KOENIG & BAUER

A Strong Future

Annual Report 2018

we're on it.

Koenig & Bauer Group

in €m	2017	**2018**	Change in %
Order intake	1,266.3	**1,222.0**	-3.5
Order backlog at 31.12.	606.2	**610.9**	0.8
Revenue	1,217.6	**1,226.0**	0.7
Sales by region (in %)			
Germany	10.9	**13.9**	27.5
Rest of Europe	36.8	**33.8**	-8.2
North America	17.7	**14.8**	-16.4
Asia/Pacific	24.0	**25.3**	5.4
Africa/Latin America	10.6	**12.2**	15.1
Earnings before interest and taxes (EBIT)	81.4	**87.4**	7.4
EBIT margin (in %)	6.7	**7.1**	6.0
Earnings before taxes (EBT)	78.5	**83.9**	6.9
EBT margin (in %)	6.4	**6.8**	6.3
Net profit	81.1	**64.0**	-21.1
Balance sheet total	1,163.9	**1,178.3**	1.2
Intangible assets, property, plant and equipment	256.3	**293.0**	14.3
Equity	424.0	**453.4**	6.9
Equity ratio (in %)	36.4	**38.5**	5.8
Cash flows from operating activities	23.8	**66.3**	178.6
Investment in intangible assets, property, plant and equipment	50.1	**50.5**	0.8
Depreciation on intangible assets, property, plant and equipment	31.0	**28.9**	-6.8
Payroll: annual average	5,450	**5,644**	3.6
Earnings per share in €	4.91	**3.86**	-21.4
Dividend per share in €	0.90	**1.00**	11.1

Key figures

#1

in cardboard and banknote printing, metal and glass decorating.

The Koenig & Bauer Group is a customer-centric partner to the international printing industry with annual revenue of €1.2 billion and 5,700 employees. We are the global market and technology leader in security printing and in growing packaging printing markets. Throughout our 201-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 processes. Our services cover a wide range of customer-oriented offerings including networked printing. With its strong balance sheet and financial power, Koenig & Bauer is on a profitable and sustainable growth trajectory.

Company

Sheetfed

- Sheetfed offset and digital printing
- Finishing and postpress solutions
- Flatbed and rotary die-cutters
- Folder gluers
- 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

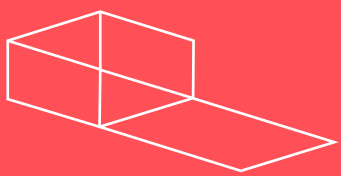
Segments

Contents


PORSCHE DESIGN
SPORTSWEAR

Booming e-commerce market

E-commerce is growing continuously from year to year. This megatrend will cause global online trading revenues to reach US$2.7 trillion by 2023. E-commerce is one of the world's largest markets with good prospects for the future.



Unboxing
online purchases has become a buying and brand experience

9%

worldwide
growth rate
p.a. until 2023 in e-commerce

Home shopping is part of everyday life for more and more people. Most frequently, they order clothing, shoes, accessories, electronic items, books and furniture online. Online food retailing is now also emerging. Experts agree that everything that can be sent and heightens consumers' convenience will ultimately be ordered online.

And what if you don't like what you have ordered? You simply ask for replacement articles as frequently as you like. Further parcels that must be produced and printed by our customers – packaging printers – are in the pipeline.

The packaging itself must create a special experience which the home shopper would otherwise have in a physical store. Unboxing online purchases has become a buying and brand experience, making packaging an important investment for brand manufacturers and online retailers. Consequently, packaging must meet more demanding requirements.

More sophisticated designs are being sought as many brand companies and online retailers want to stand out and generate a lasting impression through the look and feel of their packaging.

Some embossing here, some punching there, plus coating and a finish in gold or silver. Packaging is increasingly becoming a decisive factor for success not least of all because recognisability is particularly important in the e-commerce market.

The increasingly colourful and sophisticated packaging becomes an advertising platform and is printed with attractive advertising messages for the greatest possible success at the point of sale. For brand companies, packaging increasingly assumes the role of advertising channels used to date, such as television, magazines and newspapers, as a result of consumers' changing media behaviour.

E-commerce is booming and set to continue growing sharply

Brand companies and online retailers are increasingly focusing on

packaging

due to its relevance for their success

Elegant folding boxes and **coloured corrugated board outer packaging** are playing a particular role as brand ambassadors and competitive differentiators in e-commerce


9:41
Tuesday, September

Growth drivers for packaging printing

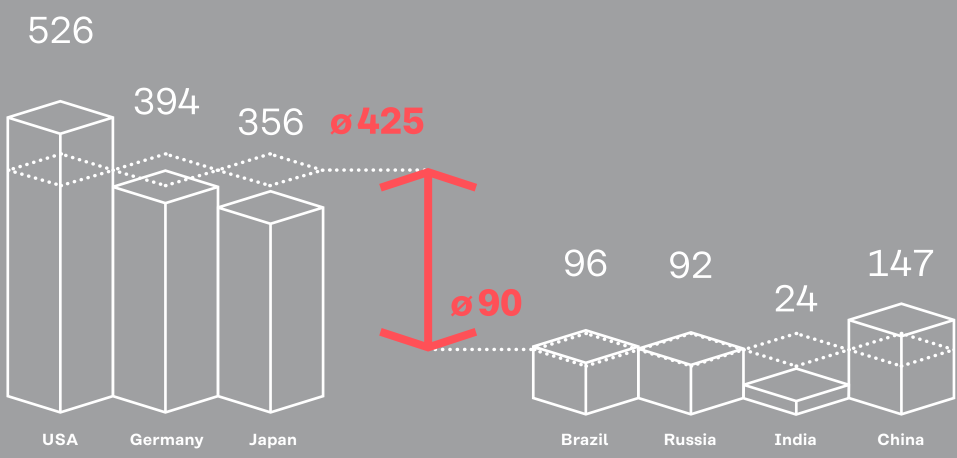
Packaging printers are particularly benefiting from the boom in e-commerce due to increasingly sophisticated packaging. Other growth drivers include rising living standards and demographic growth. Asia is particularly contributing to this growth.

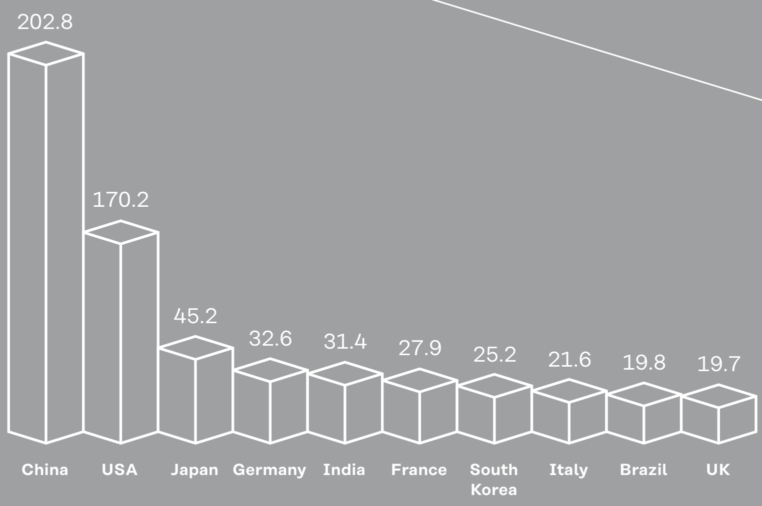
Structural growth of a large market

Annual **growth rates in packaging printing** depending on the market segment of up to

10 %

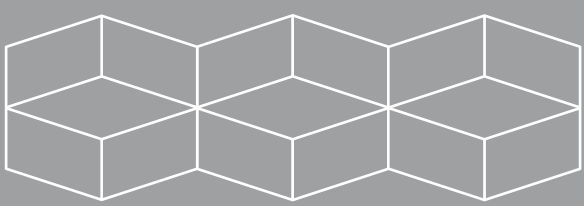
Annual packaging consumption per capita [1)]
in US$





Top 10 national packaging markets, consumption [1)]
in US$ bn

[1)] Source: Smithers Pira: The Future of Global Packaging to 2022



Whatever packaging designers and marketing strategists come up with, our customised presses will make it happen

The packaging sector is one of the largest markets in the world, with sustainable and significant growth. This is being driven by a strong rise in demand for increasingly high-quality outer packaging, folding cartons, cans and other containers in the wake of the boom in e-commerce. The main substrates are corrugated board, cardboard, foil, metal, aluminium and plastics.

The growing volume of packaging material caused by the boom in e-commerce has to be produced, printed in more and more colours and finished much more elaborately.

Another growth driver is the development of the food and beverage sector in the emerging markets as a result of demographic growth and higher living standards. With printing volumes rising all around the world, global packaging printing revenues are expected to grow from US$400 billion to US$570 billion by the middle of the next decade.

The printing and finishing presses and postpress machines in packaging printing differ from those in conventional paper printing due to the thicker material and its greater weight. Thanks to its simplicity and the ability to process a wide variety of substrates, flexo printing dominates the flexible packaging and corrugated board printing and is the packaging printing process with the highest revenues worldwide. It is closely followed by the complex, highly automated offset printing process, which offers very good quality at low costs. In addition to these two technologies which dominate packaging printing, gravure and screen printing as well as other processes are also used. For reasons of cost, productivity and quality, inkjet printing will only be successful in industrially oriented packaging printing for digital printing applications that are economically viable for customers.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&
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n it.

Growth offensive 2023 strengthens future

For sustained profitable growth, we want to actively exploit the current opportunities in our traditional and new markets.

Koenig & Bauer Group targets until 2023:

Revenue of around

€1.5 billion

EBIT margin of between

7-10%

With our growth offensive 2023, we want to actively exploit the current market opportunities in cardboard, corrugated board, flexible packaging, 2-piece can decorating, marking and coding, glass direct and decor printing as well as in postpress to achieve sustained profitable growth.

With newly developed and enhanced products, we stand out from the competition with an improved total cost of ownership, shorter make-ready times for ever more frequent job changes, greater ease of operation, high production output, intelligent quality inspection systems and first-class print quality.

With their structural and above-average growth, the packaging printing markets offer particular appeal. In addition to our versatile packaging printing presses, our postpress solutions such as cutters and folder gluers as well as our marking and coding systems are also benefiting from this boom. Annual growth rates of up to 10% are currently being achieved as packaging printing is benefiting from growth in consumer spending and demand for packaging around the world as well as long-term trends such as e-commerce, more sophisticated packaging, smaller sizes due to more single-person households and more stringent regulations.

Furthermore, we see an additional growth option in digital printing given that digitisation no longer poses any substitution risks for us in the markets that we address. What is decisive is that the digital printing applications are economically viable for our customers in the light of cost, productivity and quality considerations. Digital printing offers good market opportunities with business models specialising in small print runs, greater personalisation and versioning as well as higher format flexibility. In particular, we see great revenue and earnings potential in digital decor and packaging printing once the dominant gravure and flexo technology is replaced by digital printing and decors are increasingly printed by the furniture and flooring industries themselves.

Focus on

packaging printing, postpress and digital printing

Staged approach

with clear milestones

End markets with a high share in less cyclical sectors such as **food, beverages and pharmaceuticals**

We have engineered a new generation of wide sheetfed flexo presses with or without an integrated rotary die-cutter for the large and fast growing market of analogue printing on corrugated board. After the completion of intensive testing at our Würzburg plant in the first half of 2019, the **CorruCUT** will be installed at the renowned pilot customer Klingele.


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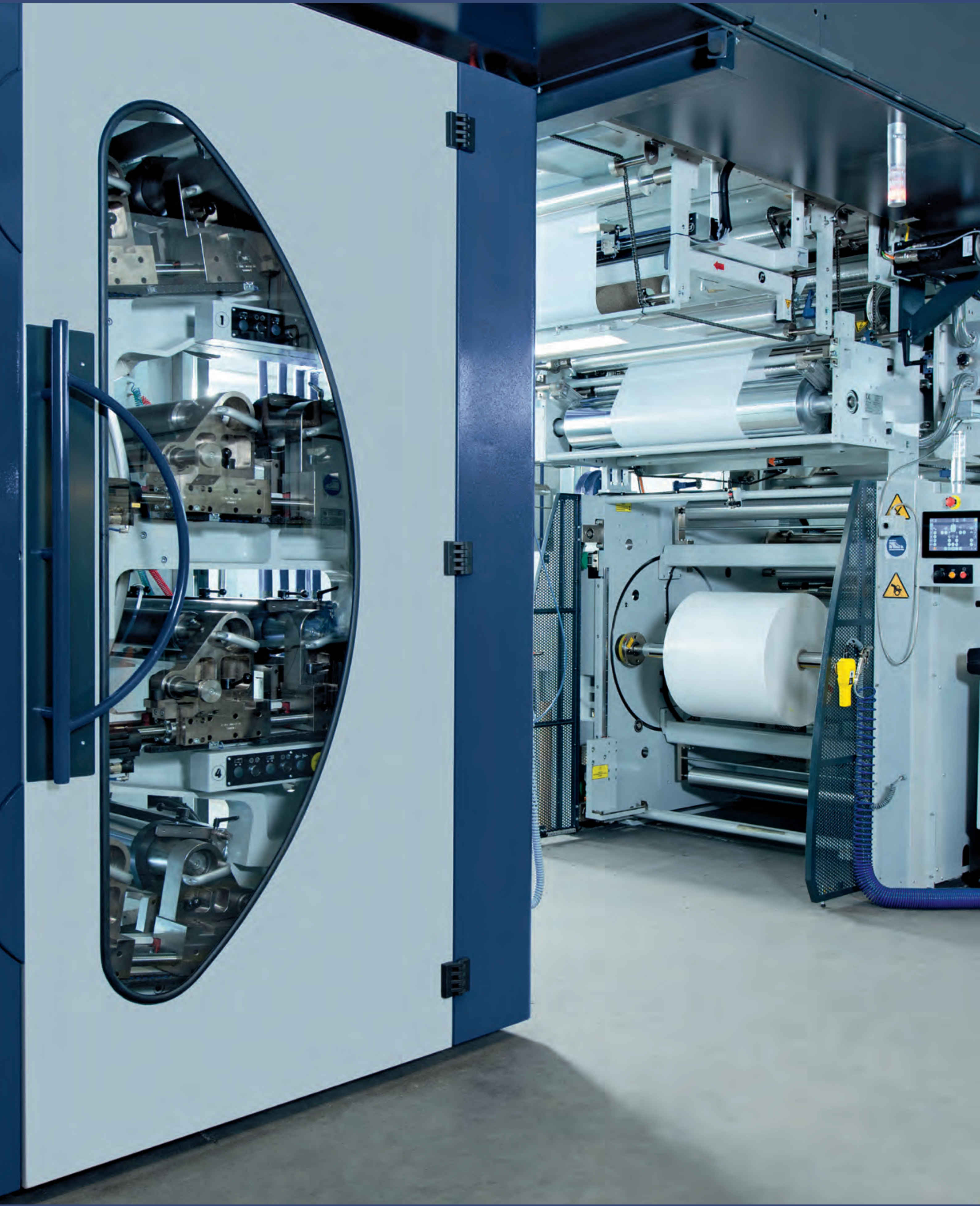
CorruCUT

With a record order intake, we have been able to expand our global market share to 9% in flexible packaging printing. Good project awards with the **Evo XD** all-round flexo press have contributed to this success.



Our mature and high-quality **RotaJET** digital printing platform focuses on decor and flexible packaging printing. We see great revenue and earnings potential thanks to the trend in favour of individualisation with smaller job sizes once the dominant gravure and flexo technology is replaced by digital printing and decors are increasingly printed by the furniture and flooring industries themselves.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We are working on the **VariJET** hybrid system with strong user orientation for digital folding carton printing. A demo press featuring Durst's digital printing technology is expected to produce at drupa 2020. We want to pool engineering know-how and inkjet expertise in a 50/50 joint venture with the digital printing pioneer Durst.

In postpress, we have made good progress with the Rapida RDC 106 rotary die-cutter, which has been developed in house, and the flatbed die-cutters acquired from Iberica. The **Ipress 106 K PRO** flatbed die-cutter with the proven feeder from the Rapida presses had world premiere.


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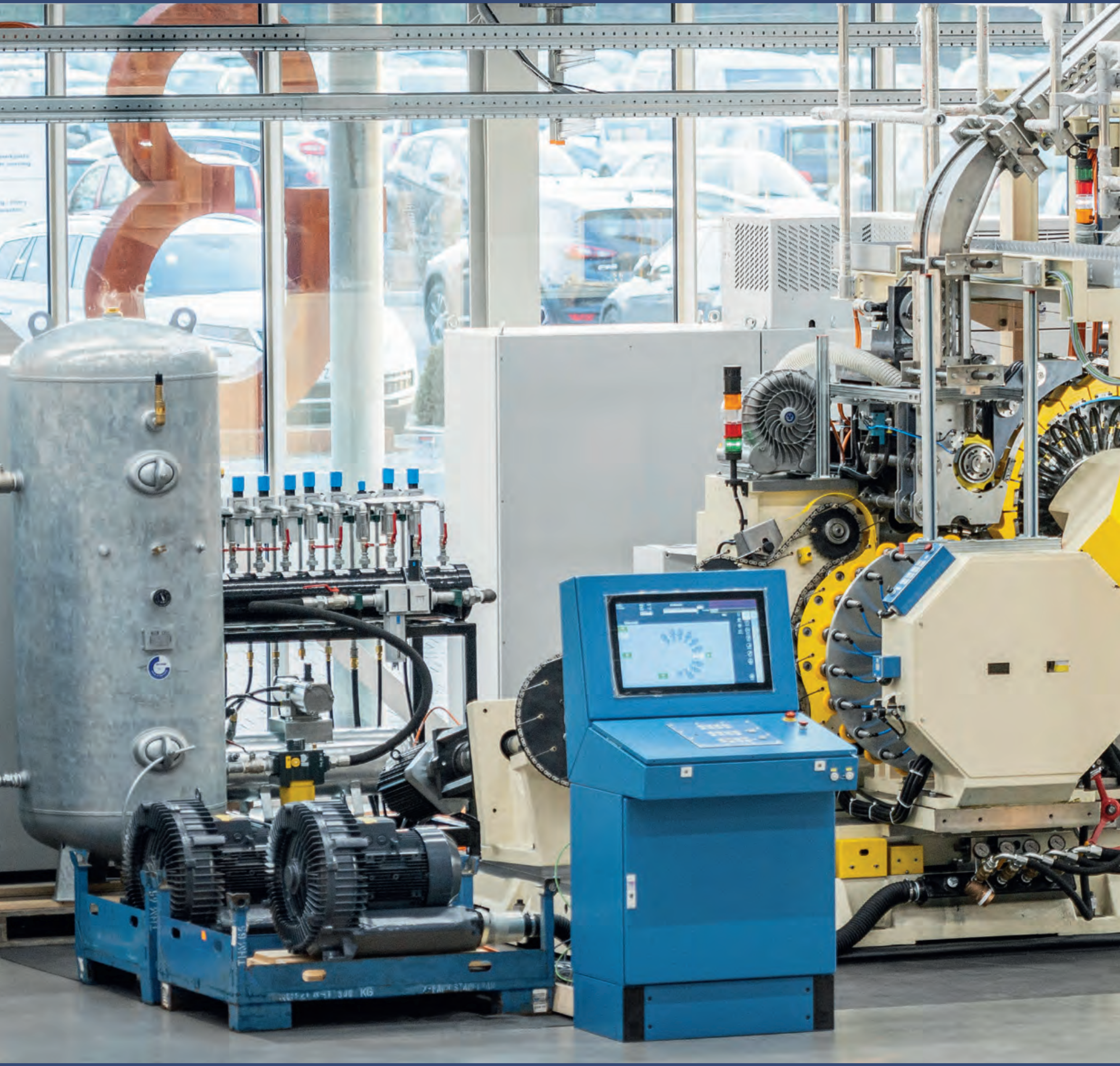
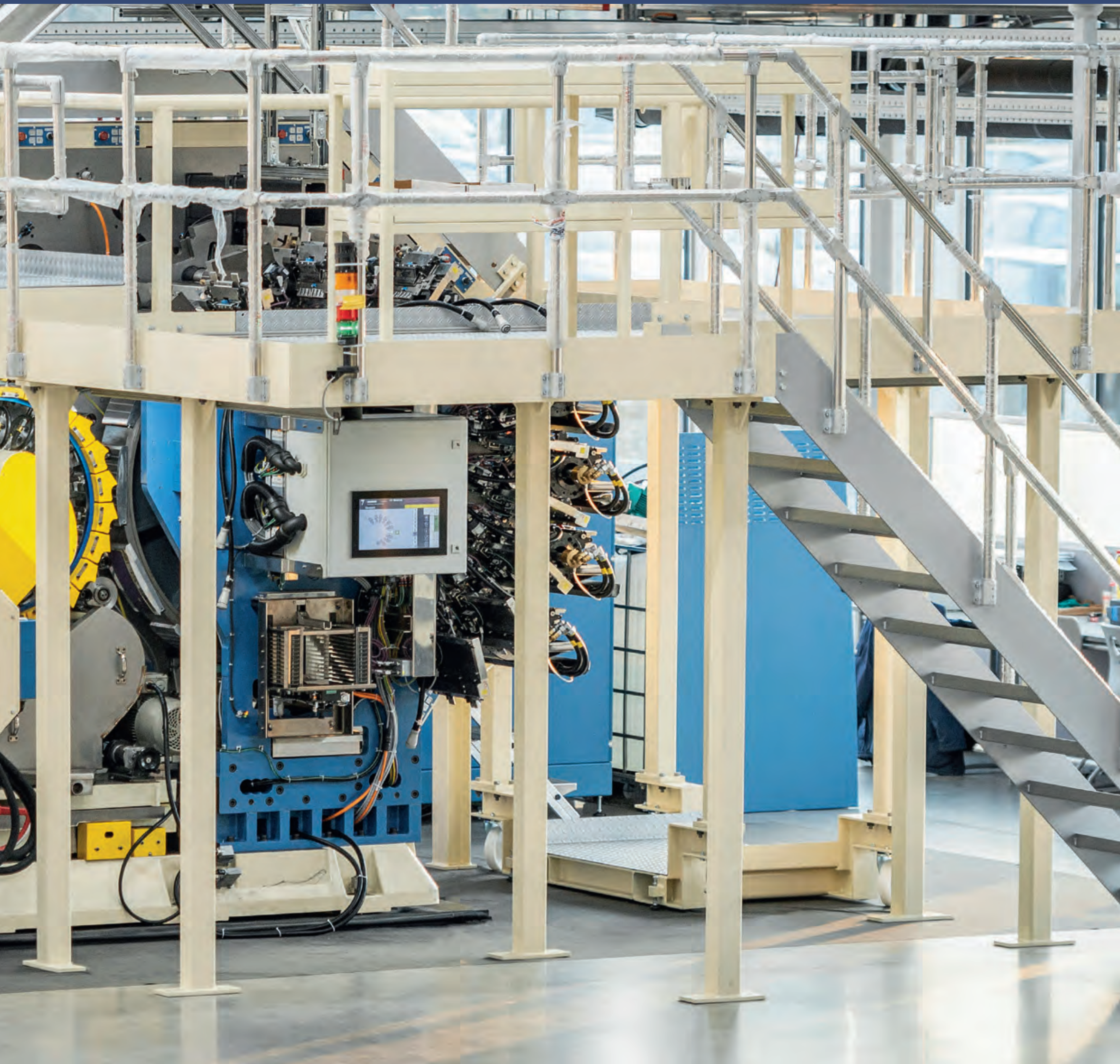


