KOENIG & BAUER

GROUP INTERIM REPORT FIRST QUARTER 2017

KBA Group in Figures

01.01. - 31.03. in €m	2016	**2017**
Order intake	266.3	**321.5**
Revenue	258.8	**259.1**
Order backlog at 31.03.	582.4	**619.9**
Export level in %	85.4	**86.4**
Earnings before interest and taxes (EBIT)	2.1	**5.0**
Earnings before taxes (EBT)	0.6	**4.3**
Net profit	1.6	**4.7**
Balance sheet total at 31.03. (prior year: 31.12.)	1,085.5	**1,100.7**
Equity at 31.03. (prior year: 31.12.)	337.8	**344.0**
Investment in intangible assets, property, plant and equipment	9.4	**9.6**
Depreciation on intangible assets, property, plant and equipment	6.9	**7.3**
Payroll at 31.03.	5,216	**5,327**
- thereof apprentices/trainees	298	**281**
Cash flows from operating activities	15.4	**–14.9**
Earnings per share in €	0.11	**0.30**

Title photo
KBA-MetalPrint presented at the trade fair METPACK the newly developed MetalDecojet, the first industrial inkjet printing press for the metal packaging industry

Letter to Shareholders

After fully achieving our revenue and earnings guidance last year, the Koenig & Bauer Group remains on a successful trajectory in its anniversary year of 2017. The clear focus on the growth markets of packaging, industrial and digital printing as well as the Group-wide service initiative launched at the beginning of 2016 are increasingly paying off.

The share of service business in Group revenue widened from 24% in the previous year to 26% in the first quarter of 2017. Our youngest subsidiary KBA-Iberica Die Cutters performed well. Order intake, revenue and EBIT from flatbed die-cutter business substantially exceeded our expectations in the first quarter. Last week, KBA-MetalPrint in Stuttgart unveiled at the METPACK trade exhibition in Essen a new printing press which it had developed in conjunction with KBA-Digital & Web for the previously unaddressed market for two-part beverage cans. In addition to leveraging synergistic benefits, for new developments we are making use of the extensive expertise available in the Group.

Despite persistently challenging global economic and political conditions, the Group's new orders rose by 20.7% over the previous year (€266.3m) to €321.5m. At €259.1m, Group revenue remained at the previous year's level. We expect to see growing momentum in the further course of the year. At €619.9m at the end of the quarter, the order backlog was up 6.4% on the previous year, ensuring good capacity utilisation at our production facilities over the next few months. EBIT came to €5m, substantially exceeding the previous year's figure of €2.1m.

Order intake was up by a percentage figure in the double digits over the previous year in all three segments in the first quarter. Segment revenue and earnings performed disparately. At €150m, Sheetfed revenue was down 3% on the previous year in the first quarter. However, revenue in the Special segment rose by 2.6% to €87.8m. Digital & Web posted revenue of €30.4m, thus falling short of the target. This segment has also included the figures for flexo packaging printing since the beginning of the year. The systems for flexible packaging, which is a market of the future, are also web printing presses. Sheetfed and Special both posted segment profits of €4.6m for the first three months. However, Digital & Web closed the first quarter with a loss of €2.3m at the EBIT level due to optimisation at KBA-Flexotecnica, high R&D expenses and the revenue shortfall. Looking ahead over the next few quarters, we expect all segments to post significant improvements in earnings backed by rising revenue.

As we broaden our portfolio to address expanding markets such as packaging, digital and industrial printing and the related sales activities, high R&D expenses and investments in growth will arise particularly in Digital & Web. Thus, we commenced work on constructing a new demonstration centre for digital and flexo printing presses at our Würzburg site in the first quarter in order to obtain appropriate facilities for demonstrating our products to international customers. Similarly, the customer centre in Radebeul is being expanded to accommodate the new digital printing and finishing solutions.

Koenig & Bauer's anniversary year of 2017 commenced on an upbeat note. We will be celebrating our Company's 200th anniversary with our customers and employees in September. Should conditions for our international 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.

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

KBA Shares

Despite the persistent risks to the global economy, the international stock markets closed the first quarter of 2017 with substantial gains. This performance was driven by upbeat global economic data, the accommodative monetary policy still being pursued by the ECB as well as expectations of declining corporate taxes and high infrastructure spending in the United States. The DAX rose by 7.2% and the SDAX by 6% over the end of the previous year. In addition to this favourable stock market environment, Koenig & Bauer shares were spurred by the new medium-term targets announced on 20 February and the Company's strong business figures for 2016. After entering the year at €42.25, our share reached a high for the period under review of €60.75 on 29 March. At the end of March, it was trading at €58.79, up 37.5% on the end of 2016. This dynamic upward trend continued in April with prices of over €63.

Group Management Report

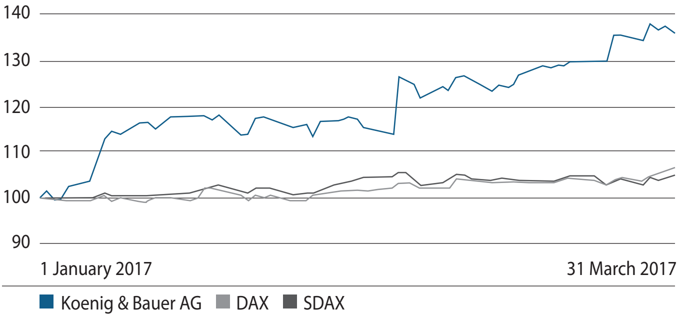
Business Performance

The Koenig & Bauer **Group's order intake** rose by 20.7% year-on-year to €321.5m in the first quarter of 2017 (2016: €266.3m). In addition to stronger service business, we benefited from sustained growth in the global packaging market thanks to our diverse printing solutions. Demand is being driven by rising consumer spending and booming online commerce. Orders were also up in security printing.

At €259.1m, **Group revenue** remained at the previous year's level (€258.8m). The export ratio widened from 85.4% to 86.4%. More sheetfed press installations in Southern Europe in particular combined with growth in other business fields caused the proportion of revenue

Koenig & Bauer shares

in %



generated in Europe excluding Germany to widen from 28.8% to 35.5%. North American business contributed 16.6% (2016: 18.7%), while the share accounted for by Asia-Pacific increased slightly from 25% to 25.4%. Latin America and Africa contributed 8.9% to Group revenue (2016: 12.9%).

At €619.9m, the **order backlog** on 31 March exceeded the figure at the beginning of the year (€557.5m) by €62.4m and the previous year's figure of €582.4 by 6.4%.

Earnings, Finances and Assets

Earnings

Profits in the Sheetfed and Special segment contributed to the growth in **Group earnings**. Earnings in the Digital & Web segment came under pressure from the delivery-related weak revenue for the quarter, higher R&D expenses and particularly also the optimisation of KBA-Flexotecnica.

The **gross profit margin** shrank from 29.8% to 28.4% particularly as a result of higher costs of materials. The development of new products and applications caused R&D expenses to rise to €14.5m (2016: €12.8m). On the other hand, distribution costs dropped from €32.6m to €31.4m. At €23.4m, administration costs were slightly down on the previous year (2016: €23.5m). Other operating expenses and income came to +€0.8m. The previous year's figure of –€6m was negatively impacted by currency effects and long-standing legal disputes. On balance, **EBIT** climbed to €5m, up from €2.1m in the previous year. The improvement in interest result to –€0.7m (2016: –€1.5m) led to **Group pre-tax profit** of €4.3m for the quarter, compared with €0.6m in the previous year. After income taxes, **Group net profit** came to €4.7m as of 31 March (2016: €1.6m), equivalent to **earnings per share** of €0.30, up from €0.11 in the same quarter of the previous year.

Finances

Despite the improved earnings and higher customer prepayments (+€27.4m), **cash flows from operating activities** dropped to –€14.9m and were thus substantially down on the previous year's figure of €15.4m. In addition to higher inventories (+€13.8m) for the planned revenue growth over the next few quarters, this was due to higher receivables (+€10.5m) resulting from an accumulation of deliveries shortly before the end of the quarter. The **free cash flow** of –€44.4m (2016: €11.3m) was burdened by the first payment instalment of €21.3m for the external funding of a part of the pension provisions. At the end of Mach 2017, **funds** stood at €159.5m (31 December 2016: €202m). Adjusted for bank loans of €36m, net liquidity equals €123.5m plus securities of €21.5m that can be liquidated at any time. Our equity ratio rose slightly to 31.3% (end of 2016: 31.1%) in relation to the increased balance sheet total.

Assets

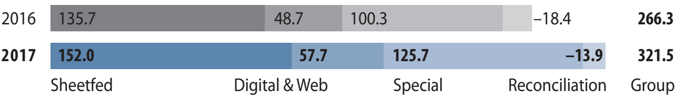
A total of €9.6m (2016: €9.4m) was spent on property, plant and equipment and intangible assets. In addition to newly installed flexible processing centres, a new demonstration centre for digital and flexo printing presses is currently being built in Würzburg, while the customer centre in Radebeul is being expanded. Capital spending was accompanied by depreciation of €7.3m. In addition to the slight increase in property, plant and equipment, non-current assets rose from €320.4m to €341.7m. This was primarily due to higher financial receivables in connection with the reinsurance claims against the insurer as a result of the external funding of part of the company pension provisions. With current assets dropping from €765.1m to €759m, the **Group balance sheet total** climbed by €15.2m to €1,100.7m (31 December 2016: €1,085.5m).

Segment Performance

In the **Sheetfed segment**, more service business and a substantial increase in orders for medium-format presses caused order intake to rise by 12% to €152m (2016: €135.7m). At €150m, revenue fell 3% short of the previous year's figure of €154.6m. The order backlog of €239.5m was down on the previous year (€264m) but is still ensuring good capacity utilisation. In spite of better prices, segment earnings of €4.6m were slightly below the previous year's figure of €5.7m due to the lower revenue as well as development expenses for new products.

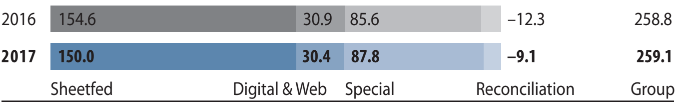
Group order intake

in €m



Group revenue

in €m



As of 2017, our activities in the growing flexo packaging printing market are assigned to the **Digital & Web segment**, the figures for the previous year have been duly adjusted. The substantial increase in service business contributed to the 18.5% rise in orders to €57.7m (2016: €48.7m). At €30.4m, revenue came close to repeating the previous year's figure of €30.9m. Order backlog expanded by 8.4% to €103.5m (2016: €95.5m) thanks to the favourable book-to-bill ratio. The revenue shortfall, R&D expenses and the optimisation of KBA-Flexotecnica (–€1.8m) exerted strain on the segment earnings of –€2.3m (2016: –€2.6m).

More orders in security printing and glass decorating caused new business in the **Special segment** to rise by 25.3% to €125.7m (2016: €100.3m). Ahead of the METPACK trade exhibition at the beginning of May, metal decorating orders fell short of the good previous year as expected. Segment revenue rose by 2.6% to €87.8m (2016: €85.6m). At €295.9m, the order backlog at the end of March was 15% larger than it had been twelve months earlier (€257.4m). Following a segment profit of €1m in the previous year, EBIT of €4.6m was recorded in the first quarter of 2017.

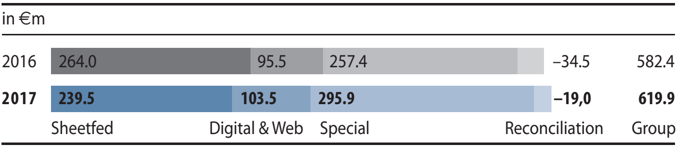
Supplementary Statement and Risks

No events with a material impact on Group earnings, finances and assets occurred after 31 March 2017. The major risks facing our business and the early warning system are described in detail in the Group consolidated financial statements for 2016 (page 47 onwards). There have been no material changes in the period under review.

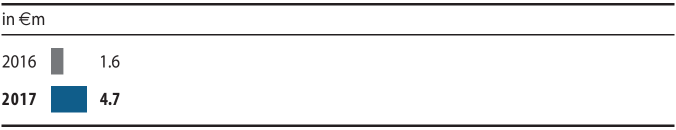
Outlook

Despite the sustained political and economic uncertainties at the European and international level, the International Monetary Fund

Group order backlog



Group net profit



(IMF) has raised its growth forecast for global gross domestic product in 2017 to 3.5%. The outcome of the presidential elections in France has substantially reduced the political risks for the European Union as an important sales market for German machinery. Even so, risks are still being posed by Brexit and the trading policies announced by the new US administration.

Packaging printing, in which the Koenig & Bauer Group 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. In addition to systematically expanding our service business, we want to further increase our substantial share of the expanding packaging market with our proven and new printing solutions.

All segments have new and enhanced developments for these growth markets, some of which have not yet been addressed. Thus, KBA-MetalPrint in conjunction with KBA-Digital & Web developed a high-performance technical solution for printing two-part beverage cans, which it unveiled at the beginning of May. With around 320 billion packaging units a year, the international beverage can market is enormous. Additional market opportunities will also be arising for digital printing presses for migration-free metal decorating also unveiled by KBA-MetalPrint at the METPACK trade exhibition, which can additionally be used for food packaging. Further new business activities comprise die-cutters for packaging, which were added in 2016, the Group's own new products and successful partnerships in digital printing and new services meeting customers' requirements including the networked printing factory under the "KBA 4.0" label.

Driven by the 20.7% year-on-year increase in the Group's new orders to €321.5m in the first quarter, the book-to-bill ratio was above 1 in all three segments. The 6.4% increase in order backlog over 2016 at the end of the quarter will be reflected in rising revenue and positive effects on earnings in the further course of the year. In the absence of any material deterioration in global economic and political conditions impacting our international business, we expect to achieve organic growth of up to €1.25bn in Group revenue and an EBIT margin of around 6% in 2017.

Group Balance Sheet

Assets

in €m	31.12.2016	**31.03.2017**
Non-current assets		
Intangible assets, property, plant and equipment	239.5	240.9
Investments and other financial receivables	15.9	37.0
Other assets	0.1	0.1
Deferred tax assets	64.9	63.7
	320.4	**341.7**
Current assets		
Inventories	293.4	307.2
Trade receivables	209.0	219.5
Other financial receivables	14.2	13.8
Other assets	26.6	37.5
Securities	19.9	21.5
Cash and cash equivalents	202.0	159.5
	765.1	**759.0**
Balance sheet total	**1,085.5**	**1,100.7**

Equity and liabilities

in €m	31.12.2016	**31.03.2017**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	206.8	212.9
Equity attributable to owners of the Parent	**337.3**	**343.4**
Equity attributable to non-controlling interests	0.5	0.6
	337.8	**344.0**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	212.5	209.8
Other provisions	23.2	19.0
Bank loans	1.4	1.3
Other financial payables	8.0	8.2
Other liabilities	1.0	1.5
Deferred tax liabilities	22.0	20.8
	268.1	**260.6**
Current liabilities		
Other provisions	180.5	174.8
Trade payables	59.0	46.0
Bank loans	32.5	34.7
Other financial payables	62.0	67.5
Other liabilities	145.6	173.1
	479.6	**496.1**
Balance sheet total	**1,085.5**	**1,100.7**

Group Income Statement

01.01. - 31.03.

in €m	2016	**2017**
Revenue	258.8	259.1
Cost of sales	–181.8	–185.6
Gross profit	**77.0**	**73.5**
Research and development costs	–12.8	–14.5
Distribution costs	–32.6	–31.4
Administrative expenses	–23.5	–23.4
Other operating income and expenses	–6.0	0.8
Earnings before interest and taxes (EBIT)	**2.1**	**5.0**
Interest result	–1.5	–0.7
Earnings before taxes (EBT)	**0.6**	**4.3**
Income tax expense	1.0	0.4
Net profit	**1.6**	**4.7**
- attributable to owners of the Parent	1.8	4.9
- attributable to non-controlling interests	–0.2	–0.2
Earnings per share (in €, basic/dilutive)	**0.11**	**0.30**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2016	**43.0**	**87.5**
Net profit	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
31.03.2016	**43.0**	**87.5**
01.01.2017	**43.0**	**87.5**
Net profit	–	–
Gains recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2017	**43.0**	**87.5**

Statement of Comprehensive Group Income

01.01. - 31.03.

in €m	2016	**2017**
Net profit	**1.6**	**4.7**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	–0.1	–0.2
Measurement of primary financial instruments	0.2	–0.1
Measurement of derivatives	4.6	–
Deferred taxes	–0.6	0.1
	4.1	**–0.2**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–12.1	3.1
Deferred taxes	0.1	–1.7
	–12.0	**1.4**
Losses/gains recognised directly in equity	**–7.9**	**1.2**
Total comprehensive income	**–6.3**	**5.9**
- attributable to owners of the Parent	–6.1	6.1
- attributable to non-controlling interests	–0.2	–0.2

Reserves: Recognised in equity	Reserves: Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
–76.3	**203.6**	**257.8**	**0.6**	**258.4**
–	1.8	1.8	–0.2	1.6
–7.9	–	–7.9	–	–7.9
–7.9	**1.8**	**–6.1**	**–0.2**	**–6.3**
–84.2	**205.4**	**251.7**	**0.4**	**252.1**
–79.1	**285.9**	**337.3**	**0.5**	**337.8**
–	4.9	4.9	–0.2	4.7
1.2	–	1.2	–	1.2
1.2	**4.9**	**6.1**	**–0.2**	**5.9**
–	–	–	0.3	0.3
77.9	**290.8**	**343.4**	**0.6**	**344.0**

Group Cash Flow Statement

01.01. - 31.03.

in €m	2016	**2017**
Earnings before taxes (EBT)	0.6	4.3
Non-cash transactions	12.8	7.3
Gross cash flow	**13.4**	**11.6**
Changes in inventories, receivables and other assets	–15.5	–33.9
Changes in provisions and payables	17.5	7.4
Cash flows from operating activities	**15.4**	**–14.9**
Cash flows from investing activities	**–4.1**	**–29.5**
Free cash flow	**11.3**	**–44.4**
Cash flows from financing activities	**–0.1**	**2.2**
Change in funds	**11.2**	**–42.2**
Effect of changes in exchange rates	–1.9	–0.3
Funds at beginning of period	186.3	202.0
Funds at end of period	**195.6**	**159.5**

Notes to the Interim Accounts to 31 March 2017

1 Accounting Policies

This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS).

The consolidated financial statements were prepared in accordance with the standards valid on that date, as issued by the International Accounting Standards Board (IASB), London, and all binding interpretations by the International Financial Reporting Interpretation Committee (IFRIC), with due regard for EU directives.

The interim accounts conform to IAS 34.

2 Segment Information

Flexible packaging printing and the Group's own activities in the corrugated market will be allocated to this segment from 2017. The figures for the previous year have been duly adjusted.

2.1 Business Segments

01.01. - 31.03.

in €m	Revenue		EBIT		Capital investments	
	2016	**2017**	2016	**2017**	2016	**2017**
Segments						
Sheetfed	154.6	150.0	5.7	4.6	1.9	2.8
Digital & Web	30.9	30.4	–2.6	–2.3	0.4	3.9
Special	85.6	87.8	1.0	4.6	6.4	0.9
Reconciliation	–12.3	–9.1	–2.0	–1.9	0.7	2.0
Group	**258.8**	**259.1**	**2.1**	**5.0**	**9.4**	**9.6**

2.2 Geographical Breakdown of Revenue

01.01. - 31.03.

in €m	2016	**2017**
Germany	37.9	35.3
Rest of Europe	74.6	91.9
North America	48.3	42.9
Asia/Pacific	64.6	65.8
Africa/Latin America	33.4	23.2
Revenue	**258.8**	**259.1**

Key Financial Dates

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

Interim report on 2nd quarter 2017
9 August 2017

Capital Markets Day on the occasion of the 200 year jubilee
20 September 2017
in Würzburg

Interim report on 3rd quarter 2017
8 November 2017

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