KOENIG & BAUER

Group Interim Report Third Quarter 2017

we're on it.

Koenig & Bauer Group in Figures

01.01. - 30.09. in €m	2016	**2017**
Order intake	869.8	**903.4**
Revenue	831.4	**847.7**
Order backlog at 30.09.	613.3	**613.2**
Export level in %	85.2	**89.1**
Earnings before interest and taxes (EBIT)	39.2	**36.4**
Earnings before taxes (EBT)	34.9	**35.0**
Net profit	32.5	**29.5**
Balance sheet total at 30.09. (prior year: 31.12.)	1,085.5	**1,139.6**
Equity at 30.09. (prior year: 31.12.)	337.8	**369.5**
Investment in intangible assets, property, plant and equipment	19.6	**29.7**
Depreciation on intangible assets, property, plant and equipment	19.9	**21.7**
Payroll at 30.09.	5,332	**5,542** *
- thereof apprentices/trainees	363	**357**
Cash flows from operating activities	–5.0	**–24.6**
Earnings per share in €	1.98	**1.79**

*including 44 following the consolidation of KBA CEE Sp. z o.o.

Following a good third quarter, we have taken a large step towards achieving our growth targets for revenue and earnings for 2017. This performance was particularly underpinned by the expansion of our service business. In the current year to the end of September, the proportion of service in Group revenue widened to 27%, up from 24% in the previous year. In addition, gains in the growth fields of packaging and digital printing contributed to the 4% increase in the Koenig & Bauer Group's order intake to €903m. Group revenue rose by 2% to €848m. With the book-to-bill ratio of 1.07, the order backlog of €613m at the end of the quarter remained at the previous year's high level. EBIT came to €36m in the first nine months. The previous year's figure of €39m had been influenced by a catch-up effect of €5m from a security press project.

Our largest segment, Sheetfed, which is dominated by packaging printing, recorded a 12% increase in order intake accompanied by a 7% rise in revenue. EBIT climbed from €17m in the previous year to €20m. Despite the growth in service and digital printing business, order intake and revenue for Digital & Web fell short of the previous year due to the expected decline in orders for newspaper and commercial web presses. The positive earnings trend in web offset and digital printing business came under strain from optimisation efforts at KBA-Flexotecnica, resulting in segment EBIT of –€4m. With new orders slightly higher, revenue in the Special segment still fell short of the previous year's figure by 6% in the year to the end of September. The segment posted an EBIT margin of 8.4%.

The numerous press deliveries and service orders in the fourth quarter will trigger a surge in revenue and earnings. In view of this business concentration, which is challenging due to the high capacity utilisation but not unusual, we expect an organic growth of up to €1.25bn in Group revenue and an EBIT margin of around 6% in 2017.

In addition to the incremental expansion of our service business, we are working intensively on broadening our product range in packaging, industrial and digital printing in order to achieve continued profitable growth. One main focus is the above-average prospering market of corrugated printing, which is benefiting from growing consumer spending and packaging consumption all around the world as well as long-term trends such as home shopping. We have received a first order for the newly developed digital CorruJET sheetfed press, which attracted great customer interest at the trade event FEFCO in Vienna in October. We have already started marketing the sheetfed flexo presses CorruCut and CorruFlex, which we developed for analogue direct corrugated printing. We are working successfully with HP in the area of digital pre-prints of corrugated liners.

In September, many customers and business associates from all around the world as well as our staff and the citizens of Würzburg joined us in celebrating our 200th anniversary. We have entered our Company's third century with a new face to the market. Instead of KBA, the Koenig & Bauer brand with a new logo and product design has become a strong joint roof for all Group activities. The modern look of our premium brand is supporting our growth trajectory.

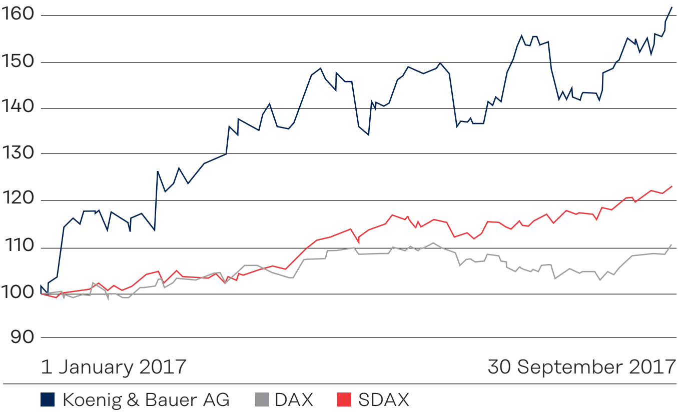
Claus Bolza-Schünemann
President and CEO of Koenig & Bauer AG

Koenig & Bauer Shares

Despite the heightened political and economic risks around the world, the global upswing and economic optimism fuelled the rally on the international capital markets. This performance was additionally underpinned by the accommodative monetary policy still being pursued by the ECB. The DAX rose by 11.7% and the SDAX by 25.1% over the end of the previous year. In addition to the favourable sentiment in the stock markets and the upbeat global economy, the Koenig & Bauer shares were spurred by profitable growth in the service business, packaging and digital printing markets and the new medium-term targets. After entering the year at €42.25, our share reached a high for the period under review of €69.73 on 29 September 2017. It performed strongly again, gaining by 63.1% over the end of 2016.

Koenig & Bauer shares

in %



Group Management Report

Business Performance

In the first nine months, the **Group's order intake** rose by 3.9% over the previous year (€869.8m) to €903.4m. Expansionary service business as well as gains in the diverse packaging solutions more than made up for the expected decline in orders for newspaper and commercial web presses and the slight shortfall in new security printing business compared with the previous year's high figure. **Group revenue** rose by 2% to €847.7m (2016: €831.4m). The export ratio widened from 85.2% to 89.1%, with the proportion of business coming from Europe excluding Germany increasing substantially to 37.2% (previous year: 30.5%). Whereas the proportion of North American business in Group revenue widened from 14% to 18.1%, the contribution made by Asia/Pacific narrowed to 23.6% (2016: 29.2%). Latin America and Africa accounted for 10.2% of Group revenue (2016: 11.5%). At €613.2m, the **Group order backlog** as of 30 September almost matched the previous year's high figure of €613.3m.

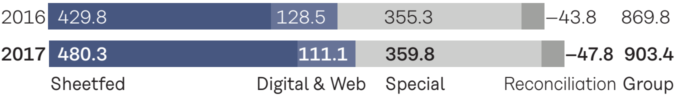
Earnings, Finances and Assets

Earnings

With EBIT coming to €20.1m accompanied by a margin of 6.5% in the third quarter, the **Group's earnings** are on track. Following structural changes, part of the expenses previously assigned to research and development are now reported within cost of sales. In addition to the decline in R&D costs from €41.4m in the previous year to €35.9m in the first nine months of 2017, the adjustment resulted in a slightly smaller

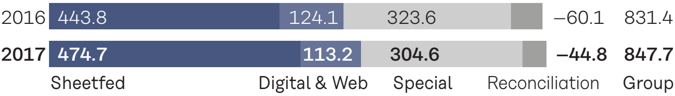
Group order intake

in €m



Group revenue

in €m

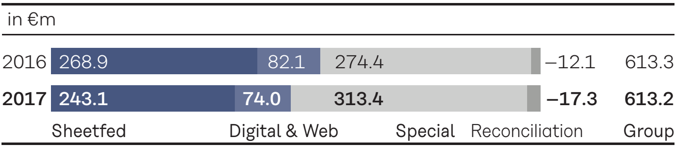


but still high **gross profit margin** of 29.1% (2016: 30.4%). Whereas administrative expenses rose from €58.2m to €66.7m primarily as a result of the implementation of the SAP ERP system and other IT projects, distribution costs dropped to €103.8m (2016: €111.2m). Other operating income and expenses came to –€3.8m, up from –€2.8m in 2016. This resulted in **EBIT** of €36.4m (2016: €39.2m). With interest result improving to –€1.4m (2016: –€4.3m), **Group earnings before taxes** reached €35m, compared with €34.9m in the previous year. After income taxes, **Group net profit** stood at €29.5m (2016: €32.5m), equivalent to proportionate **earnings per share** of €1.79 (2016: €1.98).

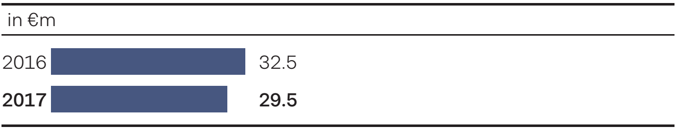
Finances

Despite the higher customer prepayments (+€20.9m), **cash flows from operating activities** came to –€24.6m and were thus down on the previous year's figure of –€5m. Whereas working capital was successfully reduced in large parts of the Group, inventories (+€24.9m) and customer receivables (+€56m) mainly rose in the Special segment. However, the measures already taken will not have short-term effects. Aside from capital spending of €27.9m, the **free cash flow** of –€87.8m (2016: –€17m) was burdened by the payment instalments of €37.4m made to date for the external funding of a part of the pension provisions. At the end of September 2017, **funds** stood at €117.1m (31 December 2016: €202m). Adjusted for bank loans of €47.1m, net liquidity equals €70m plus securities of €16.9m that can be liquidated at any time. The Group net profit together with the increase in the discount rate for domestic retirement benefits from 1.7% to

Group order backlog



Group net profit



2% caused equity to rise to €369.5m, translating into an equity ratio of 32.4% (end of 2016: €337.8m and 31.1%, respectively).

Assets

A sum of €29.7m (2016: €19.6m) was spent on a new demonstration centre for digital and flexo printing presses, infrastructure modernisation and for additionally improving production efficiency. Depreciation came to €21.7m, compared with €19.9m in the previous year. With property, plant and equipment up slightly, non-current assets rose from €320.4m to €359.7m primarily due to higher financial receivables. Reinsurance claims of €37.4m are held against the insurer as a result of the external funding of part of the Company pension provisions. With current assets rising from €765.1m to €779.9m, the **Group balance sheet total** increased to €1,139.6m (31 December 2016: €1,085.5m).

Segment Performance

Order intake in the **Sheetfed segment** rose by 11.7% over 2016 (€429.8m) to €480.3m. In addition to the clear increase in service orders, this performance was underpinned by strong demand in the packaging sector and substantial successes with fully equipped press lines for commercial printing. Moreover, orders for flatbed die-cutters for postpress processing of cardboard and corrugated exceeded expectations substantially. Revenue rose by 7% from €443.8m in the previous year to €474.7m. Alongside service and die-cutting business, deliveries of sheetfed presses were up across all format classes. At the end of September, the order books were valued at €243.1m (2016: €268.9m). The additional revenue with a good service business and lower costs resulted in an increase in segment profit to €20.3m (2016: €17.3m).

Despite the growth in service business and digital printing presses, order intake in the **Digital & Web segment** dropped to €111.1m compared with €128.5m in the previous year particularly as a result of fewer new contracts for web offset presses for newspaper and commercial printing. Reflecting this, revenue came to €113.2m, down 8.8% on the previous year (€124.1m). At €74m, the order backlog remained at a good level (2016: €82.1m). The positive earnings trend in web offset and digital printing business came under strain from optimisation efforts at KBA-Flexotecnica, resulting in segment EBIT of –€3.6m compared with the previous year's figure of –€1.9m.

In the **Special segment**, growth in orders for metal, glass/hollow container decorating and coding systems together with a slight shortfall in security printing business over the previous year's high level resulted in an increase in new orders from €355.3m to €359.8m. At €304.6m, revenue still fell short of the previous year (€323.6m). With the order backlog growing by 14.2% over 2016 (€274.4m) to €313.4m, good capacity utilisation is assured over the next few months. EBIT came to €25.6m in the first nine months. The previous year's figure of €29.6m had been influenced by a catch-up effect of €4.9m from a security press project.

Supplementary Statement and Risks

No events with a material impact on Group earnings, finances and assets occurred after 30 September 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 and Opportunities

Given the strong global economy, the International Monetary Fund (IMF) has raised its growth forecast and now expects global gross domestic product (GDP) to widen by 3.6% in 2017. Industry association VDMA assumes that the German mechanical and plant engineering sector will achieve 3% growth in real machinery production this year. On the other hand, the global political and economic risks liable to adversely effect the outlook for the economy as a whole as well as the sector have not lessened.

Following the 2% increase in revenue in the year to 30 September 2017 and the good earnings in the 3rd quarter, our guidance for 2017 is based on the high order backlog of €613m. The numerous press deliveries and service orders in the fourth quarter will trigger a surge in revenue and earnings. In view of this business concentration, which is challenging due to the high capacity utilisation but not unusual, we expect an organic growth of up to €1.25bn in Group revenue and an EBIT margin of around 6% in 2017. Given the positive earnings trend, we are reviewing as part of our tax planning the scope for recognising deferred tax assets and this may result in a once-only addition to net income.

We are making good progress in the €70m profit increase projects by 2021. With the comprehensive package of measures defined in our Group-wide service initiative, we are expanding the volume and profitability of our service business step by step. In connection with the performance improvement project in security printing, KBA-NotaSys Holding AG & Co. KG in Würzburg is to be established as a direct subsidiary of Koenig & Bauer AG to ensure efficient management of the three operating companies with short decision-making paths. The creation of a clear subgroup structure under unified management will additionally strengthen autonomous responsibility for achieving the goals defined for security printing as part of the Special segment. In addition to these two projects, we are working intensively on an integrated production network and strategic purchasing. We are targeting an organic revenue growth rate of around 4% p.a. and an EBIT margin of between 4% and 9% for the period to 2021 depending on global economy, end markets and the necessary investments in growth. Additional profitable growth is to be particularly underpinned by innovative solutions for printing, finishing and postpress processing as well as new industrial digital printing applications. With our focus on expansionary packaging and industrial printing, we want to boost the stability and profitability of our business on a sustained basis and reduce our exposure to volatile security printing business by achieving a higher proportion of packaging in Group revenue.

Group Balance Sheet

Assets

in €m	31.12.2016	**30.09.2017**
Non-current assets		
Intangible assets, property, plant and equipment	239.5	246.4
Investments and other financial receivables	15.9	52.6
Other assets	0.1	0.1
Deferred tax assets	64.9	60.6
	320.4	**359.7**
Current assets		
Inventories	293.4	318.3
Trade receivables	209.0	265.0
Other financial receivables	14.2	16.8
Other assets	26.6	45.8
Securities	19.9	16.9
Cash and cash equivalents	202.0	117.1
	765.1	**779.9**
Balance sheet total	**1,085.5**	**1,139.6**

Equity and liabilities

in €m	31.12.2016	**30.09.2017**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	206.8	239.0
Equity attributable to owners of the Parent	337.3	369.5
Equity attributable to non-controlling interests	0.5	–
	337.8	**369.5**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	212.5	204.5
Other provisions	23.2	19.9
Bank loans	1.4	1.1
Other financial payables	8.0	8.2
Other liabilities	1.0	1.2
Deferred tax liabilities	22.0	23.5
	268.1	**258.4**
Current liabilities		
Other provisions	180.5	169.1
Trade payables	59.0	57.9
Bank loans	32.5	46.0
Other financial payables	62.0	72.6
Other liabilities	145.6	166.1
	479.6	**511.7**
Balance sheet total	**1,085.5**	**1,139.6**

Group Income Statement

01.01. - 30.09. in €m	2016	2017
Revenue	831.4	847.7
Cost of sales	–578.6	–601.1
Gross profit	**252.8**	**246.6**
Research and development costs	–41.4	–35.9
Distribution costs	–111.2	–103.8
Administrative expenses	–58.2	–66.7
Other operating income and expenses	–2.8	–3.8
Earnings before interest and taxes (EBIT)	**39.2**	**36.4**
Interest result	–4.3	–1.4
Earnings before taxes (EBT)	**34.9**	**35.0**
Income tax expense	–2.4	–5.5
Net profit	**32.5**	**29.5**
- attributable to owners of the Parent	32.7	29.5
- attributable to non-controlling interests	–0.2	–
Earnings per share (in €, basic/dilutive)	**1.98**	**1.79**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2016	**43.0**	**87.5**
Net profit/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
30.09.2016	**43.0**	**87.5**
01.01.2017	**43.0**	**87.5**
Net profit	–	–
Gains recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Dividend	–	–
Other changes	–	–
30.09.2017	**43.0**	**87.5**

Statement of Comprehensive Group Income

01.01. - 30.09. in €m	2016	2017
Net profit	**32.5**	**29.5**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	0.6	–1.5
Measurement of primary financial instruments	0.4	–1.3
Measurement of derivatives	3.5	9.0
Deferred taxes	–0.2	–0.7
	4.3	**5.5**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–33.3	9.0
Deferred taxes	–0.1	–2.6
	–33.4	**6.4**
Gains/losses recognised directly in equity	**–29.1**	**11.9**
Total comprehensive income	**3.4**	**41.4**
- attributable to owners of the Parent	3.6	41.4
- attributable to non-controlling interests	–0.2	–

Reserves				
Recognised in equity	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**
–	32.7	32.7	–0.2	32.5
–29.1	–	–29.1	–	–29.1
–29.1	**32.7**	**3.6**	**–0.2**	**3.4**
–105.4	**236.3**	**261.4**	**0.4**	**261.8**
–79.1	**285.9**	**337.3**	**0.5**	**337.8**
–	29.5	29.5	–	29.5
11,9	–	11.9	–	11.9
11,9	**29.5**	**41.4**	**–**	**41.4**
–	–8.3	–8.3	–	–8.3
–	–0.9	–0.9	–0.5	–1.4
–67.2	**306.2**	**369.5**	**–**	**369.5**

Group Cash Flow Statement

01.01. - 30.09. in €m	2016	**2017**
Earnings before taxes (EBT)	34.9	35.0
Non-cash transactions	30.2	28.1
Gross cash flow	**65.1**	**63.1**
Changes in inventories, receivables and other assets	–64.8	–104.4
Changes in provisions and payables	–5.3	16.7
Cash flows from operating activities	**–5.0**	**–24.6**
Cash flows from investing activities	**–12.0**	**–63.2**
Free cash flow	**–17.0**	**–87.8**
Cash flows from financing activities	**–8.7**	**3.3**
Change in funds	**–25.7**	**–84.5**
Effect of changes in exchange rates and consolidated companies	–1.7	–0.4
Funds at beginning of period	186.3	202.0
Funds at end of period	**158.9**	**117.1**

Notes to the Interim Accounts to 30 September 2017

1 New Standards

The application of **IFRS 9: Financial Instruments** will amend the existing measurement categories for financial instruments. New models for hedge accounting and for reporting defaults will be introduced.

The standard **IFRS 15: Revenue from Contracts with Customers** provides a new five-step model to determine when and if to recognise revenue and how much revenue to recognise.

We have already commenced an analysis about the effects of the adoption of both standards on the Koenig & Bauer Group but are currently unable to provide any specific quantitative details. The effective date of initial application will be 1 January 2018.

2 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.

3 Consolidated Companies

In 2017 the sales and service subsidiary KBA CEE Sp. z o.o. (Warsaw/Poland) was consolidated for the first time in the Group accounts.

4 Segment Information

Flexible packaging is allocated to the Digital & Web segment from 2017. The figures for the previous year have been duly adjusted.

4.1 Business Segments

01.01. - 30.09.	Revenue		EBIT		Capital Investments	
in €m	2016	**2017**	2016	**2017**	2016	**2017**
Segments						
Sheetfed	443.8	474.7	17.3	20.3	7.4	9.1
Digital & Web	124.1	113.2	–1.9	–3.6	1.2	4.5
Special	323.6	304.6	29.6	25.6	8.6	2.4
Reconciliation	–60.1	–44.8	–5.8	–5.9	2.4	13.7
Group	**831.4**	**847.7**	**39.2**	**36.4**	**19.6**	**29.7**

4.2 Geographical Breakdown of Revenue

01.01. - 30.09. in €m	2016	**2017**
Germany	122.9	92.3
Rest of Europe	253.3	315.2
North America	116.6	153.2
Asia/Pacific	242.6	200.8
Africa/Latin America	96.0	86.2
Revenue	**831.4**	**847.7**

Key Financial Dates

Annual report 2017
22 March 2018

Interim report on 1st quarter 2018
3 May 2018

Koenig & Bauer Annual General Meeting
9 May 2018
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2018
1 August 2018

Interim report on 3rd quarter 2018
6 November 2018

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