KOENIG & BAUER

Added Value

Annual Report 2017

we’re on it.

Koenig & Bauer in figures

in €m	2016	**2017**	Change in %
Order intake	1,149.7	1,266.3	10.1
Order backlog at 31.12.	557.5	606.2	8.7
Revenue	1,167.1	1,217.6	4.3
Earnings before interest and taxes (EBIT)	87.1	81.4	–6.5
EBIT margin in %	7.5	6.7	–10.7
Earnings before taxes (EBT)	81.0	78.5	–3.1
EBT margin in %	6.9	6.4	–7.2
Net profit	82.2	81.1	–1.3
Balance sheet total	1,085.5	1,163.9	7.2
Intangible assets, property, plant and equipment	239.5	256.3	7.0
Equity	337.8	424.0	25.5
Equity ratio in %	31.1	36.4	17.0
Cash flow from operating activities	21.9	23.8	8.7
Investment in intangible assets, property, plant and equipment	31.9	50.1	57.1
Depreciation on intangible assets, property, plant and equipment	27.7	31.0	11.9
Payroll: annual average	5,287	5,450	3.1
Earnings per share in €	4.98	4.91	–1.4
Dividend per share in €	0.50	0.90	80.0

#1

in cardboard and banknote printing, metal and glass decorating

6.7%

EBIT margin

4.3%

increase in revenue

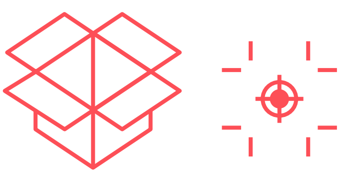
36.4%

equity ratio

Company profile

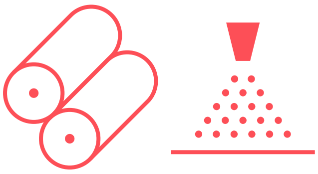
The Koenig & Bauer Group is a customer-centric partner to the international printing industry with annual revenue of €1.2bn and 5,600 employees. We are the global market and technology leader in security printing and in important packaging printing markets. Throughout our 200-year history, we have been 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 services cover a wide range of customer-oriented offerings including networked printing under the “Koenig & Bauer 4.0” label. With its solid balance sheet and high financial strength, Koenig & Bauer is on a profitable growth trajectory with focus on packaging, digital and industrial printing.

Segment breakdown



Sheetfed

- Sheetfed offset and digital printing
- Finishing and postpress solutions
- Flatbed and rotary die-cutters
- Workflow and logistics solutions
- Services



Digital & Web

- Digital and offset webfed presses
- Flexo presses for flexible packaging
- Flexo and digital printing on corrugated board
- Workflow and logistics solutions
- Services

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 (%)

10.9
Germany

36.8
Rest of Europe

17.7
North America

24.0
Asia/Pacific

10.6
Africa/Latin America

We create added value for our customers, employees, shareholders and business partners

Our innovative products and premium-quality bespoke solutions enhance our customers competitiveness. With our new and further developments, we focus on products and solutions for the growth markets of packaging, digital and industrial printing, allowing our customers to unlock added value via a sustainable business model. We are increasingly placing store by the “Internet of Things” and proactive services based on an analysis of customers’ specific machine and production data. Our employees are able to contribute their ideas and strengths to a company that is growing in markets of the future. The stability of a profitable and broadly based company is reflected in greater staff satisfaction and motivation. Our shareholders benefit from our growth trajectory with the company’s heightened earnings potential and the capital market’s increased confidence in the form of higher share prices and dividend distributions. With our strong balance sheet and financial resources, we are a reliable partner.

Contents

Dear shareholders,
ladies and gentlemen,

Driven by strong revenue and earnings in the fourth quarter, we fully achieved or exceeded our guidance for 2017. In the year under review, we are progressing well on our medium-term targets set in February 2017 thanks to the growth in revenue, earnings and order intake.

At €1,217.6m, Group revenue reached the target corridor of up to €1.25bn defined in our guidance. With revenue up 4.3% over the previous year, we fully achieved our mid-term organic revenue growth rate of around 4% p.a., thus more than making up for the further decline of €25m in revenue from newspaper and commercial web presses as expected. At the earnings level, our EBIT margin of 6.7% exceeded our guidance of around 6% for 2017. Adjusted for the non-recurring income arising in the previous year, Group EBIT climbed from €62.9m to €81.4m. Order intake expanded by 10.1% to €1,266.3m, thus outpacing the industry as a whole. This performance was underpinned by gains in market share across all business fields.

Our largest segment, Sheetfed, which is dominated by packaging printing, recorded a 15.2% increase in order intake accompanied by a 7.3% rise in revenue. EBIT climbed from €31.3m in the previous year to €37.5m. Digital & Web order intake and revenue fell short of the previous year primarily as a result of the expected further decline in orders for newspaper and commercial web presses. Segment earnings came under strain from optimisation efforts for flexible packaging printing and R&D spending, resulting in an EBIT of –€4.3m, down on the previous year's figure of €0.5m. After the measures introduced in flexible packaging printing take effect, we want to achieve a greater share of this large market, which is growing at an above-average rate. In the Special segment, order growth in all packaging areas addressed and in security printing led to a 16.1% increase in order intake. With revenue rising by 5.3%, EBIT climbed from €44.3m in the previous year to €53.7m.

In packaging, we were able to generate growth in the areas already being addressed, namely cardboard, metal, glass and hollow container decorating and coding, as well as in new markets. With the internally developed rotary die-cutter, which has already been sold several times, and the flatbed die-cutter business acquired from Iberica, we widened our extensive portfolio for packaging customers with the introduction of postpress processing of cardboard and corrugated board. The sharp rise in new contracts for flatbed die-cutters over the previous year exceeded our expectations substantially.

In addition to growth in the flourishing packaging printing, the Group's revenue and earnings growth was particularly underpinned by expansion in service business. Thus, the proportion of Group revenue generated by service business widened from 23.5% in the previous year to 25.6%. This shows that the Group-wide service initiative launched at the beginning of 2016, with which we want to widen the share of service business in Group revenue step by step to 30% by 2021 in the interests of greater earnings potential and stability, is now beginning to bear fruit. We want to create satisfied and loyal customers by offering excellent service. At the same time, rising service revenue is an important measure of customer satisfaction for us.

Moreover, we see an additional growth option for Koenig & Bauer in digital printing given that digitisation no longer poses any substitution risks for us in the markets that we address. In addition to our RotaJET digital web presses for decor and book printing, a number of inkjet web presses co-developed with HP for digital pre-prints of corrugated liners were successfully placed in operation by customers. We have received first orders for the newly developed CorruJET and MetalDecojet digital presses for printing on corrugated and metal sheets. We achieved strong sales with the globally unique hybrid system for printing on hollow glass, plastic and metal containers which combines inkjet printing with screen-printing, hot-stamping and labelling in a single press. We assume that analogue or hybrid processes will dominate industrially oriented packaging printing for cost, productivity and quality reasons. Digital printing is opening up additional market opportunities for business models specialising in small print runs, versioning and personalisation.

At the same time, we are working intensively on further applications for packaging and industrial printing. One key target is corrugated board printing, which is flourishing at above-average rates thanks to long-term trends such as home-shopping as well as more sophisticated and colourful outer packaging. We have already started marketing the sheetfed flexo presses CorruCUT and CorruFLEX, which we developed for the large and significantly growing market of analogue direct printing on corrugated board. In early 2019 a CorruCUT will be installed at a pilot customer.
As a globally leading supplier of presses for 3-piece can decorating, we want to expand our profile by entering the 2-piece can market. Presented in May with a number of unique features, the newly developed CS MetalCan for 2-piece can decorating met with strong customer interest. Following two contract signings, we are now able to commence intensive field-testing with the target of sales launch at the end of 2018.

We consistently address business areas with growth potential and are very successful with this strategy

Alongside expansion into growth markets offering potential for the future, the €70m EBIT increase projects are at the very top of the Management Board's agenda. We have made good progress towards achieving our targets for service business and strategic purchasing as well as the performance improvement project in security printing. The project for boosting production performance aims at reducing the complexity and diversity of parts in order to improve earnings.

Underpinned by the reduction in net working capital achieved in large parts of the Group and the strong earnings performance, cash flows from operating activities rose slightly. The necessary efforts to optimise receivables and inventories in security printing are already being taken but will not have short-term effects. Free cash flow was burdened by heavy capital spending, particularly for the modern demonstration centre for flexo and digital printing presses as well as high payments made in connection with the external funding of a part of the pension provisions.
In addition to our solid internal liquidity, the new syndicated long-term credit facilities give us a strong and stable financial basis. We have now made use of the current favourable market conditions to optimise our credit facilities and to realign them on a long-term basis. A renowned group of syndicate banks gives us the mix of international and national banking partners that we require for our future growth.

The solid balance sheet structure was additionally enhanced with the increase in the equity ratio to 36.4%. Thanks to the positive earnings performance and the retained profit generated by the holding company Koenig & Bauer AG, we are able to continue our dividend policy with a distribution rate of between 15% and 35% of the Group's net profit. Accordingly, we will be asking our shareholders to approve a dividend of €0.90 per share at the annual general meeting.

On the strength of the upbeat global economy and the outlook for the consistently growing packaging and industrial printing, we face 2018 with optimism in the light of the revenue and earnings growth already achieved. This is underpinned by the 8.7% increase in order backlog to €606.2m at the end of 2017. In response to rising costs, we will be increasing the prices of our entire product range by 3.7% effective 1 April 2018. Even so, the capital spending on our future growth is leaving traces on our costs. In the absence of any material deterioration in global economic and political conditions for our international business, we expect to achieve organic growth of around 4% in Group revenue and an EBIT margin of around 7% in 2018. This will put us on track to achieving our EBIT margin target of 9% and an organic revenue growth rate of around 4% p.a. by 2021.

With the double cylinder printing press of our founders Friedrich Koenig and Andreas Bauer for the *Times* in London began the era of mechanical printing in November 1814. They established our Company Koenig & Bauer in 1817. Today, we are systematically addressing areas of business offering growth potential, such as packaging and industrial printing, where we are enjoying great success. 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.

We thank our customers, shareholders, 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 2018
Koenig & Bauer AG Management Board

Claus Bolza-Schünemann
President and CEO

Dr Andreas Pleßke
Management Board member for the Special segment

Christoph Müller
Management Board member for the Digital & Web segment

Dr Mathias Dähn
CFO

Claus Bolza-Schünemann
President and CEO

Ralf Sammeck
Management Board member for the Sheetfed segment

Dear shareholders,

The Supervisory Board held five regular, three extraordinary and one constitutive meeting 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 matters of current interest. The Management Board reported to us in detail on key elements of the Company's business policy, corporate planning and strategic further development as well as its competitive position in major markets. The extraordinary meetings of the Supervisory Board, which were held either as telephone conferences or physically, were convened to pass urgent resolutions and also to discuss Management Board and compliance matters.

Compliance-related topics and Management Board matters were on the agenda of the extraordinary meeting held on 18 January 2017. In particular, we discussed the revised remuneration system for the Management Board at length. In a telephone conference held on 20 February 2017, we approved the proposed agreement with the Swiss Office of the Attorney General to settle the self-initiated proceedings against KBA-NotaSys SA in connection with shortcomings in corruption prevention. We also approved the new medium-term Group targets submitted by the Management Board.

On 21 March 2017, 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 2016. The Management Board reported on the Company's current business performance. In addition, the agenda for the annual general meeting including various motions concerning the appointment of the statutory auditor and elections to the Supervisory Board as well as authorised capital were approved. In addition to compliance, strategy and personnel matters, we discussed the results of the survey conducted in connection with the Supervisory Board's efficiency review.

At the meeting of 8 May 2017, we also discussed the Q1 report with the latest forecast for 2017 as well as Management Board matters. On the basis of the proposal submitted by the personnel committee, we passed resolutions approving the reorganisation of the Management Board, which is to have five members in the future, and the appointment of Christoph Müller and Ralf Sammeck to the Management Board effective 1 June 2017. Both Group management members will represent their segments, Digital & Web and Sheetfed, in the Management Board. Aiming at expanding new equipment sales, Ralf Sammeck has additionally taken over the coordination of global equipment sales. In order to push global service, Christoph Müller has also taken responsibility for coordinating Group-wide services initiatives. Furthermore the Supervisory Board delegated its member Dr Andreas Pleßke to the Management Board for a period of one year from 1 June 2017. Dr Pleßke will lead the Special segment and in particular the announced performance optimisation of the security printing business on an interim basis.

In addition to preliminary discussion on the annual general meeting, the Supervisory Board's meeting of 22 May 2017, which was continued the following day before the annual general meeting, heard a report on the progress of the performance improvement project in security

Dr Martin Hoyos
Chairman of the
Supervisory Board

printing together with an update on production performance. After detailed deliberation and intensive discussion, we approved the new Management Board remuneration system on the basis of a jointly prepared proposal.

Carsten Dentler, who had been appointed to the Supervisory Board by the register court on 13 March 2017, was duly elected as a shareholder representative at the annual general meeting on 23 May 2017. At the ensuing constitutive meeting of the Supervisory Board, the chairman and deputy chairman as well as the committee chairs were confirmed and changes to the composition of the committees approved.

The Group figures for the first half of the year and the corresponding report were discussed at the meeting of 8 August 2017. The Supervisory Board approved the basic targets and measures defined by the Management Board for the performance improvement project in security printing as well as the signing of a long-term syndicated loan contract providing for cash and guarantee facilities.

In addition to explaining the Q3 report, the Management Board presented the forecast for 2017 and the corporate planning and capital spending budget for 2018 to 2020 at the Supervisory Board's meeting of 7 November 2017. We approved the plans presented for 2018. In addition to the performance improvement project in the production area, the Supervisory Board dealt at length with the corresponding project for security printing and passed resolutions approving the implementation of the management and legal structure. The Management Board reported on the progress of the personnel development project. In addition, the Supervisory Board heard reports on compliance matters.

In a telephone conference held on 21 December 2017, we passed a resolution to engage our statutory auditor KPMG Bayerische Treuhandgesellschaft AG with a business audit of the non-financial Group report.

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 committee and the personnel committee met four times, the strategy committee three times and the nomination committee for new members of the Supervisory Board representing the shareholders twice. It was again not necessary for the mediation committee appointed under section 27 (3) of the Codetermination Act to convene in 2017.

In addition to the quarterly reports, one of the main tasks of the audit committee is to comprehensively review the annual financial statements and consolidated financial statements of Koenig & Bauer AG and the 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. The audit committee reviewed the non-auditing activities performed by the statutory auditor on a quarterly basis. Further matters dealt with at the committee meetings included the compliance and risk management system and the Group's risk situation, internal auditing, the determination of audit priorities, the observance of the recommendations and requirements of the EU auditor reform and the roll-out of the SAP system. The Chief Executive Officer and the Chief Financial Officer regularly attended the meetings.

In the year under review, Management Board matters dominated the meetings of the personnel committee. Following the resignation of Carl Ferdinand Oetker, the nomination committee prepared the candidate recommendation for approval by the Supervisory Board for the upcoming election of a shareholder representative at the annual general meeting. The strategy committee dealt in detail with the market and product strategy presented by the Management Board for ensuring the Group's sustained growth and future alignment. In addition, the performance enhancement projects for security printing and production were reviewed. The committees reported on the results of their meeting to the Supervisory Board regularly and comprehensively.

On 9 February 2018, 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, the Company complies with all the principles and recommendations of the latest version of the German Corporate Governance Code of 7 February 2017, 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 breakdown of the attendance at the meetings of the Supervisory Board and the committees is set out in the following table:

Name	Member since	Total meetings (9)	Personnel committee (4)	Audit committee (4)	Strategy committee (3)	Nomination committee (2)
Dr Martin Hoyos, Chairman	2013	9/9	4/4	4/4	–	2/2
Gottfried Weippert, Deputy chairman	2001	9/9	4/4	4/4	3/3	–
Dagmar Rehm, Deputy chairman	2014	8/9	4/4	4/4	–	2/2
Julia Cuntz	2016	8/9	–	–	–	–
Carsten Dentler	13.03.2017	7/9	–	–	1/3	–
Marc Dotterweich	2015	9/9	–	4/4	–	–
Matthias Hatschek	2006	8/9	–	–	2/3	2/2
Christopher Kessler	2016	9/9	–	–	3/3	–
Professor Gisela Lanza	2015	8/9	–	–	3/3	–
Walther Mann	2006	8/9	–	–	3/3	–
Dr Andreas Pleßke[1]	2016	8/9	–	–	3/3	–
Simone Walter	2016	9/9	–	–	–	–

[1] Delegated to the Management Board from 1 June 2017 to 31 May 2018

The annual financial statements of Koenig & Bauer AG and the consolidated financial statements of the Koenig & Bauer Group as of 31 December 2017 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 2018, 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 and non-financial Group reports. Accordingly, the annual financial statements of Koenig & Bauer AG were approved at the meeting and thus adopted. The consolidated financial statements and the combined management and non-financial Group reports were also examined carefully and duly approved. The Supervisory Board approved the proposal to distribute a dividend of €0.90 per share.

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 Koenig & Bauer's success in 2017. Our thanks also go out to our shareholders for their trust in the Company.

Würzburg, 21 March 2018
Koenig & Bauer AG Supervisory Board

M. Hoyos

Dr Martin Hoyos
Chairman of the Supervisory Board


KOENIG & BAUER

Successful start into the third company century

Koenig & Bauer celebrated its 200th anniversary on 9 August 2017. Following the invention of the cylinder printing press, which was successfully marketed to *The Times* in London for the first time, Friedrich Koenig and Andreas Bauer laid the foundations for the world's first printing press factory in Kloster Oberzell near Würzburg in 1817. This was to be the germ of the German printing press industry, which holds an outstanding international position.

From these early beginnings arose a leading international printing technology group offering a broad range of solutions. Key milestones in the company's history were passed with acquisitions and partnerships aimed at diversifying commercial and publication printing, which had dominated its business for many decades, through forays into packaging, security, digital and industrial printing. We have built up a global market and technological leadership in cardboard and banknote printing, metal and glass decorating. With our strong balance sheet and financial profile, we are able to continue reinforcing our role as an innovator in printing press engineering.

On 21 September 2017, we celebrated our anniversary with many customers and business friends from all over the world. With their presentations on the "World of Media, Packaging and Security", three CEOs of renowned customers pointed out their views of the situation in the printing sectors addressed by Koenig & Bauer based on their own practical experience. In his speech, Dr Horst Köhler, the former German Federal President, said that holistic solutions and a global partnership held the answers to the challenges of the future posed by demographic growth, scarce resources and the digital transformation. The celebrations culminated in a staff evening and an open day attracting more than 13,000 visitors.

New face to the market with a strong umbrella brand

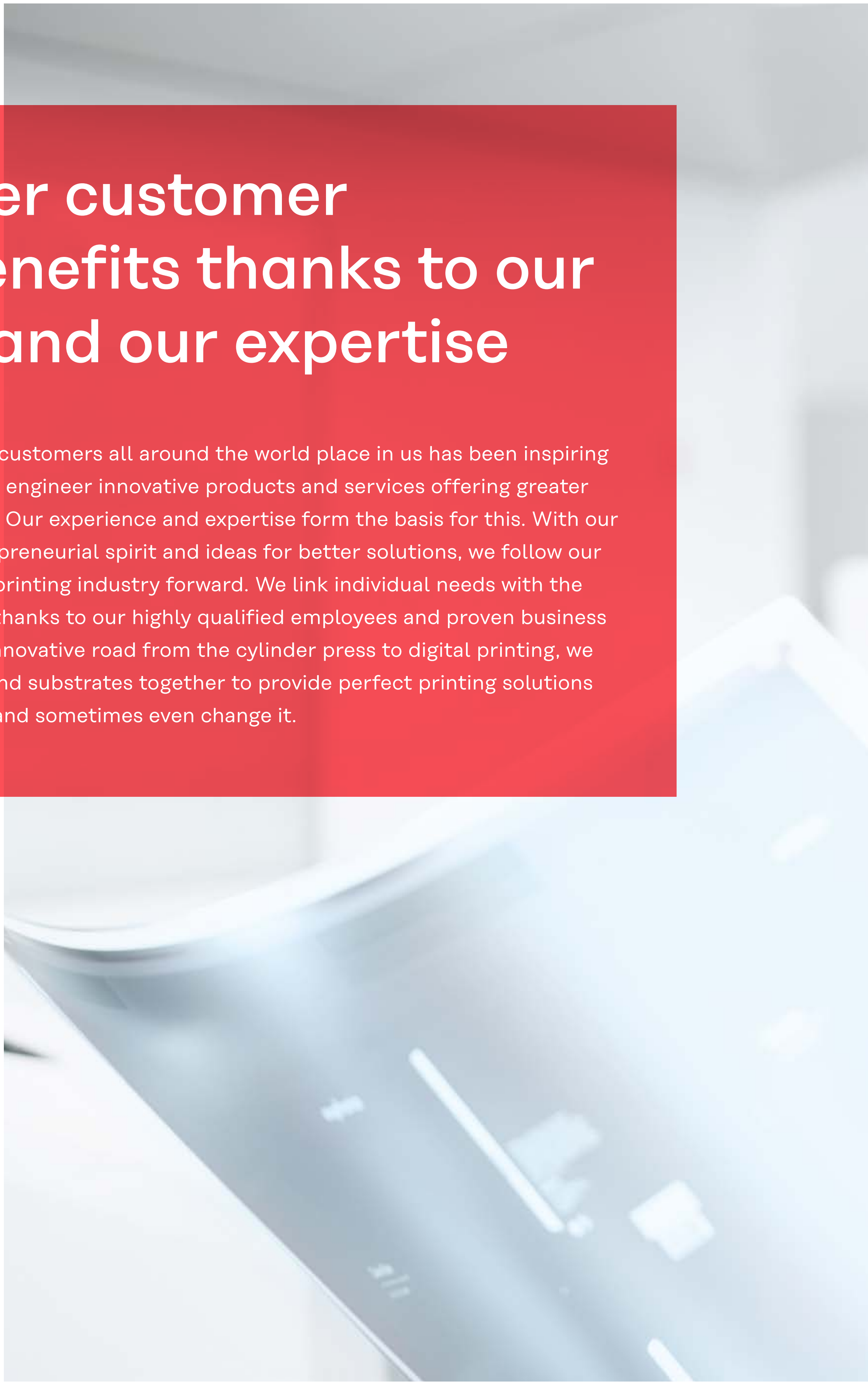
We have entered our Company's third century with a new face to the market and a potent umbrella brand. Instead of KBA, the Koenig & Bauer brand with a new logo and product design has become a strong joint roof for all Group activities. The "Et" symbol integrated in the redesigned Koenig & Bauer premium brand featuring a new corporate font has been derived from the old logo and reflects the new printing technologies. The purpose of the new product design is to highlight even more effectively the extraordinary quality, performance and user-centricity of the printing presses and systems supplied by the Koenig & Bauer Group companies.

Our new motto “we’re on it” succinctly sums up our skills and strengths under the core brand message: “Koenig & Bauer brings together what moves our customers forward”.

- → For 200 years, we have been driving innovations in printing press engineering for higher customer benefit
- → We don’t give up until we have found the best solution for meeting our customers’ requirements
- → We are always there for our customers and are their partner for achieving top performance
- → We apply inks efficiently and precisely to a wide range of different substrates
- → We are the printing experts with the longest tradition and experience
- → We have the greatest expertise thanks to the widest product range for producing, finishing and postpress processing printed products

Greater customer benefits thanks to our ideas and our expertise

The trust that our customers all around the world place in us has been inspiring us for 200 years to engineer innovative products and services offering greater customer benefits. Our experience and expertise form the basis for this. With our creative will, entrepreneurial spirit and ideas for better solutions, we follow our drive to move the printing industry forward. We link individual needs with the latest technology thanks to our highly qualified employees and proven business partners. On our innovative road from the cylinder press to digital printing, we have brought ink and substrates together to provide perfect printing solutions that make history and sometimes even change it.



> "Print is what has been keeping our company and its employees in motion for 200 years and is growing worldwide. Developing printing solutions in a digitalised world to make our customers successful is an exciting task."

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

Our targets

We have set ourselves ambitious objectives for sustainable business success aimed at achieving a long-term increase in the Company's enterprise value:

- → The greatest possible customer satisfaction and long-term customer loyalty
- → Innovative products and solutions offering greater customer benefits
- → Competent advice and intensive support for our customers with new investments and after-sales service
- → Technological leadership with high system expertise
- → Quality leadership
- → Measures to boost employee motivation and qualification
- → Preservation of natural resources through an environmentally conscious approach in all our actions
- → Acknowledgement of our social and cultural responsibilities as a good corporate citizen

We want to achieve the following Group targets by 2021:

further gains in market share

particularly in the growth markets of packaging, digital and industrial printing

around 4% p.a.

organic revenue growth

4% – 9%

EBIT margin depending on global economy, end markets and the necessary investments in growth

30%

share of revenue from service business to ensure greater earnings stability

over 45%

equity ratio

15% – 35%

dividend ratio of Group net profit to assure shareholders of a reasonable portion of our Company's success

20% – 25%

target corridor of revenue for net working capital

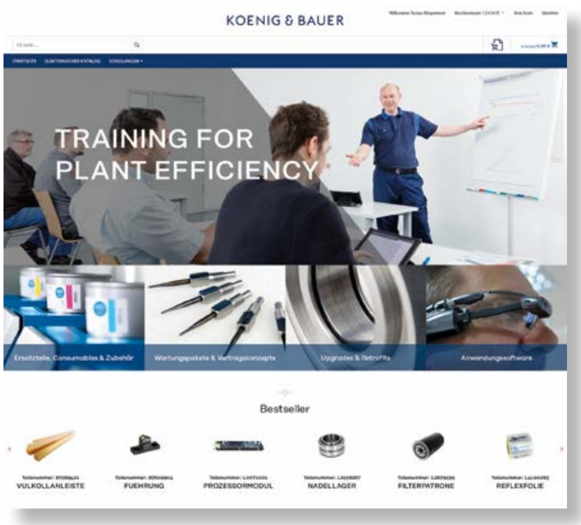

VUZIX
3M
KOENIG & BAU

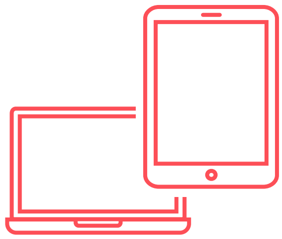
Greater customer satisfaction thanks to our initiatives and actions

We are committed to achieving the greatest customer satisfaction and long-term customer loyalty through excellent services and higher customer benefits of our innovative and bespoken high-tech products. With the Group-wide service initiative launched in 2016, we are developing the service culture at Koenig & Bauer to achieve comprehensive and individual customer care with swift turnaround times. This also involves communicating with our customers via modern channels. Internet-based service instruments and networked presses boost efficiency for our customers. Ultimately, our proven and new proactive services strive for maximum availability and performance of our customers' installations. At the same time, we want to achieve greater earnings stability across the entire Koenig & Bauer Group by widening the proportion of revenue from service business to 30% by 2021. We have defined clear project reporting paths to the Executive Board to ensure efficient project tracking.

Our services and solutions

Our range of services includes 24/7 customer care, a spare parts service, remote maintenance, inspections, analytics, advice and training. To this we have now added proactive services and modern tools. Our services including networked printing under the “Koenig & Bauer 4.0” label can be flexibly adjusted to meet our customers’ requirements.



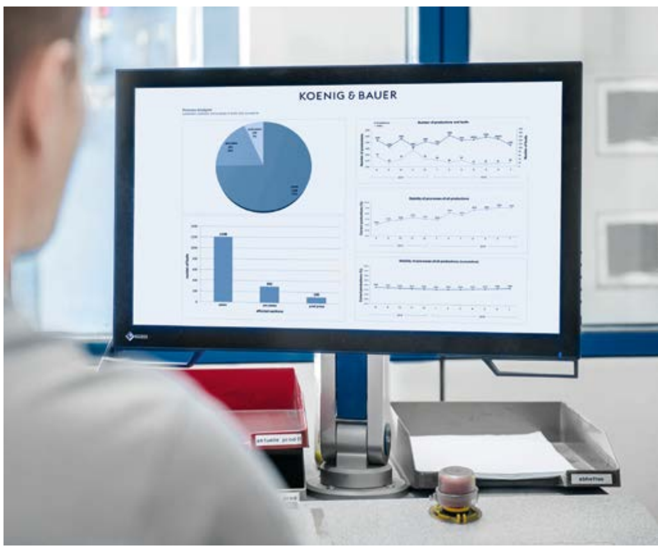


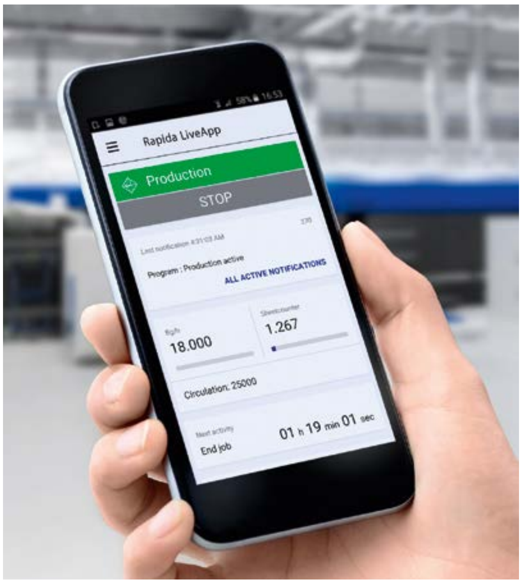
Webshop

Convenient operation and customer-oriented features
In response to the steady growth in the Internet as a sales channel, we have installed user-friendly and efficient webshops for spare parts, consumables and services. The shop can be accessed on PCs as well as on all standard mobile devices.

Proactive service offerings

“Internet of Things” enabling intelligent solutions for maximum performance
In the wake of the digital transformation that goes hand in hand with the networking of the presses installed by customers, a large repository of data is available for proactive services. Our performance reports summarise key production figures and trends for our customers at a glance. Using as a basis the customer-specific performance data, we offer our customers comprehensive analytics for process optimisation and efficiency gains as well as anonymised benchmarks on a global basis. In addition to staff training, preventive maintenance during planned idle times together with other measures can help to maintain maximum availability and top performance of the customer’s installations as well as ensuring high customer satisfaction and creating a competitive differentiator.





Rapida LiveApp and MobileConsole

The console becomes mobile

The Rapida LiveApp enables control of sheetfed offset presses together with maintenance management using a smartphone. At the beginning of 2018, it was enhanced with the inclusion of the ProductionApp for efficient inventory management and batch tracking. This app displays order proposals and shows when consumables need to be replenished or replaced. We have introduced MobileConsole as a web-based tool in the business segment Digital & Web. This industrial-scale tablet acts as a mobile console, via which all functions can be operated.

AR DataGlass

Swift direct support via data glasses

Using augmented-reality (AR) data glasses, our remote service specialists can see in real time exactly what the on-site technician sees and are thus directly able to help him to remedy any faults and answer any questions. The local technicians communicate with our remote specialists via headphones and microphone directly at the press without having to interrupt their work. Swift and uncomplicated communications shorten intervention times significantly.


KOENIG & BAUER

Greater customer loyalty thanks to our innovative products

The future belongs to print as more and more things are being printed with increasingly diverse appearance. Packaging printing is growing at a particularly fast pace due to the global rise in consumer spending. Packaging consumption is also being driven by the mega-trend of home-shopping with its high return rates, smaller delivery sizes as a result of the greater number of single-person households and more stringent regulations. Packaging is increasingly being used as a brand ambassador, with “unboxing” forming part of the shopping and brand experience. For this reason, it is becoming increasingly more sophisticated and colourful through the use of more special inks. At the same time, the rising demands of brand owners with respect to quality, flexibility, cost efficiency and delivery times are calling for convincing solutions with a sustainable business model. Our passion for technology and printing excellence gives rise to premium products offering high customer benefits. We can address almost any requirement with a bespoke solution for our customers.

Our innovative products

We have engineered a large number of innovative products and services for the growth markets of packaging, digital and industrial printing with high customer benefits and brought them to the market.

CS MetalCan

New dimension for 2-piece can printing
CS MetalCan is the answer to market requirements calling for frequent decoration changes and greater product diversity. The perfect interplay of all components in terms of quality, productivity and safety ensures highly efficient printing production of beverage cans. Fitted with ten inking units for maximum print quality and many automation features, CS MetalCan sets new standards in 2-piece can printing. In addition to a high production output, it offers substantial productivity gains particularly thanks to the make-ready times that can be reduced heavily to a few minutes.

CorruCUT/CorruFLEX

High-quality solution for corrugated board printing and finishing
We have engineered a new generation of wide sheetfed flexo presses with or without an integrated rotary die-cutter for analogue direct printing on corrugated board with a thickness of up to 9 mm. We have already started marketing CorruCUT and CorruFLEX in the large and fast-growing market for such applications. In early 2019 a CorruCUT will be installed at a pilot customer.

CorruJET/MetalDecojet

Digital printing on corrugated board and metal sheets
Digital printing on corrugated board and metal sheets is opening up additional market opportunities for business models specialising in small print runs, versioning and personalisation. With the digital CorruJET sheetfed press, we have developed a high-performance solution that can be integrated perfectly in the corrugated board workflow thanks to its print width. MetalDecojet is the world's first inkjet system specially developed for the metal decorating industry. With the combination of modern digital printing technology and our many years of experience in metal decorating, it offers a number of unique features. In addition to the excellent postpress characteristics of decorated metal, MetalDecojet is also suitable for food packaging thanks to the use of water-based inks. The first orders for these two innovations will be executed in 2018.

ErgoTronic AutoRun

Autonomous printing for greater productivity
Productivity and economic efficiency of our sheetfed offset presses can be significantly improved by means of autonomous printing through AutoRun and remote process monitoring via mobile devices and the Rapida LiveApp. ErgoTronic AutoRun triggers a sequence of printing jobs on the basis of operator-programmed parameters, process steps and sequences. The operators monitor the process and are freed from other routine activities.

Rapida RDC 106 rotary die-cutter

World record with 17,000 sheets per hour
The Rapida RDC 106 sets the benchmarks for rotary die-cutting with an output of up to 17,000 sheets per hour. With its top performance, the applications range from punching labels and in-mould products, via embossing, creasing, cutting and stripping for the processing of folding boxes and other packaging products, through to tailored variants for commercial users.

14 65 3892

betaJET xenio

Coding system for demanding surfaces
The betaJET xenio, a marking system based on drop-on-demand technology, supplements our range of marking and coding products with a simple solution. Until now, marking demanding surfaces such as sponges, pipes and medicinal hoses has been particularly difficult. Now, however, it is possible to label porous and silicon-based materials with high-contrast print in a high resolution.

SUSI Optics

Banknote printing with maximum counterfeit protection
The strong, multi-coloured effects of SUSI Optics are achieved through the combination of high-precision offset printing on our Super Simultan presses with micro-lenses. Special micro-lenses create dynamic movement effects on the banknotes and are embossed using our Opti Nota H presses. The various optical effects are readily discernible and extremely difficult to forge.

Inkjet digital printing on hollow containers made from glass, plastic or metal

Globally unique inline combinations for greater quality and efficiency
We have successfully launched our innovative solution for high-output, high-quality printing up to 1,200 dpi and extremely complex article geometries. This globally unique hybrid system combines digital printing with screen-printing, hot-stamping and labelling in a single press. Articles can be printed digitally and on an individualised basis in one machine pass with high-value screen-printed decorations and embossed metallic foils.

Koenig & Bauer shares

Strong performance with a gain of 47%

Despite the political and economic risks around the world, the global upswing and upbeat economic outlook in major global markets continued to drive the international share markets. Moreover, tax cuts and the expected large infrastructure package in the United States generated optimism. As well as this, the capital markets were spurred by the accommodative monetary policy still being pursued by the European Central Bank. The DAX rose by 12.5% and the SDAX by 24.9% over the end of the previous year.

€71.27
High for the year 2017

In addition to the favourable sentiment in the stock markets and the upbeat global economy, the Koenig & Bauer share was buoyed by the announcement of the Group's medium-term goals targeted by 2021 and its good business performance with profitable growth in service business and in the packaging markets. After entering the year at €42.25, our share reached a high for the year under review of €71.27 on 6 October. This triggered profit-taking, while the exit of a major shareholder ushered in a phase of consolidation. The Koenig & Bauer share closed the year 2017 at €62.83. With gains of 47% in 2017 and 528% in the last three years, our share outperformed the DAX and SDAX indices.

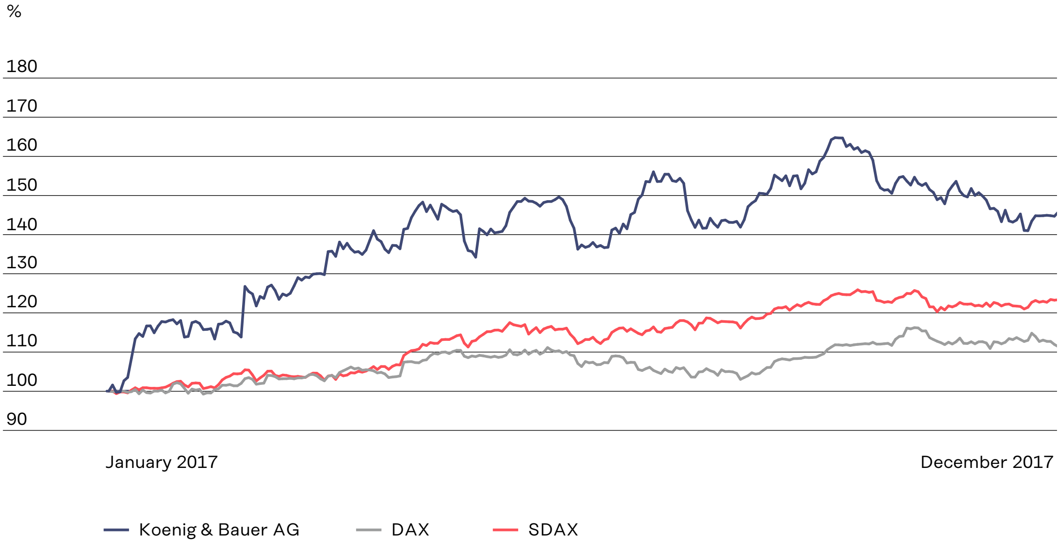
Dividend yield of 1.4%

The proposed dividend of €0.90 per share translates into a dividend yield of 1.4% 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 numerous capital market conferences. We attended the Oddo Forum in Lyon and the German Corporate Conference organised by Kepler Cheuvreux/Unicredit in Frankfurt in January, the Oddo Seydler German Micro, Small and Mid Cap Conference in Frankfurt in February and the Bankhaus Lampe Germany Conference in Baden-Baden in March. Warburg Highlights in Hamburg in May was followed by the Berenberg DACH Seminar at the end of August in Copenhagen. The autumn season commenced in September with the J.P. Morgan Cazenove Small/Mid Cap Conference in London and the Berenberg/ Goldman Sachs German Corporate Conference in Munich. In October, we attended the Berenberg Discovery Conference USA in New York. This was followed in November by the LBBW German Company Day in London, the Bankhaus Lampe Small Cap Conference and Eigenkapitalforum in Frankfurt. We called on numerous investors

Performance of the share January – December 2017



in roadshows in Boston, Brussels, Chicago, Edinburgh, Frankfurt, Geneva, London, Luxemburg, Paris, New York and Zurich. The annual general meeting forms a traditional component of our communications with the shareholders. Held on 23 May 2017 at the Vogel Convention Center (VCC) in Würzburg, last year's annual general meeting was attended by around 500 shareholders, equivalent to 66% of the Company's capital. We keep shareholders and the general public posted on key developments and dates via our website. Financial information, quarterly and annual reports, presentations and press releases can be accessed there at all times.

Listing in Prime Standard

Koenig & Bauer shares are listed in the SDAX, the small cap index of Deutsche Börse. Numerous banks and brokers actively cover Koenig & Bauer and regularly publish analyses and sector studies. At the end of 2017, four analysts rated our share a buy. Three issued hold or sell recommendations on the basis of their models and assumptions.

Koenig & Bauer share performance indicators

€

	2016	**2017**
Earnings per share	4.98	4.91
High for the year	51.31	71.27
Low for the year	22.67	42.25
Closing price	42.75	62.83
Market capitalisation in €m	706.4	1,038.3
Cash flow per share	1.33	1.44
Dividend	0.50	0.90

www.koenig-bauer.com/en/investor-relations/

Corporate governance report

Strong corporate governance

With the consistent self-responsibility of the segments as well as of the autonomously operating business units, we have implemented 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 revenue, EBIT and net working capital. Permanent losses are not accepted, while the divisional organisation structure prevents any cross-subsidisation effectively. Capital is consistently deployed in the light of strategic goals and the expected return.

Compliance management system systematically expanded

This year, we again achieved further progress with the ongoing development of an appropriate, effective and sustainable compliance management system as well as in our goal to strengthen a compliance ethos within the Group. The corporate compliance manual issued across the entire Group combines the code of conduct, compliance rules and the main Group policies in a single document. The manual is currently available in nine languages and has been distributed to all employees around the world via executives and the compliance officers. With the current comprehensive revision of the manual, we want to ensure that any changes to the legal situation are duly taken into account and that best practices are observed. Supplemented with additional Group guidelines, the compliance rules illustrate and ensure correct conduct in a wide range of different day-to-day situations. Newly developed guidelines, work instructions and processes help employees to observe the compliance rules in their daily work.

High
compliance and integrity standards

At the same time, extensive awareness of compliance matters is heightened through training and intensified internal communications on the Group-wide Intranet. After Group-wide online courses, in the period under review training primarily took the form of face-to-face sessions dealing with more specific matters of relevance for individual target groups. We plan to implement a professional training management system in 2018. Looking forward, the learning management system will ensure the efficient and effective coordination of internally developed and externally sourced training content based on employees' duties and simplify reporting on the basis of defined compliance performance indicators (KPIs).

The compliance team's efficiency has been boosted with the appointment of compliance officers in all segments and the establishment of a central export control unit. Beyond their roles in implementing and monitoring standards, processes and reporting at the subsidiaries, the local compliance officers and staff have a special function as a direct contact and advisor for local staff on compliance-related matters. In addition to the group compliance officer, the team is made up of local compliance officers, compliance responsibles and special compliance responsibles. We are currently implementing a Group-wide whistleblower system allowing employees to report any suspicious activities without any fear of reprisals as a channel for gaining swift and direct information on possible breaches of the law, regulations and internal rules. To date, employees have been able to report suspected compliance breaches or refer questions pertaining to compliance matters to known internal persons under a duty of confidentiality or to the central compliance department.

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 9 February 2018 on the basis of the current version of the German Corporate Governance Code dated 7 February 2017. This declaration as well as the declarations for earlier years are available publicly on our website. 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 Article 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 again by the Supervisory Board this year.

The rules of procedure of the Supervisory Board provide for an age limit. A limit on the length of service on the Supervisory Board (Article 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

Our Supervisory Board has defined specific goals for its composition and taken account of the criteria described in 5.4.1 (2) of the German Corporate Governance Code. In addition to management experience, an international background and strategic competence, the Supervisory Board considers expertise in the following areas to be necessary for the due and proper performance of its duties as prescribed by law, the Company's articles of incorporation and the rules of procedure: finance/accounting/auditing, production/assembly, markets/product expertise/communications, law/corporate governance, IT systems/digitisation and sustainability. The profile of skills devised for the Supervisory Board in its entirety confirms that as a whole it possesses the necessary knowledge, capabilities and experience for the due and proper performance of its duties. Diversity has also been duly allowed for as a further criterion. Moreover, with the inclusion of Dr Martin Hoyos, Dagmar Rehm, Carsten Dentler, Dr Andreas Pleßke and Professor Gisela Lanza on the Supervisory Board, it believes that it has a reasonable number of independent shareholder representatives. No conflict of interests was reported by any members of the Supervisory Board in the year under review.

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.

www.koenig-bauer.com/en/investor-relations/corporate-governance/declaration-of-compliance/

Detailed index Combined management report

Combined management report

Corporate structures

Company structure and business activity

Customer-oriented

partner to the global print industry

See page 95

Leading supplier in packaging and security printing

The Koenig & Bauer Group is a technology company that can look back on a history spanning 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 the global 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. 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, industrial and digital printing.

Global presence

The Koenig & Bauer Group is active in virtually all countries around the world, with an export ratio currently of around 90%. 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. For this reason, we have expanded our sales and service network in the markets of the future over the last few years.

Decentralised organisation with a holding company structure

The Koenig & Bauer Group is composed of Koenig & Bauer AG as the holding company and its subsidiaries (see list in the notes to the consolidated financial statements). In connection with the performance improvement project in security printing, KBA-NotaSys Holding AG & Co. KG in Würzburg is being 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.

Business activities of the segments

Our operating business is divided into three segments – Sheetfed, Digital & Web and Special. Sheetfed, the segment with the highest revenue, offers for packaging and commercial printing 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 portfolio also includes peripheral equipment for finishing and postpress processing. In addition to its internally developed rotary die-cutting equipment, the segment entered flatbed die-cutting business in 2016 with the acquisition of Iberica. The domestic and foreign sales companies that mostly offer sales and service functions for several segments are allocated to Sheetfed, the largest segment. Small branches in Scandinavia, Russia, Australia, Japan, Malaysia, Singapore, South Korea and Latin America are not included in the consolidated financial statements.

The Digital & Web segment encompasses our business with digital and offset web presses as well as equipment for flexo printing. Roughly half of its revenue is generated by spare parts and services for the increasingly older press fleets used in newspaper and commercial printing. Orders for new publication printing presses contribute only 12% of segment order intake and 1.3% of Group order intake. In addition to the HP press for corrugated board printing, the segment's digital printing activities comprise the RotaJET platform for decor and book printing and the CorruJET sheetfed press for direct printing on corrugated board. Furthermore, from 2017 the flexo presses for flexible packaging printing are added to this segment. The newly developed sheetfed flexo presses CorruFLEX and CorruCUT (with a rotary die-cutter aggregate) for direct printing on corrugated board are also assigned to this segment.

The Special segment is made up of special presses for banknote and security printing and systems for industrial marking and coding as well as special systems for metal and direct glass and hollow container decorating. 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 planning and control
The established business management system is characterised by granulated cost-accounting and comprehensive planning and control instruments. 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 Group and the segments. The basic corporate governance principles adopted by the Group are systematically enforced.

The controlling instruments 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, prepared 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.

Regular strategy and financial reviews

Detailed monthly reporting tracks the current business and earnings situation as well as trends in working capital. In addition, the 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 at an early stage on the basis of this comprehensive assessment of Group and segment performance.

Targets for 2017
achieved or exceeded

The Koenig & Bauer Group uses revenue and the EBIT margin calculated in accordance with the International Financial Reporting Standards (IFRS) as its main target and management indicators. The targets set for 2017 of an increase in revenue to up to €1.25bn and an EBIT margin of around 6% were achieved or exceeded. In addition to these main financial performance indicators, management reporting also 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. It is calculated by deducting trade payables to third parties and customer prepayments from inventories, prepayments made towards inventories and trade receivables from third parties.

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 targets. Working capital parameters form part of the personal annual goals defined for operational management staff.

Orderly accounting through internal monitoring

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

In addition to accounting for the holding company and a number of affiliated companies, 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 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 comprehensive planning of the enterprise-wide SAP project and an intensive period of fine-tuning, the staggered roll-out is now underway. The ERP system went into operation at the holding company Koenig & Bauer AG at the beginning of October 2017. It will be rolled out at the largest business unit KBA-Industrial Solutions including KBA-Gießerei in the first half of 2018, 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 uniformly 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 the growth packaging, industrial and digital printing markets

In the performance of our research and development activities, we attach key importance to boosting customer benefits. We want to increase our customers' competitiveness with our innovative, bespoke products and services. With respect to process-related innovations, high priority is assigned to approaches for boosting efficiency, lowering costs and reducing energy consumption. Our experts have worked on intelligent digital networking systems with workflow solutions for the integrated printing factory and on new services under the "Koenig & Bauer 4.0" label to take full advantage of the efficiency of our printing press technology. The user-oriented utilisation of data including networking forms the main focus of all digital services. Our Sheetfed segment significantly improves productivity and economic efficiency of our sheetfed offset presses by means of autonomous printing through ErgoTronic AutoRun and remote process monitoring via mobile devices and the Rapida LiveApp.

Innovations for greater **customer benefits**

Best solutions for our
customers

With an output of up to 20,000 sheets per hour, extremely short make-ready times and up to 19 printing and finishing units, the Rapida 106 has been the benchmark for medium formats in sheetfed offset for many years, as well as our Rapida Jumbos for large formats. Our sheetfed offset experts are also trend setters in innovative processes for inline finishing, eco printing and LED-UV printing. The energy-saving LED-UV technology offers printers scope for competitive differentiation and new marketing strategies. For example, printing on natural paper is possible in a high degree of brilliance. The Rapida RSP 106 rotary screen printing press offers additional finishing functions such as spot-coating effects and functional coatings and is also suitable for printed electronics. In addition to a new-generation plate-changer with substantially lower make-ready times, Sheetfed has developed innovative measuring components for complete quality monitoring. With an output of 17,000 sheets per hour, the Rapida RDC 106 rotary die-cutter has achieved the world record in rotary die-cutting. Also on the agenda is an upgrade of the Iberica flatbed die-cutters for cardboard and corrugated board packaging together with a digital sheetfed press for printing folding cartons characterised by high user orientation.

In addition to industrial applications for the RotaJET platform, R&D activities in the Digital & Web segment are focusing on the large corrugated board market, which is growing at above-average rates. The CorruFLEX sheetfed flexo press and the CorruCUT with an integrated rotary die-cutter have been developed for analogue direct printing on corrugated board. Digital printing on corrugated sheets is opening up additional market opportunities for business models specialising in small print runs, versioning and personalisation. With the digital CorruJET sheetfed press, we have developed a high-performance solution that can be integrated perfectly in the corrugated workflow thanks to its printing width. The main focus in flexible packaging printing is on optimising and enhancing the flexo presses. In addition to the adoption of Group-wide technological standards for the control and drive systems, we have added new press and automation modules to our product portfolio.

High R&D expenses arose in the Special segment again for security printing. We are working on innovative security features as well as new applications, product series and press functions. With our newly developed inspection system with hardware-based real-time image processing, we rolled out a new competitive differentiator in the market. We developed SUSI Optics for banknote printing with maximum counterfeit protection. Special micro-lenses create dynamic movement effects on the banknotes. The various optical effects are readily discernible and extremely difficult to forge. In addition to the MetalDecojet digital printing press for metal decorating, we also developed CS MetalCan for printing 2-piece cans. Fitted with ten inking units for maximum print quality and many automation functions, CS MetalCan sets new standards in 2-piece can printing. In addition to a high production output, it offers substantial productivity gains particularly thanks to the make-ready times that can be reduced heavily to a few minutes. We successfully launched a globally unique hybrid system for inkjet printing on hollow containers made from glass, plastic and metal for greater quality and efficiency. Hollow bodies can be printed digitally and on an individualised basis in one machine pass with high-value screen-printed decorations and embossed metallic foils. The betaJET xenio, a marking system based on drop-on-demand technology, supplements our range of marking and coding portfolio with a simple solution for marking sponges, pipes and medical hoses, all surfaces that have previously been extremely difficult to print on.

Following structural changes in the cost types, part of the expenses previously assigned to research and development are now reported within cost of sales. Consequently, the R&D ratio dropped from 5.1% in the previous year to 4%.

Quality management

Quality generates customer loyalty
Koenig & Bauer attaches particular importance to quality in order to strengthen customer satisfaction and loyalty. Group quality officers worked intensively on the further optimisation of all relevant internal processes to offer our customers the best possible quality with our customised, innovative and complex products and services. 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 further process in lowering our quality costs but see further potential for reinforcing our quality leadership.

Business report

Economic environment

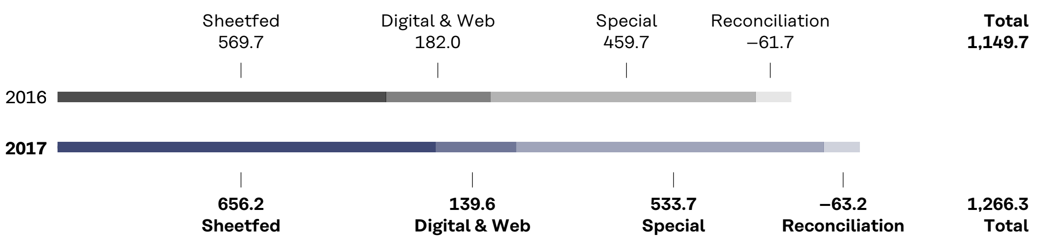
In view of the favourable state of the world economy, the International Monetary Fund (IMF) assumes that global gross domestic product (GDP) expanded by 3.7% in 2017. Together with high capacity utilisation in many areas and modernisation investments, the greater momentum of the global economy stimulated demand for capital goods. According to the German Mechanical and Plant Engineering Association (VDMA), new orders for plant and machinery placed with German manufacturers rose by 8.1% over the previous year in real terms in 2017. At 3.9%, new business in the printing press sector grew more moderately. The growth recorded in the flourishing packaging printing was unable to fully make up for the structural declines in publication printing in particular.

Business performance

New orders up 10.1%
In addition to its expansionary service business and increased orders for security printing, the Koenig & Bauer Group particularly benefited from sustained growth in the global packaging market thanks to its diverse printing solutions. Despite the expected decline in sales of newspaper and commercial presses, the Group's order intake rose by 10.1% over 2016 (€1,149.7m) to €1,266.3m. This performance, which outpaced the industry trend, was underpinned by gains in market share across all business fields. With orders up 29.7% over the previous year, the fourth quarter was particularly strong.

29.7%
y-o-y order increase in Q4

Group order intake
in €m



4.3%
increase in revenue

4.3% increase in revenue

At €1,217.6m, Group revenue reached the target corridor of up to €1.25bn defined in the guidance. With revenue up 4.3% over the previous year, we fully achieved our mid-term organic revenue growth rate of around 4% p.a., thus more than making up for the further decline of €25m in revenue from newspaper and commercial web presses as expected. This performance was particularly underpinned by the expansion of our service business. With stable revenue from security printing, the growth achieved with all packaging printing solutions was an additional driver. In achieving this growth, we attached particular importance to margin quality.

The export ratio widened from 85.5% to 89.1%, with the proportion of business coming from Europe excluding Germany increasing to 36.8% (2016: 33.2%). This growth was particularly underpinned by a greater number of installations in South and Eastern Europe. With an increase in the regional share from 14.7% to 17.7%, North American business also performed well. The very noticeable weakness in Chinese business ahead of the successful China Print fair in May contributed to the decline of the Asia/Pacific revenue share from 26.8% to 24%. With Chinese business picking up again in tandem with the generally upbeat outlook for packaging printing in the Far East, we expect the share of revenue contributed by this region to widen again given its strong potential for the future. Latin America and Africa accounted for 10.6% of Group revenue (2016: 10.8%).

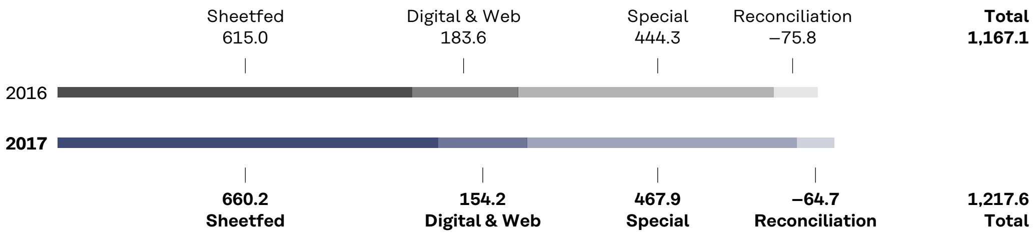
Geographical breakdown of revenue

in %

	2016	**2017**
Germany	14.5	10.9
Rest of Europe	33.2	36.8
North America	14.7	17.7
Asia/Pacific	26.8	24.0
Africa/Latin America	10.8	10.6

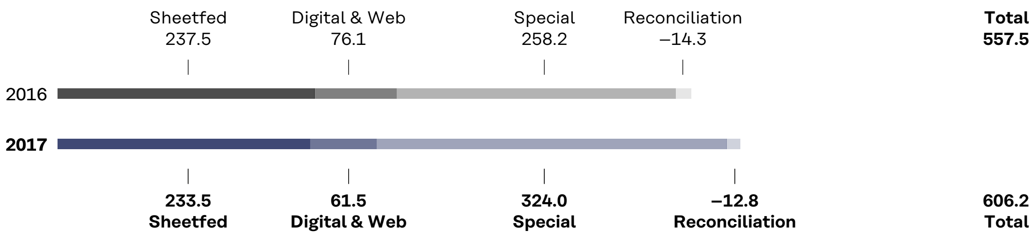
Group revenue

in €m



Group order backlog

in €m



Growth of 8.7% in order backlog

At €606.2m, the Group order backlog as of 31 December 2017 was up 8.7% on the previous year's figure of €557.5m.

Earnings, finances and assets

Earnings

With an EBIT margin of 6.7% progressing well on mid-term target

The increased revenue in tandem with strong service business caused the profit rise in particular. In addition to expenses for portfolio additions, new products and IT systems, our production service provider KBA-Industrial Solutions and measures to optimise flexible packaging printing exerted strain on earnings.

EBIT guidance exceeded

With gross profit rising from €346.6m in the previous year to €356m, the gross margin remained at a high 29.2% (2016: 29.7%). Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased from €92.4m to €112.4m. The corresponding EBITDA margin as an indicator of operating performance widened from 7.9% to 9.2%. Following the adjustment, research and development costs lowered to €48.4m (2016: €59.3m). Despite higher deliveries, distribution costs dropped to €141m as a result of lower trade fair expenses, slightly down from the previous year's figure of €144.1m. At €80.5m, administrative expenses remained at the previous year's level (€80.4m). Other operating income and expenses came to –€5.4m. The amount of +€24.1m reported in the previous year was significantly influenced by the non-recurring income from the reversal of the impairments that had been recognised on property, plant and equipment. Adjusted for the non-recurring income in the previous year, EBIT climbed from €62.9m to €81.4m. At 6.7% (2016: 5.4%), the EBIT margin exceeded the guidance of around 6%.

Group net profit of €81.1m

Lower interest expenses of €6.2m (2016: €8.1m) and the increase in interest income from €2m to €3.3m resulted in a substantial improvement in interest result to –€2.9m compared with the previous year (2016: –€6.1m). Adjusted for non-recurring income, EBT rose from €56.8m in the previous year to €78.5m. Driven by the positive earnings development and outlook for the Group, a tax income of €12.7m arose again from the recognition of deferred tax assets which essentially results from available and usable loss carry-forwards. On balance, income taxes came to +€2.6m (2016: +€1.2m). Group net profit stood at €81.1m in 2017 (2016: €82.2m), equivalent to proportionate earnings per share of €4.91 (previous year: €4.98). In accordance with our dividend policy which provides for a distribution of 15% to 35% of Group net profit, we will propose a dividend of €0.90 per share for the financial year 2017. This is equivalent to a dividend ratio of 18.4% of Group net profit.

EBIT margin of

6.7%

Group income statement

% of revenue

	2016	2017
Cost of sales	–70.3	–70.8
Research and development costs	–5.1	–4.0
Distribution costs	–12.3	–11.6
Administrative expenses	–6.9	–6.6
Other income/expenses	+2.1	–0.4
Interest result	–0.5	–0.2
Income taxes	+0.1	+0.2
Net profit	+7.0	+6.7

Finances

Strong financial power

Cash flows from operating activities increased slightly from €21.9m in the previous year to €23.8m despite the rise in net working capital from €321.5m to €366.5m. In relation to revenue, the ratio rose from 27.5% to 30.1%, the target corridor between 20% and 25% could not be reached yet. Whereas working capital was successfully reduced in large parts of the Group, the figure rose in security printing. However, the measures already taken to reduce turnaround times in assembly and to step up export finance will not have short-term effects.

In addition to the payments for investments of €48.5m, the free cash flow of –€59.6m (2016: €2.3m) was burdened by the payment instalments of €36.8m made to date for the external funding of a part of the pension provisions.

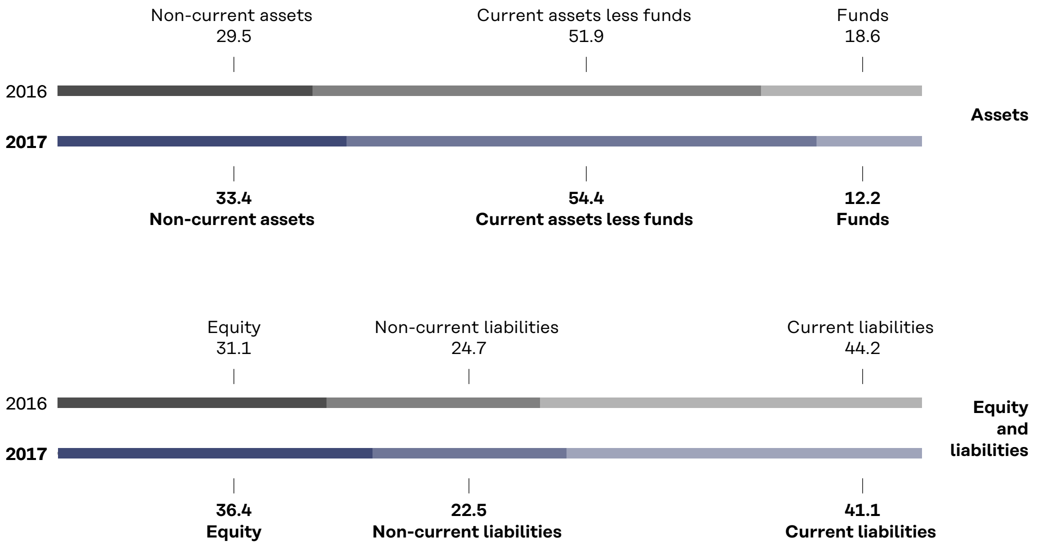
Cash flows from financing activities came to €0.9m, compared with €13.9m in the previous year. At the end of December 2017, cash and cash equivalents stood at €142.4m (31 December 2016: €202m). Adjusted for bank loans of €43m (see notes for more details), the net liquidity came to €99.4m (2016: €168.1m). In addition, there were securities of €21.6m (previous year: €19.9m) that can be liquidated at any time. As well as this, the Group has access to credit facilities provided by a syndicate of renowned banks. In addition to a guarantee facility of €200m, the syndicated finance includes a revolving cash credit facility of €150m with an option to increase it by €50m. The facilities have a term of five years plus two one-year renewal options up until December 2024. The Group-wide facility also entails local operating credit lines at various subsidiaries.

See page 101

€121m
net liquidity with securities

Group assets and capital structure

in %



Increase in equity ratio to 36.4%
The high Group net profit together with the increase in the discount rate for domestic retirement benefits from 1.7% to 1.9% caused equity to rise by €86.2m to €424m (2016: €337.8m). This translates into an equity ratio of 36.4% in relation to the increased balance sheet total (2016: 31.1%).

Reduced debt
Whereas other provisions sank by €32m and pension provisions by €14.1m, bank loans and other financial payables climbed by €5.6m and trade payables by €13.1m. Other liabilities rose particularly as a result of the increase in customer prepayments from €124.2m to €130.1m. On balance, current and non-current liabilities dropped to €739.9m over the previous year (€747.7m).

Assets

High capital spending to improve efficiency and modern press demonstrations
A sum of €50.1m (2016: €31.9m) was spent on a new demonstration centre for digital and flexo printing presses, infrastructure modernisation and for additionally improving production efficiency. In addition to new demonstration presses at the customer centres, the roll-out of the SAP ERP system also contributed to the increase in capital spending. The ratio of capital spending to revenue came to 4.1% (2016: 2.7%). With depreciation of €31m, a capital spending ratio of 161.6% (previous year: 115.2%) was recorded. Accordingly, property, plant and equipment rose from €202.8m to €210.6m and intangible assets from €36.7m to €45.7m. Property, plant and equipment are covered by equity at a rate of 201.3% (2016: 166.6%).

In addition, higher deferred tax assets and financial receivables caused non-current assets to rise from €320.4m to €389.1m. Reinsurance claims of €36.8m are held against the insurer as a result of the external funding of a part of the company pension provisions and are reported within financial receivables.

Current assets climbed from €765.1m in the previous year to €774.8m due to higher trade receivables, other assets and securities. On the other hand, inventories and cash and cash equivalents were down. The Koenig & Bauer Group's balance sheet total climbed to €1,163.9m, as of 31 December 2017, up €78.4m on the previous year's figure of €1,085.5m.

36.4%
equity ratio

Summary of the economic situation

With its service initiative and the expansion of our footprint in the flourishing packaging printing, the Koenig & Bauer Group continued on its growth trajectory with a 4.3% increase in revenue in 2017. We are progressing well on our medium-term earnings target by 2021 with an increase in the EBIT margin to 6.7%. While segment earnings for Special and Sheetfed were high, Digital & Web came under strain from optimisation efforts for flexible packaging printing and R&D spending. With the measures taken in flexible packaging printing, a turnaround is apparent, although it will be important to continue to take the right actions to close the gap between our Company and the successful leaders of this attractive market.

Cash flows from operating activities rose slightly despite the higher net working capital. Following the successful efforts to reduce working capital in large parts of the Group, the measures required to optimise receivables and inventories in security printing have been implemented but will not have short-term effects. Free cash flow was burdened by high investments and payment instalments for the external funding of a part of the pension provisions. Koenig & Bauer has a good internal liquidity fuelled by its operating business that we want to expand step by step via rising cash flows. With the signing of a contract for a long-term syndicated credit facility, we have completed a further step in our goal of reinforcing the Group's stability and financial strength. At the same time, we are widening our financial scope for stepping up our profitable growth and for utilising strategic options.

The solid balance sheet structure was additionally improved with the increase in the equity ratio to 36.4%. Thanks to the good earnings performance in the Group and the retained profit generated by the holding company Koenig & Bauer AG, we are able to continue our dividend policy with a distribution rate of between 15% and 35% of the Group's net profit.

Segment performance

Order and earnings momentum continuing for Sheetfed

Further
market share gains

Driven by innovative, bespoke solutions for packaging and commercial printing as well as a broader sales and service footprint in the markets of the future, order intake rose by 15.2% over the previous year (€569.7m) to €656.2m. 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 board exceeded expectations substantially. Revenue rose by 7.3% from €615m in 2016 to €660.2m. Alongside service and die-cutting business, deliveries of sheetfed presses were up across all format classes. At €233.5m, the slightly lower order backlog remained at a good level compared with the previous year (€237.5m). The additional revenue with a good service business and lower costs resulted in an increase in segment profit to €37.5m (2016: €31.3m) and in the EBIT margin to 5.7% (2016: 5.1%).

Digital & Web investing in the markets of the future

Order intake in the Digital & Web segment came to €139.6m compared with €182m in the previous year mainly as a result of fewer new contracts for web offset presses for newspaper and commercial printing as expected. Reflecting this, revenue came to €154.2m, down on the previous year (€183.6m). In addition to our RotaJET digital web presses for decor and book printing, a number of inkjet web presses co-developed with HP for digital pre-prints of corrugated liners were successfully placed in operation by customers. We received a first order for the newly developed digital CorruJET sheetfed offset press for direct printing on corrugated board. With the CorruCUT and CorruFLEX for analogue direct printing on corrugated board, we have brought a new generation of sheetfed flexo presses to market maturity. At the end of 2017, order books were valued at €61.5m (2016: €76.1m). The positive earnings development from our strong service business came under strain from optimisation efforts for flexible packaging printing and R&D spending. Accordingly, at –€4.3m EBIT was below the previous year (€0.5m). After the measures introduced in flexible packaging printing take effect, we want to achieve a greater share of this large market, which is growing at an above-average rate.

Order intake, revenue and profit up in the Special segment

Growth in orders for security printing, metal and glass/hollow container decorating as well as coding systems boosted order intake by 16.1% to €533.7m (2016: €459.7m). The further gains of market share in metal and glass/hollow container decorating and coding are particularly pleasing. Despite intense competition, we were also able to expand our international market and technological leadership in security printing. With project business remaining generally favourable, volatility remained high due to often lengthy order placement and the domination of large-scale projects. Revenue grew by 5.3% from €444.3m in the previous year to €467.9m. With the order backlog increasing by 25.5% over 2016 (€258.2m) to €324m, good capacity utilisation is assured over the next few months. Following a segment profit of €44.3m in the previous year, EBIT of €53.7m was recorded in 2017. Security printing business, which is not plannable with sometimes lengthy order placement and demanding order processing, has a significant influence on earnings.

Order intake/revenue/order backlog by segment

in €m

	2016	2017
Order intake		
Sheetfed	569.7	656.2
Digital & Web	182.0	139.6
Special	459.7	533.7
Revenue		
Sheetfed	615.0	660.2
Digital & Web	183.6	154.2
Special	444.3	467.9
Order backlog		
Sheetfed	237.5	233.5
Digital & Web	76.1	61.5
Special	258.2	324.0

Supplementary statement

Reinsurance claims of €36.8m were held against the insurer as of 31 December 2017 in connection with the external funding of a part of the company pension provisions and are reported within financial receivables. In addition, the final payment instalment in the same order of magnitude will be remitted in the first quarter of 2018. With the planned transfer of the claims to the beneficiaries, we will offset these against the pension provisions at the time of transfer. This reduction in the balance sheet will additionally improve the equity ratio and will bring it closer to the target of over 45%.

Risk report

High transparency for pre-emptive, target-oriented activity

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 earnings, financial and asset position, the early warning system encourages general risk awareness.

1.04
book-to-bill ratio

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 reviews the reports for any omissions and evaluates the risks.

A bottom-up approach is applied in which possible risks are reported to the responsible executives combined with a top-down approach comprising a list of assumed basic risk 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.

Group-wide risk early detection system

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 IIA (Institute of Internal Auditors) and COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Systematic approach to risks

For the purposes of more accurate coordination of risk-avoidance and mitigation measures, risk is calculated as a negative deviation from an expected figure. This approach systematically records risks that are already included in corporate planning as well as additional latent risks that are not expressly accounted for.

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 qualitative risks which either individually or together with other similar risks exceed a value of €1m and a probability of 10% are reported to the Management Board. These risks are sorted according to the following matrix and classified as low, moderate or significant.

Risk matrix

Effect on net profit / Probability	Unlikely 10–24%	More unlikely than not 25–49%	Possible 50–75%	Probable >75%
Very high >€20m	moderate	moderate	significant	significant
High >€10m –€20m	moderate	moderate	moderate	significant
Medium >€5m –€10m	low	moderate	moderate	moderate
Low >€1m –€5m	low	low	moderate	moderate

In addition to monthly Group reporting, the system is supplemented with the established and additionally enhanced operational management elements. 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 assigns risks to the following categories: 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.

We are mitigating 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 again able to additionally expand our profitable service business in 2017 by widening our offerings and implementing organisational measures. By clearly focusing the product range on the growth markets of packaging, industrial and digital printing, Koenig & Bauer is benefiting to a large extent 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. Consequently, the risks arising from further changes in media consumption no longer have any material impact on the Koenig & Bauer Group's earnings. 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 harnessing the potential for the future that it offers with our own RotaJET and CorruJET series as well as the partnership with HP involving a large inkjet press for printing corrugated packaging. We offer the MetalDecojet for digital printing on metal sheets. The globally unique hybrid printing solution for hollow containers made from glass, plastic and metal combines digital printing with screen-printing, hot-stamping and labelling in a single press.

Semi-annual risk inventory

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. We have started marketing the sheetfed flexo presses CorruCUT and CorruFLEX to address the large corrugated market. In addition to our strong position in 3-piece can printing, we entered the 2-piece can market in 2017 with the newly developed CS MetalCan to widen our metal decorating range. With our internally developed rotary die-cutter as well as the flatbed die-cutters from Iberica for postpress processing, we are systematically expanding our already strong position in the diverse packaging market. By widening our footprint in these various core markets, we will be able to reduce the effects of fluctuation in individual applications.

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 tied 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 public tender processes by our customers. In addition to the streamlining of processes and further organisational optimisations, we are addressing these specific market conditions in the security printing market by launching new products, introducing innovative 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.

Moderate
economic and sector risks

Our competitors in the sheetfed offset and security printing business often grant considerable price concessions. We consider this to be problematic if it means that they are unable to cover their own production costs. We reject such practices as we see long-term disadvantages for innovation power of the industry. At the same time, such conduct makes it more difficult for us to achieve the targets we have defined for order intake and project profitability. The Koenig & Bauer Group pursues a strategy of boosting its competitiveness and profitability on a sustained basis by offering customers bespoke solutions and by simultaneously continuing to optimise structures and production costs. By actively presenting and communicating the technical benefits of our products and services for customers, we are able to secure reasonable mark-ups on our prices. At the same time, clear sales targets and ongoing checks support efforts to ensure sustainable 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

Counterparty and country risks
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. In line with customary market practice, Koenig & Bauer has therefore to offer the customers in the Sheetfed segment in particular support in financing their machine investments. In these cases we work, for example, with banks or leasing companies with which we agree on customer-specific risk participation on a case-by-case basis. In addition, we pay particular attention to receivables risks to which Koenig & Bauer may be exposed in security printing business due to what in some cases are the high values of individual projects with public-sector customers.

Our actions are based on credit checks of our counterparties and credit-worthiness reviews on financing risks. Standard measures for addressing possible risks include state export credit insurance as well as requests for predelivery collateral. After delivery, we retain the ownership rights pending full payment. Proactive receivables management at individual project level ensures an appropriate response to counterparty and country risks. 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 moderate.

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

Movements in the euro against other major currencies may exert a material influence on the sales prospects for our products in key export markets. We currently consider exchange-rate fluctuations to pose only a low risk as invoices are mostly issued in euros and in view of the financial instruments used.

Koenig & Bauer 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.

As of 31 December 2017, the Koenig & Bauer Group had net liquidity of €99.4m plus securities of €21.6m that can be liquidated at any time. The Group has new syndicated finance providing credit facilities with a term of five years plus two one-year renewal options up until December 2024. In addition to a guarantee facility of €200m, the syndicated finance includes a revolving cash credit facility of €150m with an option to increase it by €50m. The Group-wide facility also entails local operating credit lines at various subsidiaries. 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.

Low
risks from currency fluctuations

Operating risks

Human resource risks
Our success hinges materially on motivated and highly qualified engineers, specialists and executives. In the current job market, we are exposed to the risk of losing or failing to find qualified employees and of being unable to build up a suitable group of management trainees. We address this risk by providing appealing, family-friendly jobs, the long-term commitment of employees, trainee and further education programs together with long-term development plans for young professionals and managers. At the same time, we are working on our external presentation to improve 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.

Moderate to low operational risks

Thanks to the strong order intake, our modern and highly specialised factories are working at high capacity. We apply flexible instruments such as working time accounts or the use of leased employees to address our customers' demands for short delivery times and to temporarily cushion any fluctuation in capacity utilisation. If our employees are unwilling to accept flexible working hours or overtime, there is a risk of failing to execute customer orders within the defined period and, hence, of losing orders or of experiencing delivery delays.

In view of the precautions that have been taken and current conditions in the job market, we consider the risk to be moderate.

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, with a negative impact on payment receipts. A delivery delay or contractual non-compliance for which Koenig & Bauer is responsible may result in contract penalties or customer credits, thus impairing margins. The ability to sustainably lower the quality costs of our technically complex products exerts considerable influence on our earnings. 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

Koenig & Bauer regularly invests substantially 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 leads to risks with respect to technical implementation and feasibility as well as ultimate market acceptance of the new or further developments. In particular, 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, thus adversely affecting the return on investment. The launch of new products and forays into new markets of the type that we have been intensifying recently may cause such risks to rise. 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. In view of the ongoing processes and activities, we consider these risks to be moderate.

Planning, control and monitoring

Our Group targets and annual budgets are based on assumptions that are subject to uncertainty. For the purposes of sales planning, volumes with corresponding margins are defined as the basis for the Companies' capacity and resource planning. Among other things, cost budgets include expected increases in pay scales and material costs as well as the savings achieved as a result of continuous improvement measures or special projects. We see a moderate risk of the assumptions underlying plans failing to eventuate in the expected form or of the savings potential factored into our budgets not being achieved in full. In addition to continuous observation and analysis of our business environment, we address this risk by regularly reviewing our budgets when preparing forecasts and by controlling our operating business efficiently together with strategic projects.

IT risks

Following the Group-wide roll-out of the SAP ERP system, the Koenig & Bauer Group is exposed to risks in the event that future business processes do not run smoothly. To curtail these IT risks, Koenig & Bauer utilises the services of a renowned software consulting company and has installed an 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 final 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 moderate risk of lost revenue if customer-related changes are not recognised or integrated in Group-wide processes early enough.

Acquisitions and alliances

Acquisitions and alliances may arise as part of our strategic further development with our focus on markets of the future. 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.

Other risks

Legal risks

The Group is not involved in any litigation or administrative proceedings with a material impact on its overall economic position. Litigation and administrative proceedings expose us to various risks for which we set aside provisions if we consider an obligation to be likely. The size of such provisions is very largely based on estimates, e.g. in the case of litigation. They are continuously reviewed in quarterly litigation reports and adjusted in good time in the event of any changes. Generally speaking, we consider the risk of litigation and administrative proceedings having a negative impact to be moderate, although legal risks in the risk exposure of globally operating machinery engineering companies generally has a certain weight.

Damage to reputation and other risks

In the technically demanding capital goods business there is always the latent risk of barely quantifiable harm to the Company's image arising in the event of quality problems, breaches of industrial property rights or the like.

Individual uncertainties are addressed by taking out insurance sufficient in most cases to fully cover the risks concerned. Adequate provisions are set aside to address other risks. We currently do not see any risk of any harm to our reputation or arising from the fact that the insurance that has been taken out or the provisions that have been set aside is 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.

Stable
Group risk situation y-o-y

Despite the global political and economic uncertainties, we currently do not see any risks that either individually or cumulatively 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.

With our intensified efforts to optimise risk management, there has been a substantial improvement in risk awareness within the Koenig & Bauer Group. In particular, there is heightened consciousness of the need to address risks and their potential impact. This is reflected in the fact that in the risk survey for 2018 there was an increase in the number of risks reported and their absolute value compared with the previous survey. As the number and value of the risk-mitigating precautions have simultaneously risen, there is no change in the overall risk profile. More detailed and comprehensive risk reporting improves the scope for tracking risk-mitigation precautions and for encouraging a responsible approach to opportunities and risks within the Company on a sustained basis.

EBIT margin target for 2018 of around

7%

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, resulting in a significant discrepancy in the estimate presented here.

Outlook and opportunities

Targets for 2018: revenue growth of around 4% and an EBIT margin of around 7%

Thanks to the dynamic growth of the global economy and the continued upbeat outlook for 2018, the IMF expects global gross domestic product to rise by 3.9%. The Eurozone, Japan, China and the emerging markets of Eastern Europe are contributing to the favourable prospects of growth. The tax reform and the expected large infrastructure programme in the United States will unleash further impetus for the economy. That said, global political and economic risks could have an adverse effect on global growth. In particular, the rekindled political conflicts in the Middle East are a source of uncertainty. If inflation unexpectedly picks up, interest rate hikes by the central banks could trigger financial turbulence as a result of redirected capital flows and exchange-rate adjustments and place a damper on the global economy.

In addition to the favourable global economy and the outlook for the consistently growing packaging and industrial printing industry, our forecast is based on the 10.1% increase in order intake and the further gains in market share achieved in all business fields. A strong basis is also provided by the 8.7% rise in the order backlog to €606.2m and the progress made in the €70m EBIT increase projects by 2021. The incremental growth in the revenue share of service business to 30% and the performance improvement project in security printing should each contribute around €20m and the integrated production network and strategic purchasing each around €15m to earnings growth. At the same time, we will be raising the prices of our entire product range by 3.7% effective 1 April 2018 in response to rising costs. Even so, the targeted growth investments, e.g. in corrugated board and 2-piece can printing, are leaving traces on our cost position. In the absence of any material deterioration in global economic and political conditions for our international business, we expect to achieve organic growth of around 4% in Group revenue and an EBIT margin of around 7% in 2018. All three segments are to contribute to the growth in revenue and earnings. This will put us on track to achieving our EBIT margin target of 9% and an organic revenue growth rate of around 4% p.a. by 2021. We would expect to reach the lower edge of our EBIT guidance of between 4% and 9% in the event of more adverse conditions in the global economy and the end markets, particularly as a result of volatile security printing business. Our further targets include a dividend ratio of 15–35% of Group net profit, an equity ratio of over 45% and a target corridor for working capital of 20–25% of revenue.

The increased profit and improvements in working capital should cause net liquidity to rise substantially via strong cash flows. Free cash flow will be burdened again in 2018 from a high payment instalment for the external funding of a part of the pension provisions.

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. In addition to rising consumer spending, packaging consumption is also being driven by the megatrend of home-shopping with its high article-return rates, smaller delivery sizes as a result of the greater number of single-person households and more stringent regulations. In our opinion, recent studies, which project an annual increase in total global packaging volume of 4–5% between now and 2020, do not fully factor in these decisive structural changes. Booming online trade will result in higher global growth rates for corrugated board, film and cardboard packaging in particular. In food retailing, online distribution is still in its infancy and is likely to generate further impetus for packaging printing as well.

Given the high capacity utilisation of the highly productive printing press fleet installed in industrially oriented packaging printing, demand for new presses will rise in correlation to the increase in packaging consumption around the world. Alongside the rising demands of brand owners with respect to quality, flexibility, cost efficiency and delivery times, trends in favour of more complex and colourful packaging will stimulate capital spending by packaging printers. Packaging is increasingly being used as a brand ambassador, with “unboxing” forming part of shopping and brand experience. We want to secure a share of this growth for ourselves with our products for cardboard, flexible packaging, metal and glass/hollow container decorating and coding as well as with our rotary and flatbed die-cutters. We want to generate more than half of the organic revenue growth of around 4% targeted for 2018 in packaging printing. Further growth is to come from service business, which is expanding in all areas, and through further gains of market share.

Revenue target until 2021: annual organic growth rate of

≈ 4%

Given the good order and project situation, we assume that revenue from security printing will remain stable despite the more intense competition. Global banknote production is growing by more than 3% per year and in the light of comprehensive market studies we see no reason to believe that there will be any slump in the medium term. The performance improvement project, which entails measures to optimise the product portfolio, structures and costs, has been implemented to stabilise and boost earnings potential and to strengthen our market and technological leadership in security printing business. Whereas we are substantially expanding our product management and service activities, we are adjusting our headcount by pooling administration activities and utilising shared services from the holding company.

We also expect stable performance in the media-related printing segments. Whereas book and high-quality commercial printing has since bottomed out, we expect to see a further decline in new press business with web offset presses for newspaper and commercial printing.

Focus
on the growth markets of packaging, digital and industrial printing

We are working intensively on expanding our range in the consistently growing packaging and industrial printing to achieve additional profitable growth beyond our medium-term targets. One key aspect is corrugated board printing, which is growing at above-average rates. To address the large press market that uses analogue printing technology for direct printing on corrugated board, we have already started marketing the sheetfed flexo presses CorruCUT and CorruFLEX. In early 2019 a CorruCUT will be installed at a pilot customer. As a globally leading supplier of presses for 3-piece can decorating, we want to expand our profile by entering the 2-piece can market. Presented in May with a number of unique features, the newly developed CS MetalCan for 2-piece can decorating met with strong customer interest. Following two contract signings, we are now able to commence intensive field-testing with the target of sales launch at the end of 2018.

In security printing, further options including strategic partnerships in the banknote lifecycle are being explored in an effort to generate growth. To this end, we research via the start-up company coverno on intelligent banknotes that can be authenticated using entirely new methods. We are working with the Lemgo-based research and development centre Centrum Industrial IT (CIIT) on enhancing banknote security as part of industrial digitisation.

Furthermore, we see an additional growth option for Koenig & Bauer in digital printing given that digitisation no longer poses any substitution risks for us in the markets that we address. Our customers are increasingly expressing interest in digital printing applications for small print runs, high format flexibility and greater personalisation. We assume that analogue or hybrid processes will dominate industrially oriented packaging printing for cost, productivity and quality reasons, accounting for around 95% of orders. We are working intensively on future-oriented solutions for our customers such as the hybrid VariJET system for printing folding cartons, which combines proven offset and finishing technologies with inkjet printing. We have successfully transferred the inkjet expertise that we have accumulated in connection with our web printing capabilities to industrial decor, book and corrugated printing but currently still see only muted willingness on the part of decor printers to migrate to digital systems. In addition, we sold digital printing and hybrid systems specially designed for metal and glass/hollow container decorating.

With the service and cost-cutting initiative as well as our focus on expansionary packaging and industrial printing together with customer-oriented digital printing applications, we want to boost the volume and profitability of our business on a sustained basis and reduce our exposure to volatile security printing by widening the share of packaging printing in Group revenue.

Legal information and compensation report

On 31 December 2017, 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 6% in Koenig & Bauer AG and account for a total of around 20% of the share capital.

Executive bodies
On 31 December 2017, the shares held by the executive bodies of Koenig & Bauer AG came to 5.09% of its share capital. The members of the Management Board held 5.08% (Mr Claus Bolza-Schünemann 5.07%) and the members of the Supervisory Board 0.01%.

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 (AktG), section 31 of the Codetermination Act (MitbestG)). Under article 10.2 of the articles of association, the Supervisory Board may pass resolutions to amend the articles of association provided that such amendments concern only the wording. This authorisation particularly applies to the utilisation of authorised capital.

In accordance with the Act on the Equal Participation of Women and Men in Executive Positions in Private and Public Sector, the Management Board and the Supervisory Board have defined target gender quotas by 31 December 2022. The Supervisory Board's gender quota for female members of the Management Board is still 0%. The current 17% proportion of women on the first management level beneath the Management Board and 7% on the second management level beneath the Management Board is to be retained at least until 31 December 2022 in accordance with a resolution of the Management Board. In cases in which female and male candidates have comparable qualifications, the proportion of women is to be increased as far as possible when new appointments are made.

Authorised capital and authorisation to purchase shares
On 31 December 2017, the Company had authorised capital of €8,580,000, equivalent to 3,300,000 shares, which may be utilised on or before 22 May 2022. The authorisation granted at the annual general meeting is documented in article 5.3 of the articles of association. 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 2017.

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

Disclosures in accordance with section 315a (1) 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
The remuneration of the Supervisory Board is determined by 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. The total compensation paid to the Supervisory Board in 2017 came to €0.4m (previous year: €0.5m) and breaks down as follows:

in €

	2016				**2017**			
	Base compen-sation[2]	Additional compen-sation[2] for committee work	Meeting attendance fee	Total	**Base compen-sation[2]**	**Additional compen-sation[2] for committee work**	**Meeting attendance fee**	**Total**
Dr Martin Hoyos	56,000	4,500	1,750	62,250	56,000	6,000	1,750	63,750
Gottfried Weippert	42,000	6,000	1,750	49,750	42,000	6,000	1,750	49,750
Dagmar Rehm	42,000	9,000	1,500	52,500	42,000	9,000	1,500	52,500
Julia Cuntz	14,000	0	1,000	15,000	28,000	0	1,500	29,500
Carsten Dentler	0	0	0	0	23,333	3,334	1,500	28,167
Marc Dotterweich	28,000	3,000	1,750	32,750	28,000	6,000	1,750	35,750
Matthias Hatschek	28,000	5,000	1,500	34,500	28,000	5,000	1,500	34,500
Christopher Kessler	14,000	2,500	1,000	17,500	28,000	5,000	1,750	34,750
Professor Gisela Lanza	28,000	7,500	1,750	37,250	28,000	7,500	1,500	37,000
Walther Mann	28,000	5,000	1,250	34,250	28,000	5,000	1,750	34,750
Dr Andreas Pleßke[3]	14,000	2,500	1,000	17,500	11,667	2,083	1,250	15,000
Simone Walter	14,000	0	750	14,750	28,000	0	1,750	29,750
Total[1]	**308,000**	**45,000**	**15,000**	**368,000**	**371,000**	**54,917**	**19,250**	**445,167**

[1] The total for 2016 does not include the amount of €100,000 paid for the former Supervisory Board members Willi Eisele (€14,500), Carl Ferdinand Oetker (€35,500), Klaus Schmidt (€17,250), Claus Weihmann (€17,750) and Professor Horst Peter Wölfel (€15,000).
[2] The base and additional compensation is calculated on the basis of the members' function and length of service on the Supervisory Board (see pages 113 and 114 in the notes).
[3] Dr Pleßke received fees of €27,765 for consulting services in 2017.

The conversion of the remuneration system for the Management Board started in the year under review. In addition to individual fixed salaries based on the duties assigned to them, the members of the Management Board receive one-year and multi-year variable remuneration under the new remuneration system subject to the following rules:

The one-year variable remuneration depends on the Company's business performance in the current year (reference year) and is measured according to the EBIT margin. The target is defined as 60% of the fixed remuneration, which may increase to up to 90% in the event of excess achievement (150% of the target bonus). An EBIT margin of at least 5% must be achieved in 2017 for payment of 50% of the target bonus to be made. The target bonus is paid out if the EBIT margin reaches 6%. The target is capped at 150% for an EBIT margin of 7%. The Supervisory Board may determine the payment curves annually. The bonuses for the segment Management Boards are measured on the basis of 50% of the Group EBIT margin and 50% of the EBIT margin of the relevant segment. The budget approved by the Supervisory Board forms the target for 100% achievement. The floor is derived from the target EBIT margin less one percentage point, while the cap is the target plus one percentage point.

The multi-year variable remuneration depends on the Company's business performance in the reference year and the following two years and is measured according to the EBIT margin. It is not paid out until after the annual general meeting at which the annual financial statements for the final year in this period are approved. The target is defined as 65% of the fixed remuneration, which may increase to up to 130% in the event of excess achievement (200% of the target bonus). The tranches for 2017 to 2019 are paid out if the average EBIT margin over the three-year period is 4.5% or higher, commencing with 50% of the target. The target (100%) is paid out if the average EBIT margin reaches 5.5%. It is capped at 200% of the target for an average EBIT margin of 7.5%. The Supervisory Board determines the targets for the future reference years and the following two years on an annual basis. In the case of the multi-year variable remuneration, there is no separate segment view, meaning that only Group EBIT is applicable.

The remuneration for the Supervisory Board member Dr Andreas Pleßke, who has been delegated to the Management Board for the period from 1 June 2017 to 31 May 2018, includes a higher fixed component as the contract expires after one year. The capped variable compensation is at the discretion of the Supervisory Board on the basis of its assessment of the Management Board member's success in performing his duties during the period in which he is delegated to the Management Board.

New
Management Board remuneration system

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

The arrangements for termination benefits in the event of premature termination of the service contract by the Company have been revised in the light of the recommendation set forth in 4.2.3 of the German Corporate Governance Code. If the service contract has a remaining duration of two or more years, the termination benefits are capped at an amount equalling two annual salaries. The annual salary comprises the fixed remuneration plus the target defined for one-year remuneration. If the service contract has a remaining term of less than two years, the two annual salaries are paid on a prorated basis for the remaining period of the contract.

The members of the Management Board received the compensation set out below in 2017 (individualised figures):

Benefits granted

in €

	Claus Bolza-Schünemann, CEO				Dr Mathias Dähn, CFO			
	2016	**2017**	**2017 (Min)**	**2017 (Max)**	2016	**2017**	**2017 (Min)**	**2017 (Max)**
Non-performance-based components								
Fixed compensation	450,000	450,000	–	–	350,000	425,833	–	–
Fringe benefits[1]	22,868	22,914			36,627	35,521		
Total	**472,868**	**472,914**	**–**	**–**	**386,627**	**461,354**	**–**	**–**
Performance-based components								
One-year variable compensation	450,000	450,000	0	450,000	350,000	388,800	0	432,000
Multi-year variable compensation								
Plan description FY 2016 (Period payment 2017–19)	450,000	0			350,000	0		
Plan description FY 2017 (Period payment 2018–20) (Period payment 2020)	0	450,000	0	450,000	0	582,411	0	624,000
Total	**900,000**	**900,000**			**700,000**	**971,211**		
Service cost	202,183	202,183			170,986	170,986		
Total compensation	**1,575,051**	**1,575,097**			**1,257,613**	**1,603,551**		

[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 2017 from fixes 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 2017 described above, this table shows the actual value of the multi-year variable remuneration granted in previous years and accruing in 2017.

Allocation

in €

	Claus Bolza-Schünemann, CEO		Dr Mathias Dähn, CFO	
	2016	**2017**	2016	**2017**
Non-performance-based components				
Fixed compensation	450,000	450,000	350,000	425,833
Fringe benefits[1]	22,868	22,914	36,627	35,521
Total	**472,868**	**472,914**	**386,627**	**461,354**
Performance-based components				
One-year variable compensation	450,000	450,000	350,000	350,000
Multi-year variable compensation				
Plan description (Period FY 2014)	30,854	30,854	14,582	14,582
Plan description (Period FY 2015)	175,824	131,868	136,752	102,564
Plan description (Period FY 2016)	0	180,000	0	140,000
Total	**656,678**	**792,722**	**501,334**	**607,146**
Service	0	0	0	0
Total compensation	**1,129,546**	**1,265,636**	**887,961**	**1,068,500**

[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.

	Christoph Müller (from 1 June 2017), Board member Digital & Web segment				Dr Andreas Pleßke (until 30 April 2016 and from 1 June 2017), CRO or Board member Special segment				Ralf Sammeck (from 1 June 2017), Board member Sheetfed segment			
	2016	**2017**	**2017 (Min)**	**2017 (Max)**	2016	**2017**	**2017 (Min)**	**2017 (Max)**	2016	**2017**	**2017 (Min)**	**2017 (Max)**
	0	275,419	–	–	200,000	525,000	–	–	0	288,748	–	–
	0	16,996			3,396	4,009			0	13,813		
	0	**292,415**	**–**	**–**	**203,396**	**529,009**	**–**	**–**	**0**	**302,561**	**–**	**–**
	0	178,200	0	396,000	166,666	175,000	0	175,000	0	372,600	0	414,000
	0	0			0	0			0	0		
	0	533,876	0	572,000	0	0	0	0	0	558,143	0	598,000
	0	**712,076**			**166,666**	**175,000**			**0**	**930,743**		
	0	108,689			0	0			0	99,186		
	0	**1,113,180**			**370,062**	**704,009**			**0**	**1,332,490**		

	Christoph Müller (from 1 June 2017), Board member Digital & Web segment				Dr Andreas Pleßke (until 30 April 2016 and from 1 June 2017), CRO or Board member Special segment				Ralf Sammeck (from 1 June 2017), Board member Sheetfed segment			
	2016	**2017**			2016	**2017**			2016	**2017**		
	0	275,419			180,716	525,000			0	288,748		
	0	16,996			3,396	4,009			0	13,813		
	0	**292,415**			**184,112**	**529,009**			**0**	**302,561**		
	0	0			566,666	0			0	0		
	0	0			0	0			0	0		
	0	0			0	0			0	0		
	0	**0**			**566,666**	**0**			**0**	**0**		
	0	0			0	0			0	0		
	0	**292,415**			**750,778**	**529,009**			**0**	**302,561**		

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).

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 performed for the Koenig & Bauer 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 270 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 profit transfers received from the subsidiaries and, hence, their business performance. Koenig & Bauer AG directly or indirectly holds shares of at least 20% in 62 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 in the business report.

See pages 39 onwards

Earnings

At €78.4m, revenue was up on the previous year (€73m) 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. Gross profit climbed to €23.3m, up from €20.6m in the previous year, with the gross profit margin widening from 28.2% to 29.7%. General administration costs rose from €19.8m to €25.2m primarily as a result of the additions to the Management Board, the implementation of the SAP ERP system and the anniversary celebrations together with the brand relaunch. Other operating income and expenses came to –€15.8m (2016: +€8.3m) and chiefly arose from impairments of current assets. With dividends and profit transfers from some subsidiaries standing at €57.6m as in the previous year, income from investments came to €42.6m (2016: €65.6m) due to impairments of €15m on financial assets. With interest result improving slightly from –€2.6m to –€2.4m, tax expense of €6.6m arose in 2017 (2016: €2m). This resulted in net profit for the year of €15.4m (2016: €69.8m). Following the allocation of €0.5m to the reserves, the Management Board and Supervisory Board will be asking the shareholders on 9 May 2018 to approve a dividend of €0.90 per share from the retained earnings of €14.9m.

Assets and finances

As of 31 December 2017, Koenig & Bauer AG's balance sheet total stood at €426.8m, down from €446.4m in the previous year. Whereas current assets declined from €174.9m to €140.9m, non-current assets rose from €252m to €272m. Within this item, intangible assets climbed from €4.7m to €9.3m and property, plant and equipment from €72m to €77m. A sum of €18.5m was invested in intangible assets and property, plant and equipment in 2017 (2016: €4.5m), while depreciation came to €8.8m (previous year: €7.2m). Despite the impairments recognised, financial assets rose from €175.3m to €185.7m primarily due to the reinsurance claims held against the insurer as a result of the external funding of a part of the company pension provisions.

The decline in current assets was particularly due to the lower funds, which dropped from €64.9m to €18m. As the Company does not have any bank borrowings, net liquidity equals cash and cash equivalents. Any additional liquidity that is required is provided by KBA-Finance GmbH, which pools Group liquidity. The receivables from affiliated companies of €64.8m, which were up slightly on the previous year (€64.3m), are primarily composed from recharged goods and services within the Group as well as dividend and loan claims. Other assets rose from €45.7m to €58m.

The net profit caused equity to increase from €252.2m in the previous year to €259.3m at the end of 2017. The equity ratio widened from 56.5% to 60.8% due to the lower balance sheet total.

Provisions dropped slightly from €105.1m in the previous year to €105m. Despite the increase in pension provisions from €65.7m to €73.9m and higher tax provisions of €7.3m (2016: €2.1m), this overall decline was due to the reduction in other provisions from €37.3m to €23.8m. The liabilities of €60.4m (2016: €86.8m) are mostly composed of amounts of €51.8m (2016: €78.7m) owed to affiliated companies under internal group finance arrangements.

Supplementary statement

Reinsurance claims of €23.4m were held against the insurer as of 31 December 2017 in connection with the external funding of a part of the company pension provisions and are reported within financial receivables. In addition, the final payment instalment in the same order of magnitude will be remitted in the first quarter of 2018. With the planned transfer of the claims to the beneficiaries, we will offset these against the pension provisions at the time of transfer. This reduction in the balance sheet will additionally improve the equity ratio and will bring it closer to the target of over 60%.

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 Group's risk report for further information. In addition, strain may arise from the contingent liabilities in existence between Koenig & Bauer AG and its subsidiaries.

See pages 45 onwards

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.

See pages 52 onwards

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

The corporate governance statement in accordance with section 289f of the German Commercial Code has been published on the Company's website. The corporate structures section contains a description of the internal control system.

www.koenig-bauer.com/investor-relations/corporate-governance/erklaerung-zur-unternehmensfuehrung/

See pages 36 and 37

Detailed index Non-financial Group report

Non-financial Group report

We address our responsibility for the environment and society, which is anchored in our corporate targets through our sustained commitment to resource-saving and emission-reduced products and manufacturing processes together with our support for social and cultural concerns. In addition to providing benefits for the environment, climate and society, our ecological and social commitment has a positive effect on Koenig & Bauer's image for its customers and the general public. This improves the conditions for recruiting new employees particularly in the light of the foreseeable future shortage of trained staff. In addition, lower consumption of resources has an influence on our business performance due to the cost savings that can be achieved. For this reason, we pursue an integrated approach as financial and non-financial factors exert mutual influence and each single area has an appreciable effect on all other areas.

The qualifications, creativity and commitment of our employees play a crucial role for our business performance. With their ability to develop innovative solutions for meeting our customers' requirements, to build high-tech premium-quality machinery and to provide comprehensive services, our employees generate sustained value for our Company. For this reason, we attach particular importance to training, further education, motivation and employee bonding.

The international climate protection goals and the growing environmental awareness in many parts of the world are also opening up new avenues for growth for us via innovative new solutions for eco-printing. For this reason, it is decisive for us to help our customers improve their competitiveness by offering them products and solutions for ecological and climate-neutral printing. This integrated approach, combining both financial and non-financial factors, is increasingly also being used by investors in the capital market in their investment decisions.

Business model and materiality analysis

See pages 34 onwards

The Koenig & Bauer Group's business model is described in the combined management report. We conducted a materiality analysis to define the main aspects of our non-financial Group report. In a preliminary step, we prepared a comprehensive list of non-financial topics with potential relevance for our customers, employees, investors and business partners. In doing so, we applied the G4 guidelines of the Global Reporting Initiative (GRI) and the guidance provided by the German Sustainability Code. At the same time, a group of industrial engineering students at the Würzburg-Schweinfurt University of Applied Science analysed the target groups and their expectations with respect to sustainability reports. An online survey was conducted to collect data from important stakeholders, among others of Koenig & Bauer, on the expected content and structure of the sustainability reports. One material result of the comprehensive evaluation was that there are only minor differences in the requirements expressed by customers, suppliers, employees and investors with respect to sustainability reports. Ecological aspects received the highest priority, followed by social and employee matters. On the basis of their analysis, the group of students developed a best-practice model for the content and formal structure of sustainability reports.

Selected disclosure option

Koenig & Bauer publishes the disclosures on non-financial aspects required under sections 315c/289c of the German Commercial Code in a separate non-financial Group report which does not form part of the combined management report. These two separate reports are included in the printed annual report and are published in the "Bundesanzeiger". The main sections are based on the structure specified in the CSR Directive Implementation Act. In addition to the statutory provisions, we applied the G4 guidelines of the Global Reporting Initiative (GRI) and the guidance provided by the German Sustainability Code. Further guidance was provided by the standards for quality (DIN EN ISO 9001:2015), environment (DIN EN ISO 14001:2015), energy management (DIN EN ISO 50001:2011) as well as health and safety (BS OHSAS 18001:2007).

On the basis of our own research and the results of the survey of main stakeholders conducted by the students, this non-financial Group report concentrates on the key non-financial aspects for our business activities, business relations, products and services. We describe our approach and the results already achieved with the key aspects, namely environmental, employee and social matters, respect for human rights as well as combatting corruption and bribery matters. At Koenig & Bauer, sustainability including non-financial reporting is the responsibility of the Management Board. Consequently, we systematically pursue our approaches and strategies for the essential non-financial aspects. As far as necessary and possible, we include our stakeholders in our due diligence processes. We pursue relations based on a spirit of mutual trust with our employee representatives and work councils. Our risk inventory has not identified any material risks in our business activities, business relations, business processes from procurement via production to sales and service as well as with our products and services which are highly likely to have a severely adverse impact on our key non-financial aspects.

Environmental aspects focus on our internal environmental and energy management as well as ecological printing technology including the environmental impact of our products. We attach particular importance to employee matters in view of our staff's significance for the added value in our Company and long-term success. We specifically describe our methods and measures for recruiting and training young professionals and executives, for personnel development as well as for ideas and health management. Work safety as well as working conditions such as job/family compatibility are further main aspects in this section. In addition to our social commitment we discuss in the section on social matters the quality of our products and measures to enhance work and process safety in print shops. The final chapter deals with the respect for human rights as well as combatting corruption and bribery matters. In sourcing goods and services along our supply chain and from our partners, we make sure that all applicable laws and regulations as well as international and industry standards such as the United Nations Guiding Principles on Business and Human Rights including labour law and the right to fair and equal treatment are duly observed. The code of conduct for suppliers included in our terms and conditions of purchase also stipulates the observance of statutory and contractual quality and safety standards as well as environmental requirements particularly in connection with the use and processing of hazardous substances. We do not consider the input factors required for the performance of our business activities such as externally sourced raw materials and semi-manufactured goods as well as third-party services to have any direct influence on our key non-financial aspects. In the following, we focus on the large Group sites Würzburg and Radebeul.

See pages 45 onwards

Environmental matters

Active climate and environmental protection along the entire value chain from the product idea through to purchasing and production as well as the installation of our printing presses forms a crucial part of our sustainability strategy. In addition to the observance of high quality and safety standards, our activities are committed to maximising energy and resource efficiency in the production and operation of our printing presses right from the development and design phase. In particular, we are driving the development of environment-friendly printing methods and processes. We further focus on minimising noise, dust, odour and CO_2 emissions during the production and utilisation of our presses as well as the use of environment-friendly substrates and consumables in the printing, finishing and postpress processing phases.

Operational environmental and energy management

At our sites in Würzburg and Radebeul, we are working steadily on minimising energy and resource requirements and emissions despite our aim to steadily increase revenue. With our heat recovery system at the foundry, we utilise the heat generated by the oven, sand-cooling and hall exhaust air to heat the buildings in Würzburg. In addition, we have a gas-fuelled boiler in Würzburg to produce district heat. According to an independent report, the primary energy factor of our district heating network stands at 0.90, while 42% of the waste heat is recovered. Dedusting, extraction and solvent distillation aggregates as well as improved sound insulation in the production and assembly halls reduce emissions at the workplaces. Supply air systems ensure fresh air at a controlled temperature directly at the workplace. Our waste statistics provide detailed information about the type and quantity of waste produced. The remeltable metal wastes produced in metal cutting activities are fed into our foundry as an important raw material. Our large production plants in Radebeul and Würzburg hold DIN EN ISO 9001:2015 and DIN EN ISO 14001:2015 quality and environment certificates. In addition, our foundry in Würzburg operates an energy management system that has been certified in accordance with DIN EN ISO 50001:2011. Thanks to our initiatives at our facilities in Radebeul and Würzburg, we are consuming less electricity. Compared to 38.6m kWh in the previous year, electricity consumption fell to 36.6m kWh. Consumption of gas, district heat and water was in 2017 higher than in the previous year. While the Scope 1 CO_2e emissions in 2017 remained at the previous year's level, the Scope 2 emissions decreased location-based from 20.3m kg CO_2e in the previous year to 19.5m kg CO_2e in the reporting period and market-based from 21.9m kg CO_2e to 21.3m kg CO_2e. The quantity of waste has not changed significantly.

Ecological printing technology

With our new and enhanced products, we apply energy-reduction technologies to lower CO_2 emissions in printing. Special attention is paid to the drying process as this is one of the most energy-intensive activities. Our proprietary VariDry^{Blue} process offers a more efficient solution. Energy requirements for drying water-based dispersion coating can be reduced by up to 30%. This is achieved by using the hot air twice in the dryer modules. For UV drying, HR and LED dryer modules for interdeck and final drying are high-performance but energy-saving alternatives to conventional UV dryers. With partners, Koenig & Bauer has developed the VisuEnergy energy management system. The output and the resultant energy consumption of the press and the individual components such as the dryer can be controlled directly at the console of the printing press. Our production planning and control system LogoTronic Professional logs and stores energy consumption data for each individual job. Via continuous analyses and systematic improvements, it is possible to lower energy costs permanently by using the available energy efficiently. Practical examples show that our customers can lower electrical power by up to 5% and electrical work by up to 1% in real terms thanks to an active energy management system together with additional training and measures to raise staff awareness. At the same time, we assist our customers from the planning phase of a machine investment through to efficient production. Our support ranges from system and requirements analyses to advice on energy.

In addition to technical solutions and systems for harnessing the potential for saving energy, we work permanently on the minimisation of emissions. Alcohol-free offset, less powder, biologically degradable solution additives, noise and CO_2 emissions are examples of this. It is no coincidence that in 2000 our Rapida presses were the world's first sheetfed offset presses to be awarded the "Emission checked" ecological certificate by the German industrial compensation society for the printing and paper processing industry.

We are also one of the pioneers of climate-neutral printing and with ClimatePartner we have a competent partner by our side. With the footprint manager on ClimatePartner's online portal, it is possible to calculate in detail CO_2 emissions from printing and, at click of a button, offset them instantly by funding climate protection projects. More than 20 certified climate protection projects meeting various internationally acknowledged standards such as Gold Standard, VCS and Social Carbon are available. The participating printing companies can utilise the "climate-neutral printing" label as a competitive differentiator.

A further example of our active environmental approach is the migration-harmless ink for food packaging. 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 – i.e. the possibility of separating the ink from the substrate during the recycling process – and the greatest possible water resistance of printed products. Sponsored industry awards such as the one for the environmentally minded company of the year acknowledge printing companies' ecological commitment.

We offer customers various optional features to minimise dust and odour emissions. Roller coatings permit low-alcohol printing or the use of alcohol substitutes for conventional, UV and hybrid inks to avoid unpleasant odours at the printing company. The emission extraction system is additionally available for UV printing and finishing applications. Unpleasant odours are prevented and dust simultaneously extracted at the press operator's main workplace around the delivery. In the case of UV printing, extraction in and around the inking units can also help to minimise ink mist.

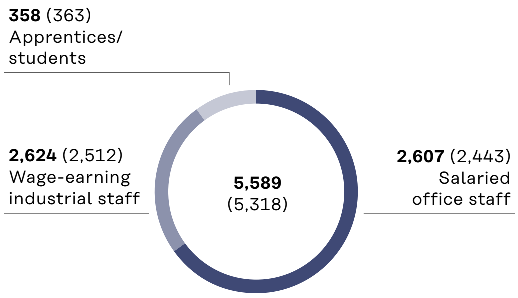
Employee matters

See pages 34 onwards

Our employees' expertise, commitment, ideas and loyalty form the decisive basis for the planned expansion of our technologically complex international business (see our medium-term revenue targets in the combined management report). For this reason, our human resources strategy concentrates on recruiting young professionals and executives and developing, motivating and bonding our employees. We offer numerous activities and high working standards to help them utilise their potential, to increase their satisfaction and productivity and also to encourage their innovative spirit. We ranked top in the German bAV 2018 awards in the large company category for our new company pension scheme, which we rolled out in 2017.

At the end of 2017, the Koenig & Bauer Group had 5,589 employees. This is an increase of 271 over the previous year (31 December 2016: 5,318) and is partly due to the first-time consolidation of the sales and service company KBA CEE, which has 44 employees. New employees were also recruited for the expanding service business and for new applications for the packaging and digital printing markets. The proportion of part-time employees in the Group increased slightly from 3% in the previous year to 3.1%.

Workforce as of 31 December 2017



Of the 3,406 employees in Radebeul and Würzburg, 22% are aged up to 30 years. 43% are between 31 and 50 years old and 35% are over 51 years. As with many other machinery engineering companies, with 12% Koenig & Bauer has a relatively small proportion of women at both major Group sites. We want to increase the proportion of female technicians by regularly participating in "Girls' Day" and the technology camp for girls as well as organising an orientation day for girls interested in a technical career. By having more highly qualified female employees, we also expect to be able to increase the proportion of women in management positions by means of internal promotions as well as external appointments. The proportion of women at the top management level below the Management Board has been increased to 17%.

Besides a low fluctuation rate, the average length of service of 19.5 years at the Company's sites in Radebeul and Würzburg is an indicator of good employee loyalty at Koenig & Bauer. In addition to employees' identification with the Company and pride in working for it, it also shows that we are able to arouse our employees' enthusiasm for our Company, products and strategy and offer opportunities for professional development and career advancement. 73 long-service staff celebrated their working anniversaries in

Radebeul and Würzburg in 2017; in fact, one employee was able to look back on 50 years of service for the Company. 42 celebrated 40 years of service, while 30 had been with the Company for 25 years. This high satisfaction on the part of employees with their work is also confirmed by recent online questionnaires and surveys in the social media. Koenig & Bauer ranks 27th out of the top 1,000 national employers for 2018 thanks to high recommendation rates on account of interesting duties and favourable working conditions. These statistics are compiled annually by Focus magazine and the employer rating platform Kununu. The Company was not listed among the top 1,000 last year.

Recruitment of and professional training for young skilled staff

With 358, the number of apprentices and students was slightly down on the previous year's figure of 363. However, the Group continues to have a high trainee ratio of 6.4% (2016: 6.8%).

We are repeatedly successful in finding qualified young people via new employer branding measures in social media as well as with proven instruments. Open days at the training centres and a summer camp were held alongside participation in training fairs. The vocational training department in Radebeul works with numerous schools in the region to inform them at an early stage of the training available at the plant. In 2017, it received an award known as "Großer SCHULEWIRTSCHAFT-Preis" from the Saxon state government in recognition of its contributions to vocational orientation. The Company's own vocational training school in Würzburg will be celebrating its 150th anniversary in 2018, making it one of the oldest of its kind in Germany. Parent evenings, career experience sessions for school students and guided tours of the plant provide school leavers with early career guidance. All internships are designed to encourage school students to try things out for themselves and to become acquainted with the career training offered by the Company. Koenig & Bauer has met many of its apprentices in this way. 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.

For the Group-wide 94 career starters in 2017, apprenticeships as mechatronics technicians as well as industrial and machining mechanics dominated in line with our requirements. They were joined by other young people training for careers as electronics technicians, industrial business management assistants, technical product designers, construction and foundry mechanics, technical model builders, media technology specialists for printing, office management staff, IT system integration experts and warehouse specialists. In addition, we offer dual studies in mechanical engineering, mechatronics, electrical engineering and production technology. Besides the Group companies, several companies from the region have their junior staff at Koenig & Bauer prepared intensively for their professional life in theory and practice. 56 apprentices at the two major plants in Radebeul and Würzburg successfully sat for their final exams at the chambers of industry and commerce. Four chamber winners and two candidates reaching third place testify to the acknowledged high quality of our training centres. 96% of apprentices were given permanent employment contracts.

Targeted personnel development and idea management

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. We conducted development assessments the second and third level executives at our Würzburg and Radebeul sites. As well as this, 13 young potentials successfully completed the junior management programme. With this analysis of development potential, we identified talents for management duties in our expanding Group and devised individual development plans for them. The competence management process is being continuously expanded and development assessments will be performed at other Group facilities in 2018.

Once again, our staff helped us to optimise our processes and products by suggesting improvements. The employees in Würzburg participated eagerly in the “energy savings” and “quality first” initiatives, contributing their ideas to lower electricity and heating costs and to improve production and administration quality. Many of the ideas submitted by employees were rewarded as they allowed us to cut costs.

Occupational health and safety

Occupational safety and optimum working conditions have a strong influence on productivity within the Company as a result of heightened motivation. By avoiding non-ergonomic movements, heavy listing or stressful processes, it is possible to minimise or even entirely eliminate illness and accidents. We want to achieve improvements in occupational safety and ergonomics through training, advice and instruction. Regular inspections are performed to ensure compliance with the occupational safety rules. With these measures, we want to reduce accident numbers, which increased significantly in 2017 at the Würzburg and Radebeul sites. Monthly reports on the accident frequency rate per 1,000,000 hours of work permit targeted measures. The occupational safety and health standards at our production plants in Würzburg and Radebeul are certified in accordance with BS OHSAS 18001:2007.

In addition, we attach key importance to workplace health promotion and preventive care at Koenig & Bauer. Many activities were 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. We widened our workplace programme to avoid physical and mental strain liable to lead to disruptions and impaired performance in the work process. In addition to individual advice and training at selected sites, our workplace programme primarily concentrated on the foundry and the large-parts production facility. We encouraged employees to take responsibility for their own health and to work on a health-conscious basis. As in every year, we held courses for our apprentices with a health promotion programme specifically tailored for their needs. In addition, we published an article in our employee magazine, inviting them to improve their mobility with movement, stretching and balancing exercises. As well as this, a health day was held at the Radebeul plant aimed at reducing muscular and skeletal diseases. The “Let’s cycle to work” campaign was a great success again. The company bicycle campaign of our subsidiary KBA-Kammann, where all employees can lease a company bike, received a favourable response. Health and team spirit are encouraged by means of supporting company sports festivals and by inviting employees to participate in company runs.

Work/life balance
With special offers for working mothers and fathers as well as part-time working-hour models and job-sharing arrangements, we seek to encourage the compatibility of work and family. The child-minding centre adjacent to the company premises in Radebeul enjoys a high degree of acceptance by our employees as it is aligned to working hours. Our subsidiary KBA-Kammann received the “Family-friendly company East Westphalia” award in 2017 for the second time in recognition of its innovative measures to further the compatibility of family, career and caring for dependants. The children’s and young people’s day held at the Würzburg plant on Repentance Day, a school holiday, attracted 120 children of employees, was a great success again.

Social matters

Koenig & Bauer is one of the oldest machinery engineering companies in Germany and a pioneer in corporate social policy as well as a supporter of social projects. Even before the introduction of state social security legislation in Germany, the Company had already established the precursor of a company health insurance fund in 1855. Founded in 1873, the fund for invalidity, widow and orphan benefits continues to exist to this very day. We are committed to our responsibility to society and sponsor social and cultural projects alongside initiatives for preserving and protecting the environment.

Social commitment
At Koenig & Bauer, social commitment is primarily reflected in cash and non-cash donations for social and cultural projects. Management decides on the projects to be supported on a case-by-case basis. Added to this, there are the manifold volunteer activities of our managers and employees. In November 2017, Koenig & Bauer organised another charity concert together with printing and media companies in Würzburg. The proceeds of €50,000 were donated to HALMA, a charity that helps old people, particularly those suffering from dementia, to cope with their daily lives. The guests whom we invited to the celebration of our Company’s 200th anniversary were asked to make donations to the globally active charity “Médecins sans Frontières” instead of gifts. After doubling the donation of €30,150, we were proud to hand over an amount of €60,300 to this charity, which is the holder of the Nobel Peace Prize, in recognition of its medical assistance in crisis and war regions as well as in the aftermath of natural catastrophes.

Premium product quality

The quality of our products and services enjoys high priority. Reflecting this, our quality management system aims to continuously meet the highest quality standards in the production and assembly of our bespoke, innovative and complex products. Following on from our production plants in Radebeul and Würzburg and the Sheetfed business unit in Radebeul in 2016, the quality management system was certified in accordance with DIN EN ISO 9001:2015 in 2017 at our Security business unit, which is responsible for banknote and security printing presses, at its three sites in Würzburg, Lausanne and Mödling.

Greater work and process safety in printing operations

Many of our technological innovations aim to improve work and process safety as well as convenience during printing operations. One example is the DriveTronic SIS sidelay-free infeed on Rapida sheetfed offset presses. It dispenses with setting and maintenance tasks and relieves the operator of manual interventions in harmful postures. At the same time, injuries are prevented. In addition, the system is automated so that no operator errors can arise. A plate lift also saves the operator a lot of physically demanding work, especially in connection with raised presses used for packaging printing and long distances. Particularly in the case of large formats, this makes it far easier to transport printing plates to the gallery level. We have also automated formerly manual processes in our convenient coaters, making them far safer. With the AniloxLoader in medium format, the rollers can be changed fully automatically at the same time as the other make-ready processes. This relieves the operator of heavy manual work and also saves time. The situation with respect to large formats is similar: the AniSleeve system simplifies the changeover of the anilox roller sleeves. Indeed, this can be done by a single person despite the dimensions. With the Rapida presses, coating forme changes are completed at the push of a button in seconds thanks to the Simultaneous Forme Change. This obviates the need for time-consuming clamping, bolting and tensioning, easing the operator's work load and heightening process safety.

Committed to human rights and high working standards

In its role as an employer as well as a supplier and buyer of products and services, Koenig & Bauer is committed to protecting human rights and views this as a core element of responsible corporate management. We follow the United Nations Guiding Principles on Business and Human Rights ("protect, respect and remedy"). With the incorporation of human rights principles in our terms and conditions of purchase and the systematic observance of these requirements in all our business activities, we make sure that our business partners acknowledge and respect human rights in the same way that we do. Moreover, our purchasing conditions impose on our external business partners a duty to respect employee rights, to comply with labour laws and to satisfy environmental rules. Our suppliers reassure to avoid any form of discrimination and particularly also to refrain from using child labour. With respect to our own employees, we implement good working conditions together with high health and safety standards, equal opportunities and protection against all forms of discrimination.

Combatting corruption and bribery matters

With the established compliance management system, we have created the basis at Koenig & Bauer for ensuring that our business practices satisfy high compliance and integrity standards. This involves comprehensive guidelines and processes for safeguarding compliance and integrity in our business activities. Further details on our compliance management system, which is regularly reviewed and continuously updated, can be found in the corporate governance report.

See pages 30 onwards

Our comprehensive compliance and integrity standards can only unleash their full effect if they are known to and completely observed by our employees. For this purpose, Koenig & Bauer has rolled out a Group-wide online training system on the principles of compliance and the code of conduct. The training is offered in seven languages and must be completed by all new employees and repeated every three years. Based on an IT process, compliance with this requirement is monitored by the Human Resources department and Compliance. In 2017, more than 310 employees attended face-to-face training to extend their knowledge of competition law including cartel law and anti-corruption measures according to requirements. These trainings completely covered the Koenig & Bauer locations in Switzerland and Russia. Administration, sales and service staff in Germany, Malaysia, Australia and Italy also received training.

The ongoing analysis of possible compliance risks provides us with a basis for continuing to live up to our high standards of compliance and integrity in the future. The analyses which we conducted in 2017 did not indicate the existence of any new compliance risks. Nor were any compliance breaches reported.

Detailed index Group financial statements

Group balance sheet to 31 December 2017

in €m

	Note	31.12.2016	**31.12.2017**
Assets			
Non-current assets			
Intangible assets	**(1)**	36.7	45.7
Property, plant and equipment	**(1)**	202.8	210.6
Investments and other financial receivables	**(2)**	15.9	50.5
Other assets	**(2)**	0.1	1.6
Deferred tax assets	**(6)**	64.9	80.7
		320.4	**389.1**
Current assets			
Inventories	**(3)**	293.4	254.9
Trade receivables	**(2)**	209.0	308.3
Other financial receivables	**(2)**	14.2	14.2
Other assets	**(2)**	23.5	28.7
Current tax assets		3.1	4.7
Securities	**(4)**	19.9	21.6
Cash and cash equivalents	**(5)**	202.0	142.4
		765.1	**774.8**
		1,085.5	**1,163.9**
Equity and liabilities			
Equity	**(7)**		
Share capital		43.0	43.0
Share premium		87.5	87.5
Reserves		206.8	293.5
Equity attributable to owners of the parent		**337.3**	**424.0**
Equity attributable to non-controlling interests		0.5	–
		337.8	**424.0**
Liabilities			
Non-current liabilities			
Pension provisions and similar obligations	**(8)**	212.5	198.4
Other provisions	**(9)**	23.2	27.1
Bank loans and other financial payables	**(10)**	9.4	8.6
Other liabilities	**(10)**	1.0	1.2
Deferred tax liabilities	**(6)**	22.0	26.2
		268.1	**261.5**
Current liabilities			
Other provisions	**(9)**	180.5	144.6
Trade payables	**(10)**	59.0	72.1
Bank loans and other financial payables	**(10)**	94.5	100.9
Other liabilities	**(10)**	142.8	150.6
Current tax liabilities		2.8	10.2
		479.6	**478.4**
		1,085.5	**1,163.9**

Group income statement 2017

in €m

	Note	2016	2017
Revenue	(14)	1,167.1	1,217.6
Cost of sales	(15)	–820.5	–861.6
Gross profit		**346.6**	**356.0**
Research and development costs	(15)	–59.3	–48.4
Distribution costs	(15)	–144.1	–141.0
Administrative expenses	(15)	–80.4	–80.5
Other operating income	(17)	46.5	26.5
Other operating expenses	(17)	–22.4	–31.9
Other financial results	(18)	0.2	0.7
Earnings before interest and taxes (EBIT)		**87.1**	**81.4**
Other interest and similar income		2.0	3.3
Other interest and similar expenses		–8.1	–6.2
Interest result	(18)	**–6.1**	**–2.9**
Earnings before taxes (EBT)		**81.0**	**78.5**
Income tax expense	(19)	1.2	2.6
Net profit		**82.2**	**81.1**
of which			
attributable to owners of the parent		82.3	81.1
attributable to non-controlling interests		–0.1	–
Earnings per share (in €, basic/dilutive)	(20)	**4.98**	**4.91**

Statement of comprehensive Group income 2017

in €m

	2016	2017
Net profit	**82.2**	**81.1**
Items to be reclassified to consolidated profit or loss		
Foreign currency translation	1.7	−1.4
Measurement of primary financial instruments	0.1	−1.4
Measurement of derivatives	0.1	7.5
Deferred taxes	–	−0.7
	1.9	**4.0**
Items not to be reclassified to consolidated profit or loss		
Defined benefit plans	−24.1	10.8
Deferred taxes	19.4	−0.1
	−4.7	**10.7**
Gains/losses recognised directly in equity	**−2.8**	**14.7**
Total comprehensive income	**79.4**	**95.8**
of which		
attributable to owners of the parent	79.5	95.8
attributable to non-controlling interests	−0.1	–

For further information see explanatory Note (G) (7).

Statement of changes in Group equity 2017

in €m

			Reserves								
			Recognised in equity								
	Share capital	Share premium	Defined benefit plans	Primary financial instru-ments	Deri-vatives	Ex-change diffe-rences	Deferred taxes	Other	**Equity attr. to owners**	Equity attr. to non-con-trolling interests	**Total**
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**
1 January 2017	**43.0**	**87.5**	**–105.9**	**5.4**	**–4.6**	**4.5**	**21.5**	**285.9**	**337.3**	**0.5**	**337.8**
Net profit	–	–	–	–	–	–	–	81.1	**81.1**	–	**81.1**
Gains/losses recognised directly in equity	–	–	10.8	–1.4	7.5	–1.4	–0.8	–	**14.7**	–	**14.7**
Total comprehensive income	**–**	**–**	**10.8**	**–1.4**	**7.5**	**–1.4**	**–0.8**	**81.1**	**95.8**	**–**	**95.8**
Dividend	–	–	–	–	–	–	–	–8.3	**–8.3**	–	**–8.3**
Other changes	–	–	–	–	–	–	–	–0.8	**–0.8**	–0.5	**–1.3**
31 December 2017	**43.0**	**87.5**	**–95.1**	**4.0**	**2.9**	**3.1**	**20.7**	**357.9**	**424.0**	**–**	**424.0**

For further information see explanatory Note (G) (7).

Group cash flow statement 2017

in €m	2016	2017
Earnings before taxes	81.0	78.5
Appreciation/depreciation on intangible assets, property, plant and equipment	5.3	31.0
Currency measurement	5.9	3.8
Non-cash interest income/expense	6.4	3.3
Other non-cash income/expenses	–7.0	–3.2
Gross cash flow	**91.6**	**113.4**
Changes in inventories	–25.9	36.3
Changes in receivables and other assets	–9.2	–110.5
Changes in other provisions	–13.7	–30.9
Changes in payables and other liabilities	–16.9	19.2
Interest received	1.1	1.4
Interest paid	–0.8	–0.8
Income tax paid	–6.5	–4.7
Income tax refunded	2.2	0.4
Cash flows from operating activities	**21.9**	**23.8**
Proceeds from the disposal of intangible assets, property, plant and equipment	15.6	3.6
Payments for investment in intangible assets, property, plant and equipment	–31.5	–48.5
Proceeds from the disposal of investments	–	–0.1
Payments for investments	–0.3	–36.9
Payments for the acquisition of shares in consolidated companies	–3.4	–1.6
Dividends received	–	0.1
Cash flows from investing activities	**–19.6**	**–83.4**
Free cash flow	**2.3**	**–59.6**
Proceeds from loans	22.8	10.2
Repayment of loans	–8.8	–1.0
Changes in equity attr. to non-controlling interests	–0.1	–0.5
Changes in equity other	–	0.5
Dividends paid	–	–8.3
Cash flows from financing activities	**13.9**	**0.9**
Change in funds	**16.2**	**–58.7**
Effect of changes in exchange rates	–0.5	–2.1
Effect of changes in consolidated companies	–	1.2
Funds at beginning of period	186.3	202.0
Funds at end of period	**202.0**	**142.4**

For further information see explanatory Note (I).

Notes to the Group financial statements

(A) Preliminary remarks

The Koenig & Bauer Group (the "Group") develops, assembles and sells sheetfed offset, flexo, digital and web offset presses, flatbed/rotary die cutters and special equipment for security, metal decorating, glass and hollow container printing and marking and coding together with comprehensive services. The Parent, Koenig & Bauer AG 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 2017 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 2018 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 2017 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 2017.

IAS 7	Amendments to IAS 7 – Disclosure Initiative
IAS 12	Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
Sundry	Improvements to IFRS (2014–2016) - Amendments to IFRS 12

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.

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. The requisite disclosures on changes in financial liabilities reported within the cash flow from financing activities and the related financial assets are included in Koenig & Bauer's cash flow statement for 2017. Further disclosures may be included in the notes in future years.

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. This has no significant impacts on Koenig & Bauer.

Sundry Improvements to IFRS (2014 – 2016)

The Annual Improvements (2014–2016) clarify that the disclosures required by IFRS 12 also apply to shares held for sale in subsidiaries, joint ventures and associated companies. This amendment does not have any effect on Koenig & Bauer's consolidated financial statements.

The Group did not apply in advance the following IASB standards, interpretations and amendments to existing standards that are not yet mandatory.

		Date applicable
IAS 28	Amendment to IAS 28 – Long-term Interests in Associates and Joint Ventures	2019
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 9	Amendments to IFRS 9 Prepayment Features with Negative Compensation	2019
IFRS 15	Revenue from Contracts with Customers	2018
IFRS 15	Amendment to IFRS 15 Clarifications to IFRS 15	2018
IFRS 16	Leases	2019
IFRS 17	Insurance Contracts	2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2018
IFRIC 23	Uncertainty over Income Tax Treatments	2019
Sundry	Improvements to IFRS (2014–2016) – Amendments to IFRS 1 and IAS 28	2018
Sundry	Improvements to IFRS (2015–2017) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	2019

IFRS 9, IFRS 15 and IFRS 16, the amendments to IFRS 4 and IFRS 15 as well as the annual improvements to the IFRSs for the 2014 – 2016 cycle have been endorsed for adoption in the EU.

The matters covered by IFRS 17, the amendments to IFRS 2 and IFRS 4 and the annual improvements to the IFRSs for the 2014 – 2016 cycle do not have any relevance for the companies included in the consolidated financial statements.

IAS 28: Amendment to IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment to IAS 28 clarifies that IFRS 9 is also to be applied to shares in associated companies and joint ventures accounted for using the equity method. This does not have any material impact on Koenig & Bauer's consolidated financial statements.

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 Group.

IFRS 9: Financial Instruments

IFRS 9 primarily governs the recognition and measurement of financial assets and financial liabilities and replaces IAS 39. Koenig & Bauer is required to apply IFRS 9 from 1 January 2018. The transition to the new standard is well advanced and the Group estimates that reserves will rise by around €1m as of 1 January 2018.

Subsequent measurement of financial assets is currently based on the four categories "measured at fair value through profit or loss", "held-to-maturity", "loans and receivables" and "available-for-sale". IFRS 9 classifies **financial assets** in three categories: "measured at amortised cost", "at fair value through profit or loss (FVTPL)" and "at fair value through other comprehensive income (FVOCI)". The allocation of a financial instrument to one of these three categories depends on the company's business model and the characteristics of the instrument in question. In the case of trade receivables, financial investments and other financial receivables, the new categorisation does not result in any material changes to Koenig & Bauer's accounting practices. However, securities that are classified as "available for sale" under IAS 39 are allocated to FVTPL under IFRS 9 as they are not used to collect contractual cash flows. Unrealised gains are recycled from the reserves for primary financial instruments to retained earnings.

Under IAS 39, **impairments** may only be recognised for financial assets in the event of an actual credit loss. This past-based concept of "losses incurred" is replaced in IFRS 9 by a more forward-looking model of "expected losses", which also requires risk provisioning for expected credit losses and reflects potential changes in credit risk since initial recognition. It is particularly applied to financial assets measured at amortised cost or at FVOCI. Impairments are calculated on the basis of lifetime expected credit losses or 12-month expected credit losses. Lifetime expected losses include all expected credit losses during the term of a financial asset and must be applied if credit risk has increased significantly since initial recognition. However, it is always applied to trade receivables and contractual assets with a material financing component. 12-month expected credit losses include expected credit losses within twelve months of the reporting date and are applied to all other financial assets. The impairment model under IFRS 9 requires discretionary decisions to be made in forecasting future economic conditions. To this end, portfolios of trade receivables with similar characteristics, e.g. the same business unit or settlement period, are formed. In addition, the model is based on historical credit loss rates that are adjusted for current information and expectations at each reporting date. Koenig & Bauer estimates that the application of the impairment provisions under IFRS 9 from 1 January 2018 will lead to a decrease of approximately € 1m in the impairments recognised on trade receivables. The Group does not expect any material impact on the other financial assets.

Under IFRS 9, the classification of **financial liabilities** is largely the same as in IAS 39. However, IFRS 9 provides for the option of recognising certain financial liabilities at their fair value. Any changes in fair value arising from changes in the Company's own credit risk are recognised directly through other comprehensive income. Koenig & Bauer does not expect the classification of financial liabilities under IFRS 9 to have any material impact.

Koenig & Bauer uses derivative financial instruments such as swaps or currency forwards to hedge fluctuations in interest rates or exchange rates. In accordance with IAS 39, **hedge accounting** is applied to transactions for hedging cash flows. The effective part of the hedge is recognised through other comprehensive income and the ineffective part of the hedge through profit and loss. Gains and losses are recognised as soon as the hedged transaction is settled. In applying IFRS 9 for the first time, the Group has the option of applying the new guidance for hedge accounting. IFRS 9 ensures that the goals and strategy of risk management are consistent with the presentation of the balance sheet and thus extends the range of qualifying underlying transactions and hedges. If underlying transactions qualify individually, the designation of groups of underlying transactions is possible as well as net and net zero positions. Any financial instrument recognised at fair value can be used as a hedge unless one of the options provided for in IFRS 9 is exercised. Early termination of a hedge is no longer possible as long as there is no change in the underlying risk management strategy. Koenig & Bauer will be initially continuing to apply the accounting guidance provided for in IAS 39.

The application of IFRS 9 will necessitate presentation changes and also additional disclosures in the **notes.**

When applying IFRS 9 for the first time, Koenig & Bauer will make use of the option of not restating the comparative figures for previous periods, in particular with regard to changes to classification and measurement as well as the recognition of impairments. Koenig & Bauer will be applying the modified retrospective method when it adopts IFRS 9, meaning that cumulative adjustments will be recognised as of 1 January 2018.

IFRS 15: Revenue from Contracts with Customers
IFRS 15 describes a five-step model for determining whether, in what amount and at what time revenue from contracts with customers is recognised. It replaces IAS 18, Revenue and IAS 11, Construction contracts as well as IFRIC 13, Customer loyalty programmes. Koenig & Bauer is required to apply IFRS 15 from 1 January 2018 and has largely completed the implementation project for the new standard. The new guidance for accounting for revenue is expected to cause reserves to drop by around €4m as of 1 January 2018.

Currently, revenue from the **sale of products** is recognised when the material risks and opportunities inherent in ownership are transferred to the buyer, Koenig & Bauer does not retain any effective right of control and economic benefits are likely to flow to the Company. Under IFRS 15, revenue is recognised as soon as the customer gains control over the goods. To this end, the transaction price is initially divided into distinct performance obligations which are recognised separately as revenue when control together with the main risks and opportunities passes to the customer. The Group assumes that contractual goods and services are so closely linked that it is not possible to identify distinct performance obligations. For this reason, Koenig & Bauer does not expect any material differences in the way in which it recognises revenue from the sale of goods.

Customer-specific construction contracts have so far been accounted for using the percentage-of-completion method. To this end, revenue is recognised according to the extent of completion on the reporting date. Under IFRS 15, revenue can only be recognised over a certain period of time if the Company does not have any alternative use for the product and it has a legal right to recover payment for the services already provided. Under Koenig & Bauer's existing contracts, it is not possible for the revenue from individual contracts to be recognised over time in accordance with IFRS 15. It is assumed that the adoption of the new method for recognising revenue from contracts that have not been completed by 1 January 2018 will cause reserves to drop by around €4m as of 1 January 2018. These changes will also lead to a reduction in trade receivables and an increase in inventories.

Revenue from services is currently recognised after the service is provided or in accordance with the percentage of completion on the reporting date if the amount can be reliably estimated. Under IFRS 15, the transaction price for service contracts is divided into individual service components, the revenue from which is recognised upon completion of the service component in question. The Group believes that the recognition of revenue from services is very largely comparable and that no material changes to the timing of this recognition are likely.

Koenig & Bauer will be applying the modified retrospective method when it adopts IFRS 15, meaning that cumulative adjustments will be recognised as of 1 January 2018.

The estimated impact on consolidated equity arising from the application of IFRS 15 and IFRS 9 from 1 January 2018 is based on current assessments. However, the actual impact of these standards may differ as

- the Group has not yet completed testing and assessments of the controls for its new IT systems and

- the new accounting guidance may be subject to changes before the publication of the first consolidated financial statements after the date of first-time application.

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.

IFRS 16 replaces the existing guidance on leases, particularly IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

Koenig & Bauer has started an analysis of the possible impact on its consolidated financial statements. However, it is currently not yet possible to quantify the effects as the transition method has not yet been selected. The Group will not be early adopting IFRS 16.

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.

IFRIC 23: Uncertainty over Income Tax Treatments
To supplement IAS 12, IFRIC 23 clarifies the tax treatment of matters depending on future recognition by the tax authorities or tax courts. Koenig & Bauer currently does not expect this to result in any material changes.

Sundry Improvements to IFRS (2015–2017)
The annual improvements (2015–2017) concern IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments to IFRS 3 and IFRS 11 clarify the measurement of a share in a joint venture when control or shared management is gained. IAS 12 clarifies the treatment of the income tax consequences of dividend payments, while IAS 23 provides a more precise definition of the determination of the borrowing cost rate for acquiring qualifying assets. This is not expected to have any effect on Koenig & Bauer.

(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 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 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 under IAS 39 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 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 45 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 14% to 33%.

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 89.

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 36 (previous year: 35) companies.

Altogether 24 (previous year: 24) 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.**
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**
2017							
Intangible assets							
Industrial property rights and similar rights	47.1	–	2.0	–	0.2	0.6	48.7
Goodwill	27.8	–	–	–	–	–	27.8
Product development costs	7.8	–	4.6	–	–	0.8	11.6
Prepayments and assets under construction	0.2	–	6.5	–	–0.2	–	6.5
	82.9	**–**	**13.1**	**–**	**–**	**1.4**	**94.6**
Property, plant and equipment							
Land and buildings	258.8	–	3.0	–0.1	1.0	1.6	261.1
Plant and machinery	183.9	0.2	7.6	0.9	5.6	7.8	190.4
Other facilities, factory and office equipment	133.5	0.4	17.8	–0.3	–	14.9	136.5
Prepayments and assets under construction	8.4	–	8.6	–	–5.9	–	11.1
	584.6	**0.6**	**37.0**	**0.5**	**0.7**	**24.3**	**599.1**
	667.5	**0.6**	**50.1**	**0.5**	**0.7**	**25.7**	**693.7**

[1] 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.**
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**[1]	**–**	**33.8**	**428.0**	**224.2**	**239.5**
38.2	–	4.1	–	–	0.6	41.7	8.9	7.0
0.2	–	–	–	–	–	0.2	27.6	27.6
7.8	–	–	–	–	0.8	7.0	–	4.6
–	–	–	–	–	–	–	0.2	6.5
46.2	**–**	**4.1**	**–**	**–**	**1.4**	**48.9**	**36.7**	**45.7**
128.9	–	6.3	–	–0.1	1.2	133.9	129.9	127.2
145.0	0.1	10.5	–	0.7	6.5	149.8	38.9	40.6
107.9	–	10.1	–	–0.2	13.0	104.8	25.6	31.7
–	–	–	–	–	–	–	8.4	11.1
381.8	**0.1**	**26.9**	**–**	**0.4**	**20.7**	**388.5**	**202.8**	**210.6**
428.0	**0.1**	**31.0**	**–**	**0.4**	**22.1**	**437.4**	**239.5**	**256.3**

(G) Explanatory notes to the balance sheet

(1) Intangible assets, property, plant and equipment

Given finance leases the total includes €2.8m for plant and machinery (previous year: €4.7m) and €2.1m (€0.8m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (G) (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €3.4m (previous year: €3.8m).

Intangible assets
The additions to industrial property rights and similar rights as well as prepayments made and assets under construction primarily relate to the implementation of the SAP ERP system.

Goodwill is made up as follows:

in €m	31.12.2016	**31.12.2017**
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**

The purchase of the shares in KBA-Flexotecnica S.p.A. in 2013 resulted in a contingent liability of €0.3m (previous year: €0.3m) towards the sellers for warranty claims arising prior to the acquisition of the shares; full allowance has been made for this.

A further contingent liability of €0.6m (previous year: €0.6m) arose from the acquisition of KBA-IBERICA DIE CUTTERS, S.A. in 2016 for the settlement of warranty claims towards the former shareholders; 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	9.5%	6.9%
Business Unit Security	3	7.9%	7.2%
KBA-Kammann GmbH, Bad Oeynhausen, Germany	3	9.5%	6.9%
KBA-Flexotecnica S.p.A., Tavazzano, Italy	3	8.8%	7.0%

Based on the results of various sensitivity analyses, Koenig & Bauer 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.

(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	–18.4[2]
KBA-Sheetfed Solutions Management GmbH, Radebeul, Germany	100.0	0.0
KBA-Sheetfed Solutions AG & Co. KG, Radebeul, Germany	100.0	65.8
KBA-Digital & Web Solutions Management GmbH, Würzburg, Germany	100.0	0.1
KBA-Digital & Web Solutions AG & Co. KG, Würzburg, Germany	100.0	1.3
KBA-NotaSys Management GmbH, Würzburg, Germany	100.0	0.0
KBA-NotaSys AG & Co. KG, Würzburg, Germany	100.0	26.8
KBA-Finance GmbH, Würzburg, Germany	100.0	0.0
KBA-Gießerei GmbH, Würzburg, Germany[1]	100.0	2.6[3]
KBA-FT Engineering GmbH, Frankenthal, Germany	100.0	2.3[3]
Albert-Frankenthal GmbH, Frankenthal, Germany	100.0	0.4[3]
KBA-Deutschland GmbH, Radebeul, Germany	100.0	0.4
KBA-MePrint AG, Veitshöchheim, Germany	100.0	13.5
KBA-Metronic GmbH, Veitshöchheim, Germany[1]	100.0	14.8
KBA-MetalPrint GmbH, Stuttgart, Germany	100.0	6.1[3]
KBA-Kammann GmbH, Bad Oeynhausen, Germany	100.0	2.5
KBA-Mödling GmbH, Mödling, Austria	>99.9	18.1
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	0.9
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	2.9[3]
KBA ITALIA S.R.L., Lainate, Italy	100.0	1.5[3]
KBA-Flexotecnica S.p.A., Tavazzano, Italy	100.0	0.2[3]
KBA-IBERICA DIE CUTTERS, S.A., El Prat de Llobregat, Spain	100.0	3.8[3]
KBA (UK) Ltd., Watford, UK	100.0	–0.7[2]
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	17.0
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	12.1
KBA-NotaSys SA, Lausanne, Switzerland[1]	100.0	99.0
KBA-NotaSys International SA, Genf, Switzerland[1]	100.0	0.3
Print Assist AG, Höri, Switzerland[1]	100.0	1.7
KBA CEE Sp. z o.o., Warsaw, Poland	100.0	1.5
KBA North America Inc., Wilmington, DE, USA	100.0	18.3
KBA (HK) Company Ltd., Hongkong, China	100.0	1.1
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	2.4

Company, location	Capital share in %	Equity in €m
Non-consolidated affiliates		
PrintHouseService GmbH, Würzburg, Germany	100.0	0.1[3]
KBA NORDIC A/S, Værløse, Denmark	100.0	–2.1[2,3]
KBA RUS OOO, Moscow, Russia	100.0	–0.8[2,3]
KBA-Kammann USA, Inc., Portsmouth, NH, USA[1]	100.0	3.9
KBA LATINA S A P I DE CV, Mexico City, Mexico	60.0	1.1
Koenig & Bauer do Brasil Comércio de Impressoras e Serviços Ltda., São Paulo, Brazil	100.0	–1.0[2,3]
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	1.2
KBA KOREA CO., LTD., Goyang-si, South Korea	100.0	0.1
KBA Japan Co., Ltd, Tokyo, Japan	100.0	–0.5[2]
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.2[2]
KBA NotaSys India Private Limited, New Delhi, India[1]	100.0	1.0
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.4

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

In the year under review, the shares held by the minority shareholder in the consolidated companies KBA-Kammann GmbH, Bad Oeynhausen, Germany and KBA-Flexotecnica S.p.A., Tavazzano, Italy, were acquired in full.

The sales and service company KBA CEE Sp. z o.o., Warsaw, Poland, was consolidated for the first time.

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

in €m		Term to maturity			Term to maturity	
	31.12.2016	up to 1 year	more than 1 year	**31.12.2017**	**up to 1 year**	**more than 1 year**
Trade receivables						
from affiliates	9.1	9.1	–	8.1	8.1	–
from companies in which interests are held	0.4	0.4	–	–	–	–
from third parties	199.5	190.9	8.6	300.2	288.0	12.2
	209.0	**200.4**	**8.6**	**308.3**	**296.1**	**12.2**
Investments	4.7	–	4.7	4.1	–	4.1
Other financial receivables						
from affiliates	4.3	4.3	–	1.8	1.8	–
derivatives	1.0	1.0	–	5.1	4.8	0.3
sundry other financial receivables	20.1	8.9	11.2	53.7	7.6	46.1
	30.1	**14.2**	**15.9**	**64.7**	**14.2**	**50.5**
Other assets						
payments for inventories	11.4	11.4	–	12.7	12.7	–
tax receivables	10.7	10.7	–	13.6	13.6	–
prepayments	1.5	1.4	0.1	4.0	2.4	1.6
	23.6	**23.5**	**0.1**	**30.3**	**28.7**	**1.6**
	262.7	**238.1**	**24.6**	**403.3**	**339.0**	**64.3**

Adopting the percentage of completion method resulted in €151.5m (previous year: €82.3m) being carried in **trade receivables.**

Sundry **other financial receivables** included €0.4m (previous year: €0.6m) from customer finance leases totalling €0.4m (previous year: €0.6m), with those due in less than one year representing €0.2m (€0.2m) of a total of €0.2m (€0.2m) and other receivables representing €0.2m (€0.4m) of a total of €0.2m (€0,4m) having terms to maturity of one to five years. Other financial receivables from derivatives are detailed in Note (G) (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.

Sundry other financial receivables include non-current reinsurance claims of €45.2m (previous year: €8.4m) for funding a part of the company pension plans in Germany.

(3) Inventories

in €m	31.12.2016	**31.12.2017**
Raw materials, consumables and supplies	75.5	79.2
Work in progress	205.5	166.5
Finished goods and products	12.4	9.2
	293.4	**254.9**

The carrying amount of inventories balanced at net realisable value was €124m (previous year: €113m). Total value adjustments were increased by €1.3m (previous year: €5m reduced).

(4) Securities

These refer to shares in a fund combining stocks and bonds. The market value of the fund was €26m (previous year: €34.7m). 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	31.12.2016	**31.12.2017**
Cheques, cash in hand	0.1	0.1
Balances with banks	201.9	142.3
	202.0	**142.4**

At the end of the year there were loss carryforwards totalling €286.8m (previous year: €389,4m) and temporary differences of €17.1m (€14.8m) for which no deferred tax assets were recognised. Restructuring activities in recent years and other proposed reorganisational measures gave rise to positive earnings projections and the recognition of deferred tax assets totalling €3.0m (€3.4m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €1.1m (previous year: €0.6m), since a reversal in the foreseeable future was highly improbable.

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**
Assets				
Intangible assets, property, plant and equipment	1.9	1.2	14.6	14.6
Inventories	26.9	21.9	3.8	2.4
Financial receivables and other assets	0.5	1.2	10.5	13.7
Securities	0.4	0.3	–	0.4
Equity and liabilities				
Provisions	37.7	34.8	3.6	5.2
Financial payables and other liabilities	6.8	5.5	25.4	17.6
	74.2	**64.9**	**57.9**	**53.9**
Tax loss carryforwards	26.6	43.5	–	–
Offset	–35.9	–27.7	–35.9	–27.7
	64.9	**80.7**	**22.0**	**26.2**
of which current deferred taxes	2.8	1.4	6.6	11.2

(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 79 and capital management methods on page 42 onwards.

Share capital
The Parent's share capital at 31 December 2017 totalled 16,524,783 (2016: 16,524,783) no-par shares with a nominal value of €2.60. At the annual general meeting held on 23 May 2017, the shareholders authorised the Management Board to increase the Company's subscribed capital by up to €8.6m through the issue of new shares. This authorisation expires on 22 May 2022.

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 €9.5m (previous year: 4.3m). During completion of the underlying transactions –€2.0m was recognised as an expense (previous year: –€4.2m).

Deferred taxes reduced reserves by –€0,8m (previous year: €19.4m), with defined benefit pension plans accounting for –€0.1m (previous year: €19.4m), derivatives of –€1.1m (€0.1m) and primary financial instruments of €0.4m (–€0.1m).

(8) Pension provisions and similar obligations

The Group provides a number of employees with retirement, disability and surviving dependents' benefits.

In Germany, the company pension scheme has been converted from a defined benefit obligation with pension benefits which were defined as a fixed amount subject to adjustment rates or which were based on the applicable wage and salary group upon eligibility arising in favour of a defined contribution obligation. Koenig & Bauer provides the participating employees with an initial component for the past service period until 31 December 2016 as well as recurring contributions based on the salary group which are paid into a pension liability insurance scheme together with the contributions made by the employees. The benefits are paid in the form of a monthly pension.

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.

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

The discount rate of 1.9% (previous year: 1.7%) applied in Germany was calculated on the basis of capital market interest rates provided by Heubeck AG. Other European companies use a discount rate of 0.7% to 2.7% (previous year: 0.6% to 2,8%). 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 1.5% (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	
	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**
Status at 01.01.	**316.2**	**345.8**	**-124.4**	**-133.3**	**191.8**	**212.5**
Recognised in profit or loss						
Current service cost	9.7	11.0	–	–	9.7	11.0
Past service cost	–4.1	–13.1	–	–	–4.1	–13.1
Interest cost/income	5.3	4.4	–1.3	–1.1	4.0	3.3
	10.9	**2.3**	**–1.3**	**–1.1**	**9.6**	**1.2**
Recognised in other comprehensive income						
Actuarial gain/loss						
demographic assumptions	6.2	–	–	–	6.2	–
financial assumptions	26.2	–7.0	–2.0	–1.2	24.2	–8.2
experience adjustments	–4.3	5.2	–2.0	–7.8	–6.3	–2.6
	28.1	**–1.8**	**–4.0**	**–9.0**	**24.1**	**–10.8**
Other						
Contributions paid by employer	–	–	–5.9	–3.6	–5.9	–3.6
Contributions paid by plan beneficiaries	–	0.2	–1.8	–1.8	–1.8	–1.6
Benefits paid	–8.8	–7.3	3.3	1.8	–5.5	–5.5
Foreign currency changes	–0.9	–12.1	0.8	10.2	–0.1	–1.9
Other changes	0.3	–0.1	–	8.2	0.3	8.1
	–9.4	**–19.3**	**–3.6**	**14.8**	**–13.0**	**–4.5**
Status at 31.12.	**345.8**	**327.0**	**–133.3**	**–128.6**	**212.5**	**198.4**

Pension provisions and similar obligations constituted the following:

in €m	31.12.2016	**31.12.2017**
Present value of non-funded obligations	182.4	177.3
Present value of funded obligations	163.4	149.7
Present value of obligations	**345.8**	**327.0**
Fair value of plan assets	–133.3	–128.6
Pension provisions and similar obligations	**212.5**	**198.4**

Plan assets comprised €55.1m (previous year: €45.3m) from shares and equity securities, €34.4m (€46.6m) from loans, €6.3m (€6.1m) from liquid assets and €32.8m (€35.3m) from other assets. All shares, 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 €2.3m (previous year: €3.2m). The anticipated rate of return is 0.9% (previous year: 1%), based on returns in previous years.

Plan contributions for 2018 are estimated at €3.1m (previous year: €3.6m).

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	
	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**
Discount rate (0.5% change)	–31.5	–28.0	36.4	32.1
Salary increase rate (0.5% change)	4.1	1.5	–3.9	–1.4
Pension increase rate (0.5% change)	22.9	17.6	–20.9	–16.1
Fluctuation rate (0.5% change)	–0.2	–0.4	0.2	0.4
Life expectancy (1 year change)	8.3	9.3	–8.4	–9.3

The weighted duration of pension obligations is 18.7 years (previous year: 19.9). In 2017 pension payments totalled €7.3m (previous year: €8.8m).

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 €31.6m (previous year: €29.6m).

(9) Other provisions

in €m	Status at 01.01.17	Group additions	Con-sumption	Reversal	Allocation	Unwind of discount	Exchange differences	**Status at 31.12.17**
Other provisions								
for employees	33.9	–	15.2	2.7	12.3	0.1	–0.3	28.1
for sales	77.9	0.1	24.4	11.4	22.3	–	–0.2	64.3
for sundry other purposes	91.9	0.2	33.9	3.8	25.8	–	–0.9	79.3
	203.7	**0.3**	**73.5**	**17.9**	**60.4**	**0.1**	**–1.4**	**171.7**
of which								
long-term provisions	23.2							27.1
short-term provisions	180.5							144.6
	203.7							**171.7**

Provisions for employees included expenses relating to the realignment of the Group 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. 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	31.12.2016	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2017**	**Term to maturity up to 1 year**	**Term to maturity more than 1 year**
Trade payables						
to affiliates	0.4	0.4	–	0.7	0.7	–
to companies in which interests are held	–	–	–	0.3	0.3	–
to others	58.6	58.6	–	71.1	70.9	0.2
	59.0	**59.0**	**–**	**72.1**	**71.9**	**0.2**
Bank loans	33.9	32.5	1.4	43.0	42.0	1.0
Other financial payables						
from derivatives	6.2	6.1	0.1	1.2	1.1	0.1
from affiliates	–	–	–	0.1	0.1	–
sundry other financial payables	63.8	55.9	7.9	65.2	57.7	7.5
	103.9	**94.5**	**9.4**	**109.5**	**100.9**	**8.6**
Other liabilities						
from payments received from affiliates	–	–	–	0.7	0.7	–
from payments received from third parties	124.2	124.2	–	130.1	130.1	–
from taxes	16.4	16.4	–	16.8	16.8	–
sundry other liabilities	3.2	2.2	1.0	4.2	3.0	1.2
	143.8	**142.8**	**1.0**	**151.8**	**150.6**	**1.2**
	306.7	**296.3**	**10.4**	**333.4**	**323.4**	**10.0**

Bank loans were secured by mortgages to the value of €4.9m (previous year: €5.2m), the pledging of securities worth €32.9m and the assignment of trade receivables totalling €2.8m (€2.8m). The carrying amounts of property, plant and equipment pledged as collateral came to €8.1m (€8.4m) and of trade receivables €62.9m (€3.8m). 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 Group at the balance sheet date totalled €172.9m (previous year: €80m).

Sundry **other financial payables** included finance leases to the sum of €9m (previous year: €8.8m). 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	31.12.2016	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2017**	**Term to maturity up to 1 year**	**Term to maturity 1 to 5 years**	**Term to maturity more than 5 years**
Minimum lease payments	9.5	2.2	7.3	–	9.5	2.8	6.7	–
Interest portion	–0.7	–0.3	–0.4	–	–0.5	–0.2	–0.3	–
Present value of finance lease	**8.8**	**1.9**	**6.9**	**–**	**9.0**	**2.6**	**6.4**	**–**

The derivative items included in sundry other financial liabilities are explained more fully in note (G) (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 €16.4m (previous year: €16.7m) 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 31.12.2016	Term to maturity more than 1 year	Market value 31.12.2016	**Total 31.12.2017**	**Term to maturity more than 1 year**	**Market value 31.12.2017**
Forward contracts	142.8	10.6	–5.1	241.8	4.0	3.9
Currency options	–	–	–	59.6	–	0.1
Interest rate hedges	1.0	1.0	–0.1	1.0	1.0	–0.1
	143.8	**11.6**	**–5.2**	**302.4**	**5.0**	**3.9**

Forward contracts with a maturity of up to 1.5 years (previous year: up to 1.5 years), 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, CHF and JPY. The fair value of forward contracts qualifying as hedges with a nominal amount totalling €151,4m (previous year: €113m) was €2.8m (–€4.7m).

Expected delivery and service contracts worth USD 36m are hedged by short-term currency options. These are subject to the possibility of an increase in the exchange rate and a worst case hedged rate or alternatively benefit from favourable exchange rates within certain ranges. A further currency option has been transacted to hedge delivery and service contracts with a maximum volume of USD 24m which are due for settlement in less than one year. The currency option expires when a defined maximum improvement is reached.

Currency forwards to hedge cash flows denominated in CHF have been executed for CHF 20m; further currency forwards and a currency option have been transacted in an amount of CHF 10m to benefit from exchange rate changes.

Interest rate swaps with a maturity of up to 2.5 years (previous year: 3.5 years) covered subsidiaries' existing interest risk.

(12) Further disclosures on financial instruments

in €m	**Carrying amount**	of which not impaired, not overdue	of which not impaired, but overdue < 3 months	of which not impaired, but overdue 3–12 months	of which not impaired, but overdue > 12 months	of which impaired
31.12.2016						
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**
31.12.2017						
Loans and receivables	**313.3**	279.3	15.8	4.5	1.2	12.5
Gross amount due from customers for contract work	**147.7**	139.1	8.3	0.3	–	–
Assets held to maturity	**45.2**	45.2	–	–	–	–
Assets available for sale	**25.7**	25.7	–	–	–	–
Financial instruments recognised at fair value	**2.0**	2.0	–	–	–	–
	533.9	**491.3**	**24.1**	**4.8**	**1.2**	**12.5**

in €m			Carrying value		
	Category under IAS 39[1]	31.12.2016 Carrying amount	Amortised cost	Fair value recognised in profit or loss	
Assets					
Investments and other financial receivables					
interests in affiliates	afs	4.7	4.7	–	
other financial receivables from finance leases	lar	0.6	0.6	–	
other financial receivables from derivatives	rafv	0.2	–	0.2	
other financial receivables from hedge accounting	–	0.8	–	–	
sundry other financial receivables	htm	8.4	8.4	–	
	afs	1.7	–	–	
	lar	13.7	13.7	–	
		30.1	**27.4**	**0.2**	
Trade receivables	lar	126.7	126.7	–	
Gross amount due from customers for contract work	lar	82.3	82.3	–	
Securities	afs	19.9	–	–	
Cash and cash equivalents	lar	202.0	202.0	–	
		461.0	**438.4**	**0.2**	
Liabilities					
Bank loans and other financial payables					
bank loans	ofp	33.9	33.9	–	
other financial payables from finance leases	ofp	8.8	8.8	–	
other financial payables from derivatives	rafv	0.7	–	0.7[3]	
other financial payables from hedge accounting	–	5.5	–	–	
sundry other financial payables	ofp	55.0	55.0	–	
		103.9	**97.7**	**0.7**	
Trade payables	ofp	59.0	59.0	–	
		162.9	**156.7**	**0.7**	

[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.

The figures disclosed for **securities, cash and cash equivalents** were the quoted market prices.

Other financial payables from finance leases refer to payment obligations discounted at the market interest rate.

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

			Carrying value			
Fair value recognised in equity	31.12.2016 Fair value	**31.12.2017 Carrying amount**	**Amortised cost**	**Fair value recognised in profit or loss**	**Fair value recognised in equity**	**31.12.2017 Fair value**
–	–	4.1	4.1	–	–	–
–	0.6	0.4	0.4	–	–	0.4
–	0.2	2.0	–	2.0	–	2.0
0.8[3]	0.8	3.1	–	–	3.1[3]	3.1
–	8.4	45.2	45.2	–	–	45.2
1.7[2]	1.7	–	–	–	–	–
–	13.7	9.9	9.9	–	–	9.9
2.5	**25.4**	**64.7**	**59.6**	**2.0**	**3.1**	**60.6**
–	126.7	160.6	160.6	–	–	160.6
–	82.3	147.7	147.7	–	–	147.7
19.9[2]	19.9	21.6	–	–	21.6[2]	21.6
–	202.0	142.4	142.4	–	–	142.4
22.4	**456.3**	**537.0**	**510.3**	**2.0**	**24.7**	**532.9**
–	33.9	43.0	43.0	–	–	43.0
–	8.5	9.0	9.0	–	–	8.7
–	0.7	0.9	–	0.9[3]	–	0.9
5.5[3]	5.5	0.3	–	–	0.3[3]	0.3
–	55.0	56.3	56.3	–	–	56.3
5.5	**103.6**	**109.5**	**108.3**	**0.9**	**0.3**	**109.2**
–	59.0	72.1	72.1	–	–	72.1
5.5	**162.6**	**181.6**	**180.4**	**0.9**	**0.3**	**181.3**

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 €45m (previous year: €24m) within the next twelve months, €5.7m (€15.6m) in one to three years and €2m (€4.2m) 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

2016	Net gain/loss	from interest	from subsequent measurement: due to impairment	from subsequent measurement: currency impact	from disposal	Other
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**
2017						
Loans and receivables	**–17.5**	–	–5.6	–9.8	–2.1	–
Gross amount due from customers for contract work	**–**	–	–	–	–	–
Assets available for sale	**2.2**	1.5	–	–	–	0.7
Financial instruments recognised at fair value in profit or loss	**–0.4**	–	–	–0.4	–	–
Other financial payables	**2.0**	–0.9	–	2.9	–	–
	–13.7	**0.6**	**–5.6**	**–7.3**	**–2.1**	**0.7**

Value adjustments were made of €2.1m (previous year: €0.1m) on trade receivables.

Foreign currency risks were assessed using a sensitivity analysis based on the premise that key currencies for the Group fluctuate in value by +/– 5% relative to the euro. On the balance sheet date the Group was exposed to a foreign currency risk amounting to €95.5m (previous year: €52.2m), primarily relating to the category "loans and receivables" (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	
	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**
Devaluation USD by 5%	3.6	7.2	–1.4	3.4
Revaluation USD by 5%	–4.0	–8.6	1.4	–8.2
Devaluation CHF by 5%	–	–1.9	–	–0.8
Revaluation CHF by 5%	–0.1	2.7	–0.1	1.4

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	31.12.2016	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2017**	**Term to maturity up to 1 year**	**Term to maturity 1 to 5 years**	**Term to maturity more than 5 years**
Commitments from:								
operating leases	6.1	2.9	3.2	–	6.6	3.2	3.4	–
rental and service contracts	27.5	10.4	15.4	1.7	22.5	10.0	12.4	0.1
investment plans	6.6	6.6	–	–	2.1	2.1	–	–
sundry other activities	10.3	4.5	5.5	0.3	6.6	4.3	2.1	0.2
	50.5	**24.4**	**24.1**	**2.0**	**37.8**	**19.6**	**17.9**	**0.3**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €4m (previous year: €3.9m) 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 €2m (previous year: €5.9m).

Contingent liabilities

These comprised contingencies totalling €19.4m (previous year: €24.4m) 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 €2.6m (previous year: €5m) 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 €876.4m (previous year: €855.4m), other sales totalled €341.2m (€311.7m).

Construction contract revenue totalled €241.7m (previous year: €275.5m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €508.6m (€360.4m).

Further details can be found in segment information, note (J).

(15) Expenses by function

Cost of sales

The **cost of sales** included an environmental premium of €0.1m and subsidies of €0.1m (previous year: €0.1m) for apprentice and workplace development as well as for industrial development.

Manufacturing costs for construction contract projects still in progress on the balance sheet date amounted to €306.6m (previous year: €242.8m).

Research and development costs
Following changes to the structure of cost types, part of the expenses previously assigned to research and development are now reported within the cost of sales. This resulted in a decline in **research and development costs** from €59.3m in the previous year to €48.4m.

Distribution costs and administrative expenses
Distribution costs dropped to €141m as a result of lower trade fair expenses, down from the previous year's figure of €144.1m.

At €80.5m, **administration expenses** remained unchanged over the previous year (€80.4m). This includes a subsidy of €0.2m (previous year: €0.2m) by the government of Lower Franconia for the vocational training school in Würzburg.

(16) Expenses by nature

Material costs

in €m

	2016	2017
Cost of raw materials, consumables, supplies and purchased goods	425.3	455.8
Cost of purchased services	112.6	98.0
	537.9	**553.8**

Personnel costs

in €m

	2016	2017
Wages and salaries	322.5	336.6
Social security and other benefits	57.2	60.4
Pensions	5.5	7.8
	385.2	**404.8**
Average payroll		
wage-earning industrial staff	2,535	2,583
salaried office staff	2,427	2,548
apprentices/students	325	319
	5,287	**5,450**

(17) Other operating income and expenses

in €m

	2016	2017
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	4.6	0.9
Foreign currency gains	3.4	10.0
Currency measurement	–2.4	4.9
Reversal of write-downs	8.0	3.5
Sundry other operating income	32.9	7.2
	46.5	**26.5**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–0.4	–0.8
Foreign currency losses	–2.2	–5.3
Currency measurement	–3.5	–8.7
Creation of write-downs	–8.0	–9.1
Sundry other operating expenses	–8.3	–8.0
	–22.4	**–31.9**
Other operating income and expenses	**24.1**	**–5.4**

Sundry other operating income included an amount of €2.6m (previous year: €3.9m) from the reversal of provisions and in the previous year an amount of €22.4m from the reversal of impairment on property, plant and equipment. Insurance and compensation claims and other refunds were also included.

Sundry other operating expenses included the loss of receivables outstanding, customer credit notes, warranty claims and contributions to provisions for legal and sales risks.

(18) Financial result

in €m	2016	2017
Other financial results		
Income from interests in affiliates	0.2	0.7
	0.2	**0.7**
Interest income/expense		
Other interest and similar income	2.0	3.3
of which affiliates	(0.5)	(0.3)
Other interest and similar expenses	–8.1	–6.2
from pension obligations	(–4.0)	(–3.3)
	–6.1	**–2.9**
Financial result	**–5.9**	**–2.2**

(19) Income taxes

in €m	2016	2017
Actual tax expense	–3.0	–9.4
Deferred taxes from loss carryforwards	14.5	16.9
Deferred tax income from temporary differences	–9.4	–4.4
Prior-period income taxes	–1.1	–0.7
Deferred taxes from variances in tax rates	0.2	0.2
	1.2	**2.6**

in €m	2016	2017
Earnings before taxes	**81.0**	**78.5**
Group tax rate	30.0 %	30.0 %
Expected taxes	**–24.3**	**–23.6**
Tax effects from		
variances due to different tax rates	0.5	–0.8
tax-free earnings	0.4	0.2
write-downs	25.5	28.6
decreases and increases	–1.0	–2.1
other	0.1	0.3
Income tax	**1.2**	**2.6**

The approach of previously unrecognised tax losses and temporary differences relating to subsidiaries led to deferred tax income of €22.1m (previous year: €20.5m). Their use reduces the actual tax expense by €12.3m (previous year: €7.4m).

The payment of dividends to the shareholders of the parent company did not have any income tax consequences.

(20) Earnings per share

	2016	2017
Net profit attributable to owners of the Parent in €m	82.3	81.1
Weighted average of ordinary shares issued	16,524,783	16,524,783
Earnings per share in €	**4.98**	**4.91**

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 €142.4m (previous year: €202m) included cash and cash equivalents.

(J) Segment information

Business segments
In accordance with IFRS 8 segment information for the Group distinguishes between the business segments Sheetfed, Digital & Web and Special.

The **Sheetfed segment** includes sheetfed offset presses for packaging and commercial printing as well as workflow and logistics solutions. The portfolio also includes peripheral equipment for finishing and processing printed products.

Digital and offset web presses for newspaper, commercial, book and industrial printing are assigned to the **Digital & Web segment.** It also includes flexo presses for flexible packaging as well as presses for flexo and digital printing of corrugated board.

The **Special segment** is made up of special presses for banknote and security printing and systems for industrial marking and coding as well as special systems for direct metal decorating and glass and hollow container printing.

Services are assigned to the respective segment.

In the year under review, the flexo printing presses, which had previously been allocated to Special, were included in Digital & Web for the first time. The figures for the previous year were restated accordingly.

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		Depreciation		Major non-cash expenses		Capital investments	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Segments										
Sheetfed	615.0	660.2	31.3	37.5	11.1	12.0	42.5	27.6	14.1	13.8
Digital & Web	183.6	154.2	0.5	–4.3	1.3	2.3	8.7	5.0	2.3	10.0
Special	444.3	467.9	44.3	53.7	9.3	8.0	27.7	22.4	10.7	5.9
Reconciliation	–75.8	–64.7	11.0	–5.5	6.0	8.7	8.3	5.5	4.8	20.4
Group	**1,167.1**	**1,217.6**	**87.1**	**81.4**	**27.7**	**31.0**	**87.2**	**60.5**	**31.9**	**50.1**

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	
	2016	**2017**	2016	**2017**	2016	**2017**
Germany	169.2	132.7	23.0	45.0	180.1	200.0
Rest of Europe	387.4	448.1	8.8	4.9	58.6	57.2
North America	171.8	215.3	0.1	0.1	0.6	0.5
China	91.4	90.1	–	0.1	0.4	0.3
Rest of Asia/Pacific	221.6	202.1	–	–	–	–
Africa/Latin America	125.7	129.3	–	–	–	–
Reconciliation	–	–	–	–	80.7	131.1
Group	**1,167.1**	**1,217.6**	**31.9**	**50.1**	**320.4**	**389.1**

(K) Notes to section 285 no. 17 HGB

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft, has been the Company's auditor since 2010. The responsible auditor has been Dirk Janz since 2013.

The remuneration paid to KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft in 2017 came to €717 thousand for auditing services, €16 thousand for other attestation services, €76 thousand for tax consulting and €57 thousand for other services.

The auditing fees for KPMG Bayerische Treuhandgesellschaft AG were primarily for the audit of the consolidated financial statements and the annual financial statements for Koenig & Bauer AG as well as the audit of the annual financial statements of its subsidiaries. In addition, project-based IT reviews were integrated in the audit.

The other attestation services chiefly relate to the contractual audits under ISAE 3000. Tax consulting services primarily comprise support with transfer pricing matters and individual matters relating to value added tax. Other services mostly involve legal advice in connection with the European General Data Protection Regulation and other matters.

(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 2017.

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

(M) Related party disclosures

Related parties as defined by IAS 24 are all non-consolidated affiliates, interests (see Note (G) (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 (G) (2) and (G) (10).

in €m	2016	2017
Other current financial receivables at 31.12.	4.3	1.8
Trade receivables at 31.12.	9.5	8.1
Trade payables at 31.12.	0.4	1.0
Other current financial payables at 31.12.	–	0.1
Payments received at 31.12.	–	0.7
Revenue	54.9	23.2

Some members of the Supervisory Board also hold positions on the supervisory boards of other companies with which Koenig & Bauer has business relations. Transactions by the Koenig & Bauer Group with these companies are conducted on arm's length terms. They do not affect the independence of the members of the Supervisory Board concerned.

One member of the Supervisory Board acted as an advisor to the Group in the course of the year and received €28 thousand for these services.

Short-term management board remuneration totalled €3.5m (previous year: €2.8m), with the fixed portion representing €2.1m (€1.1m). The variable portion was based on net profit. Pension provisions were increased by €0.6m (previous year: €0.4m) for the current service cost. The remuneration of those members of the Management Board who were appointed effective 1 June 2017 was calculated on a time proportionate basis from that date.

Provisions of €1.4m (€2.9m) were recognised for remuneration for former members and their survivors. Supervisory board remuneration totalled €0.4m (€0.5m), of which €0.4m (€0.5m) was fixed.

In accordance with the guidelines stated in IAS 19 (revised) €36.7m (previous year: €30.7m) 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 2017 members of the management board held 5.08% and members of the supervisory board 0.01% of Koenig & Bauer's share capital, giving a total of 5.09%.

Supervisory Board

Dr Martin Hoyos
Chairman
Independent corporate consultant
Schwertberg/Austria

Gottfried Weippert[1]
Deputy chairman
Technician
Eibelstadt

Dagmar Rehm
Deputy chairman
CFO juwi AG, Wörrstadt
Langen

Julia Cuntz[1]
Trade union secretary of IG Metall
Berlin

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

Marc Dotterweich[1]
Cutting machine operator
Birkenfeld

Matthias Hatschek
Entrepreneur
St Martin/Austria

Christopher Kessler[1]
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

Dr Andreas Pleßke
(inactive from 01.06.2017 until 31.05.2018)
Restructuring Manager/Lawyer
Herrsching am Ammersee

Simone Walter[1,2]
Head of product development
at KBA-Metronic GmbH
Arnstein

[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
Dr Martin Hoyos
Gottfried Weippert

Strategy committee
Professor Gisela Lanza (chairman)
Carsten Dentler
Matthias Hatschek
Christopher Kessler
Walther Mann
Gottfried Weippert

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

Committee appointments to 31 December 2017

Management Board

Claus Bolza-Schünemann
President and CEO
Würzburg

Dr Mathias Dähn
CFO
Krailling

Christoph Müller
(from 01.06.2017)
Executive vice-president Digital & Web segment
Würzburg

Dr Andreas Pleßke
(from 01.06.2017 until 31.05.2018)
Executive vice-president Special segment
Herrsching am Ammersee

Ralf Sammeck
(from 01.06.2017)
Executive vice-president Sheetfed segment
Radebeul

Other positions held by members of the Koenig & Bauer supervisory board

Dr Martin Hoyos Chairman	AMG Advanced Metallurgical Group N.V., Amsterdam/Netherlands (until 31.05.2017) Korian Medica SA, Paris/France (until 30.06.2017)
Dagmar Rehm Deputy chairman	O'Donovan Consulting AG, Bad Homburg/Germany
Professor Gisela Lanza	Bosch Rexroth AG, Lohr am Main/Germany (until 31.03.2018) Mahle GmbH, Stuttgart/Germany Aichele Group GmbH & Co. KG, Bretten/Germany (until 31.12.2017) Balluff GmbH, Neuhausen a.d. Fildern/Germany Hager SE. Blieskastel/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
Julia Cuntz	Euro engineering AG, Düsseldorf/Germany (until 23.05.2017) KME Germany Beteiligungs GmbH, Osnabrück/Germany
Dr Andreas Pleßke	Solarworld AG, Bonn/Germany (until 31.07.2017) 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.koenig-bauer.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 € 14,872,304.70 as follows:

Distribution of a dividend of €0.90 per share comprising a total of 16,524,783 ordinary shares	€ 14,872,304.70

(O) Events after the reporting date

Reinsurance claims of €36.8m were held against the insurer as of 31 December 2017 in connection with the external funding of a part of the company pension provisions and are reported within financial receivables. In addition, the final payment instalment in the same order of magnitude will be remitted in the first quarter of 2018. With the planned transfer of the claims to the beneficiaries, we will offset these against the pension provisions at the time of transfer. This reduction in the balance sheet will additionally improve the equity ratio and will bring it closer to the target of over 45%.

Würzburg, 21 March 2018
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Independent auditor's report

To Koenig & Bauer AG, Würzburg

Report on the audit of the consolidated financial statements and of the Group management report

Opinions

We have audited the consolidated financial statements of Koenig & Bauer AG, Würzburg and its subsidiaries (the Group), which comprise the group balance sheet as at December 31, 2017, and the group income statement, the statement of comprehensive group income, statement of changes in group equity and group cash flow statement for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the report on the position of the Company and the Group ("group management report") of Koenig & Bauer AG, Würzburg for the financial year from January 1, 2017 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recognising deferred tax assets

Please refer to section (C) of the notes to the consolidated financial statements for information on the accounting policies applied. Deferred taxes are explained in section (G) (6). Explanatory notes on income taxes can be found in section (H) (19) of the notes to the consolidated financial statements.

The financial statement risk
€80.7m in deferred tax assets were recognised as at 31 December 2017, of which €43.5m is attributable to deferred tax assets on tax loss carryforwards.

For the recognition of deferred tax assets, Koenig & Bauer AG assesses to what extent it is probable that current deferred tax assets can be utilised in subsequent reporting periods. Utilising these deferred tax assets requires that sufficient taxable income is generated in future periods. If there is reasonable doubt about the future usability of the deferred tax assets determined, these are not recognised.

The recognition of deferred tax assets depends heavily on estimates and assumptions about the operating performance of local entities and the Group's tax planning and, thus, is subject to significant uncertainty. Moreover, utilising deferred tax assets also depends on the respective tax environment.

Koenig & Bauer AG capitalised €43.5m in deferred tax assets on loss carryforwards in the 2017 financial year. The Company partially refrained from recognising deferred tax assets for loss carryforwards before 2016 due to insufficient taxable temporary differences and the loss history of the affected group companies. The affected group companies earned taxable profits both in the current as well as in the prior financial year. According to Koenig & Bauer AG's estimate, the earnings position of the affected companies has improved sustainably so that it is possible to capitalise deferred tax assets on loss carryforwards not yet recognised.

There is the financial statement risk that the assumptions on the future earnings position are not accurate and, thus, the amount of deferred tax assets recognised for unused tax loss carryforwards is inappropriate.

Our audit approach
We involved our own tax specialists in the audit to assess tax matters. Initially, we critically examined the temporary differences between the carrying amounts for the IFRS accounts and for tax purposes. Furthermore, we reconciled the loss carryforwards to the tax assessments and tax calculations for the current financial year, and also assessed off-balance sheet adjustments.

We tested the deferred tax assets for impairment on the basis of internal forecasts prepared by the Company on the future tax income situation, and critically reviewed the underlying assumptions. In this regard, we especially compared the projected future taxable income to the planning prepared by the executive board and adopted by the supervisory board and checked this information for consistency. We assessed the appropriateness of the planning using market data and analysts' expectations.

We obtained explanations from the Head of Tax regarding Koenig & Bauer AG's assessment on the sustainable improvement of the earnings position of the group companies with loss carryforwards. In this regard, we verified the performance of the measures designed to improve earnings, analysed the reasons for improved earnings and assessed the sustainability of taxable earnings.

Our observations
Overall, the assumptions underlying the recognition of deferred tax assets for unused tax loss carryforwards are reasonable.

Valuation of the provisions relating to voluntary disclosure in Switzerland

Please refer to the section (C) of the notes to the consolidated financial statements for information on the accounting policies applied. Other provisions are described in section (G) (9).

The financial statement risk
In its consolidated financial statements as at 31 December 2017, Koenig & Bauer AG disclosed under other provisions miscellaneous provisions for the risks from voluntary disclosure due to shortcomings in corruption prevention in Switzerland.

The assumptions underlying the measurement of the provisions for risks from voluntary disclosure require discretionary judgement.

There is the risk for the financial statements that assumptions underlying measurement are inaccurate and the miscellaneous provisions recognised for the risks arising from voluntary disclosure in Switzerland are over- or understated.

Our audit approach
In order to assess the appropriateness of the carrying amounts, we – among other approaches – obtained explanations on the updated estimates from the lawyers acting for the Company as well as on the submitted documentation from local management and the executive board. We especially assessed the estimate of the probability that the provisions will be used by inspecting the underlying documents as well as by interviewing local management and the executive board.

Our observations
The assumptions made by the executive board are appropriate.

Other information
Management is responsible for the other information. The other information comprises:

- the group non-financial statement,
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

We were engaged to perform a separate independent limited assurance engagement on the group non-financial statement. With regards to content, scope and results of this independent limited assurance engagement we refer to our report hereon from March, 21, 2018.

Responsibilities of management and the supervisory board for the consolidated financial statements and the Group management report
Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 23, 2017. We were engaged by the supervisory board on November 6, 2017. We have been the auditor of the Koenig & Bauer AG since 2010 without interruption.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dirk Janz.

Nuremberg, March 21, 2018

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
[Original German Version signed by:]

Dirk Janz	Dr Joachim Schroff
[German Public Auditor]	[German Public Auditor]

Limited assurance report of the independent auditor regarding the separate non-financial group report[1]

To the Supervisory Board of Koenig & Bauer AG, Würzburg

We have performed an independent limited assurance engagement on the separate non-financial group report as well as the by reference qualified part of the combined management report "corporate structures" (further „non-financial group report"), of Koenig & Bauer AG, Würzburg (further „Koenig & Bauer") according to § 315b HGB for the period from January 1 to December 31, 2017.

Management's responsibility

The legal representatives of Koenig & Bauer AG are responsible for the preparation of the non-financial group report in accordance with §§ 315b, 315c in conjunction with 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the non-financial group report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the non-financial group report in a way that is free of – intended or unintended – material misstatements.

Independence and quality assurance on the part of the auditing firm

We are independent from the company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's responsibility

Our responsibility is to express a conclusion based on our work performed of the non-financial group report within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the non-financial group report, has not been prepared, in all material respects in accordance with

[1] Our engagement applied to the German version of the separate non-financial group report. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

§§ 315b and 315c in conjunction with 289c to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel at Group level who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for Koenig & Bauer

- A risk analysis, including a media research, to identify relevant information on Koenig & Bauer's sustainability performance in the reporting period

- Evaluation of the design and implementation of the systems and processes for the collection, processing and control of disclosure on environmental, employee and social matters, respect for human rights as well as combatting corruption and bribery matters, and further matters including the collection and consolidation of quantitative data

- Inquiries of personnel who are responsible for determining disclosures on concepts, due diligence processes, results and risks, the conduction of internal controls and consolidation of the disclosures

- Evaluation of selected internal and external documents

- Analytical evaluation of data and trends of quantitative disclosures which are reported by all sites on group level

- Assessment of local data collection and reporting processes and reliability of reported data via a sampling survey at the sites in Würzburg and Radebeul (Germany)

- Assessment of the overall presentation of the disclosures in the non-financial group report

Conclusion

Based on the procedures performed and the evidence received to obtain assurance, nothing has come to our attention that causes us to believe that the non-financial group report of Koenig & Bauer AG for the period from January 1 to December 31, 2017 is not prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

Restriction of use/Clause on general engagement terms

This report is issued for purposes of the Supervisory Board of Koenig & Bauer AG, Würzburg, only. We assume no responsibility with regard to any third parties. Our assignment for the Supervisory Board of Koenig & Bauer AG, Würzburg, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Frankfurt am Main, March 21, 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Laue	Glöckner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[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 2018
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Balance sheet for Koenig & Bauer AG to 31 December 2017

under the German Commercial Code (HGB)

in €m	31.12.2016	**31.12.2017**
Assets		
Non-current assets		
Intangible assets	4.7	9.3
Property, plant and equipment	72.0	77.0
Financial assets	175.3	185.7
	252.0	**272.0**
Current assets		
Other receivables and assets	110.0	122.9
Cash and cash equivalents	64.9	18.0
	174.9	**140.9**
Deferred income	**0.3**	**2.4**
Positive difference from asset allocation	**19.2**	**11.5**
	446.4	**426.8**
Equity and Liabilities		
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	113.4	113.9
Retained earnings	8.3	14.9
	252.2	**259.3**
Special items with equity portion	**2.3**	**2.1**
Provisions		
Pension and similar provisions	65.7	73.9
Tax provisions	2.1	7.3
Other provisions	37.3	23.8
	105.1	**105.0**
Liabilities		
Trade payables	2.7	4.1
Other liabilities	84.1	56.3
	86.8	**60.4**
	446.4	**426.8**

Income statement for Koenig & Bauer AG for 2017

under the German Commercial Code (HGB)

in €m	2016	**2017**
Revenue	73.0	78.4
Cost of sales	–52.4	–55.1
Gross profit	**20.6**	**23.3**
Administrative expenses	–19.8	–25.2
Other operating income	24.7	9.3
Other operating expenses	–16.4	–25.1
Profit from operations	**9.1**	**–17.7**
Financial result	63.0	40.1
Income taxes	–2.0	–6.6
Earnings after taxes	**70.1**	**15.8**
Other taxes	–0.3	–0.4
Net profit	**69.8**	**15.4**
Profit carried forward (previous year: loss carried forward)	–54.0	8.3
Distribution of profit	–	–8.3
Transfer to other reserves	–7.5	–0.5
Retained earnings	**8.3**	**14.9**

5-year overview

in €m	2013	2014	2015	2016	2017
Order intake	1,012.2	956.9	1,182.7	1,149.7	1,266.3
Order backlog at 31.12.	560.5	417.3	574.9	557.5	606.2
Revenue	1,099.7	1,100.1	1,025.1	1,167.1	1,217.6
Earnings before interest and taxes (EBIT)	–130.7	13.3	35.9	87.1	81.4
EBIT margin in %	–11.9	1.2	3.5	7.5	6.7
Earnings before taxes (EBT)	–138.1	5.5	29.7	81.0	78.5
EBT margin in %	–12.6	0.5	2.9	6.9	6.4
Net profit/loss	–153.7	0.3	26.9	82.2	81.1
Balance sheet total	1,098.0	1,014.7	976.9	1,085.5	1,163.9
Intangible assets, property, plant and equipment	227.5	228.7	224.2	239.5	256.3
Equity	277.9	227.2	258.4	337.8	424.0
Equity ratio in %	25.3	22.4	26.5	31.1	36.4
Cash flows from operating activities	34.1	43.2	–15.3	21.9	23.8
Investment in intangible assets, property, plant and equipment	32.3	21.7	28.4	31.9	50.1
Depreciation on intangible assets, property, plant and equipment	59.6	30.5	29.1	27.7	31.0
Payroll: annual average	6,257	6,058	5,286	5,287	5,450
Earnings per share in €	–9.31	0.03	1.62	4.98	4.91
Dividend per share in €	–	–	–	0.50	0.90

Key financial dates

Interim report on 1st quarter 2018
3 May 2018

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

Interim report on 2nd quarter 2018
1 August 2018

Interim report on 3rd quarter 2018
6 November 2018

Contact

Investor Relations:
Dr Bernd Heusinger
Tel: (+49) 931 909-4835
Fax. (+49) 931 909-4880
E-mail: bernd.heusinger@koenig-bauer.com

Concept and Design:
Kirchhoff Consult AG
www.kirchhoff.de

Printed by:
Druckerei Vogl GmbH & Co. KG
www.druckerei-vogl.de

Printed with Koenig & Bauer technology on a
five-colour Rapida 106 LED-UV sheetfed offset press

Koenig & Bauer AG
Postfach 60 60
97010 Würzburg
Germany

Tel: (+49) 931 909-0
Fax: (+49) 931 909-4101
E-mail: info@koenig-bauer.com

Further information can be found at
www.koenig-bauer.com