For high-quality decorating of 2-piece beverage cans, our **CS MetalCan** has significant benefits for users. In addition to a high production output, it offers significant productivity gains, above all through a greatly improved level of automation. Following the contract signing with two major customers, intensive field tests will run in the first half of 2019 with the target of sales launch.

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KAMMANN HS 300

The newly developed high-performance screen printing press **HS 300/600** for the beer and soft drink bottle market celebrated its world premiere at glasstec 2018 in Düsseldorf. With the delivery of the first high-performance glass decorating press planned for the end of 2019, we are opening up a market that we have not occupied yet and which is larger than the previously addressed glass direct printing markets.

With the development of **Kyana,** we are using artificial intelligence in marking and coding through an augmented reality application in our **alphaJET** system. The system optimises itself during operation, identifying special ways of improving the process and answering the user's questions verbally. The pronunciation of the name Kyana features KI, which is the German acronym for artificial intelligence, as well as the word key to denote key technology.

Dear shareholders, ladies and gentlemen,

We have made further progress in strategically aligning our Group towards achieving sustainable profitable growth. The advances made in packaging printing, which is seeing structural growth and is less cyclical in nature, are particularly gratifying. With a record order intake, we have been able to widen our share of the global flexible packaging printing market to 9%. Revenue in marking and coding has risen by around 50% in the last three years. Since the acquisition of flatbed die-cutter business in 2016, revenue in this segment has climbed by more than 50%. The entry into the market for folder gluers and the planned joint venture with inkjet pioneer Durst for folding carton and corrugated printing are further milestones. Pleasing revenue and earnings potential can arise with our RotaJET digital printing platform for decor and flexible packaging printing following a greater substitution of the hitherto standard analogue printing processes and an increase in the internally-sourced production of decoration papers in the furniture and flooring industry. After a comprehensive evaluation process, the renowned packaging group Tetra Pak has opted for our large-format RotaJET for full-colour digital printing of beverage carton packaging. We have received two more RotaJET orders for digital decor printing.

Despite some adverse circumstances in the availability of parts and market conditions, we achieved our earnings target for 2018 and, at €87.4m, posted the highest EBIT in our history spanning 201 years. We widened the EBIT margin from 6.7% in the previous year to 7.1%, thus exceeding our target of around 7% and substantially surpassing the mean for the German mechanical and plant engineering sector. As previously announced, shifts of machine deliveries into 2019 as a result of bottlenecks in the parts availability burdened the achievement of our revenue target. At €1,226m, Group revenue was only slightly up on the previous year. We had been targeting organic revenue growth of around 4% for 2018. With order intake coming to €1,222m, we have an ample order backlog of €610.9m.

In Sheetfed, which is our largest segment, order intake, revenue and EBIT were limited by bottlenecks in the availability of parts. While the project situation is good, long delivery times dampened new business. In the Digital & Web segment, growth in digital and flexible packaging printing contributed to substantially higher order intake. With revenue slightly lower, segment EBIT came under pressure from market entry and growth-related expenses in digital, flexible packaging and corrugated board printing. The Special segment posted higher revenue on good order intake, achieving a double-digit EBIT margin again.

Underpinned by the reduction in average net working capital and the strong earnings performance, cash flows from operating activities rose significantly. The substantial improvement in free cash flow over the previous year was burdened by heavy capital spending, particularly for modern demonstration centres and the final payment made in connection with the external funding of a part of the pension provisions. Together with our solid internal liquidity, the syndicated long-term credit facilities give us a strong and stable financial basis. The strong balance sheet structure was additionally enhanced with the increase in the equity ratio to 38.5%. Thanks to the good Group net profit and the retained profit generated by the holding company Koenig & Bauer AG, we are able to continue our dividend policy with a distribution rate at the upper end of the target corridor of between 15% and 35% of Group net profit. Accordingly, we will be asking our shareholders to approve a dividend of €1 per share at the annual general meeting. This marks an increase over the previous year.

With the progress made in our Group projects for boosting earnings by €70m, we have taken further steps towards achieving our medium-term earnings targets. On the basis of an EBIT margin adjusted for special items of 5.4% in 2016, we are aiming for an annual improvement of 0.7% in this margin to around 9% by 2021 assuming linear execution of the project. This translates into a target of 6.8% for 2018, which we exceeded substantially with a margin of 7.1%. In addition to cost-cutting projects in security printing, procurement and the production network, our service initiative is also receiving high priority. This is because outstanding service particularly helps us to achieve satisfied and loyal customers. In 2018, we were able to widen the service share of total revenue to 25.9%. The previous year's figure of 25.6% had been structurally buoyed by large press relocations. We want to increase the service share to 30% of the then higher revenue by 2021 step by step. Now that the bottlenecks in the availability of parts from internal and external suppliers has been largely overcome, we are working intensely on optimising our entire supply chain to achieve a sustained reduction in delivery times. We will be making operational and strategic adjustments to the internal production network to lower costs and lead times as well as to boost productivity.

The further development of the world economy is currently not easy to forecast. The risks to the global economy have risen due to trade conflicts and barriers, higher US interest rates and the heavy debt burden of some emerging markets. In the United States, there is evidence of slowing investment momentum in the wake of political uncertainties. Political developments in Europe (Brexit, Italy) and in other regions are also exacerbating global economic concerns. These risks may have an adverse effect on the business confidence of global printing companies and their investment sentiment. As a result, demand for our products and services may weaken at least temporarily.

The achieved EBIT margin of 7.1% is well above the mean in the German mechanical and plant engineering sector.

The order backlog, which rose to €610.9m at the end of 2018, together with the good order development in January and February 2019 gives us good forward visibility across the entire Group until the summer of 2019 and, in security printing with its good order situation, until 2020. The printing production output of our customers all around the world is growing, especially in the packaging segment. With the exception of the packaging printers in China producing for export markets, our order intake has so far largely shrugged off the effects of the recent political and economic developments. In the absence of any material deterioration in the conditions underlying our international business, we target organic growth of up to 4% in Group revenue and an EBIT margin of around 6% in 2019. This includes a margin impact from the growth offensive 2023, the cumulative costs of which we expect to reach around €50m for 2019 to 2021 with a heavier load in the first year. Given the aforementioned risks, we cannot rule out an up to 2% lower EBIT margin in tandem with weaker than expected revenue in the event of a slowdown in the economy.

With our growth offensive 2023, we want to actively exploit the currently available market opportunities in the cardboard, corrugated board, flexible packaging, 2-piece can, marking and coding, glass direct and decor printing as well as in postpress to achieve sustained profitable growth. The impact of volatile security printing will be reduced by higher packaging share of Group revenue. For web offset presses for newspaper and commercial printing, we expect a further business decline. With all our initiatives and projects, we are targeting to increase Group revenue to around €1.5bn with an EBIT margin of between 7% and 10% until 2023.

With their structural and above-average growth and exposure to less cyclical markets such as food, beverages and pharmaceuticals, the packaging printing markets offer particular appeal. In December 2018, we acquired 80% of the folder gluer business from Duran Machinery in Istanbul, Turkey. With around 50 employees, this business was placed in the newly incorporated company Koenig & Bauer Duran and integrated within the Koenig & Bauer Group. The innovative and customer-oriented OMEGA-series folder gluer solutions are well established with leading industrial packaging companies. Following our successful entry into die-cutter business, we can now offer folding carton producers a full range for printing, die-cutting and gluing folding boxes with this addition to our portfolio. This gives us a significant unique selling point in our revenue-strongest customer base. The integration of folder gluer business within our global sales and service network will significantly improve opportunities for growth in revenue and market share in this attractive, high-margin business.

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. Judging by recent market forecasts and also on the basis of our own estimates, inkjet printing will only be successful in the short to medium term in industrially oriented packaging printing for digital printing applications that are economically viable for customers for reasons of cost, productivity and quality. Technically and economically convincing digital printing solutions offer good market opportunities for business models specialising in small print runs, greater personalisation and versioning as well as higher format flexibility.

In a 50/50 joint venture with Durst Phototechnik in Brixen, Italy, we want to pool engineering skills and inkjet expertise to drive forward future-oriented digital printing solutions for folding carton and corrugated printing with added value for our customers. We signed a corresponding letter of intent in December 2018. With its broad expertise, 25 years of experience in inkjet and the successes achieved in digital ceramics and textile printing, this digital printing pioneer is the ideal partner for us. As a first milestone for the joint venture, manufacturing of the VariJET press for digital folding carton printing is to be commenced in time for drupa 2020.

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.

Not even a year had passed since the celebration of our company's 200th anniversary, when on 6 July 2018 we held a ceremony to mark the 150th anniversary of our vocational training school in Würzburg. More than 7,000 skilled workers have received the theoretical and practical grounding that they require for their future profession in the world's oldest vocational training school with its recognised high standards of training quality. Given the emerging shortage of skilled workers, the importance of our in-house vocational training centre remains unabated for the recruitment and professional training of our next generation of skilled workers.

Würzburg, 20 March 2019
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,

Five regular meetings of the Supervisory Board were held in the year under review. In addition to matters of current relevance, the business, financial position and earnings of Koenig & Bauer AG, the Group and the individual segments were discussed at length. The Management Board reported to us in detail on key elements of the Company's business policy, corporate planning and strategy as well as its competitive position in major markets. Any necessary resolutions were passed after detailed examination and intensive discussion. Important decisions that had to be taken outside the ordinary meetings were voted on in circulatory resolutions.

On 21 March 2018, the Supervisory Board dealt at length with the annual financial statements, the audit reports, the combined management report and the non-financial Group report for Koenig & Bauer AG and the Group as of 31 December 2017. The Management Board reported on the status in the production. In addition, the agenda for the annual general meeting including various motions concerning the allocation of the retained profit, the Management Board remuneration system, the appointment of the statutory auditor and profit transfer agreements was approved. In addition to strategy, compliance and personnel matters, we discussed the results of the survey conducted in connection with the Supervisory Board's efficiency review and defined a target for the share of women on the Management Board.

A telephone conference was held on 2 May 2018 on the Q1 figures. In addition to a preliminary discussion concerning the annual general meeting, our meeting of 8 May 2018 dealt with the updated forecast for 2018. Other matters on the agenda for this meeting, which was continued on the next day after the annual general meeting, included strategic and personnel-related issues as well as matters pertaining to the Management Board. In addition, we heard a report on the progress of the performance improvement project in security printing. We approved the implementation of a Supervisory Board management system to additionally optimise our activities.

The Group figures for the first half of the year together with the corresponding report and the updated forecast for 2018 were discussed at the meeting of 31 July 2018. In addition to the closing report on the performance improvement project in security printing, the Supervisory Board again dealt at length with production. Strategic and compliance-related matters as well as Management Board affairs were on the agenda.

In addition to explaining the Q3 report, the Management Board presented the forecast for 2018 and the corporate planning and capital spending budget for 2019 to 2021 at the Supervisory Board's meeting of 6 November 2018. We approved the capital spending budget for 2019 as well as the additional growth offensive 2023, which provides for a greater orientation of the Digital & Web segment to flexible packaging and corrugated board printing. The meeting also dealt with strategic, compliance and personnel-related matters as well as Management Board affairs.

On the basis of the documents prepared by the personnel committee, we adopted a resolution to increase the Management Board to five members and to appoint Dr Andreas Pleßke to the Management Board for a period of five years effective from 1 December 2018. In addition to heading the Special segment, he is responsible for optimising the internal production network. Dr Pleßke had stepped down from the Supervisory Board as a shareholder representative on 7 November 2018. He had been delegated by the Supervisory Board to the Management Board from 1 June 2017 to 31 May 2018. At the recommendation of the nomination committee, we proposed Professor Raimund Klinkner as his successor and as a candidate for the Supervisory Board election at the next annual general meeting on 22 May 2019. He was appointed to the Supervisory Board on an interim basis under a register court order issued on 19 November 2018.

As well as this, we renewed the contracts with Management Board members Dr Mathias Dähn, Christoph Müller and Ralf Sammeck by five years in each case until 31 May 2024 and 30 September 2024, respectively.

In the interests of the Group's further strategic development, we approved the acquisition of 80% of the Turkish manufacturer Duran Machinery's folder gluer business and the establishment of the 50/50 joint venture with Durst Phototechnik in Brixen, Italy for digital printing solutions for folding carton and corrugated printing. As the lease of our subsidiary Koenig & Bauer Kammann for its facilities in Bad Oeynhausen expires at the end of 2019, we approved the plans to build new facilities in the neighbouring town of Löhne.

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.

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 market trends were discussed at length. The chairman regularly informed the other members of the Supervisory Board of the results of these talks.

> All resolutions were passed after detailed examination and intensive discussion.

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, strategy and personnel committee each met four 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 2018.

In addition to the quarterly reports, one of the main tasks of the audit committee is to comprehensively review the annual financial statements of Koenig & Bauer AG and consolidated financial statements as well as the combined management report, the non-financial Group report and the corresponding audit reports. During the discussion of the annual financial statements, the representatives of the statutory auditor reported to the committee on the results of their audit and were available to answer any questions and for detailed discussion of various matters. 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, the Group's risk situation, internal auditing and the determination of the main points to be addressed by the statutory audit. In addition to a report on the implementation of the General Data Protection Regulation (GDPR), the committee received comprehensive and regular information on the status of SAP migration. The Chief Executive Officer and the Chief Financial Officer regularly attended the meetings of the audit committee.

In the year under review, Management Board matters dominated the meetings of the personnel committee. After Dr Andreas Pleßke stepped down from the Supervisory Board, the nomination committee prepared recommendations for possible replacements for submission to the full Supervisory Board. A further focus of the meetings of the nomination committee were succession issues in the Supervisory Board. The strategy committee dealt in detail with the projects being pursued by the Management Board for products, processes and personnel development for ensuring the Group's sustained development and future orientation. We closely oversaw the Duran and Durst projects. The committees reported on the results of their meeting to the Supervisory Board regularly and comprehensively.

On 8 February 2019, 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 40 onwards. 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 (5)	Personnel committee (4)	Audit committee (4)	Strategy committee (4)	Nomination committee (2)
Dr Martin Hoyos, chairman	2013	4/5	4/4	3/4	–	2/2
Gottfried Weippert, deputy chairman	2001	5/5	4/4	4/4	4/4	–
Dagmar Rehm, deputy chairman	2014	5/5	4/4	4/4	–	2/2
Julia Cuntz	2016	4/5	–	–	–	–
Carsten Dentler	2017	5/5	–	–	4/4	–
Marc Dotterweich	2015	5/5	–	4/4	–	–
Matthias Hatschek	2006	5/5	–	–	4/4	2/2
Christopher Kessler	2016	5/5	–	–	4/4	–
Professor Raimund Klinkner	19.11.2018	–	–	–	–	–
Professor Gisela Lanza	2015	5/5	–	–	4/4	–
Walther Mann	2006	5/5	–	–	4/4	–
Dr Andreas Pleßke[1]	2016	2/5	–	–	–	–
Simone Walter	2016	5/5	–	–	–	–

[1] Until 7 November 2018, delegated to the Management Board from 1 June 2017 to 31 May 2018

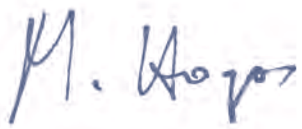
The annual financial statements of Koenig & Bauer AG and the consolidated financial statements of the Koenig & Bauer Group as of 31 December 2018 including the combined management report prepared by the Management Board together with the bookkeeping were audited by KPMG Bayerische Treuhandgesellschaft AG, Nuremberg, and granted an unqualified auditor certificate. Furthermore, KPMG has subjected the separate non-financial Group report to a limited assurance review. 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 20 March 2019, 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, the combined management report or the non-financial Group report. Accordingly, the annual financial statements of Koenig & Bauer AG were approved at the meeting and thus adopted. The consolidated financial statements, the combined management

report and the non-financial Group report were also examined carefully and duly approved. At an extraordinary meeting held on 24 January 2019, the Supervisory Board approved the proposal to distribute a dividend of €1 per share and the corporate planning for 2019.

Dr Martin Hoyos
Chairman of the
Supervisory Board

The Supervisory Board thanks all employees, the Management Board, all executives and employee representatives in the Group for their dedication and contribution to Koenig & Bauer's success in 2018. Our thanks also go out to our shareholders for their trust in the Company.

Würzburg, 20 March 2019
Koenig & Bauer AG Supervisory Board



Dr Martin Hoyos
Chairman of the Supervisory Board

Koenig & Bauer shares

Share price dragged down by economic concerns and profit-taking

After a good start to 2018 with new all-time highs reached, the international equity markets came under pressure from mounting uncertainties in the global economy in the wake of trade conflicts, rising interest rates and political developments as the year progressed. Market weakness was also driven by the European Central Bank's announcement of a turnaround in its monetary policy with the termination of its bond-buying programme. The DAX dropped by 18.3% at the end of December 2018 compared with the end of the previous year and the SDAX was 20% lower.

Share price almost tripled in the last five years

In this muted economic and stock market environment, the Koenig & Bauer share was additionally affected by profit-taking in the further course of the year after reaching a new all-time high of €78.70 on 3 April 2018. At €36.50 at the end of 2018, our share was 41.9% down on its closing price at the end of 2017. Despite these declines, however, the price of our share has risen almost three-fold in the past five years, performing well compared with the DAX and the SDAX. Even so, we are not satisfied with the share price development and are working intensively on boosting our share price and our Company's enterprise value to bring them into line with the substantially higher valuations of our peers.

Dividend yield of 2.7%

The proposed dividend of €1 per share translates into a dividend yield of 2.7% based on the end-of-year share price.

Intensive dialogue with the capital market

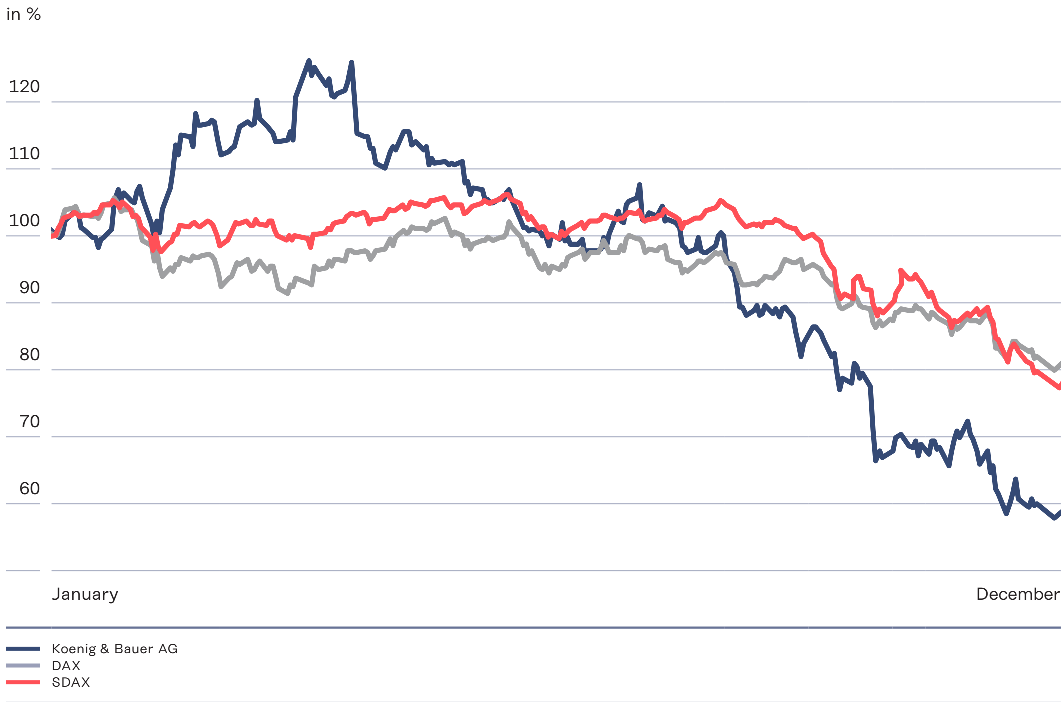
In addition to regular talks with financial analysts, many one-on-ones and telephone conferences were held with shareholders and investors. The Chief Financial Officer represented Koenig & Bauer at numerous capital market conferences. We attended the Oddo BHF Forum in Lyon and the German Corporate Conference organised by Kepler Cheuvreux/Unicredit in Frankfurt in January, the Oddo BHF German Conference in Frankfurt in February and the Bankhaus Lampe Germany Conference in Baden-Baden in April. After the Bankhaus Lampe Small Cap Conference in Frankfurt and Warburg Highlights in Hamburg in June, the autumn season commenced in September with the J.P. Morgan Cazenove Small/Mid Cap Conference in London and the Baader and Berenberg/Goldman Sachs conferences in Munich. The LBBW German Company Day in London and Eigenkapitalforum in Frankfurt in November were followed in December by the Berenberg European Conference in Pennyhill. We visited numerous investors at roadshows in Brussels, Chicago, Edinburgh, London, Madrid, Montreal, Paris, New York and Stuttgart. The annual general meeting forms a traditional component of our communications with the shareholders. Held on 9 May 2018 at the Vogel Convention Center (VCC) in Würzburg, last year's annual general meeting was attended by around 500 shareholders, representing 70% 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, Deutsche Börse's small cap index. Numerous banks and brokers actively cover Koenig & Bauer and regularly publish analyses and sector studies. At the end of 2018, seven analysts rated our share a buy. Two analysts issued a hold recommendation on the basis of their models and assumptions.

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

Performance of the share 2018



Koenig & Bauer share performance indicators

in €	2017	**2018**
Earnings per share	4.91	**3.86**
High for the year	71.27	**78.70**
Low for the year	42.25	**35.68**
Closing price	62.83	**36.50**
Market capitalisation in €m	1,038.3	**603.2**
Cash flow per share	1.44	**4.01**
Dividend	0.90	**1.00**

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 average 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 – from development to sustainability

Sustainable and effective system

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. The manual is subject to an ongoing review process to reflect changes in the legal situation and best practices. Supplemented with additional Group policies, 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.

At the same time, comprehensive awareness of compliance matters is assured through training and internal communications on the Group-wide Intranet. This year we introduced the Koenig & Bauer Campus training management system based on SuccessFactors at the largest Group companies. The software solution guarantees the efficient and effective coordination of internally developed and externally sourced learning content based on employees' duties and simplifies reporting on the basis of defined compliance performance indicators (KPIs). More than 3,100 employees are currently participating in the Koenig & Bauer Campus. The rollout is to continue over the next few years. In addition, face-to-face training was continued.

All Koenig & Bauer AG subsidiaries have designated contact persons to answer questions on compliance or to communicate compliance-related matters. Compliance officers have been appointed at the segment level and compliance operatives named at the individual companies. In addition, we have established compliance officers with special responsibility for relevant topics, such as occupational safety and environmental protection, who manage their areas of responsibility independently and competently on the basis of their specific expertise. Beyond their duties in implementing and monitoring standards, processes and reporting at the subsidiaries, the local compliance officers and operatives have a special function as a direct contact and advisor for local staff for 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 have also set up a central export control unit at Koenig & Bauer AG to meet the more stringent requirements in this area. A Group-wide whistleblower system was established as a channel for gaining swift and direct information on possible breaches of the law, regulations and internal rules, allowing employees to report any suspicious activities in confidence. However, employees can still turn to the trusted internal third parties known to them at their companies, the central compliance organisation or management at any level.

In addition to permanently improving our compliance management system, we are committed to advancing the international compliance culture and, in particular, to combating corruption and other unfair business practices worldwide. Established for this purpose in 2017, the KBA-NotaSys Integrity Fund has been endowed with €5m. Currently, it is funding eleven projects which have been submitted by universities, associations or institutes and are considered by the Fund Board to have a lasting positive influence on international compliance culture. Of particular importance for us is the joint initiative of the Banknote Ethics Initiative and the Basel Institute on Governance to establish Integrity Pacts, which contain agreements between customers and suppliers defining principles of compliance and transparency in public procurement processes. Using these instruments we want to protect companies that have adopted a zero-tolerance approach to corruption from disadvantages compared to companies that have lower compliance standards.

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 8 February 2019 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, procurement/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 Carsten Dentler, Dr Martin Hoyos, Professor Raimund Klinkner, Professor Gisela Lanza and Dagmar Rehm 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.

The declaration of compliance can be found at https://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

Leading solutions provider for packaging and security printing

The Koenig & Bauer Group is a technology company that can look back on a history spanning more than 200 years with core activities in packaging, security, industrial, commercial and publication printing. We are the global number one in cardboard and banknote printing, metal and glass decorating. In 2018, we expanded our attractive market position in flexible packaging, marking and coding and die-cutting.

Bespoke solutions for our customers

Our core skills lie in technologically innovative printing systems tailored to customer requirements and the associated equipment enabling highly efficient and economical printing, finishing and postpress processes. 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. Besides our comprehensive services, the development, manufacturing and worldwide sales of our sheetfed and web offset, flexo and digital printing presses, flatbed and rotary die-cutters, folder gluers and special systems for security printing, metal and glass/hollow container decorating and marking and coding are important components of our business model. Alongside classic services, we are also increasingly offering digital service products. The comprehensive expertise derived from addressing many sub-markets provides a good basis for innovation and for new applications in packaging printing, on which the Company is particularly concentrating.

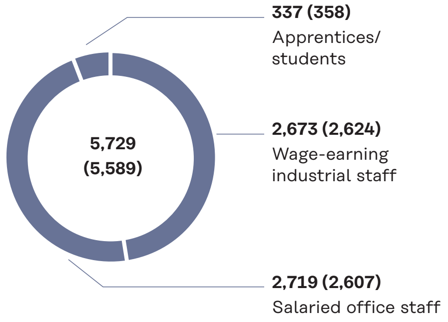
Global presence

The Koenig & Bauer Group is active in virtually all countries around the world. The current export ratio is 86.1%. Over the last few years, we have expanded our sales and service network in the markets of the future, including the emerging markets on the peripheries of Europe and in Asia. We have established a comprehensive sales and service system addressing the entire Latin American market with the recent addition of a branch in Buenos Aires by our subsidiary Koenig & Bauer LATAM.

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). With our decentralised organisation, we encourage local management to take personal responsibility for achieving our goals. At the end of 2018, the Koenig & Bauer Group had 5,729 employees. This is an increase of 140 over the previous year (31 December 2017: 5,589). In addition to the first-time consolidation of Koenig & Bauer LATAM, a sales and service company with 31 employees, the new subsidiary Koenig & Bauer Duran added 51 to the Group's workforce. New employees were also recruited for the expanding service business and for new applications for the packaging markets.

Workforce as of 31 December 2018



Segments: Sheetfed, Digital & Web, Special

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 quality measurement and control systems, workflow and logistics solutions and services. The portfolio also includes equipment for finishing and postpress processing such as rotary and flatbed die-cutters and folder gluers. 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 Brazil are not included in the consolidated financial statements.

The Digital & Web segment encompasses our business with digital and offset web presses for decor, flexible packaging, newspaper and commercial printing. This also includes flexo presses for flexible packaging printing as well as flexo and digital presses for direct printing on corrugated board. Over half of its revenue is generated by spare parts and services, underpinned to a large extent by the increasingly older printing press fleets used in publication printing. Revenue of new offset presses for newspaper and commercial printing contributed 13.7% to segment revenue and 1.7% to Group revenue. In addition to the HP press for digital pre-prints of corrugated liners, the digital printing activities comprise the RotaJET platform for decor and flexible packaging printing and the CorruJET sheetfed press for direct printing on corrugated board. The CorruFLEX and CorruCUT sheetfed flexo presses (the latter with a rotary die-cutter) for direct printing on corrugated board and the flexo presses for printing flexible packaging are addressing large markets characterised by structural growth.

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/hollow container decorating. This is supplemented by comprehensive services. Koenig & Bauer Industrial AG & Co. KG is a production service provider for the business units operating in the market.

Planning, control and monitoring

Efficient Group management

Comprehensive planning and management systems

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 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 and again shortly before the end of the year, updated forecasts for the current year are prepared on the basis of the reported figures. Scenario analyses simulate different market and cost parameters on a case-by-case basis.

Detailed monthly reporting tracks the current business and earnings situation as well as trends in net working capital. Comprehensive service reporting permits efficient coordination of service activities. 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.

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. In addition to these main financial performance indicators, management reporting also tracks order intake, order backlog and service business indicators. Changes in capital employed is monitored using the “average net working capital as a percentage of revenue” indicator. It is calculated on the basis of averages by deducting trade payables to third parties and customer prepayments from inventories, prepayments made towards inventories, trade receivables from third parties and contract assets. The target for 2018 of an EBIT margin of around 7% was achieved. As previously announced, shifts of machine deliveries into 2019 as a result of bottlenecks in the parts availability burdened the achievement of our revenue target. Compared with the targeted organic revenue growth of around 4%, only a slight increase was achieved.

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 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 currently underway. The ERP system went into operation at the holding company Koenig & Bauer AG in the fourth quarter of 2017. This was followed in 2018 by the migration of the large business unit Koenig & Bauer Industrial together with Koenig & Bauer Gießerei. It will be rolled out at other Group companies over the next few years.

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.

Efficient monitoring system

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.

Research and development

New and enhanced solutions focusing on packaging and digital printing

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. Further key aspects are intelligent systems for digital process networking and new service products such as predictive maintenance and benchmark analyses. We are increasingly using artificial intelligence with self-teaching algorithms in our service business to simplify training procedures and to develop proactive maintenance plans. Using as a basis the performance data derived from the customer's equipment, we offer comprehensive analytics for process optimisation and efficiency gains as well as anonymised benchmarks on a global basis. Group research and development expenses amounted to 3.6% of revenue in 2018 (previous year: 4%).

3.6%

of revenue spent on research and development

The latest examples of our product innovations and enhanced solutions in the Sheetfed segment are rotary and flatbed die-cutters. 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. The Ipress 106 K PRO flatbed die-cutter with the proven feeder from the Rapida presses had world premiere. The outstanding details include integrated blank stripping, high operating comfort, absolute register accuracy, short make-ready times and flexible configurability. We are working on the hybrid VariJET system with strong user orientation for digital folding carton printing. The manufacturing of the VariJET featuring Durst's digital printing technology is to be commenced in time for drupa 2020. In addition, we added new inline measurement technology for quality control for the Rapida sheetfed offset presses. QualiTronic Next Generation entails a revolutionary package of new developments with maximum operating and display function integration for the user via a touchscreen monitor. In addition to intelligent systems for digital networking in all phases of print production, our experts have worked on data-based value-added service solutions to render processes more transparent and maintenance more preventive. Visual Press Support is one example of the use of innovative digital technologies in service, where our service technicians can communicate with the printer via smartphone. Videos can be shared and marked, and images can be captured, saved and stored. In addition, the service technician can display documents on the screen of the mobile device at the press to support finding solutions on site.

Alongside the applications of the RotaJET platform for decor and flexible packaging printing, R&D activities in the Digital & Web segment concentrated on analogue and digital corrugated board printing. One focus is on the large and significantly growing market for analogue direct printing on corrugated board, for which we have developed the CorruFLEX and CorruCUT sheetfed flexo presses, both of which have a number of unique features. An important mile-stone was reached with the first CorruCUT order from the renowned pilot customer Klingele. Following the completion of intensive testing at our plant in the first half of 2019, the CorruCUT is to be installed on this customer's premises. 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. After successful testing at the Würzburg demonstration centre, the delivery of the CorruJET to the new digital printing centre of our customer Kolb, a well-known corrugated board printer, began at the end of 2018. We added new presses and automation modules to our product portfolio for flexible packaging printing. The prototype of the newly developed compact CI flexo printing press will be presented at the K 2019 trade fair in Düsseldorf in October 2019.

High R&D expenses arose again in the Special segment for security printing. In addition to new applications, product series and press functions, we are working intensively on innovative security features for maximum counterfeit protection in banknote printing. A high-quality security feature known as SUSI Flip that displays different print images on the banknote in daylight and under UV light has been developed. Technically, this is a high-precision, two to four-colour offset printing process, which can only be produced in this quality and efficiency with our Super Simultan press. In addition to the MetalDeco-JET digital printing press for metal decorating, we also developed CS MetalCan for printing 2-piece beverage cans, which offers significant advantages for users. In addition to a high production output, it offers substantial productivity gains particularly thanks to greater automation and the make-ready times that can be reduced heavily to a few minutes. Following contract signings with two important customers, intensive field testing will continue in the first half of 2019 with the target of sales launch. We have presented the world's first automated blanket change for 3-piece metal decorating, which reduces blanket change times by more than half. The newly developed high-performance HS 300/600 screen printing press for the beer and soft drink bottle market celebrated its world premiere at glasstec 2018 in Düsseldorf. In addition to printing 300 to 600 articles per minute in an unprecedented quality, the new press platform offers other important features for customers. With the delivery of the first high-performance glass decoration machine planned for the end of 2019, we are opening up a market that we do not yet occupy and which is larger than the previously addressed direct glass decorating markets. With the development of Kyana, we are using artificial intelligence in marking and coding through an augmented reality application in our alphaJET system. The system optimises itself automatically during operation, identifying special ways of improving the process and answering the user's questions verbally. In addition to avoiding operating errors and ensuring efficient production processes, it increases productivity and the quality of production output. This virtual system enables the precise transfer of information regardless of distance and linguistic barriers. The added value arises from the efficient cooperation between man and machine.

Quality management

Best quality for highest customer satisfaction

Highest quality standards

We want to strengthen customer satisfaction and increase customer loyalty by applying the highest possible standards of quality. Accordingly, we focus on the 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. We systematically and consistently protect our high quality standards by means of clear rules for contracts, comprehensive control, acceptance and approval 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 significant potential for strengthening our quality leadership.

Business report

Economic environment

After a good first half, mounting macroeconomic concerns caused the strong international demand for capital goods to weaken in the further course of the year. The International Monetary Fund (IMF) has revised its growth forecast downwards by 0.2 percentage points and now expects global gross domestic product (GDP) to have risen by 3.7% in 2018. According to the German Mechanical and Plant Engineering Association (VDMA), new orders in the sector as a whole rose by 4.6% in real terms in 2018, falling short of the previous year's growth rate of 8.1%. New business in the printing press sector contracted by 1.7% after widening by 3.9% in the previous year. The growth recorded in the expanding packaging printing sector was unable to make up for the structural declines in commercial printing.

Business performance

Higher orders in packaging printing markets

Export ratio of
86.1%

Koenig & Bauer's efforts to address many submarkets with a particular focus on non-cyclical segments characterised by structural growth are paying off. We were able to boost order intake substantially for flexible packaging printing and marking and coding. With good orders in security printing, bottlenecks in the availability of parts placed a damper on order intake for folding carton printing in particular due to longer delivery times. At €1,222m, Group order intake was down 3.5% on the previous year (€1,266.3m). We attach particular importance to margin quality and therefore increased prices across our entire product range by 3.7% effective 1 April 2018.

Group order intake

in €m	2017	2018
Sheetfed	656.2	**613.0**
Digital & Web	139.6	**167.6**
Special	533.7	**502.4**
Reconciliation	-63.2	**-61.0**
Total	**1,266.3**	**1,222.0**

Revenue also burdened by availability of parts

At €1,226m, Group revenue was only slightly up on the previous year's figure of €1,217.6m. Shifts of machine deliveries into 2019 as a result of bottlenecks in the parts availability burdened the achievement of our revenue target. We had been targeting organic revenue growth of around 4% for 2018.

Group revenue

in €m	2017	2018
Sheetfed	660.2	**647.4**
Digital & Web	154.2	**150.7**
Special	467.9	**490.5**
Reconciliation	-64.7	**-62.6**
Total	**1,217.6**	**1,226.0**

The export ratio narrowed from 89.1% to 86.1% due to the significantly higher domestic business. Whereas the share of business in Europe excluding Germany contracted from 36.8% to 33.8% and North America from 17.7% to 14.8%, the share contributed by Asia/Pacific widened from 24% to 25.3% particularly as a result of higher deliveries to China, Indonesia, Japan and Malaysia. Latin America and Africa accounted for 12.2% of Group revenue (2017: 10.6%).

Geographical breakdown of revenue

in %	2017	2018
Germany	10.9	**13.9**
Rest of Europe	36.8	**33.8**
North America	17.7	**14.8**
Asia/Pacific	24.0	**25.3**
Africa/Latin America	10.6	**12.2**

High order backlog

At €610.9m, the Group order backlog as of 31 December 2018 was up slightly on the previous year's figure of €606.2m.

Group order backlog

in €m	2017	2018
Sheetfed	233.5	**199.1**
Digital & Web	61.5	**78.4**
Special	324.0	**344.6**
Reconciliation	-12.8	**-11.2**
Total	**606.2**	**610.9**

Earnings, finances and assets

Earnings

Highest EBIT in the 201-year Company history

At €87.4m in 2018, we achieved the highest EBIT of the past 201 years. Service business is a key mainstay of our profit and includes spare parts and a wide range of services. In 2018, we were able to widen the service share of total revenue to 25.9%. The previous year's figure of 25.6% had been structurally buoyed by large press relocations. Earnings came under pressure from market-entry and growth-related expenses in digital, flexible packaging and corrugated board printing. We are not yet satisfied with the earnings situation in new press business and are intensifying our efforts to improve profitability.

EBIT margin target for 2018 of around 7% reached

With gross profit coming to €355.6m (2017: €365.5m), the gross margin remained with 29% at a similar high level to the previous year (30%). Group earnings before interest, taxes, depreciation and amortisation (EBITDA) came to €112.3m (2017: €112.4m). As in the previous year, a good EBITDA margin of 9.2% was achieved. At €44.3m, R&D expenses were down on the previous year's figure of €48.4m. Whereas distribution costs dropped to €138.8m (2017: €140.9m), administrative expenses rose from €90.1m to €94.2m primarily as a result of higher wages and consulting costs. Other income and expenses came to €9.1m (2017: –€4.7m). EBIT climbed from €81.4m to €87.4m. At 7.1% (2017: 6.7%), the EBIT margin exceeded the guidance of around 7%.

EBIT margin of

7.1%

The interest result of –€3.5m (2017: –€2.9m) led to Group earnings before taxes (EBT) of €83.9m, compared with €78.5m in the previous year. Income taxes came to –€19.9m. A tax income of €2.6m had arisen in the previous year from the recognition of deferred tax assets as a result of available and usable loss carry-forwards. The high tax expense in 2018 was primarily influenced by the consumption of deferred tax assets on loss carry-forwards. At €64m (2017: €81.1m), Group net profit translates into earnings per share of €3.86 in 2018 (previous year: €4.91). 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 €1 per share for the financial year 2018. This is equivalent to a dividend ratio of 25.9% of Group net profit.

Group income statement

% of revenue	2017	2018
Cost of sales	-70.0	**-71.0**
Research and development costs	-4.0	**-3.6**
Distribution costs	-11.6	**-11.3**
Administrative expenses	-7.4	**-7.7**
Other income/expenses	-0.4	**+0.7**
Interest result	-0.2	**-0.3**
Income taxes	+0.2	**-1.6**
Net profit	+6.7	**+5.2**

Finances

Strong financial power

Cash flows from operating activities was particularly strong, coming to €66.3m, up from €23.8m in the previous year. Despite higher inventories due to shifts of press deliveries into 2019, the increase in earnings and lower receivables contributed to this significant improvement. Average net working capital relative to revenue was reduced from 28.9% in the previous year to 28.2%. In order to achieve the defined target corridor of between 20% and 25%, we are working intensively on optimising the entire supply chain to gain a sustainable reduction in delivery times and to improve opportunities for customer finance in security printing business.

Net working capital reduced

In addition to high investment activities, the free cash flow was burdened by the final payment instalment of €34.8m made in Q1 for the external funding of a part of the pension provisions. However, at –€19.5m, it was substantially better than in the previous year (2017: –€59.6m). Cash flows from financing activities came to €16m, up from €0.9m in the previous year. At the end of December 2018, cash and cash equivalents stood at €142m (31 December 2017: €142.4m). Adjusted for bank loans of €74.4m (see notes for more details), the net liquidity came to €67.6m (2017: €99.4m). In addition, there were securities of €16.3m (previous year: €21.6m) 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 syndicate finance includes a revolving credit facility of €150m with an option to increase it by €50m. After the exercise of a one-year renewal option, the facilities now run until December 2023 with a further one-year renewal option available. The Group-wide facility also entails local working-capital lines at various subsidiaries.

Increase in equity ratio to 38.5%

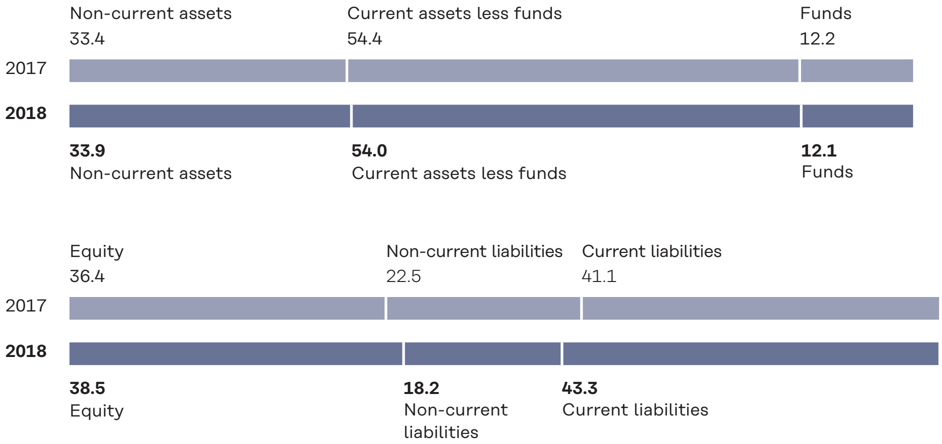
The Group net profit contributed to the increase of €29.4m in equity to €453.4m (31 December 2017: €424m). Exerting the opposite effect, a dividend of €14.9m was paid. This translates into an equity ratio of 38.5% relative to the increased balance sheet total (2017: 36.4%).

Reduced debt

Whereas pension provisions dropped by €45.8m due to the external funding of a part of the Company pension scheme and other provisions sank by €12.8m, bank loans and other financial payables rose by €39.1m. Other liabilities dropped by €15.3m primarily as a result of the decline in customer prepayments from €130.1m to €111.1m. On balance, current and non-current liabilities dropped to €724.9m over the previous year (€739.9m).

Group assets and capital structure

in %



Assets

Strong balance sheet

A sum of €50.5m (2017: €50.1m) was spent on the expansion of the demonstration centre at the Radebeul plant, the construction of facilities for Kammann, the plant development plan in Würzburg and steps to enhance 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. At 4.1%, the ratio of capital spending to revenue was unchanged over the previous year. With depreciation standing at €28.9m (2017: €31m), a capital spending ratio of 174.7% (previous year: 161.6%) was recorded. While property, plant and equipment dropped slightly to €208.9m (2017: €210.6m), intangible assets rose from €45.7m to €84.1m. Property, plant, and equipment are covered by equity at a rate of 217% (2017: 201.3%).

On the other hand, investments and other financial receivables dropped from €50.5m to €26m. In connection with the external funding of a part of the Company pension provisions, reinsurance claims reported within financial receivables were netted with the pension provisions after being transferred to the beneficiary employees. On balance, non-current assets rose from €389.1m to €399.8m.

Current assets climbed slightly from €774.8m in the previous year to €778.5m mainly due to higher inventories. Other assets increased primarily due to the changes in accordance with IFRS 15 (see notes for more details). On the other hand, receivables were lower. The Koenig & Bauer Group's balance sheet total climbed to €1,178.3m as of 31 December 2018, up €14.4m on the previous year's figure of €1,163.9m.

Capital spending of
€ 50.5m

Summary of the economic situation

In 2018, we made further progress in enlarging our footprint in the packaging printing market, which is characterised by sustained structural growth. On a particularly encouraging note, we were able to gain market share in flexible packaging printing, marking and coding and die-cutting business. Underpinned by our diverse activities in the growth market of packaging and customer-oriented digital printing applications, the growth path we are striving for remains intact, even though – as already explained during the year – we were unable to achieve our 2018 revenue target due to the shift of press deliveries into 2019 as a result of bottlenecks in the availability of parts. The EBIT margin of 7.1% achieved exceeds the medium-term target figure of 6.8% for 2018.

Average net working capital relative to revenue was lowered from 28.9% in the previous year to 28.2%. In addition to the higher profit, this has driven the significant increase in cash flows from operating activities. The significantly improved free cash flow compared to the previous year was burdened by high investments and the final payment instalment for the external funding of a part of the pension provisions. Koenig & Bauer has good internal liquidity fuelled by its operating business that we want to expand step by step via rising cash flows. The long-term credit facility syndicated by renowned banks is reinforcing our Group's stability and giving us financial scope for stepping up our profitable growth and for utilising strategic options.

High stability and future-oriented

The balance sheet was additionally strengthened with the increase in the equity ratio to 38.5%. Thanks to the good earnings achieved by 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

Sheetfed limited by parts availability

At €613m, order intake in the Sheetfed segment was below the previous year's figure of €656.2m. While the project situation is good, bottlenecks in the availability of parts dampened new business due to longer delivery times. Orders from packaging printers in China producing for export markets were more muted than in the previous year due to the trade conflict with the United States. Order intake for large-format folding carton presses was particularly pleasing. The situation with regard to parts also caused revenue to drop to €647.4m, down on the previous year's figure of €660.2m. This is also reflected in EBIT, which fell to €36.5m, compared with €37.5m in the previous year. With an EBIT margin of 5.6%, we are able to maintain the level achieved (2017: 5.7%) despite the continued price pressure being exerted by competitors. The lower order backlog of €199.1m compared with the previous year (€233.5m) was followed by good order intake at the start of 2019.

Growth expenses burden Digital & Web earnings

Orders in the Digital & Web segment rose from €139.6m to €167.6m, primarily due to the record order intake for flexible packaging printing, which reflects the initial success of the realignment of this business field. Held in November 2018 and attended by around 300 guests from more than 20 countries, an open house event yielded good project signings, causing the segment's share of the global market to widen to 9%. Whereas the demand for the HP press for digital pre-prints of corrugated liners was subdued, we sold several presses from our RotaJET digital printing platform for decor and flexible packaging printing, substantially exceeding the previous year's figure. More new contracts for web offset presses for newspaper printing also contributed to this increase. At €150.7m, revenue was slightly down on the previous year (€154.2m). Higher revenue from flexible packaging printing and from our own digital printing platform failed to fully make up for the significant decline in installations of HP presses. Together with market-entry and growth-related expenses for digital, flexible packaging and corrugated board printing, the lower revenue exerted pressure on EBIT. Accordingly, EBIT fell to –€10.5m, compared with –€4.3m in the previous year. The order backlog widened from €61.5m to €78.4m at the end of 2018.

Revenue up in Special

Driven by large orders, we were able to maintain our international market leadership in security printing amidst intensive competition. With project business remaining generally favourable, volatility remained high due to often lengthy order placement and the domination of large-scale projects. We were able to gain further market share in marking and coding and significantly expand our market position in the tobacco and tyre industry in particular. By utilising synergistic effects with other Group companies, we were able to sign up beverage can producers as new customers for our coding solutions. Lower orders for metal and glass/hollow container decorating presses caused order intake in the Special segment to drop to €502.4m, down from €533.7m in the previous year. Revenue climbed from €467.9m to €490.5m thanks to growth in security printing, marking and coding and glass/hollow container decorating. EBIT came to €49.7m in 2018, down from €53.7m in the previous year. With the order backlog increasing to €344.6m (2017: €324m) at the end of December, good capacity utilisation is assured over the next few months.

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.

Group-wide risk early detection system

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.

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.

Semi-annual risk inventory

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

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 the potential impact on Group earnings. 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 Group net profit					
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	
	Unlikely 10-24%	More unlikely than not 25-49%	Possible 50-75%	Probable >75%	Probability

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

Macroeconomic and economic risks

Our business is influenced by underlying conditions in the global economy. Political decisions and policy changes, trade conflicts and barriers as well as the exchange rate of the euro against other key currencies may impair sales of our products, reduce our capacity utilisation and exert an adverse effect on our forecasts and budgets.

However, risks to the global economy have risen due to restrictions to free trade, higher US interest rates, the high debt burdens of some emerging markets and political uncertainties in Europe (Brexit, Italy) and other regions. In view of these developments we see moderate risks to the Koenig & Bauer Group's future business performance.

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. The service initiative that we are systematically pursuing is unleashing further revenue and earnings potential.

Sector risks

Moderate business risks

Fiscal conditions may exert strain on demand for our products and services as well as our business performance through their impact on the climate for capital spending and the scope that our customers have for new investments. Many printing companies face considerable obstacles in obtaining credit-based finance for capital spending projects as loans are only granted subject to a relatively high risk premium in this sector. 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.

By clearly focusing our product range on the growth markets of packaging, we are benefiting 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. Koenig & Bauer is the global leader for packaging printing for cardboard, metal and glass. At the same time, we expanded our global market share in flexible packaging, marking and coding and die-cutting in 2018. Global packaging printing is dominated by flexo, offset and screen printing processes, for which we have mature technologies throughout the Group. For reasons of cost, productivity and quality, digital processes such as inkjet printing will only be successful in industrially oriented packaging printing for digital printing applications that are economically viable for customers. We are addressing the digital corrugated printing market with our CorruJET for direct printing on corrugated sheets as well as the partnership with HP involving a large inkjet press for digital pre-prints of corrugated liners. We offer the MetalDecoJET for digital printing of metal. The globally unique hybrid printing solution for hollow bodies made from glass, plastic and metal combines digital printing with screen-printing, hot-stamping and labelling in a single press. Our RotaJET digital printing platform is targeted at decor and flexible packaging printing for which we see great revenue and earnings potential thanks to the trend in favour of individualisation with smaller batch sizes once the dominant gravure and flexo printing technology is replaced by digital printing and decors are increasingly printed by the furniture and flooring industries themselves.

One main task is to continue shifting our range towards these new growth markets by means of new products and applications. We have developed the CorruCUT and CorruFLEX flexo presses for the large market of analogue direct printing on corrugated sheets. Following the completion of intensive testing at our plant in the first half of 2019, the CorruCUT is to be installed on the first customer's premises. In flexible packaging printing, our engineers developed a compact CI flexo printing press. The prototype is to be presented at the K 2019 trade fair in Düsseldorf in October 2019. In addition to our strong position in 3-piece can decorating, we have entered the 2-piece beverage can market with the newly developed CS MetalCan system to widen our metal decorating range. Following contract signings with two important customers, intensive field testing will continue in the first half of 2019 with the target of sales launch. With postpress equipment, we have made good progress with the internally developed rotary die-cutter and the flatbed die-cutters acquired with the Iberica takeover. In December 2018, we acquired 80% of the folder gluer business from Duran Machinery and are expanding our already strong position in the diverse packaging market. We are currently developing the VariJET sheetfed press for digital folding carton printing. In a 50/50 joint venture with Durst Phototechnik in Brixen, Italy, we want to pool engineering skills and inkjet expertise to drive forward future-oriented digital printing solutions for folding carton and corrugated printing with added value for our customers. As a first milestone for the joint venture, manufacturing of the VariJET press for digital folding carton printing is to be commenced in time for drupa 2020. By widening our footprint in these various core markets, we will be able to reduce the effects of fluctuation in individual applications.

Moderate sector risks

We are the market and technology leader in security printing thanks to expertise that has been amassed and permanently developed over decades together with innovations and competitive differentiators in the area of security features. The customer structure is dominated by government bodies 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 optimising our operations and lowering our costs, we are addressing these specific market conditions in the security printing market by launching new products, introducing innovative security features and expanding our service business for the large installed printing press base. Despite the moderate growth expected in global banknote production over the next few years, our large share of the market limits the scope for any increase in revenue from printing presses.

Our competitors in the sheetfed offset and security printing business often grant considerable price concessions. We consider this to be problematic if – as our analyses indicate – 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 advantages of our products and services for customers, we are able to secure reasonable premiums 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 sector risks to be moderate in the light of the measures that have already been taken to address them.

Financial risks

Counterparty and country risks

We monitor risks from receivables particularly closely. The high values of individual projects with public-sector customers may yield risks for Koenig & Bauer, particularly in security printing.

As a base, we perform credit checks of our customers as well as credit-worthiness reviews in the event of any 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, 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.

Risks from measurement of assets and liabilities

Management has discretionary powers in the application of accounting and valuation methods. Future developments must be estimated if no market prices are available for the measurement of assets and liabilities. This results in a low risk of valuation adjustments becoming necessary in subsequent financial years.

Due to the high volume of goods and services exchanged within our Group, we see low risks in the determination of taxable profits through a subsequent correction of transfer prices by the tax authorities despite worldwide tax advice and close cooperation with the responsible tax authorities.

Interest and exchange rate risks

Exchange-rate fluctuations and interest-rate changes may expose the Koenig & Bauer Group to financial risks.

Low exchange rate risks

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. 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.

Liquidity risks

As of 31 December 2018, the Koenig & Bauer Group had net liquidity of €67.6m plus securities of €16.3m that can be liquidated at any time. As well as this, the Group had access to credit facilities provided by a syndicate of renowned banks. In addition to a guarantee facility of €200m, the syndicate finance includes a revolving credit facility of €150m with an option to increase it by €50m. After the exercise of a one-year renewal option, the facilities now run until December 2023 with a further one-year renewal option available. The Group-wide facility also entails local working-capital 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.

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.

Thanks to the high order backlog, 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.

Development risks

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 enhanced products. 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.

Production risks

Inadequate quality, rejects and missing parts can lead to production and assembly risks. A temporary surge in demand may cause delays in the delivery of individual components. A delivery delay or contractual non-compliance for which Koenig & Bauer is responsible may result in contract penalties or customer credits, thus reducing margins. The ability to sustainably lower the quality costs of our technically complex products exerts considerable influence on our earnings. We have local quality assurance departments at all plants and relevant business units. Continuous quality controls based on standardised processes systematically analyse sources of error and optimise production processes. Internal schedule management is based on regular coordination dates and our reporting system. Cost control and management entails regular cost reports, which are based on our cost accounting system together with structured processes for planning, forecasting and variance analysis. In the light of all the precautions that are in place, we consider exposure to production risks to be moderate.

Moderate production risks

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 wages and material costs as well as the savings achieved as a result of continuous improvement measures or special projects. 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.

Short-term fluctuations in capacity utilisation at our plants due to volatile incoming orders may have a negative impact on profitability. Accordingly, we regularly review the necessary production capacities and coordinate them as far as possible with short-term sales planning. We also use leased employees to adapt our capacities flexibly to the order situation.

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.

Procurement and logistics risks

Procurement risks cannot be completely ruled out due to demand-related supply bottlenecks for components and input materials, delivery failures, quality problems and unforeseen price increases imposed by our suppliers. In the absence of alternative options, short-term shortfalls in supplies may lead to production stoppages and delays in our own deliveries with negative effects on capacity utilisation and earnings.

After the 2018 bottlenecks in the availability of parts from internal and external suppliers has been largely overcome, we are working intensely on optimising our entire supply chain to achieve a sustained reduction in delivery times. We will be making operational and strategic adjustments to the internal production network to lower costs and lead times as well as to boost productivity.

In addition to strict supplier management, we address these risks by means of ongoing market observation, in which we monitor delivery quality, reliability and the economic situation of our main suppliers. In the case of single-source suppliers, we pay particular attention to ensuring that back-up solutions are in place. We manufacture strategic components and critical parts ourselves or obtain them through long-term supplier relationships. We address price risks through Group-wide material group management, by bundling purchasing volumes and by entering into long-term supply contracts. By working closely with our suppliers and performing regular audits, we are able to continuously improve the quality of the parts supplied. In the light of the measures described, we consider procurement risks to be moderate.

Moderate IT risks

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.

Infrastructure and litigation risks

The risk of a business interruption cannot be completely excluded. Delays in production due to the failure of or disruption in individual means of production or the technical infrastructure may have adverse effects on production efficiency and leave noticeable traces on our business. For this reason, we regularly evaluate and audit our production sites with an external consultant and take out local insurance cover for risks arising from property damage, fire, business interruption, business and product liability. As part of our maintenance management system, we analyse possible vulnerabilities and enhance the availability and operational safety of our machines through preventive measures. This limits unplanned outages and downtimes as well as the associated costs. Overall, we consider infrastructure and process risks to be low.

Customer centricity

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

Acquisitions and alliances

Acquisitions and alliances may arise as part of our strategic further development and 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

Koenig & Bauer is subject to a wide range of legal and statutory regulations. Existing and impending legal disputes are continuously recorded, analysed, evaluated with regard to their legal and financial effects and taken into account in the recognition of provisions in cases in which an obligation is 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. The Group is not involved in any litigation or administrative proceedings with a material impact on its overall economic position. 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. We address this risk by using standard contracts and by obtaining comprehensive legal advice from internal and external experts on non-standard business transactions.

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.

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, our financial strength and profitability place a cap on risk potential.

With our ongoing 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 the recent risk survey revealed an increase in the number of risks reported and their absolute value compared with the previous year. 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.

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.

Stable Group risk situation

Outlook and opportunities

Group targets for 2019:
organic revenue growth of up to 4% and EBIT margin of around 6%

Guidance for 2019

The further development of the world economy is currently not easy to forecast. The risks to the global economy have risen due to trade conflicts and barriers, higher US interest rates and the heavy debt burden of some emerging markets. In the United States, there is evidence of slowing investment momentum in the wake of political uncertainties. Political developments in Europe (Brexit, Italy) and in other regions are also exacerbating global economic concerns. If inflation picks up sharply, 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. These risks may have an adverse effect on the business confidence of global printing companies and their investment sentiment. As a result, demand for our products and services may weaken at least temporarily. In its World Economic Outlook published in January, the International Monetary Fund (IMF) forecasts global growth of 3.5% for 2019. This is 0.2 percentage points less than in October 2018 predicted. According to the German Mechanical and Plant Engineering Association (VDMA), the restrictions on free trade, the softer global economy and the shortage of skilled workers could dampen the prospects for export-oriented German machinery engineering companies. Despite the more muted economic outlook, VDMA has reaffirmed its forecast of real production growth of 2% for 2019.

The order backlog, which rose to €610.9m at the end of 2018, together with the good order development in January and February 2019 gives us good forward visibility across the entire Group until the summer of 2019 and, in security printing with its good order situation, until 2020. The printing production output of our customers all around the world is growing, especially in the packaging segment. With the exception of the packaging printers in China producing for export markets, our order intake has so far largely shrugged off the effects of the recent political and economic developments. In the absence of any material deterioration in the conditions underlying our international business, we target organic growth of up to 4% in Group revenue and an EBIT margin of around 6% in 2019. This includes a margin impact from the growth offensive 2023, the cumulative costs of which we expect to reach around €50m for 2019 to 2021 with a heavier load in the first year. Given the aforementioned risks, we cannot rule out an up to 2% lower EBIT margin in tandem with weaker than expected revenue in the event of a slowdown in the economy.

Thanks to our profitability and further improvements in net working capital, we expect to generate a good cash flow and high net liquidity. Free cash flow in 2019 will again be adversely affected by heavy capital spending on the Radebeul demonstration centre, the construction of the new Kammann plant, the Würzburg plant development plan and the rollout of the SAP ERP system.

Good outlook for the packaging printing market, which is characterised by sustained structural growth

Packaging printing 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 food retailing, online distribution is still in its infancy and is likely to generate further impetus for packaging printing as well. According to our evaluation, the boom in e-commerce will lead to high global annual growth rates of up to 10%, especially for corrugated and cardboard packaging as well as film. Less cyclical consumer markets such as food, beverages and pharmaceuticals offer particular appeal.

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 has become a brand ambassador and an integral part of the product experience, with “unboxing” forming part of shopping and brand experience. We already have a modern product range with tailor-made solutions for our customers in cardboard, flexible packaging, metal and glass/hollow container decorating and marking and coding as well as rotary and flatbed die-cutting.

We have developed the CorruCUT and CorruFLEX flexo presses for the large market of analogue direct printing on corrugated sheets. After the completion of intensive testing at our plant in the first half of 2019, the CorruCUT is to be installed on the first customer’s premises, the renowned company Klingele. The prototype of a newly developed compact CI flexo printing press will be presented at the K 2019 trade fair in Düsseldorf in October 2019. In addition to our strong position in 3-piece can decorating, we have entered the 2-piece beverage can market with the newly developed CS MetalCan system to widen our metal decorating range. Following contract signings with two important customers, intensive field testing will continue in the first half of 2019 with the target of sales launch. With postpress equipment, we have made good progress with the internally developed rotary die-cutter and the flatbed die-cutters acquired with the Iberica takeover. With an output of 17,000 sheets per hour, the Rapida RDC 106 rotary die-cutter has achieved a world record in rotary die-cutting. The Ipress 106 K PRO flatbed die-cutter with the proven feeder from the Rapida presses had world premiere. We will be adding innovative solutions to our marking and coding portfolio. In December 2018, we acquired 80% of the folder gluer business from Duran Machinery and are expanding our already strong position in the diverse packaging market.

Growth potential in security printing

Given the good order and project situation, we assume that equipment revenue from security printing will remain stable despite the strong competition and the rising cashless payments. Global banknote production is expanding at an annual rate of around 2%. Judging by comprehensive market studies, we do not see any medium-term reversal in this trend due to the increasing prosperity of emerging markets and the rising population in regions with a high cash ratio. Higher press sales are already being limited by our high market share of currently over 90%. We are implementing a performance improvement project, which entails measures to optimise the product portfolio, structures and costs, in order to stabilise and boost earnings potential and to strengthen our market and technological leadership. Our innovative security features, which we are constantly enhancing, are a decisive competitive differentiator. In addition to expanding our service business for the large installed press base, we are working on various options for growth including strategic partnerships in the banknote lifecycle. To this end, research is being performed via the start-up company converno 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.

Attractive target markets

Growth options in digital printing

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. Judging by recent market forecasts and also on the basis of our own estimates, inkjet printing will only be successful in the short to medium term in industrially oriented packaging printing for digital printing applications that are economically viable for customers for reasons of cost, productivity and quality. Technically and economically convincing digital printing solutions offer good market opportunities for business models specialising in small print runs, greater personalisation and versioning as well as higher format flexibility. We are addressing the digital corrugated printing market with our CorruJET for direct printing on corrugated sheets as well as the partnership with HP involving a large inkjet press for digital pre-prints of corrugated liners. We offer the MetalDecoJET for digital printing of metal. The globally unique hybrid printing solution for hollow bodies made from glass, plastic and metal combines digital printing with screen-printing, hot-stamping and labelling in a single press. Demand was particularly strong for our digital printing solutions for hollow bodies which permit greater diversity in decorations as well as the entry into new markets such as mass customisation. In decor printing, we see great potential thanks to the trend in favour of individualisation with smaller batch sizes once the dominant gravure printing technology is replaced by digital printing and decors are increasingly printed by the furniture and flooring industries themselves. Our RotaJET, which we sold to two further decor printers in the year under review, offers a mature and high-quality digital printing solution for this market. After the key order from Tetra Pak, our RotaJET digital printing platform offers revenue and earnings potential also in flexible packaging printing.

In a 50/50 joint venture with Durst Phototechnik in Brixen, Italy, we want to pool engineering skills and inkjet expertise to drive forward future-oriented digital printing solutions for folding carton and corrugated printing with added value for our customers. As a first milestone for the joint venture, manufacturing of the VariJET press for digital folding carton printing is to be commenced in time for drupa 2020. The hybrid system combines proven offset and finishing technology with digital printing.

Medium-term targets until 2023

Targets until 2023: revenue of around €1.5bn with EBIT margin of between 7% and 10%

With our growth offensive 2023, we want to actively exploit the currently available market opportunities in the cardboard, corrugated board, flexible packaging, 2-piece can, marking and coding, glass direct and decor printing as well as in postpress to achieve sustained profitable growth. The impact of volatile security printing will be reduced by higher packaging share of Group revenue. For web offset presses for newspaper and commercial printing, we expect a further business decline. With all our initiatives and projects, we are targeting to increase Group revenue to around €1.5bn with an EBIT margin of between 7% and 10% until 2023.

All three segments are to contribute to the growth in revenue and earnings. Our further targets include a dividend ratio of 15 - 35% of Group net profit, an equity ratio of over 45%, a target corridor for net working capital of 20 - 25% of revenue, and a share of 30% in total revenue for service business.

Legal information and compensation report

On 31 December 2018, 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, AlternInvest 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 25% of the share capital.

Executive bodies

On 31 December 2018, the shares held by the executive bodies of Koenig & Bauer AG came to 5.10% 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 0.02%.

The appointment and dismissal of the members of the Management Board and amendments to the articles of association comply with the statutory regulations (sections 84, 85, 179 of the German Stock Corporation Act, section 31 of the Codetermination Act). Under article 10.2 of the articles of association, the Supervisory Board 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. The Supervisory Board's gender quota for female members of the Management Board is still 0%. The 17% proportion of women at the first management level beneath the Management Board and 7% at the second management level beneath the Management Board is to be retained until 31 December 2022 at least 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 2018, 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' preemptive 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 2018.

The articles of incorporation can be found at 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.

Supervisory Board remuneration

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 of 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 nomination 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 2018 came as in the previous year to €0.4m and breaks down as follows:

in €	2017 Base compensation[1]	2017 Additional compensation[1] for committee work	2017 Meeting attendance fee	2017 Total	**2018 Base compensation[1]**	**2018 Additional compensation[1] for committee work**	**2018 Meeting attendance fee**	**2018 Total**
Dr Martin Hoyos	56,000	6,000	1,750	**63,750**	56,000	6,000	1,000	**63,000**
Gottfried Weippert	42,000	6,000	1,750	**49,750**	42,000	6,000	1,250	**49,250**
Dagmar Rehm	42,000	9,000	1,500	**52,500**	42,000	9,000	1,250	**52,250**
Julia Cuntz	28,000	–	1,500	**29,500**	28,000	–	1,000	**29,000**
Carsten Dentler	23,333	3,334	1,500	**28,167**	28,000	5,000	1,250	**34,250**
Marc Dotterweich	28,000	6,000	1,750	**35,750**	28,000	6,000	1,250	**35,250**
Matthias Hatschek	28,000	5,000	1,500	**34,500**	28,000	5,000	1,250	**34,250**
Christopher Kessler	28,000	5,000	1,750	**34,750**	28,000	5,000	1,250	**34,250**
Professor Raimund Klinkner	–	–	–	**–**	2,334	–	–	**2,334**
Professor Gisela Lanza	28,000	7,500	1,500	**37,000**	28,000	7,500	1,250	**36,750**
Walther Mann	28,000	5,000	1,750	**34,750**	28,000	5,000	1,250	**34,250**
Dr Andreas Pleßke[2]	11,667	2,083	1,250	**15,000**	14,000	–	500	**14,500**
Simone Walter	28,000	–	1,750	**29,750**	28,000	–	1,250	**29,250**
Total	**371,000**	**54,917**	**19,250**	**445,167**	**380,334**	**54,500**	**13,750**	**448,584**

[1] The base and additional compensation is calculated on the basis of the members' function and length of service on the Supervisory Board (see page 130 in the notes).
[2] Dr Pleßke received fees of €0.2m for consulting services in 2018 (previous year: €28k).

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 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 5.5% must be achieved in 2018 for payment of 50% of the target bonus to be made. The target bonus is paid out if the EBIT margin reaches 6.5%. The target is capped at 150% for an EBIT margin of 7.5%. 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 2018 to 2020 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. Dr Andreas Pleßke was appointed to the Management Board for a period of five years effective from 1 December 2018. Remuneration is based on the currently applicable remuneration system for the Management Board, with the special feature that segment earnings are measured on the basis of specifically agreed targets defined within the scope of his area of responsibility in consultation with the Supervisory Board.

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 contract by the Company match 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 2018 (individualised figures).

Benefits granted

in €	Claus Bolza-Schünemann CEO 2017	2018	2018 (Min)	2018 (Max)	Dr Mathias Dähn CFO 2017	2018	2018 (Min)	2018 (Max)
Non-performance-based components								
Fixed compensation	450,000	450,000	–	–	425,833	480,000	–	–
Fringe benefits[1]	22,914	22,737			35,521	37,114		
Total	**472,914**	**472,737**	**–**	**–**	**461,354**	**517,114**	**–**	**–**
Performance-based components								
One-year variable compensation	450,000	450,000	0	450,000	388,800	374,400	0	432,000
Multi-year variable compensation								
Plan description FY 2017 (Period payment 2018 – 20)	450,000	–			–	–		
Plan description FY 2018 (Period payment 2019 – 21)	–	450,000	0	450,000	–	–		
Plan description FY 2017 (Period payment 2020)	–	–			582,411	–	0	624,000
Plan description FY 2018 (Period payment 2021)	–	–			–	441,948	0	624,000
Total	**900,000**	**900,000**			**971,211**	**816,348**		
Service cost	202,183	158,914			170,986	129,904		
Total compensation	**1,575,097**	**1,531,651**			**1,603,551**	**1,463,366**		

[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 2018 from fixed compensation, fringe benefits, one-year variable remuneration and multi-year variable remuneration broken down by the individual year of receipt as well as retirement benefit expenses.

Contrary to the multi-year variable remuneration granted for 2018 described above, this table shows the actual value of the multi-year variable remuneration granted in previous years and accruing in 2018.

Allocation

in €	Claus Bolza-Schünemann CEO 2017	2018	Dr Mathias Dähn CFO 2017	2018
Non-performance-based components				
Fixed compensation	450,000	450,000	425,833	480,000
Fringe benefits[1]	22,914	22,737	35,521	37,114
Total	**472,914**	**472,737**	**461,354**	**517,114**
Performance-based components				
One-year variable compensation	450,000	450,000	350,000	385,920
Multi-year variable compensation				
Plan description (Period FY 2014)	30,854	–	14,582	–
Plan description (Period FY 2015)	131,868	131,868	102,564	102,564
Plan description (Period FY 2016)	180,000	–	140,000	–
Plan description (Period FY 2017)	–	180,000	–	–
Total	**792,722**	**761,868**	**607,146**	**488,484**
Service	–	–	–	–
Total compensation	**1,265,636**	**1,234,605**	**1,068,500**	**1,005,598**

[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 Board member Digital & Web segment				Dr Andreas Pleßke (until 31 May 2018 and from 1 December 2018), Board member Special segment				Ralf Sammeck Board member Sheetfed segment			
	2017	**2018**	**2018 (Min)**	**2018 (Max)**	2017	**2018**	**2018 (Min)**	**2018 (Max)**	2017	**2018**	**2018 (Min)**	**2018 (Max)**
	275,419	440,004	–	–	525,000	412,500	–	–	288,748	459,996	–	–
	16,996	23,793			4,009	3,401			13,813	22,928		
	292,415	**463,797**	**–**	**–**	**529,009**	**415,901**	**–**	**–**	**302,561**	**482,924**	**–**	**–**
	178,200	171,600	0	396,000	175,000	150,875	0	158,750	372,600	317,400	0	352,667
	–	–			–	–			–	–		
	–	–			–	–			–	–		
	533,876	–	0	572,000	–	–			558,143	–	0	598,000
	–	405,119	0	572,000	–	34,527	0	48,750	–	423,533	0	598,000
	712,076	**576,719**			**175,000**	**185,402**			**930,743**	**740,933**		
	108,689	127,907			-	766,505			99,186	161,284		
	1,113,180	**1,168,423**			**704,009**	**1,367,808**			**1,332,490**	**1,385,141**		

	Christoph Müller Board member Digital & Web segment		Dr Andreas Pleßke (until 31 May 2018 and from 1 December 2018), Board member Special segment		Ralf Sammeck Board member Sheetfed segment	
	2017	**2018**	2017	**2018**	2017	**2018**
	275,419	440,004	525,000	412,500	288,748	459,996
	16,996	23,793	4,009	3,401	13,813	22,928
	292,415	**463,797**	**529,009**	**415,901**	**302,561**	**482,924**
	–	176,880	–	300,000	–	369,840
	–	–	–	–	–	–
	–	41,026	–	–	–	88,020
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	**217,906**	**–**	**300,000**	**–**	**457,860**
	–	–	–	–	–	–
	292,415	**681,703**	**529,009**	**715,901**	**302,561**	**940,784**

Koenig & Bauer AG (notes according to the German Commercial Code)

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

Koenig & Bauer Group holding company

As the holding company, Koenig & Bauer AG does not engage in any operating business but provides central and strategic services for the Group. Central functions for the Koenig & Bauer Group include central marketing/corporate communications, compliance/internal auditing, controlling, corporate development, Group accounting, human resources, innovation promotion, investor relations, IT, legal and insurance, patent/licensing and taxes. 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 284 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. The direct and indirect investments held by Koenig & Bauer AG are shown in a list in the notes to the consolidated financial statements. 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.

Earnings

At €86.8m, revenue was up on the previous year (€78.4m) and chiefly comprised income 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 €27.4m, up from €23.3m in the previous year, with the gross profit margin widening from 29.7% to 31.6%. General administrative costs rose from €25.2m to €35.5m, primarily due to higher expenses for pensions in connection with the external funding of a part of the pension provisions, the implementation of various IT systems and higher wages. Other operating income and expenses came to –€1.5m. The previous year's figure of –€15.8m had been materially influenced by impairments of current assets. Including dividends, profit transfers from some subsidiaries and write-ups on financial assets, income from investments amounted to €32.5m (2017: €42.6m). With the interest result coming to –€3.1m (2017: –€2.4m), tax expense of €3.3m arose in 2018 (2017: €7m). On balance, this resulted in net profit for the year of €16.5m (2017: €15.4m), which corresponds to the retained profit. On the basis of this retained profit, the Management Board and Supervisory Board will be asking the shareholders on 22 May 2019 to approve a dividend of €1 per share.

Assets and finances

As of 31 December 2018, Koenig & Bauer AG's balance sheet total stood at €515.6m, up from €426.8m in the previous year. Non-current assets increased from €272m to €292.1m. Within this item, intangible assets climbed from €9.3m to €21.8m, property, plant and equipment from €77m to €77.5m and financial assets from €185.7m to €192.8m. A sum of €17.1m was invested in intangible assets and property, plant and equipment in 2018 (2017: €18.5m), while depreciation came to €7.8m (previous year: €8.8m).

Higher other assets of €118.9m (2017: €58m) and funds of €42.3m (2017: €18m) contributed to the increase in current assets from €140.9m to €218.6m. The receivables from affiliated companies decreased from €64.8m in the previous year to €57.2m. They are composed from recharged goods and services within the Group as well as dividend and loan claims.

At the end of 2018, equity rose slightly from €259.3m to €260.9m. This translates into an equity ratio of 50.6% relative to the increased balance sheet total (2017: 60.8%).

Provisions increased from €105m in the previous year to €112.5m. Within this item, pension provisions climbed from €73.9m to €77.5m, tax provisions from €7.3m to €10m and other provisions from €23.8m to €25m. The liabilities of €140.4m (2017: €60.4m) are mostly composed of liabilities to banks of €65m (2017: €0m) and to affiliated companies of €63.3m (2017: €51.8m) under internal group finance arrangements.

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 on pages 55 onwards for further information. In addition, strain may arise from the contingent liabilities in existence between Koenig & Bauer AG and its subsidiaries.

Outlook and opportunities

Koenig & Bauer AG's future economic performance is closely linked to the Group's operating performance. Details of the outlook and our plans for our operating business can be found in the outlook and opportunities report on pages 64 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.

The corporate governance statement can be found in German at www.koenig-bauer.com/de/investor-relations/corporate-governance/erklaerung-zur-unternehmensfuehrung/

Detailed index

Non-financial Group report

Non-financial Group report

Responsibility for environment and society

We address our responsibility for the environment and society, which is anchored in our corporate targets through our sustained commitment to resource-sparing and emission-reduced products and manufacturing processes together with our support for social and cultural concerns. Ecological printing technology with environmentally friendly substrates and consumables as well as user-friendly processes aims to reduce CO_2, noise, dust and odour emissions. In addition to providing benefits for the environment and the climate, lower resource consumption during production helps to lower costs.

A corporate image as a sustainable and socially responsible company enhances employer branding. The recruitment of qualified, creative and committed employees has a significant influence on our economic success. 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.

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. In this connection, it is decisive for us to help our customers improve their competitiveness by offering them products and solutions for ecological and climate-neutral printing. Reflecting this, we pursue an integrated approach as financial and non-financial factors exert mutual influence and each single aspect has an appreciable effect on all other aspects.

Selected disclosure option

Koenig & Bauer publishes the disclosures on non-financial aspects required under sections 315c/289c of the German Commercial Code in this separate non-financial Group report which does not form part of the combined management report. The two separate reports are disclosed in the "Bundesanzeiger".

Business model and materiality analysis

The Koenig & Bauer Group's business model is described in the combined management report. The Management Board of Koenig & Bauer is responsible for sustainability, including non-financial reporting on the legally required topics environmental, employee and social matters, commitment to human rights and combatting corruption and bribery matters. As far as necessary and possible, we include our stakeholders, such as our customers and employees, 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 exert a severely adverse impact on our key non-financial aspects.

We conducted a materiality analysis to define the main aspects of our non-financial Group report. The main sections are based on the legally required topics specified in the CSR Directive Implementation Act, namely environmental, employee and social matters, commitment to human rights and combatting corruption and bribery matters. In a preliminary step, we prepared a comprehensive list of non-financial matters potentially of relevance for our customers, employees, investors and other business partners within these five main aspects. In drawing up this long list, we were guided by the Sustainability Reporting Standards of the Global Reporting Initiative (GRI). 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 this long list, we held a workshop to identify the non-financial issues that are material to our business activities and relationships, products and services within the five main aspects. The workshop was attended by experts from the fields of occupational safety/health/environment, facility management, engineering, research & development, procurement, compliance & internal auditing and corporate accounting. Using a scale from 0 (not significant) to 10 (very significant), the workshop participants assessed the individual issues on the list in the light of two points of view: in terms of their significance for the aspects and for the Company's earnings, finances and assets. A short list was then prepared setting out all the matters for which all workshop participants had awarded an average score of at least 5 in the two materiality parameters. Environmental matters entail our operational environmental and energy management as well as ecological printing technology including the environmental impact of our products. In addition to our appeal as an employer, recruiting and professional training for young skilled staff, personnel development as well as occupational health and safety are among the key topics of the employee-related matters. The social matters considered to be material were social commitment and high product quality for greater on-site and process safety in printing operations. With respect to the commitment to human rights, we considered the avoidance of violations of human rights to be material. 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 consider the instruments implemented and enhanced by the Group to be material for combating corruption and bribery matters. In the following, we focus on the large Group sites Würzburg and Radebeul. References to the Group are duly designated as such.

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 enjoys high priority at Koenig & Bauer. 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. A further focus is placed 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.

Energy and resource efficiency

Operational environmental and energy management

Our 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. We work continuously to minimise energy and resource requirements for production as well as emissions at the workplaces. 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.

	2017			2018		
	Würzburg	Radebeul	**Total**	Würzburg	Radebeul	**Total**
Electricity	21,955,364 kWh	14,660,806 kWh	**36,616,170 kWh**	24,497,316 kWh	15,035,201 kWh	**39,532,517 kWh**
Gas	12,365,648 kWh	–	**12,365,648 kWh**	10,638,899 kWh	–	**10,638,899 kWh**
District heat	–	11,169,880 kWh	**11,169,880 kWh**	–	10,826,030 kWh	**10,826,030 kWh**
Water	26,293 m^3	21,415 m^3	**47,708 m^3**	30,749 m^3	22,170 m^3	**52,919 m^3**
Waste	5,032 t	5,409 t	**10,441 t**	5,380 t	5,517 t	**10,897 t**

Dedusting, extraction and solvent distillation plants as well as improved sound insulation in the production and assembly halls reduce workplace emissions. 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 waste produced in metal cutting activities in Würzburg is fed into our foundry as an important raw material. In Radebeul, the remeltable metal waste is remunerated by the disposal company. The table above provides an overview of electricity, natural gas, district heating and water consumption in 2018 compared with the previous year as well as waste volumes.

Scope 1 and Scope 2 CO_2e emissions

On the basis of these consumption figures, the Scope 1 emissions in 2018 sank to 2m kg of CO_2e, compared with 2.3m kg of CO_2e in the previous year. While the Scope 2 emissions decreased location-based from 19.5m kg CO_2e in the previous year to 19.2m kg CO_2e in the reporting period, the Scope 2 emissions increased market-based from 21.3m kg CO_2e to 22.4m kg CO_2e.

Ecological printing technology

With our new and enhanced products, we apply energy-saving 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 VariDry^{Blue} drying system can reduce energy requirements for drying water-based dispersion coating by up to 30% thanks to using the hot air twice in 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. We offer our customers the VisuEnergy energy management system to achieve heightened energy efficiency.

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 management process 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 for a new 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 have in ClimatePartner 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, to neutralise them 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 enhanced RotaColor polymer ink 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.

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

Our employees' expertise, commitment, ideas, experience and loyalty form the decisive basis for the planned expansion of our technologically complex international business (see the combined management report for details of our growth offensive 2023). In addition to ensuring appealing and family-friendly jobs, our human resources strategy concentrates on recruiting young professionals and executives and developing, motivating and bonding our employees. We take numerous measures and offer high working standards to help them utilise their potential, increase their satisfaction and productivity and also encourage their innovative spirit.

Attractive employer

Appealing, family-friendly jobs

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 proportion of part-time employees in the Group widened slightly from 3.1% in the previous year to 3.2%. 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. The children's and young people's day held at the Würzburg plant on Repentance Day, which was a school holiday, attracted 118 children of employees, proving to be a great success again. The annual children's Christmas party in Radebeul organised in cooperation with the kindergarten as well as the Advent church service in Würzburg for all active and former employees followed by a Christmas party and a visit by Santa Claus for the little ones are very popular year for year.

As with many other machinery engineering companies, Koenig & Bauer has a relatively small proportion of women of 13.9% (previous year: 13.7%) compared with other sectors. We want to increase the proportion of female technicians by engaging in various activities such as the participation in "Girls' Day". 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. We have already achieved a higher proportion of women of 17% at the first management level beneath the Management Board.

In addition to a low fluctuation rate, the average length of service of 19.2 years (previous year: 19.5 years) at the Company's sites in Radebeul and Würzburg is a good indicator of employee loyalty at Koenig & Bauer. Besides employees' identification with the Company and their 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. 91 career anniversaries were celebrated at the sites in Radebeul and Würzburg in 2018. 48 were able to look back on 40 years of service, while 43 had been with the Company for 25 years.

Recruitment of and professional training for young skilled staff

We are repeatedly successful in finding qualified young people via new employer branding measures in social media and by using proven instruments. These included open days at the training centres and participation in vocational 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. The Koenig & Bauer summer camp in Radebeul provides a voluntary career experience opportunity for schoolchildren during the first two weeks of the summer holidays.

High training standards

The Company's own vocational training school in Würzburg celebrated its 150th anniversary in the year under review. 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. Many of them have then gone on to opt for a career with Koenig & Bauer. 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. We offer placements for undergraduates in almost all parts of the Company to acquaint them with the world of Koenig & Bauer printing presses.

At 337, the number of apprentices and interns was down on the previous year's figure of 358. Accordingly, the trainee ratio within the Group fell to 5.9% (2017: 6.4%). Of the 3,107 employees in Radebeul and Würzburg, 21.3% are aged under 35 years. 52.5% are between 35 and 55 years old and 26.2% are over 55 years.

Among the 90 career-beginners enrolled in apprenticeships across the Group in 2018, training for mechatronics technicians was especially in demand. Around one third of the new trainees will be pursuing this career. Professions as industrial and machining mechanics also play an important role. These are all key skills that are indispensable for printing press engineering. Further careers for which training is provided include foundry and construction mechanics, industrial business management assistants, office management staff and media technology specialists for printing as well as mechanical and electrical engineering technicians at the Austrian site in Mödling. In addition, several students started dual studies in electrical engineering, mechanical engineering and mechatronics, who are completing their practical phase at the Company. 64 apprentices at the two major plants in Radebeul and Würzburg successfully sat for their final exams at the chambers of industry and commerce. The good to very good results which they achieved testify to the acknowledged high quality of our training centres. This year's chamber winner in the foundry mechanic category had attended our vocational training school in Würzburg. One industrial mechanic at the Radebeul plant was named best young skilled worker by the Sachsenmetall employers' association on the strength of his outstanding final results. 100% of apprentices were given permanent employment contracts.

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Targeted personnel development

Our personnel development program is a Group-wide system for the structured advancement of employees that defines target-oriented methods for the various hierarchical levels. Development assessments are used to appraise managers externally. This is followed by an internal process in which the immediate supervisors draw up competence profiles of the managers on the basis of the results gained. During the calibration phase, the competence profiles are presented in workshops as a basis for open discussion of future managers' potential. The annual employee appraisals, in which employees and their line managers talk about their current views and goals, offer the possibility of direct feedback in both directions.

The Junior Management Program (JuMP) systematically prepares employees for management tasks in a one-year development programme. The first round in 2017 was attended by 13 junior managers from the Würzburg and Radebeul plants. The second one was launched in October 2018 with a further 13 junior managers from the holding company as well as the Sheetfed, Industrial, NotaSys, Coding and MetalPrint business units. The third JuMP round scheduled for 2019 will have an international orientation for the first time, bringing Koenig & Bauer's global plants closer together. In addition, experienced executives with many years of service will also receive training in various areas such as leadership, team building and conflict management.

Following the successful introduction of the human resources development programme across the Group, our training scheme was certified in accordance with DIN ISO 29990:2010 to meet the quality criteria of the Excellence Model.

In November 2018 we implemented the Koenig & Bauer Campus learning management system, a modern platform for education and training within the Group. The system documents each employee's education history, generating reminders of training sessions and instructing line manager to register their employees for training courses. All employees worldwide have access to the online catalogue via a personal profile, in which they can view all training courses available to them. In addition to classic face-to-face training, the education catalogue also includes online and blended learning applications. Each employee can independently register for the compulsory training courses and apply for voluntary offerings set out in this catalogue. Line managers can confirm the request for training directly in the system with a click of the mouse. In the first week after the launch alone, 1,400 online courses were completed via the Koenig & Bauer Campus.

Occupational health and safety

The occupational health and safety standards at our production plants in Würzburg and Radebeul are certified in accordance with BS OHSAS 18001:2007. We want to take various steps to additionally improve on-site safety and ergonomics. Regular checks and consultations are held to monitor compliance with health and safety regulations. In addition, we make recommendations for optimising work processes. By avoiding non-ergonomic movements and heavy lifting, it is possible to minimise illness and accidents. The hazard assessments are updated regularly. Ongoing employee training courses and monthly focus topics aim to raise our employees' awareness of occupational safety and environmental protection. At the workplaces in Würzburg and Radebeul, there were 15.2 accidents per 1 million working hours in 2018 with a downtime of the regular workforce of one day and more. We performed extensive analyses of these incidents as a basis for defining preventive measures for reducing accidents at work. The monthly report on accident frequency rates by business unit and department enables targeted countermeasures. Potential hazards are addressed and highlighted in special monthly campaigns.

Workplace health promotion und preventive care

In addition, we attach key importance to workplace health promotion und preventive care at Koenig & Bauer. Many activities were performed by the company health insurance fund Koenig & Bauer BKK, which is organised as a separate entity, for its 9,474 members and the 2,728 family members. Our broad workplace programme aims to avoid physical and mental strain liable to lead to disruptions and to impair performance in the work process. In one-on-

ones and training sessions, we encourage 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 offer numerous preventive medical check-ups for the early detection of diseases. In a brief workshop especially targeted at shift workers we provided practical help and support to encourage a healthy diet in shift work. The "Let's cycle to work" campaign was a great success again. We also expanded our occupational health management offerings. Implemented at the sites in Würzburg and Radebeul, the "BGM-innovativ" programme is directed at employees suffering from musculoskeletal conditions. It aims to provide coordinated care for at-risk and inflicted employees in order to avoid chronic illness, shorten the duration of illness and absences and to maintain permanent employability. Health and team spirit are encouraged by company sports days and by inviting employees to participate in company runs.

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 as well as the numerous voluntary activities performed by our managers and employees. Management decides on the projects to be supported on a case-by-case basis.

High product quality for greater on-site and process safety in printing operations

Certified quality management systems

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. The quality management systems at the main production sites in Radebeul and Würzburg, at the Sheetfed business unit in Radebeul and at the Security business unit responsible for banknote and security printing with its three sites in Würzburg, Lausanne and Mödling are certified in accordance with DIN EN ISO 9001:2015. This was followed in 2018 by the certification of our quality management system for the Coding business unit in Veitshöchheim.

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. 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 observe labour law and to satisfy environmental rules. Our suppliers undertake 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 anti-bribery

With our Group-wide compliance management system, we have created the basis 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 of our compliance management system, which is regularly reviewed and continuously updated, can be found in the corporate governance report.

High compliance and integrity standards

Our comprehensive compliance and integrity standards can only unleash their full effect if they are known to and observed by our employees. To this end, we are currently providing eleven online training courses on the most important topics of compliance and the Code of Conduct throughout the Group. The training is offered in several languages and must be completed by all new employees. The use of an IT process with the Koenig & Bauer Campus training management system, which is based on SuccessFactors, ensures that training is held in cycles determined by risk criteria applicable to the employee's specific position. The Human Resources department and Compliance monitor the observance of these requirements. Following the initial allocation of online training via the Koenig & Bauer Campus, more than 3,000 employees underwent compliance training, which particularly covered the business code of conduct, anti-corruption precautions and competition law. The local branches were given training content via the Koenig & Bauer Intranet. The local compliance officers were responsible for monitoring the completion of training. As in the previous year, around 300 employees attended face-to-face training to broaden their knowledge in accordance with their requirements.

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 2018 did not indicate the existence of any new compliance risks. Nor were any compliance breaches confirmed.

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Group financial statements

Group balance sheet to 31 December 2018

in €m	Note	31.12.2017	31.12.2018
Assets			
Non-current assets			
Intangible assets	**(G) (1)**	45.7	84.1
Property, plant and equipment	**(G) (1)**	210.6	208.9
Investments and other financial receivables	**(G) (2)**	50.5	26.0
Other assets	**(G) (2)**	1.6	1.3
Deferred tax assets	**(G) (6)**	80.7	79.5
		389.1	**399.8**
Current assets			
Inventories	**(G) (3)**	254.9	265.7
Trade receivables	**(G) (2)**	308.3	156.0
Other financial receivables	**(G) (2)**	14.2	13.7
Other assets	**(G) (2)**	28.7	178.2
Current tax assets		4.7	6.6
Securities	**(G) (4)**	21.6	16.3
Cash and cash equivalents	**(G) (5)**	142.4	142.0
		774.8	**778.5**
		1,163.9	**1,178.3**
Equity and liabilities			
Equity	**(G) (7)**		
Share capital		43.0	43.0
Share premium		87.5	87.5
Reserves		293.5	322.0
Equity attributable to owners of the Parent		**424.0**	**452.5**
Equity attributable to non-controlling interests		–	0.9
		424.0	**453.4**
Liabilities			
Non-current liabilities			
Pension provisions and similar obligations	**(G) (8)**	198.4	152.6
Other provisions	**(G) (9)**	27.1	20.9
Bank loans and other financial payables	**(G) (10)**	8.6	6.4
Other liabilities	**(G) (10)**	1.2	0.9
Deferred tax liabilities	**(G) (6)**	26.2	33.9
		261.5	**214.7**
Current liabilities			
Other provisions	**(G) (9)**	144.6	138.0
Trade payables	**(G) (10)**	72.1	82.5
Bank loans and other financial payables	**(G) (10)**	100.9	142.2
Other liabilities	**(G) (10)**	150.6	135.6
Current tax liabilities		10.2	11.9
		478.4	**510.2**
		1,163.9	**1,178.3**

Group income statement 2018

in €m	Note	2017[1]	2018
Revenue	(H) (14)	1,217.6	1,226.0
Cost of sales	(H) (15)	-852.1	-870.4
Gross profit		**365.5**	**355.6**
Research and development costs	(H) (15)	-48.4	-44.3
Distribution costs	(H) (15)	-140.9	-138.8
Administrative expenses	(H) (15)	-90.1	-94.2
Other operating income	(H) (17)	23.0	29.5
Other operating expenses	(H) (17)	-32.1	-26.2
Impairment gains and losses on financial assets	(H) (17)	3.7	6.4
Other financial results	(H) (18)	0.7	-0.6
Earnings before interest and taxes (EBIT)		**81.4**	**87.4**
Other interest and similar income		3.3	1.4
Other interest and similar expenses		-6.2	-4.9
Interest result	(H) (18)	**-2.9**	**-3.5**
Earnings before taxes (EBT)		**78.5**	**83.9**
Income tax expense	(H) (19)	2.6	-19.9
Net profit		**81.1**	**64.0**
of which			
attributable to owners of the Parent		81.1	63.8
attributable to non-controlling interests		–	0.2
Earnings per share (in €, basic/dilutive)	(H) (20)	**4.91**	**3.86**

[1] Under the modified retrospective method, the figures for the previous year were not adjusted when IFRS 9 and IFRS 15 were applied for the first time. The only exception to this is the separate presentation of the impairments of financial assets.

Statement of comprehensive Group income 2018

in €m	2017	**2018**
Net profit	**81.1**	**64.0**
Items to be reclassified to consolidated profit or loss		
Foreign currency translation	-1.4	0.8
Measurement of primary financial instruments	-1.4	–
Measurement of derivatives	7.5	-4.2
Deferred taxes	-0.7	0.8
	4.0	**-2.6**
Items not to be reclassified to consolidated profit or loss		
Defined benefit plans	10.8	-19.0
Deferred taxes	-0.1	4.1
	10.7	**-14.9**
Gains/losses recognised directly in equity	**14.7**	**-17.5**
Total comprehensive income	**95.8**	**46.5**
of which		
attributable to owners of the Parent	95.8	46.3
attributable to non-controlling interests	–	0.2

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

Statement of changes in Group equity 2018

in €m	Share capital	Share premium	Reserves: Recognised in equity: Defined benefit plans	Primary financial instru-ments	Deriva-tives	Exchange diffe-rences	Deferred taxes	Other	**Equity attr. to owners**	Equity attr. to non-con-trolling interests	**Total**
1 January 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**
1 January 2018	**43.0**	**87.5**	**-95.1**	**4.0**	**2.9**	**3.1**	**20.7**	**357.9**	**424.0**	**–**	**424.0**
Changes in accordance with IFRS 9	–	–	–	-4.0	–	–	1.1	3.4	**0.5**	–	**0.5**
Changes in accordance with IFRS 15	–	–	–	–	–	–	–	-4.0	**-4.0**	–	**-4.0**
1 January 2018 adjusted	**43.0**	**87.5**	**-95.1**	**–**	**2.9**	**3.1**	**21.8**	**357.3**	**420.5**	**–**	**420.5**
Net profit	–	–	–	–	–	–	–	63.8	**63.8**	0.2	**64.0**
Gains/losses recognised directly in equity	–	–	-19.0	–	-4.2	0.8	4.9	–	**-17.5**	–	**-17.5**
Total comprehensive income	**–**	**–**	**-19.0**	**–**	**-4.2**	**0.8**	**4.9**	**63.8**	**46.3**	**0.2**	**46.5**
Dividend	–	–	–	–	–	–	–	-14.9	**-14.9**	–	**-14.9**
Other	–	–	0.1	–	–	–	0.1	0.4	**0.6**	0.7	**1.3**
31 December 2018	**43.0**	**87.5**	**-114.0**	**–**	**-1.3**	**3.9**	**26.8**	**406.6**	**452.5**	**0.9**	**453.4**

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

Group cash flow statement 2018

in €m	Note	2017	2018
Earnings before taxes		78.5	83.9
Appreciation/depreciation on intangible assets, property, plant and equipment	(F)	31.0	24.9
Currency measurement	(H) (17)	3.8	-2.3
Non-cash interest income/expense		3.3	3.5
Other non-cash income/expenses		-3.2	-6.6
Gross cash flow		**113.4**	**103.4**
Changes in inventories		36.3	-7.9
Changes in receivables and other assets		-110.5	16.6
Changes in other provisions		-30.9	-13.5
Changes in payables and other liabilities		19.2	-26.8
Interest received		1.4	0.6
Interest paid		-0.8	-0.7
Income tax paid		-4.7	-9.3
Income tax refunded		0.4	3.9
Cash flows from operating activities		**23.8**	**66.3**
Proceeds from the disposal of intangible assets, property, plant and equipment		3.6	10.0
Payments for investment in intangible assets, property, plant and equipment		-48.5	-49.9
Proceeds from the disposal of investments		-0.1	–
Payments for investments		-36.9	-40.2
Payments for the acquisition of consolidated companies		-1.6	-6.0
Dividends received		0.1	0.3
Cash flows from investing activities		**-83.4**	**-85.8**
Free cash flow		**-59.6**	**-19.5**
Proceeds from loans		10.2	65.4
Repayment of loans		-1.0	-34.0
Changes in liabilities under finance leases		–	-0.5
Changes in equity attr. to non-controlling interests		-0.5	-0.1
Other changes in equity		0.5	0.1
Dividends paid		-8.3	-14.9
Cash flows from financing activities		**0.9**	**16.0**
Change in funds		**-58.7**	**-3.5**
Effect of changes in exchange rates		-2.1	0.7
Effect of changes in consolidated companies		1.2	2.4
Funds at beginning of period		202.0	142.4
Funds at end of period	(G) (5)	**142.4**	**142.0**

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 and web offset, flexo, and digital presses, flatbed/rotary die cutters, folding-box gluing lines 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 2018 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 20 March 2019 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 2018 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 2018.

IAS 40	Amendment to IAS 40 – Transfers of investment properties
IFRS 2	Amendment to IFRS 2 – Classification and measurement of share-based payment transactions
IFRS 4	Amendment to IFRS 4 – Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 15	Amendment to IFRS 15 – Clarifications to IFRS 15
IFRIC 22	Foreign currency transactions and advance consideration
Sundry	Improvements to IFRS (2014 – 2016) – Amendments to IFRS 1 and IAS 28

The above standards were applied in compliance with the relevant transitional provisions. Where appropriate, amendments were made retrospectively, i.e. as if the new accounting policies had always applied. The effects on the periods of time specified in the consolidated financial statements are described below.

Amendment to IAS 40 – Transfers of investment properties

The recognition of properties under construction was previously not clear. This gap has now been addressed by the amendment to IAS 40. This amendment has no impact on the Group financial statements in 2018.

IFRS 9: Financial instruments

IFRS 9 primarily governs the recognition and measurement of financial assets and financial liabilities and replaces IAS 39. Koenig & Bauer applied the standard for the first time from 1 January 2018 utilising the modified retrospective method and recognising the cumulative adjustments as of 1 January 2018.

Due to the introduction of IFRS 9, consequential amendments to other standards were also included in the consolidated financial statements:
- In accordance with IAS 1, impairments of financial assets are recognised as a separate item in the income statement. The amounts previously included within other operating income and expenses were reclassified for 2017.
- The additional disclosures required by IFRS 7 in the notes to the financial statements have been made for 2018, but have not been applied to the comparative information for 2017.

The effects of the implementation of IFRS 9 on Group equity as of 1 January 2018 are shown in the following table.

Group equity

in €m	Effects of changes in accordance with IFRS 9
Reserves from primary financial instruments recognised in equity	
Securities classified as FVTPL	-4.0
Deferred taxes	1.1
	-2.9
Other reserves	
Securities classified as FVTPL	4.0
Recognition of expected credit losses	0.5
Deferred taxes	-1.1
	3.4
Change as of 1 January 2018	**0.5**

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. The standard eliminates the previous IAS 39 categories “held to maturity”, “loans and receivables”, “available for sale”.

The first-time adoption of IFRS 9 to classify financial assets did not have any material impact on the Group’s accounting policies. The following table shows the changes in the measurement categories and carrying amounts resulting from the transition from IAS 39 to IFRS 9 for each class of financial assets and financial liabilities.

in €m	Measurement category in accordance with IAS 39	Measurement category in accordance with IFRS 9	Carrying amount 31.12.17 in accordance with IAS 39	Carrying amount 01.01.18 in accordance with IFRS 9
Financial assets				
Interests in affiliates (a)	Available for sale	FVOCI	4.1	4.1
Other financial receivables from finance leases	Loans and receivables	Amortised cost	0.4	0.4
Other financial receivables from derivatives	At fair value through profit and loss	FVTPL	2.0	2.0
Other financial receivables from hedge accounting	Fair value - hedge	Fair value - hedge	3.1	3.1
Other financial receivables from pension liability insurance claims	Held to maturity	Amortised cost	45.2	45.2
Sundry other financial receivables	Loans and receivables	Amortised cost	9.9	9.9
Trade receivables (b)	Loans and receivables	Amortised cost	160.6	161.0
Gross amounts due from customers for contract work[1] (b)	Loans and receivables	Amortised cost	147.7	147.8
Securities (c)	Available for sale	FVTPL	21.6	21.6
Cash and cash equivalents	Loans and receivables	Amortised cost	142.4	142.4
			537.0	**537.5**
Financial liabilities				
Bank loans	Other financial liabilities	Amortised cost	43.0	43.0
Other financial liabilities from finance leases	Other financial liabilities	Amortised cost	9.0	9.0
Other financial liabilities from derivatives	At fair value through profit and loss	FVTPL	0.9	0.9
Other financial liabilities from hedge accounting	Fair value - hedge	Fair value - hedge	0.3	0.3
Sundry other financial liabilities	Other financial liabilities	Amortised cost	56.3	56.3
Trade payables	Other financial liabilities	Amortised cost	72.1	72.1
			181.6	**181.6**

[1] As a result of the first-time application of IFRS 15, the gross amount due from customers for contract work was reduced by €2.2m. This change is not included in the table.

(a) The interests in affiliated companies classified as available for sale in accordance with IAS 39 are equity investments that the Group intends to hold over the long term for strategic reasons. In accordance with IFRS 9, the Group designated these investments as FVOCI at the date of first-time adoption.

(b) Trade receivables and gross amounts due from customers for contract work are measured at amortised cost in accordance with IFRS 9. In accordance with IAS 39, these receivables were allocated to the "loans and receivables" category. As a result of the first-time application of IFRS 9 from 1 January 2018, impairments of trade receivables were reduced by €0.4m and the gross amount due from customers for contract work by €0.1m, with reserves rising accordingly.

(c) Securities classified as "available for sale" in accordance with IAS 39 are allocated to the FVTPL category in accordance with IFRS 9 because they are not held to collect contractual cash flows. Unrealised gains of €4m which had been recognised as reserves for primary financial instruments directly in equity were reclassified as other reserves from 1 January 2018.

The reconciliation of the carrying amounts of financial assets in accordance with IAS 39 as of 31 December 2017 with the carrying amounts in accordance with IFRS 9 as of 1 January 2018 is summarised in the following table.

in €m	Measurement category in accordance with IAS 39	Carrying amount 31.12.17 in accordance with IAS 39	Remeasurement	Carrying amount 01.01.18 in accordance with IFRS 9	Measurement category in accordance with IFRS 9
Reclassification of financial assets					
Interests in affiliates	Available for sale	4.1	–	4.1	FVOCI
FVOCI		**4.1**	**–**	**4.1**	
Securities	Available for sale	21.6	–	21.6	FVTPL
FVTPL		**21.6**	**–**	**21.6**	
Sundry other financial receivables from pension liability insurance claims	Held to maturity	45.2	–	45.2	Amortised cost
	Held to maturity	**45.2**	**–**	**45.2**	**Amortised cost**
Other financial receivables from finance leases	Loans and receivables	0.4	–	0.4	Amortised cost
Sundry other financial receivables	Loans and receivables	9.9	–	9.9	Amortised cost
Trade receivables	Loans and receivables	160.6	0.4	161.0	Amortised cost
Gross amounts due from customers for contract work	Loans and receivables	147.7	0.1	147.8	Amortised cost
Cash and cash equivalents	Loans and receivables	142.4	–	142.4	Amortised cost
	Loans and receivables	**461.0**	**0.5**	**461.5**	**Amortised cost**
Amortised cost		**506.2**	**0.5**	**506.7**	

Under IAS 39, **impairments of financial assets** 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”, that reflects potential changes in credit risk since initial recognition and also requires risk provisioning for expected credit losses. The impairment model defined by IFRS 9 applies to financial assets measured at amortised cost or at FVOCI but not to equity investments held as financial assets.

The first-time application of the impairment model in accordance with IFRS 9 reduced impairments of trade receivables by €0.5m from €26m as of 31 December 2017 to €25.5m as of 1 January 2018.

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. When applying IFRS 9 for the first time, Koenig & Bauer exercised the option of retaining the previous guidance provided for in IAS 39.

For the **transition** to IFRS 9 on 1 January 2018 Koenig & Bauer made use of the exemption not to restate comparative information for prior periods in respect of classification, measurement and impairments. Any differences between the carrying amounts of financial assets and liabilities are recognised in retained earnings as of 1 January 2018. The information presented for the 2017 financial year therefore generally does not meet the requirements of IFRS 9, but those of IAS 39.

The business model under which a financial asset is held was determined on the basis of the facts and circumstances at the time of initial application.

Further information on the changes to the accounting methods can be found in Note (C) and on changes to the disclosures in the notes in Note (G) (12).

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 applied IFRS 15 for the first time from 1 January 2018, utilising the modified retrospective method and recognising the cumulative ad-justments as of 1 January 2018.

The effects of the implementation of IFRS 15 on Group equity as of 1 January 2018 and on the Group income statement for 2018 are shown in the following tables. There was no impact on the Group balance sheet or the Group cash flow statement as of 31 December 2018.

Group equity

in €m	Effects of changes in accordance with IFRS 15
Other reserves	
Revenue recognised at a point in time on the basis of contractual agreements	-5.1
Deferred taxes	1.1
Change as of 1 January 2018	**-4.0**

Group income statement

in €m	2018	Adjustments in accordance with IFRS 15	2018 before IFRS 15
Revenue	1,226.0	-8.7	1,217.3
Cost of sales	-870.4	3.6	-866.8
Income tax expense	-19.9	1.1	-18.8
Net profit	64.0	-4.0	60.0

Customer-specific construction contracts were previously recognised over time using the percentage-of-completion method. To this end, revenue was 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 no longer possible for the revenue from individual contracts to be recognised over time in accordance with IFRS 15. In individual cases, this change may result in revenues not being recognised over a period of time but at the time of the transfer of control in the future.

The first-time application of IFRS 15 did not have any material impact on the Koenig & Bauer Group's other revenues.

For the **transition** to IFRS 15 on 1 January 2018 Koenig & Bauer made use of the exemption not to restate comparative information for prior periods. Instead, any differences between the carrying amounts are recognised in retained earnings as of 1 January 2018. The information presented for 2017 therefore generally does not meet the requirements of IFRS 15, but those of IAS 18 and IAS 11 as well as IFRIC 13.

Further information on the changes to the accounting methods can be found in Note (C) and on changes to the disclosures in the notes in Note (H) (14) and (J).

IFRS 15: Amendment to IFRS 15 – Clarifications to IFRS 15

See notes on IFRS 15

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. This does not have any material impact on Koenig & Bauer.

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

		Applied as of financial year
IAS 1/ IAS 8	Amendments to IAS 1 and IAS 8 – Definition of material	2020
IAS 19	Amendment to IAS 19 – Amendment, curtailment or settlement of a plan	2019
IAS 28	Amendment to IAS 28 – Long-term interests in associates and joint ventures	2019
IFRS 10/ IAS 28	Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture	open
IFRS 3	Amendment to IFRS 3 – Definition of a business	2020
IFRS 9	Amendment to IFRS 9 – Prepayment features with negative compensation	2019
IFRS 16	Leases	2019
IFRS 17	Insurance contracts	2021
IFRIC 23	Uncertainty over income tax treatments	2019
Sundry	Improvements to IFRS (2015 – 2017) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	2019
Conceptual framework	Changes to references to conceptual framework	2020

IFRS 16, the amendment to IFRS 9 and IFRIC 23 have been endorsed by the EU. The matters covered by IFRS 17 do not have any relevance for the companies included in the consolidated financial statements.

The Koenig & Bauer Group does not intend to early adopt any new or amended standards or interpretations. The effects on the consolidated financial statements are currently being reviewed, but no material changes are expected unless they are explained in more detail.

Amendments to IAS 1 and IAS 8 – Definition of material

The terms "materiality of financial statement information" previously used in the Framework, IAS 1 and IAS 8 and IFRS Practice Statement 2 have been standardised and defined more precisely by these amendments.

Amendment to IAS 19 – Amendment, curtailment or settlement of a plan

The amendment to IAS 19 clarifies that in the event of any changes, curtailments or settlements of pension plans, current service cost and interest cost must be recognised from that date on the basis of updated assumptions.

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 not using the equity method.

Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture

To eliminate any inconsistency between IFRS 10 and IAS 28 on the disposal or contribution of assets to associates or joint ventures, future gains or losses should be recognised only if the assets disposed of or contributed constitute a business as defined in IFRS 3. Otherwise, gains or losses may only be recognised on a pro rata basis. This may result in changes for Koenig & Bauer if corresponding transactions occur.

Amendment to IFRS 3 – Definition of a business

The amendment to IFRS 3 clarifies the concept of a business as a group of activities and assets that includes at least one input and a substantial process that together contribute significantly to generating output. In this context, the term “output” is used to refer in particular to the provision of goods and services to customers; the previous reference to cost reductions no longer applies. In addition, an optional concentration test will facilitate the identification of business operations in the future.

Amendment to IFRS 9 – Prepayment features with negative compensation

In the future, prepayment features with negative compensation may only be recognised at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss if certain conditions are met.

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 low-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 is required to apply IFRS 16 from 1 January 2019.

The project for the transition to the new standard is well advanced and the Group estimates that reserves will drop by around €0.5m as of 1 January 2019. The actual effects of the first-time application of IFRS 16 may differ from this, as the Group has not yet completed testing and controls of its IT systems and the new accounting methods may be subject to change before the date on which the first consolidated financial statements are published after the date of first-time application.

For leases in which Koenig & Bauer is the **lessee** and which are currently classified as operating leases, the lease payments are recognised in profit or loss on a straight-line basis over the term of the lease. Assets or liabilities are only reported if there is a time difference between the actual lease payments and the expenses recognised. IFRS 16, by contrast, requires the recognition of intangible assets and property, plant and equipment as well as lease liabilities. Scheduled straight-line depreciation for rights of use and interest expenses for lease liabilities are recognised in profit or loss. Koenig & Bauer estimates that the application of the new accounting guidance for leases under IFRS 16 will lead to an increase in intangible assets, property, plant and equipment and leasing liabilities of €26m and a decrease in retained earnings of around €0.5m as of 1 January 2019. There will probably be no changes to finance leases in which the Group is the lessee.

The implementation of IFRS 16 will have no material impact on leases in which the Group is the **lessor.**

On initial application, Koenig & Bauer will make use of the simplification rule which permits the definition of a lease to be retained. This means that IFRS 16 will be applied to all contracts entered into on or before 31 December 2018 that have been identified as leases in accordance with IAS 17 and IFRIC 4. The Group will be applying the modified retrospective method when it adopts IFRS 16, meaning that cumulative adjustments will be recognised as of 1 January 2019.

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.

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.

Changes to references to conceptual framework

The revision of the conceptual framework by the IASB has resulted in a restructuring of the existing sections and the addition of individual sections such as "The reporting entity", "Presentation and disclosure" and "Derecognition". Changes to the content concern, for example, the elimination of the distinction between income, gains and revenues. As a result of these changes, the references to the framework have been adapted in various standards.

(C) Accounting policies

The financial statements for Koenig & Bauer AG and its domestic and foreign subsidiaries are 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 financial assets and derivative financial instruments, which are measured at fair value through profit and loss. Changes in the value of equity instruments are recognised in other comprehensive income.

In the process of applying the entity's accounting policies management makes various judgements, essentially on the categorisation of the financial assets measured at amortised cost.

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 are created based on the measures planned. The actual expense is not yet known because it depends on the accuracy of the underlying premises.

Other significant estimates relate to the following matters, which are explained in more detail under the individual items of the balance sheet:

- Useful lives of intangible assets and property, plant and equipment
- Measurement of the impairment of financial assets
- Recognition and measurement of other provisions
- Recognition and measurement of pension provisions and similar obligations
- Recognition and measurement of deferred tax assets

Intangible assets

Purchased intangible assets are disclosed at their purchase price if it is likely that economic benefits attributable to the use of the assets will flow to the enterprise and their cost can be measured reliably. Each asset with a limited useful life is amortised on a straight-line basis over its estimated useful life.

Development costs for new or significantly improved products are capitalised at cost if the technical feasibility, an intention to sell and the existence of a market can be demonstrated, the attributed expenditure measured reliably, adequate development and marketing resources are available and future economic benefits probable. From the time of marketability of the affected product, the capitalised development costs are depreciated on a straight-line basis over their projected useful life and tested for impairment anually. Adequate allowance is made for future market trends. Research costs and non-capitalised development costs are recognised as an expense as they arise.

Property, plant and equipment

Items of property, plant and equipment are 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 is treated as a separate depreciable asset (component recognition). Manufacturing costs for self-constructed plant and equipment include an appropriate proportion of production overheads, material and labour costs. Where borrowing costs are directly attributable to a qualifying asset they are 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 are capitalised and written down over the individual useful life. Replaced items are de-recognised accordingly. Costs for maintenance and repairs are also recognised as an expense.

No land or buildings are 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 Koenig & Bauer Group assumes the basic risks and rewards as the lessee are disclosed as finance leases under intangible assets or property, plant and equipment. Leased property is measured at fair value or the lower present value of the minimum lease payments. Depreciation is 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 comprise interest and capital portions and are disclosed in other financial payables. Where the risks and rewards incident to ownership are not assumed, the lease is classified as an operating lease and payments carried as expenses.

Leases for which the Group as the lessor transfers the basic risks and rewards to the lessee are disclosed as finance leases under other financial receivables and marked at the present value of the minimum lease payments. Profits accrue in proportion to the term to maturity of the finance lease. The contractual payments for operating leases are recognised as profit.

Depreciation

The systematic straight-line depreciation of intangible Group assets, property, plant and equipment is based on their useful lives as shown in the chart.

	Years
Industrial property rights and similar rights	3 to 12
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

In the case of intangible assets and property, plant and equipment, the determination of the economic useful lives is subject to management's assessment. Any change in the economic useful lives may result in an increase or decrease of systematic straight-line depreciation.

If there is 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 are tested for impairment on the balance sheet date as per IAS 36. The recoverable amount is 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 46. Cash flows which surpass the planning period are calculated using a growth rate of 0.8 %. Where the recoverable amount is lower than the carrying amount the difference is disclosed as an impairment loss. If the reason for an impairment no longer applies, an adjustment in the allowance account is made, up to the amortised cost of acquisition or manufacture.

Depreciation on and impairments in intangible assets, property, plant and equipment are disclosed under the individual functions, reversals of impairment losses are disclosed as other operating income.

Goodwill is tested for impairment annually and attributed to the cash-generating units. Where the recoverable amount exceeds the carrying amount (goodwill included) of the cash-generating unit, the unit is defined as unimpaired. Where the carrying amount exceeds the value in use, an impairment adjustment to the lower market value is 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 is 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 are disclosed under "Changes in intangible assets, property, plant and equipment".

Financial assets

If contractual claims exist, financial assets are recognised at fair value upon initial recognition and are accounted for on the settlement date.

Up until 31 December 2017, subsequent measurement of financial assets was based on the four categories defined by IAS 39: “measured at fair value through profit or loss”, “held-to-maturity”, “loans and receivables” and “available-for-sale”. Held-to-maturity financial assets, loans and receivables were measured at amortised cost using the effective interest method and any changes were recognized in profit or loss. Available-for-sale financial assets were recognised at fair value, with unrealised gains and losses recognised directly in equity until realised, taking deferred taxes into account.

Since 1 January 2018, financial assets have been classified as “measured at amortised cost”, “measured at fair value through other comprehensive income (FVOCI)” or “measured at fair value through profit or loss (FVTPL)” for the purposes of subsequent measurement in accordance with IFRS 9. 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. The business model is determined on a portfolio basis in the light of past experience and the management strategy for the future, taking into account the risks associated with financial assets. The analysis of the product features includes an assessment of whether contractually agreed cash flows are solely payments of principal and interest.

A financial asset is measured **at amortised cost** using the effective interest method if it is held as part of a business model whose objective it is to collect the contractual cash flows and the terms of the contract result in solely payments of principal and interest. Any changes are recognised in profit or loss.

The **FVOCI** category includes financial assets held within a business model whose objective is both to collect the contractual cash flows and to sell those assets, provided that the terms of the contract result in solely payments of principal and interest. They are remeasured on the basis of their fair value. In the case of equity instruments, dividends are recognised in profit or loss, while other net gains or losses are recognised in other comprehensive income. They are not recycled to the income statement.

All other assets are measured at fair value through profit and loss **(FVTPL)**. Interest income, dividends and other net gains or losses are recognised through profit and loss.

Shares in affiliated, non-consolidated companies are reported under **financial investments** and classified as “FVOCI”. As their business individually and in sum is not material for the Group and the fair presentation of financial position, liquidity and capital resources, and profitability, they are measured at cost. Loans are measured at amortised cost.

Other financial receivables include derivative financial instruments in the FVTPL category that are carried at fair value and receivables from finance lease agreements measured at their present value. Miscellaneous other financial receivables are measured at amortised cost.

Trade receivables are measured at amortised cost. Non-interest-bearing or low-interest receivables due for settlement in more than one year are discounted.

The **securities** are financial assets in the FVTPL category that are carried at fair value as of the balance sheet date.

Cash and cash equivalents are measured at amortised cost.

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 tech-niques for which any significant input is not based on observable market data.

Up until December 31, 2017, financial assets classified as “held to maturity” or “loans and receivables” were tested for impairment on each balance sheet date in accordance with IAS 39. Impairments were recognised for all identifiable risks and losses that had already occurred.

Since January 1, 2018, impairment gains and losses have been recognised on financial assets measured at amortised cost and for contract assets in an amount equalling the expected credit loss, provided that the credit risk has increased significantly since initial recognition. In the case of receivables and contract assets, this involves checking on each balance sheet date whether there has been any impairment of creditworthiness and whether the credit risk has thus increased significantly. Both quantitative and qualitative information and analyses such as the length of time overdue, the nature and duration of financial difficulties or the geographical location are taken into account and forward-looking assessments are made on the basis of past experience. If an account is past due by more than 90 days, this is considered to be objective evidence that the credit quality of an asset is impaired.

If the creditworthiness of an asset is impaired, the expected credit losses are recognised as a loss allowance over the entire term of the financial asset.

If the credit risk has increased significantly since initial recognition, but there is no impairment of creditworthiness, the possible payment defaults over the entire term are taken into account as a loss allowance. In the case of trade receivables and contract assets, expected credit losses are measured on the basis of a loss allowance matrix. For each business segment, the historical default probabilities of the last three years are used as a basis and adjusted to the current economic conditions using scaling factors.

All other financial assets are adjusted by the amount of the expected credit loss that may be incurred within 12 months of the balance sheet date. The loss allowance model described in IFRS 9 requires discretionary decisions in forecasting the development of future economic conditions. However, the assumptions made are subject to uncertainty, as Koenig & Bauer can only partially influence future business developments.

Derivatives

In accordance with IAS 39 all instruments such as swaps and future currency contracts are carried at fair value. The derivatives disclosed in the Group financial statements are classified as level 2.

Changes in fair value are reported in net profit or loss where no hedge accounting is used.

Where hedge accounting is used, changes in fair value are 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 are 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 is recognised directly in equity and the ineffective portion reported in the income statement. Gains and losses are reported in the income statement as soon as the hedged transaction itself is recognised.

The Koenig & Bauer 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 55 onwards. Derivatives in the form of marketable foreign exchange transactions (forwards and swaps) and interest rate hedges are used. Where the conditions defined in IAS 39 for an effective hedging relationship are fulfilled, hedge accounting is used, more specifically cash flow hedges.

Inventories

Inventories are 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 are directly attributable to a qualifying asset they are capitalised as part of the cost of that asset. The cost of inventories that cannot be measured on an item-by-item basis are calculated using the weighted average cost formula.

Inventories whose net realisable value on the balance sheet date is lower than cost, for example due to damage, impaired marketability or prolonged storage, are 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.

Equity

The issued capital is calculated from the number of no-par shares issued by Koenig & Bauer AG up to the balance sheet date.

The share premium includes the extra charge from the issue of shares, and is subject to the limitations imposed by section 150 of German Company Law.

Reserves encompass 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 include 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 are measured using the projected unit credit method described in IAS 19, based on actuarial reports that recognise the present and potential benefits known on the balance sheet date, and include 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.

If the pension plans are not fully reinsured, the measurement of the retirement benefit obligations is subject to actuarial risks such as longevity risk, the risk of salary increases and interest rate risk. Market price risks exist in particular in connection with plan assets. In the case of Swiss pension funds, there is also the risk of an obligation to make additional contributions in the event of underfunding, i.e. if the benefit obligations exceed the plan assets, there is an obligation to contribute funding.

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 include all other corporate risks and uncertain liabilities to third parties, insofar as an outflow of resources is probable and can be reliably assessed. The amounts disclosed represent the best estimate of the expenditure needed to settle current obligations. Long-term provisions are disclosed at their present value where the interest effect is substantial.

Provisions are recognised for the **realignment** of the Group as soon as management has developed and approved a programme to improve the Group's profitability and competitiveness through capacity and structural adjustments and the measures have been publicly announced. Provisions are estimated on the basis of the planned programs, taking into account past experience. For this purpose, the assessments of both management and external experts are used. If changes occur as a result of new findings or agreements, the amount of the provisions is duly adjusted

The recognition of provisions for **warranties and goodwill gestures** results from statutory, contractual or individual obligations to customers for reworking, replacement deliveries and compensation payments. A lump-sum provision is recognised as a percentage of average sales in recent years on the basis of past experience. In addition, concrete and expected individual facts are allowed for.

Provisions for obligations from **self-disclosure proceedings in Switzerland** include the Group's provisions for the transfer of profits from a voluntary disclosure procedure concluded in the 2018 financial year in Switzerland due to shortcomings in the prevention of corruption, related legal and tax advisory services and other expected obligations. The regular assessment is based on estimates made by management, external lawyers and other consultants. The assumptions made, particularly with regard to expected obligations, are subject to considerable uncertainty.

Financial payables

A financial payable is recognised on the balance sheet as soon as contractual obligations arise 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 are defined as **financial liabilities.**

Other financial liabilities include derivative financial instruments with a negative fair value assigned to the FVTPL category and measured at fair value. Liabilities under finance leases are recognised at their present value.

Deferred taxes

Deferred tax assets and liabilities are recognised on temporary differences between IFRS and tax bases for Group enterprises, and on consolidation measures. Differences are calculated using the liability method specified in IAS 12, and only tax-relevant temporary differences are taken into account. Deferred tax assets include temporary differences as well as claims to future tax reductions arising from the anticipated use of existing tax loss carryforwards, where this use is probable or verified by convincing substantial evidence. Where the use is improbable, an impairment is disclosed. Deferred tax assets are calculated on the basis of 3-year corporate planning and the expected impact on earnings of taxable temporary differences. However, the assumptions made with regard to the future taxable income available for the utilisation of deferred tax assets are subject to uncertainties.

The tax rates used to calculate deferred taxes are the national rates applicable or notified on the balance sheet date, and range from 14% to 33%. The effect of changes in tax rates on deferred taxes is reported when such changes are published.

The Group tax rate is the same as the Parent tax rate. Differences arising from calculations based on national tax rates are 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.

Revenue

In the case of the sale of standardised **new or used machines,** the transfer of control after delivery and assembly occurs upon the customer's readiness for production. If the assembly element of the performance obligation is not significant, control is transferred upon delivery of the press. The invoice is issued at the time of the transfer of control. In addition to individual contractual agreements, payments by the customer are usually staggered and are often divided into a prepayment, a payment at the time of delivery and a final payment after acceptance of the press. Revenue is recognised when a customer gains control of the presses and the significant risks and rewards of ownership have been transferred, neither a right of dispos-al nor effective control remains with Koenig & Bauer and it is probable that the economic benefits associated with the transaction will flow to the Company.

In the case of **customer-specific production,** control is transferred to the customer over the period in which the performance is completed. The project-specific payment terms usually provide for a prepayment and other progress billings staggered over the term.

Up until 31 December 2017, revenue for customer-specific production under IAS 11 was recognised in accordance with the percentage of completion on the balance sheet date. The percentage of completion was defined as the ratio of order-related costs incurred up to the balance sheet date to the total calculated costs of the order.

Since 1 January 2018, revenue from customer-specific production has been recognised over the period in which the performance is completed in accordance with IFRS 15, provided that the product has no alternative use for the Company and the Company has a legal claim to payment for the services already provided. The progress made towards complete satisfaction of a performance obligation is measured on an input basis, whereby the progress of work is determined as the ratio of the costs incurred to the calculated contract costs.

In the case of **spare parts and consumables**, control generally passes to the customer upon delivery of the products. The invoice is issued at the same time, the payment period is usually up to 30 days. Revenue is recognised when the invoice is issued to the customer.

The provision of **services** mainly comprises maintenance, repairs, consulting and similar services. Control passes to the customer and the invoice is issued when the service has been rendered. Service contracts are usually due for immediate payment, the maximum payment period is usually 30 days. In the case of service agreements, the transaction price is allocated to individual service components. Revenue is recognised when the individual service components have been fulfilled.

Price reductions, cash discounts, bonuses and volume rebates granted are recognised at their expected value if an adjustment to the transaction price is probable.

The performance obligations for products and services rendered and invoiced to the customer are recognised under trade receivables to the extent that there is an unconditional right to consideration. Where products and services have been transferred to a customer but the Group does not yet have a contractual right to payment, the contingent consideration receivable is recognised within contract assets. Contract assets are reclassified as trade receivables as soon as there is an unconditional legal claim to payment; they are reported under other assets.

Prepayments received include the Company's obligations to transfer goods and services to customers for whom a payment has already been made.

The following table shows trade receivables, contract assets and prepayments received under contracts with customers.

Group balance sheet

in €m	Carrying amount 01.01.18	Carrying amount 31.12.18
Assets		
Trade receivables	183.5	156.0
Contract assets	123.1	142.8
Equity and liabilities		
Payments received	136.7	111.1

Other income

Interest is recognised as profit if the amount can be measured reliably and there is a reasonable likelihood of future economic benefit. Dividends are balanced with the origination of a legal claim to payment.

Expenses by function

Cost of sales include the purchase and conversion costs of products sold. In addition to directly attributable material and prime costs these incorporate overheads, depreciation on production plant and inventory adjustments.

Research and development costs encompass costs for original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and these are recognised in full in the income statement together with development costs not recognised by IAS 38.

Distribution costs include costs for open house promotions and demonstrations for customers.

Administrative expenses include the amortisation of goodwill.

Wherever possible, income and expenses are attributed to their respective functions; those that cannot be attributed are 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 39 (previous year: 36) companies.

Altogether 24 (previous year: 24) subsidiaries are excluded from the consolidated financial statements since they are of minor significance to the Group's financial position and performance.

Consolidation principles

On the date on which control is obtained the capital consolidation of affiliates and the disclosure of business combinations entails 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 are allocated to the subsidiary's assets and liabilities. Contingent liabilities are offset against equity, and any excess of cost over the amounts allocated is recognised as goodwill. Goodwill generated prior to 1 January 1995 remains netted against reserves as permitted by IAS 22. Negative goodwill is immediately disclosed as other administrative expenses.

Receivables, liabilities, income and expenses relating to transactions among consolidated companies are eliminated, as are the profits from such transactions. With the exception of goodwill, temporary tax deferrals arising from the consolidation are recognised as deferred taxes under IAS 12.

(E) Foreign currency translation

The financial statements of consolidated companies prepared in a foreign currency are 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 are 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 are 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 are translated at the closing rate on the date of the initial consolidation. In subsequent periods goodwill is translated at the closing rate on the balance sheet date.

Currency gains and losses ensuing from consolidation are recognised as income or expense.

(F) Changes in intangible assets, property, plant and equipment

	Cost						
in €m	01.01.	Group additions	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
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**
2018							
Intangible assets							
Industrial property rights and similar rights	48.7	3.5	6.4	–	4.5	0.2	**62.9**
Goodwill	27.8	11.2	–	–	–	–	**39.0**
Product development costs	11.6	–	11.3	–	–	–	**22.9**
Prepayments and assets under construction	6.5	–	4.1	–	-4.5	–	**6.1**
	94.6	**14.7**	**21.8**	**–**	**–**	**0.2**	**130.9**
Property, plant and equipment							
Land and buildings	261.1	1.0	3.0	0.1	4.4	0.5	**269.1**
Plant and machinery	190.4	–	5.8	-0.1	5.0	8.8	**192.3**
Other facilities, factory and office equipment	136.5	0.1	16.1	0.1	1.0	19.9	**133.9**
Prepayments and assets under construction	11.1	–	3.8	–	-10.4	–	**4.5**
	599.1	**1.1**	**28.7**	**0.1**	**–**	**29.2**	**599.8**
	693.7	**15.8**	**50.5**	**0.1**	**–**	**29.4**	**730.7**

[1] Reconciliation

	Depreciation							Carrying amount	
	01.01.	Group additions	Annual depreciation	Appreciation	Exchange differences	Disposals	**31.12.**	01.01.	**31.12.**
	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**
	41.7	–	2.1	4.0	–	0.2	**39.6**	7.0	**23.3**
	0.2	–	–	–	–	–	**0.2**	27.6	**38.8**
	7.0	–	–	–	–	–	**7.0**	4.6	**15.9**
	–	–	–	–	–	–	**–**	6.5	**6.1**
	48.9	**–**	**2.1**	**4.0**	**–**	**0.2**	**46.8**	**45.7**	**84.1**
	133.9	–	6.0	–	0.1	0.2	**139.8**	127.2	**129.3**
	149.8	–	10.3	–	-0.1	7.4	**152.6**	40.6	**39.7**
	104.8	–	10.5	–	0.1	16.9	**98.5**	31.7	**35.4**
	–	–	–	–	–	–	**–**	11.1	**4.5**
	388.5	**–**	**26.8**	**–**	**0.1**	**24.5**	**390.9**	**210.6**	**208.9**
	437.4	**–**	**28.9**	**4.0**[1]	**0.1**	**24.7**	**437.7**	**256.3**	**293.0**

(G) Explanatory notes to the balance sheet

(1) Intangible assets, property, plant and equipment

Given finance leases the total includes €0.7m for plant and machinery (previous year: €2.8m) and €1.8m (€2.1m) 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 €3m (previous year: €3.4m).

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	31.12.2017	**31.12.2018**
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany	12.6	12.6
Business Unit Security	8.8	8.8
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany	5.4	5.4
Koenig & Bauer Flexotecnica S.p.A., Tavazzano, Italy	0.8	0.8
Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş., Istanbul, Turkey[1]	–	11.2
	27.6	**38.8**

[1] preliminary

The relief-from-royalty method and the multi-period excess earnings method were used to determine the fair values of acquired intangible assets (including for other assets). The relief-from-royalty method takes account of discounted estimated payments of royalties which would be expected to be saved if the brands and technology were owned by the reporting entity. The multi-period excess earnings method is based on the present value of the expected net cash flow generated by customer relations and order books with the exception of all cash flows linked to supporting assets.

The acquisition of Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş. entailed expense of €6.1m in the year under review. This was offset by cash and cash equivalents of €0.3m. The assets acquired additionally comprise intangible assets of €3.5m, inventories of €1m, trade receivables of €0.2m and other current financial assets of €0.3m. The gross value of the trade receivables acquired stands at €0.1m. The liabilities assumed comprise deferred tax liabilities of €0.7m, trade payables of €1.1m and other current financial liabilities of €0.5m. Koenig & Bauer is obliged to pay the former shareholders a further €6m in four tranches if certain EBIT targets for the 2019 to 2022 financial years are met. At the time of acquisition, the fair value of the contingent consideration is €5.5m. A further contingent payment of €1.3m for the settlement of warranty claims from the period prior to the acquisition of the shares is due to the sellers on a staggered basis until 31 December 2021, while contingent payments of €0.7m to hedge the net working capital acquired are due in the short term. These are recognised in full. In accordance with IFRS 3, Koenig Bauer Duran was initially accounted for on a preliminary basis.

A further contingent liability of €0.6m (previous year: €0.6m) arose from the acquisition of Koenig & Bauer Iberica 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
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany	3	6.9%	9.5%
Business Unit Security	3	7.2%	7.9%
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany	3	6.9%	9.5%
Koenig & Bauer Flexotecnica S.p.A., Tavazzano, Italy	3	7.0%	8.8%

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	Formerly	Capital share in %	Equity in €m
Consolidated affiliates			
Koenig & Bauer Industrial Management GmbH, Würzburg, Germany	KBA-Industrial Solutions Management GmbH, Würzburg, Germany	100	0.1
Koenig & Bauer Industrial AG & Co. KG, Würzburg, Germany	KBA-Industrial Solutions AG & Co. KG, Würzburg, Germany	100	-31.8[2]
Koenig & Bauer Sheetfed Management GmbH, Radebeul, Germany	KBA-Sheetfed Solutions Management GmbH, Radebeul, Germany	100	0.0
Koenig & Bauer Sheetfed AG & Co. KG, Radebeul, Germany	KBA-Sheetfed Solutions AG & Co. KG, Radebeul, Germany	100	77.9
Koenig & Bauer Digital & Webfed Management GmbH, Würzburg, Germany	KBA-Digital & Web Solutions Management GmbH, Würzburg, Germany	100	0.1
Koenig & Bauer Digital & Webfed AG & Co. KG, Würzburg, Germany	KBA-Digital & Web Solutions AG & Co. KG, Würzburg, Germany	100	-11.6[2]
Koenig & Bauer Security Management GmbH, Würzburg, Germany		100	0.0
KBA-NotaSys Management GmbH, Würzburg, Germany		100	0.0
KBA-NotaSys AG & Co. KG, Würzburg, Germany		100	24.6
Koenig & Bauer Finance GmbH, Würzburg, Germany	KBA-Finance GmbH, Würzburg, Germany	100	0.1
Koenig & Bauer Immobilien GmbH, Würzburg, Germany		100	0.1[3]
Koenig & Bauer Gießerei GmbH, Würzburg, Germany[1]	KBA-Gießerei GmbH, Würzburg, Germany[1]	100	2.6[3]
Koenig & Bauer FT Engineering GmbH, Frankenthal, Germany	KBA-FT Engineering GmbH, Frankenthal, Germany	100	2.3[3]
Albert-Frankenthal GmbH, Frankenthal, Germany		100	0.7[3]
Koenig & Bauer (DE) GmbH, Radebeul, Germany	KBA-Deutschland GmbH, Radebeul, Germany	100	0.4[3]
Koenig & Bauer Coding GmbH, Veitshöchheim, Germany	KBA-Metronic GmbH, Veitshöchheim, Germany	100	14.3[3]
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany	KBA-MetalPrint GmbH, Stuttgart, Germany	100	6.1[3]
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany	KBA-Kammann GmbH, Bad Oeynhausen, Germany	100	2.5
Koenig & Bauer (AT) GmbH, Mödling, Austria	KBA-Mödling GmbH, Mödling, Austria	>99.9	15.6
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands		100	0.9
Koenig & Bauer (FR) SAS, Tremblay-en-France, France	KBA-FRANCE SAS, Tremblay-en-France, France	100	3.0[3]
Koenig & Bauer IT S.R.L., Lainate, Italy	KBA ITALIA S.R.L., Lainate, Italy	100	1.8[3]
Koenig & Bauer Flexotecnica S.p.A., Tavazzano, Italy	KBA-Flexotecnica S.p.A., Tavazzano, Italy	100	-1.6[2, 3]
Koenig & Bauer Iberica, S.A., El Prat de Llobregat, Spain	KBA-IBERICA DIE CUTTERS, S.A., El Prat de Llobregat, Spain	100	4.5
Koenig & Bauer (UK) Limited, Watford, UK	KBA (UK) Ltd., Watford, UK	100	0.1
Koenig & Bauer Grafitec s.r.o., Dobruška, Czech Republic	KBA-Grafitec s.r.o., Dobruška, Czech Republic	100	18.6
KBA-SWISS HOLDING SA, Lausanne, Switzerland		100	11.1
KBA-NotaSys SA, Lausanne, Switzerland[1]		100	100.4
KBA-NotaSys International SA, Geneva, Switzerland[1]		100	0.3
Koenig & Bauer (CH) AG, Höri, Switzerland[1]	Print Assist AG, Höri, Switzerland[1]	100	1.9
Koenig & Bauer (CEE) Sp. z o.o., Warsaw, Poland	KBA CEE Sp. z o.o., Warschau, Poland	100	1.6
Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş., Istanbul, Turkey		80	0.0

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

Company, location	Formerly	Capital share in %	Equity in €m
Consolidated affiliates			
Koenig & Bauer (US) Inc., Wilmington, DE, USA	KBA North America Inc., Wilmington,DE, USA	100	23.1
Koenig & Bauer LATAM, S.A.P.I. de C.V., Mexico City, Mexico	KBA LATINA S A P I DE CV, Mexico City, Mexico	80	1.4
Koenig & Bauer (HK) Co. Limited, Hong Kong, China	KBA (HK) Company Ltd., Hong Kong, China	100	1.7
Koenig & Bauer Printing Machinery (Shanghai) Co., Limited, Shanghai, China	KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100	2.6
Non-consolidated affiliates			
PrintHouseService GmbH, Würzburg, Germany		100	0.1[3]
Koenig & Bauer DK A/S, Værløse, Denmark	KBA NORDIC A/S, Værløse, Denmark	100	-1.7[2, 3]
Koenig & Bauer (RU), LLC, Moscow, Russia	KBA RUS OOO, Moscow, Russia	100	-0.7[2, 3]
Koenig & Bauer Kammann (US), Inc., Portsmouth, NH, USA[1]	KBA-Kammann USA, Inc., Portsmouth, NH, USA[1]	100	4.1
Koenig & Bauer (BR) Comércio de Impressoras e Serviços Ltda., São Paulo, Brasil	Koenig & Bauer do Brasil Comércio de Impressoras e Serviços Ltda., São Paulo, Brasil	100	-0.9[2, 4]
Koenig & Bauer (SEA) Sdn. Bhd., Kuala Lumpur, Malaysia	KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur, Malaysia	100	1.3
Koenig & Bauer KR Co. Ltd., Goyang-si, South Korea	KBA KOREA CO., LTD., Goyang-si, South Korea	100	0.2
Koenig & Bauer (JP) Co., Ltd, Tokyo, Japan	KBA Japan Co., Ltd, Tokyo, Japan	100	-0.3[2]
Koenig & Bauer (AU) Pty Ltd, Mount Waverley, Australia	KBA Australasia Pty. Ltd., Mount Waverley, Australia	100	-0.1[2]
KBA NotaSys India Private Limited, New Delhi, India[1]		100	0.7
Interests			
Koenig & Bauer Leasing GmbH, Bad Homburg, Germany	KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.4[3]

[1] Indirect interests
[2] Deficit not covered by equity
[3] Preliminary figures
[4] Previous year value

KBA-MePrint AG was merged with Koenig & Bauer Coding GmbH, Veitshöchheim, