approach. Other European companies use a discount rate of 0.6% to 2.8% (previous year: 0.7% to 3.75%). Calculations were further based on a pay increase of 1.5% (1.5%) and a fluctuation rate of 2.7% (2.7%). Pension adjustments were calculated at 1.4% (1.4%). 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 fair value of plan assets changed as follows:

in €m	Present value of pension obligations		Fair value of plan assets		Net obligation/Net asset	
	31.12.2015	**31.12.2016**	31.12.2015	**31.12.2016**	31.12.2015	**31.12.2016**
Status at 01.01.	**305.5**	**316.2**	**–110.5**	**–124.4**	**195.0**	**191.8**
Recognised in profit or loss						
Current service cost	9.9	9.7	–	–	9.9	9.7
Past service cost	–0.2	–4.1	–	–	–0.2	–4.1
Interest cost/income	5.6	5.3	–1.8	–1.3	3.8	4.0
	15.3	**10.9**	**–1.8**	**–1.3**	**13.5**	**9.6**
Recognised in other comprehensive income						
Actuarial gain/loss						
- demographic assumptions	–	6.2	–	–	–	6.2
- financial assumptions	–6.2	26.2	0.3	–2.0	–5.9	24.2
- experience adjustments	–2.0	–4.3	1.4	–2.0	–0.6	–6.3
	–8.2	**28.1**	**1.7**	**–4.0**	**–6.5**	**24.1**
Other						
Contributions paid by employer	–	–	–3.9	–5.9	–3.9	–5.9
Contributions paid by plan beneficiaries	–	–	–1.8	–1.8	–1.8	–1.8
Benefits paid	–12.0	–8.8	5.0	3.3	–7.0	–5.5
Foreign currency changes	13.5	–0.9	–11.3	0.8	2.2	–0.1
Other changes	2.1	0.3	–1.8	–	0.3	0.3
	3.6	**–9.4**	**–13.8**	**–3.6**	**–10.2**	**–13.0**
Status at 31.12.	**316.2**	**345.8**	**–124.4**	**–133.3**	**191.8**	**212.5**

Pension provisions and similar obligations constituted the following:

in €m	31.12.2015	**31.12.2016**
Present value of non-funded obligations	160.0	182.4
Present value of funded obligations	156.2	163.4
Present value of obligations	**316.2**	**345.8**
Fair value of plan assets	–124.4	–133.3
Pension provisions and similar obligations	**191.8**	**212.5**

Plan assets comprised €45.3m (previous year: €44.2m) from shares and equity securities, €46.6m (€49.5m) from loans, €6.1m (€6.2m) from liquid assets and €35.3m (€24.5m) 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 €3.2m (previous year: €1.6m). The anticipated rate of return is 1% (previous year: 1.4%), based on returns in previous years.

Plan contributions for 2017 are estimated at €3.6m (previous year: €3.5m).

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	
	31.12.2015	**31.12.2016**	31.12.2015	**31.12.2016**
Discount rate (0.5% change)	–29.2	–31.5	29.7	36.4
Salary increase rate (0.5% change)	2.6	4.1	–5.4	–3.9
Pension increase rate (0.5% change)	18.4	22.9	–20.1	–20.9
Fluctuation rate (0.5% change)	–1.8	–0.2	–1.7	0.2
Life expectancy (1 year change)	6.9	8.3	–7.1	–8.4

The weighted duration of pension obligations is 19.9 years (previous year: 19). In 2016 pension payments totalled €8.8m (previous year: €12m).

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 €29.6m (previous year: €30m).

(9) OTHER PROVISIONS

in €m	Status at 01.01.2016	Group additions	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Exchange differences	Reclassifi-cations	**Status at 31.12.2016**
Other provisions									
- for employees	46.6	–	17.5	12.7	17.4	0.1	–	–	33.9
- for sales	100.0	0.3	25.4	9.5	27.4	–	–0.1	–14.8	77.9
- for sundry other purposes	70.3	–	33.8	2.1	42.3	–	0.4	14.8	91.9
	216.9	**0.3**	**76.7**	**24.3**	**87.1**	**0.1**	**0.3**	**–**	**203.7**
of which									
- long-term provisions	28.3								23.2
- short-term provisions	188.6								180.5
	216.9								**203.7**

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. Adequate provisions for self-initiated proceedings on account of shortcomings in corruption prevention in Switzerland are included.

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		Term to maturity			Term to maturity	
	31.12.2015	up to 1 year	more than 1 year	**31.12.2016**	up to 1 year	more than 1 year
Trade payables						
- to affiliates	0.3	0.3	–	0.4	0.4	–
- to others	42.3	42.3	–	58.6	58.6	–
	42.6	**42.6**	**–**	**59.0**	**59.0**	**–**
Bank loans	15.8	15.8	–	33.9	32.5	1.4
Other financial payables						
- from derivatives	0.7	0.6	0.1	6.2	6.1	0.1
- sundry other financial payables	67.0	56.9	10.1	63.8	55.9	7.9
	83.5	**73.3**	**10.2**	**103.9**	**94.5**	**9.4**
Other liabilities						
- from payments received	141.7	141.7	–	124.2	124.2	–
- from taxes	18.6	18.6	–	16.4	16.4	–
- sundry other liabilities	8.0	6.6	1.4	3.2	2.2	1.0
	168.3	**166.9**	**1.4**	**143.8**	**142.8**	**1.0**
	294.4	**282.8**	**11.6**	**306.7**	**296.3**	**10.4**

Bank loans were secured by mortgages to the value of €5.2m (previous year: €8m), the pledging of securities worth €1.3m the previous year and the assignment of inventory and trade receivables totalling €2.8m (€4m). The carrying amounts of property, plant and equipment pledged as collateral came to €8.4m (€8.2m), of trade receivables €3.8m (€5.2m) and of securities (other financial receivables) €1.2m the previous year. 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 €80m (previous year: €55.9m).

Sundry **other financial payables** included finance leases to the sum of €8.8m (previous year: €12.9m). 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

		Term to maturity				Term to maturity		
	31.12.2015	up to 1 year	1 to 5 years	more than 5 years	**31.12.2016**	up to 1 year	1 to 5 years	more than 5 years
Minimum lease payments	14.0	4.4	8.0	1.6	9.5	2.2	7.3	–
Interest portion	−1.1	−0.4	−0.7	–	−0.7	−0.3	−0.4	–
Present value of finance lease	**12.9**	**4.0**	**7.3**	**1.6**	**8.8**	**1.9**	**6.9**	**–**

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 €16.7m (previous year: €24.6m) for construction contracts.

(11) DERIVATIVES

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

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.

in €m

	Nominal amount			Nominal amount		
	Total 31.12.2015	Term to maturity more than 1 year	Market value 31.12.2015	Total **31.12.2016**	Term to maturity more than 1 year	Market value **31.12.2016**
Forward contracts	90.5	–	–	142.8	10.6	−5.1
Interest rate hedges	1.0	1.0	−0.1	1.0	1.0	−0.1
	91.5	**1.0**	**−0.1**	**143.8**	**11.6**	**−5.2**

Forward contracts with a maturity of up to 1.5 years (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 €113m (previous year: €83.5m) was –€4.7m (€0.01m).

Interest rate swaps with a maturity of up to 3.5 years (previous year: 4.5 years) covered subsidiaries' existing interest risk.

(12) FURTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

in €m			of which not impaired, but overdue			
	Carrying amount	of which not impaired, not overdue	< 3 months	3–12 months	> 12 months	of which impaired
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**
2016						
Loans and receivables	343.0	302.1	19.7	8.8	0.5	11.9
Gross amount due from customers for contract work	82.3	78.6	3.7	–	–	–
Assets held to maturity	8.4	8.4	–	–	–	–
Assets available for sale	26.3	26.3	–	–	–	–
Financial instruments recognised at fair value	0.2	0.2	–	–	–	–
	460.2	**415.6**	**23.4**	**8.8**	**0.5**	**11.9**

in €m			Carrying value		
	Category under IAS 39[1]	31.12.2015 Carrying amount	Amortised cost	Fair value recognised in profit or loss	
ASSETS					
Investments and other financial receivables					
- interests in affiliates	afs	4.5	4.5	–	
- other financial receivables from finance leases	lar	1.4	1.4	–	
- other financial receivables from derivatives	rafv	–	–	–	
- other financial receivables from hedge accounting	–	0.6	–	–	
- sundry other financial receivables	htm	8.3	8.3	–	
	afs	1.7	–	–	
	lar	16.8	16.8	–	
		33.3	**31.0**	**–**	
Trade receivables	lar	131.9	131.9	–	
Gross amount due from customers for contract work	lar	61.6	61.6	–	
Securities	afs	13.3	–	–	
Cash and cash equivalents	lar	186.3	186.3	–	
		426.4	**410.8**	**–**	
LIABILITIES					
Bank loans and other financial payables					
- bank loans	ofp	15.8	15.8	–	
- other financial payables from finance leases	ofp	12.9	12.9	–	
- other financial payables from derivatives	rafv	0.1	–	0.1[3]	
- other financial payables from hedge accounting	–	0.6	–	–	
- sundry other financial payables	ofp	54.1	54.1	–	
		83.5	**82.8**	**0.1**	
Trade payables	ofp	42.6	42.6	–	
		126.1	**125.4**	**0.1**	

[1] lar = loans and receivables
htm = held to maturity
rafv = recognised at fair value
afs = available for sale
ofp = other financial payables
[2] level 1 of fair-value hierarchy
[3] 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. 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 figures disclosed for **securities, cash and cash equivalents** were the quoted market prices.

The fair values of **loans** and **sundry other financial receivables/payables** were basically the carrying amounts recognised at amortised cost.

			Carrying value			
Fair value recognised in equity	31.12.2015 Fair value	**31.12.2016** Carrying amount	Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	**31.12.2016** Fair value
–	–	4.7	4.7	–	–	–
–	1.6	0.6	0.6	–	–	0.6
–	–	0.2	–	0.2	–	0.2
0.6[3]	0.6	0.8	–	–	0.8[3]	0.8
–	8.3	8.4	8.4	–	–	8.4
1.7[2]	1.7	1.7	–	–	1.7[2]	1.7
–	16.8	13.7	13.7	–	–	13.7
2.3	**29.0**	**30.1**	**27.4**	**0.2**	**2.5**	**25.4**
–	131.9	126.7	126.7	–	–	126.7
–	61.6	82.3	82.3	–	–	82.3
13.3[2]	13.3	19.9	–	–	19.9[2]	19.9
–	186.3	202.0	202.0	–	–	202.0
15.6	**422.1**	**461.0**	**438.4**	**0.2**	**22.4**	**456.3**
–	15.8	33.9	33.9	–	–	33.9
–	12.6	8.8	8.8	–	–	8.5
–	0.1	0.7	–	0.7[3]	–	0.7
0.6[3]	0.6	5.5	–	–	5.5[3]	5.5
–	54.1	55.0	55.0	–	–	55.0
0.6	**83.2**	**103.9**	**97.7**	**0.7**	**5.5**	**103.6**
–	42.6	59.0	59.0	–	–	59.0
0.6	**125.8**	**162.9**	**156.7**	**0.7**	**5.5**	**162.6**

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 €24m (previous year: €20.3m) within the next twelve months, €15.6m (€4.4m) in one to three years and €4.2m (€5.1m) in more than three years from now. Additional liquidity will be 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 following chart showing the associated net gains and losses.

in €m

			from subsequent measurement			
	Net gain/loss	from interest	due to impairment	currency impact	from disposal	Other
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**
31.12.2016						
Loans and receivables	–7.7	–0.2	–	–1.9	–5.6	–
Gross amount due from customers for contract work	–0.1	–	–	–0.1	–	–
Assets available for sale	0.1	0.1	–	–0.2	–	0.2
Financial instruments recognised at fair value in profit or loss	–0.1	–	–	–0.1	–	–
Other financial payables	–2.8	–1.3	–	–1.5	–	–
	–10.6	**–1.4**	**–**	**–3.8**	**–5.6**	**0.2**

Value adjustments were made of €0.1m (previous year: €0.4m) on trade receivables.

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 €52.2m (previous year: €86.3m), 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	
	31.12.2015	**31.12.2016**	31.12.2015	**31.12.2016**
Devaluation USD by 5 %	–0.1	3.6	–2.5	–1.4
Revaluation USD by 5 %	0.1	–4.0	2.8	1.4
Devaluation GBP by 5 %	0.1	–	–0.4	–0.3
Revaluation GBP by 5 %	–0.1	–	0.4	0.3
Devaluation CHF by 5 %	–0.6	–	–0.6	–
Revaluation CHF by 5 %	0.7	–0.1	0.7	–0.1

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

		Term to maturity				Term to maturity		
	31.12.2015	up to 1 year	1 to 5 years	more than 5 years	**31.12.2016**	up to 1 year	1 to 5 years	more than 5 years
Commitments from:								
- operating leases	8.0	3.1	4.6	0.3	6.1	2.9	3.2	–
- rental and service contracts	26.2	9.5	13.1	3.6	27.5	10.4	15.4	1.7
- investment plans	0.9	0.8	0.1	–	6.6	6.6	–	–
- sundry other activities	0.4	0.4	–	–	10.3	4.5	5.5	0.3
	35.5	**13.8**	**17.8**	**3.9**	**50.5**	**24.4**	**24.1**	**2.0**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €3.9m (previous year: €4.1m) 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 €5.9m (previous year: €0.3m).

Contingent liabilities

These comprised contingencies totalling €24.4m (previous year: €32.6m) 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 €5m (previous year: €4.1m) 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 €855.4m (previous year: €736.4m), other sales totalled €311.7m (€288.7m).

Construction contract revenue totalled €275.5m (previous year: €126m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €360.4m (€138.2m).

Revenues of €3.9m and a loss of €0.7m have been recognised for IBERICA AG, S.A.U. since the date of acquisition.

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

(15) EXPENSES BY FUNCTION

Cost of sales

Cost of sales included €0.1m (previous year: €0.2m) 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 €242.8m (previous year: €102.2m).

Research and development costs

Development expenses for new products and applications for digital, packaging and security printing resulted in **research and development costs** of €59.3m, up from €57.2m in the previous year.

Distribution costs and administrative expenses

Distribution costs rose from €123.4m in the previous year to €144.1m due to increased deliveries and the cost of the Drupa industry exhibition as well as our Banknote Horizons customer event.

As a result of the cross-location SAP project, **administrative expenses** came to €80.4m, slightly up on the previous year (€77.8m) despite the reduced cost base. 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

	2015	**2016**
Cost of raw materials, consumables, supplies and purchased goods	398.5	425.3
Cost of purchased services	86.4	112.6
	484.9	**537.9**

PERSONNEL COSTS

in €m

	2015	**2016**
Wages and salaries	310.5	322.5
Social security and other benefits	55.2	57.2
Pensions	10.7	5.5
	376.4	**385.2**
Average payroll		
- wage-earning industrial staff	2,527	2,535
- salaried office staff	2,409	2,427
- apprentices/students	350	325
	5,286	**5,287**

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

(17) OTHER OPERATING INCOME AND EXPENSES

in €m

	2015	**2016**
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	8.2	4.6
Foreign currency gains	14.1	3.4
Currency measurement	6.8	–2.4
Reversal of write-downs	8.4	8.0
Sundry other operating income	51.9	32.9
	89.4	**46.5**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–1.5	–0.4
Foreign currency losses	–2.4	–2.2
Currency measurement	–11.7	–3.5
Creation of write-downs	–8.8	–8.0
Sundry other operating expenses	–44.8	–8.3
	–69.2	**–22.4**
Other operating income and expenses	**20.2**	**24.1**

Sundry other operating income included €22.4m (previous year: €3.8m) from the reversal of impairments on property, plant and equipment and €3.9m (previous year: €40.2m) 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) SPECIAL ITEMS

In order to realign the Group and safeguard its long-term profitability and competitiveness, the Management Board implemented a comprehensive restructuring programme known as Fit@All in 2013. It was successfully implemented from 2014 to 2016. This resulted in the reversal of impairments of €22.4m that had been recognized on property, plant and equipment and the release of personnel provisions of €12.6m. Provisions of €10.1m were recognised for further restructuring measures adopted in 2016. Relocation and related expenses came to €0.7m. Special items were not material in the previous year.

(19) FINANCIAL RESULT

in €m

	2015	2016
Other financial results		
Income from interests in affiliates	0.1	0.2
Impairments in investments	–0.5	–
	–0.4	**0.2**
Interest income/expense		
Other interest and similar income	3.2	2.0
- of which affiliates	(0.5)	(0.5)
Other interest and similar expenses	–9.4	–8.1
- from pension obligations	(–3.8)	(–4.0)
	–6.2	**–6.1**
Financial result	**–6.6**	**–5.9**

(20) INCOME TAXES

in €m

	2015	2016
Actual tax expense	–2.3	–3.0
Deferred taxes from loss carryforwards	0.3	14.5
Deferred tax income from temporary differences	–0.8	–9.4
Prior-period income taxes	–	–1.1
Deferred taxes from variances in tax rates	–	0.2
	–2.8	**1.2**

in €m

	2015	2016
Earnings before taxes	**29.7**	**81.0**
Group tax rate	30.0 %	30.0 %
Expected taxes	**–8.9**	**–24.3**
Tax effects from		
- variances due to different tax rates	2.6	0.5
- tax-free earnings	0.2	0.4
- write-downs	3.9	25.5
- decreases and increases	–0.4	–1.0
- other	–0.2	0.1
Income tax	**–2.8**	**1.2**

The approach of previously unrecognised tax losses and temporary differences relating to subsidiaries led to deferred tax income of €20.5m (previous year: €0.1m). Their use as well as the use of previously unrecognised temporary differences reduces the actual tax expense by €7.4m (previous year: €9.1m).

The recognised goodwill is non-tax-deductible.

(21) EARNINGS PER SHARE

	2015	2016
Net profit attributable to owners of the Parent in €m	26.8	82.3
Weighted average of ordinary shares issued	16,524,783	16,524,783
Earnings per share in €	**1.62**	**4.98**

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 €202m (previous year: €186.3m) included cash and cash equivalents.

An amount of €3.8m was spent in the year under review for a business combination and settled in full. In addition, a contingent payment of €0.6m was made. This was offset by cash and cash equivalents of €0.4m. The assets acquired additionally comprise property, plant and equipment of €0.1m, deferred tax assets of €1.2m, other non-current assets of €0.7m, inventories of €5.5m, trade receivables of €3.6m and other current assets of €1.6m. The gross value of the trade receivables acquired stands at €4.3m. The liabilities acquired are composed of non-current financial liabilities of €1.6m, trade payables of €2.8m and bank loans and other current liabilities of €4.2m.

(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 and logistics solutions. The portfolio also includes peripheral equipment for finishing and processing printed products.

The Business Segment Digital & Web encompasses digital and offset web presses for newspaper, commercial, book 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.

Services are assigned to the respective segment.

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 before special items		EBIT after special items		Depreciation		Major non-cash expenses		Capital investments	
	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**
Segments												
Sheetfed	561.7	615.0	25.5	30.2	25.5	31.3	13.1	11.1	38.9	42.5	17.6	14.1
Digital & Web	98.4	156.5	−10.9	1.8	−10.9	1.9	1.4	1.2	6.1	8.0	1.5	1.9
Special	422.9	472.0	27.7	42.8	27.7	42.8	9.9	9.4	47.6	28.4	5.0	11.1
Reconciliation	−57.9	−76.4	−6.4	−11.9	−6.4	11.1	4.7	6.0	5.1	8.3	4.3	4.8
Group	**1,025.1**	**1,167.1**	**35.9**	**62.9**	**35.9**	**87.1**	**29.1**	**27.7**	**97.7**	**87.2**	**28.4**	**31.9**

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	
	2015	**2016**	2015	**2016**	2015	**2016**
Germany	153.3	169.2	24.3	23.0	158.8	180.1
Rest of Europe	301.0	387.4	3.9	8.8	64.2	58.6
North America	144.1	171.8	0.1	0.1	0.8	0.6
China	109.2	91.4	0.1	–	0.5	0.4
Rest of Asia/Pacific	226.4	221.6	–	–	–	–
Africa/Latin America	91.1	125.7	–	–	–	–
Reconciliation	–	–	–	–	46.8	80.7
Group	**1,025.1**	**1,167.1**	**28.4**	**31.9**	**271.1**	**320.4**

(K) NOTES TO SECTION 285 NO. 17 HGB

The auditors, KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft, received €0.5m remuneration for their auditing services as well as €0.1m for other services for 2016.

(L) EXEMPTIONS IN ACCORDANCE WITH SECTIONS 264B AND 264 (3) HGB

The following consolidated subsidiaries applied the simplification options contained in section 264b respectively 264 (3) of the German Commercial Code (HGB) in 2016.

Company, location
KBA-Industrial Solutions AG & Co. KG, Würzburg, Germany
KBA-Sheetfed Solutions AG & Co. KG, Radebeul, Germany
KBA-Digital & Web Solutions AG & Co. KG, Würzburg, Germany
KBA-NotaSys AG & Co. KG, Würzburg, Germany
KBA Deutschland GmbH, Radebeul, Germany
KBA-MetalPrint GmbH, Stuttgart, Germany

KBA-Industrial Solutions AG & Co. KG, KBA-Sheetfed Solutions AG & Co. KG, KBA-Digital & Web Solutions AG & Co. KG and KBA-NotaSys AG & Co. KG also utilised the simplification option in accordance with section 264b of the German Commercial Code for 2015.

(M) 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	2015	**2016**
Other current financial receivables at 31.12.	6.1	4.3
Trade receivables at 31.12.	10.0	9.5
Trade payables at 31.12.	0.3	0.4
Revenue	48.0	54.9

One member of the Supervisory Board acted as an advisor to the Group and received €0.2m for these services.

Short-term management board remuneration totalled €2.8m (previous year: €5.4m), with the fixed portion representing €1.1m (€2.1m). The variable portion was based on net profit. Pension provisions were increased by €0.4m (previous year: €0.7m) for the current service cost.

Provisions of €2.9m (€1.2m) were recognised for remuneration for former members and their survivors. Supervisory board remuneration totalled €0.5m (€0.4m), of which €0.5m (€0.4m) was fixed.

In accordance with the guidelines stated in IAS 19 (revised) €30.7m (previous year: €26.9m) 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 can be found in the management report on page 55 onwards. The management board's total remuneration in accordance with German commercial law corresponds to the short-term benefits mentioned.

At 31 December 2016 members of the management board held 5.07% and members of the supervisory board 0.01% of Koenig & Bauer's share capital, giving a total of 5.08%.

SUPERVISORY BOARD

Dr Martin Hoyos
Chairman
Independent corporate consultant
Vienna/Austria

Gottfried Weippert [1]
Deputy chairman
Technician
Eibelstadt

Dagmar Rehm
Deputy chairman
CFO juwi AG, Wörrstadt
Langen

Julia Cuntz [1] (from 19.05.2016)
Trade union secretary of IG Metall
Berlin

Carsten Dentler [2] (from 13.03.2017)
Corporate consultant
Bad Homburg v. d. Höhe

Marc Dotterweich [1]
Cutting machine operator
Birkenfeld

Willi Eisele [1/2] (until 19.05.2016)
Representative of IG Metall
Dresden

Matthias Hatschek
Entrepreneur
St Martin/Austria

Christopher Kessler [1] (from 19.05.2016)
General Counsel Koenig & Bauer AG
Würzburg

Professor Gisela Lanza
University Professor
Karlsruher Institute of Technology
Karlsruhe

Walther Mann [1]
Representative of IG Metall – Administrative office Würzburg
Würzburg

Carl Ferdinand Oetker (until 31.12.2016)
Managing partner of FO Holding GmbH
Managing director of WINK Verwaltungsgellschaft mbH
Bielefeld

Dr Andreas Pleßke (from 19.05.2016)
Restructuring Manager/Lawyer
Herrsching am Ammersee

Klaus Schmidt [1] (until 19.05.2016)
Director Corporate Communications, KBA
Hettstadt

Simone Walter [1/2] (from 24.05.2016)
Head of product development at KBA-Metronic GmbH
Arnstein

Claus Weihmann [1] (until 19.05.2016)
Gear grinder
Radebeul

Professor Horst Peter Wölfel (until 19.05.2016)
Department of Structural Dynamics (ret.)
Technical University Darmstadt
Würzburg

[1] workforce representative
[2] appointed by the register court

COMMITTEES

Mediation committee as per section 27(3) of the Law on Codetermination
Dr Martin Hoyos (chairman)
Matthias Hatschek
Christopher Kessler
Gottfried Weippert

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

Financial Audit Committee
Dagmar Rehm (chairman)
Marc Dotterweich
Carl Ferdinand Oetker
Gottfried Weippert

Strategy Committee
Professor Gisela Lanza (chairman)
Matthias Hatschek
Christopher Kessler
Walther Mann
Dr Andreas Pleßke
Gottfried Weippert

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

Committee appointments to 31 December 2016

MANAGEMENT BOARD

Claus Bolza-Schünemann
President and CEO
Würzburg

Dr Mathias Dähn
CFO
Krailling

Dr Andreas Pleßke (until 30.04.2016)
CRO
Herrsching am Ammersee

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 (until 30.04.2016) Korian Medica SA, Paris/France
Dagmar Rehm Deputy chairman	O'Donovan Consulting AG, Bad Homburg/Germany
Professor Gisela Lanza	Bosch Rexroth AG, Lohr am Main/Germany Mahle GmbH, Stuttgart/Germany Aichele Group GmbH & Co. KG, Bretten/Germany Balluff GmbH, Neuhausen a.d. Fildern/Germany
Christopher Kessler	PrintHouseService GmbH, Würzburg/Germany Member of the preliminary creditors' committee of Stürtz GmbH, Würzburg/Germany
Walther Mann	Procter & Gamble Germany GmbH & Co. Operations oHG, Schwalbach am Taunus/Germany
Carl Ferdinand Oetker	STADA Arzneimittel AG, Bad Vilbel/Germany Erfurter Teigwaren GmbH, Erfurt/Germany EWABO Chemikalien GmbH & Co. KG, Wietmarschen/Germany Hela Gewürzwerk Hermann Laue GmbH, Ahrensburg/Germany WINK Stanzwerkzeuge GmbH & Co. KG, Neuenhaus/Germany Cloverfield Inc., Chicago, IL/USA
Julia Cuntz	Euro engineering AG, Düsseldorf/Germany
Dr Andreas Pleßke	Solarworld AG, Bonn/Germany m.a.x. Informationstechnologie AG, Munich/Germany SmartOne Consulting AG, Berg/Germany KBA–NotaSys SA, Lausanne/Switzerland

Other information

A declaration of compliance was issued in accordance with section 161 of German Stock Corporation Act and made permanently accessible under http://www.KBA.com/en/investor-relations/corporate-governance/declaration-of-compliance/

(N) PROFIT ALLOCATION PROPOSAL

The annual financial statements of Koenig & Bauer AG have been prepared in accordance with German accounting rules.

Under the German Stock Corporation Act, the dividend distributed to the shareholders is based on the retained earnings shown in the annual financial statements. With the Supervisory Board's approval, the shareholders will be asked to approve the allocation of Koenig & Bauer AG's retained earnings of € 8,262,391.50 as follows:

Distribution of a dividend of €0.50 per share comprising a total of

16,524,783 ordinary shares	€ 8,262,391.50

(O) EVENTS AFTER THE REPORTING DATE

On 20 February 2017, the Swiss security printing subsidiary settled the proceedings that had been commenced against it in Switzerland on account of shortcomings in its corruption prevention. KBA-NotaSys SA in Lausanne had initiated the proceedings itself by self-reporting after internal investigations into occurrences that for the most part had arisen in the distant past had failed to clarify the situation. A symbolic fine of CHF 1.00 was imposed on the company. In addition, KBA-NotaSys accepted the skimming of profits of €27.8m from projects between 2005 and 2012 in four countries. The settlement of the proceedings does not have any impact on Group net profit. It enables the optimisation and review of strategic partnerships in the security business. In addition, the Group also actively reduced its risk profile by settling legal disputes. Over a period of five years, the company will be depositing a total of CHF 5m in an integrity fund to promote ethical conduct, transparency and compliance in companies. Established on 27 January 2017, the fund is managed by an independent board.

Würzburg, 21 March 2017
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

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, together with the combined management report on the position of the Company and the Group for the business year from January 1 to December 31, 2016. 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. [paragraph] 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 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 the 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, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Nuremberg, 21 March 2017

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[Original German version signed by:]

Janz
Wirtschaftsprüfer
(German Public Auditor)

Dr Kelle
Wirtschaftsprüfer
(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, 21 March 2017
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

BALANCE SHEET FOR KOENIG & BAUER AG TO 31. DECEMBER 2016

under the German Commercial Code (HGB)

in €m	31.12.2015	31.12.2016
ASSETS		
Non-current assets		
Intangible assets	5.1	4.7
Property, plant and equipment	74.7	72.0
Financial assets	160.9	175.3
	240.7	**252.0**
Current assets		
Trade receivables	0.1	–
Other receivables and assets	104.1	110.0
Cash and cash equivalents	26.0	64.9
	130.2	**174.9**
Deferred income	**0.4**	**0.3**
Positive difference from asset allocation	**15.9**	**19.2**
	387.2	**446.4**
EQUITY AND LIABILITIES		
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	105.9	113.4
Loss carried forward	–72.6	–
Net profit	18.6	–
Retained earnings	–	8.3
	182.4	**252.2**
Special items with equity portion	**2.6**	**2.3**
Provisions		
Pension and similar provisions	67.3	65.7
Tax provisions	2.8	2.1
Other provisions	47.8	37.3
	117.9	**105.1**
Liabilities		
Trade payables	0.8	2.7
Other liabilities	83.5	84.1
	84.3	**86.8**
	387.2	**446.4**

INCOME STATEMENT FOR KOENIG & BAUER AG FOR 2016

under the German Commercial Code (HGB)

in €m

	2015	2016
Revenue	71.0	73.0
Cost of sales	–52.4	–52.4
Gross profit	**18.6**	**20.6**
Administrative expenses	–20.4	–19.8
Other operating income	16.7	24.7
Other operating expenses	–7.1	–16.4
Profit from operations	**7.8**	**9.1**
Financial result	10.8	63.0
Income taxes	–	–2.0
Earnings after taxes	**18.6**	**70.1**
Other taxes	–	–0.3
Net profit	**18.6**	**69.8**
Loss carried forward	–72.6	–54.0
Transfer to other reserves	–	–7.5
Retained earnings (previous year: accumulated loss)	**–54.0**	**8.3**

KEY FINANCIAL DATES

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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5-YEAR OVERVIEW

in €m

	2012	2013	2014	2015	**2016**
Order intake	1,116.2	1,012.2	956.9	1,182.7	1,149.7
Order backlog at 31.12.	648.0	560.5	417.3	574.9	557.5
Revenue	1,293.9	1,099.7	1,100.1	1,025.1	1,167.1
Earnings before interest and taxes (EBIT)	12.0	–130.7	13.3	35.9	87.1
EBIT margin in %	0.9	–11.9	1.2	3.5	7.5
Earnings before taxes (EBT)	3.7	–138.1	5.5	29.7	81.0
EBT margin in %	0.3	–12.6	0.5	2.9	6.9
Net profit/loss	0.4	–153.7	0.3	26.9	82.2
Balance sheet total	1,151.8	1,098.0	1,014.7	976.9	1,085.5
Intangible assets, property, plant and equipment	243.1	227.5	228.7	224.2	239.5
Equity	441.3	277.9	227.2	258.4	337.8
Equity ratio in %	38.3	25.3	22.4	26.5	31.1
Cash flows from operating activities	83.3	34.1	43.2	–15.3	21.9
Investment in intangible assets, property, plant and equipment	33.0	32.3	21.7	28.4	31.9
Depreciation on intangible assets, property, plant and equipment	64.9	59.6	30.5	29.1	27.7
Payroll: annual average	6,272	6,257	6,058	5,286	5,287
Earnings per share in €	0.03	–9.31	0.03	1.62	4.98
Dividend per share in €	0.40	–	–	–	0.50

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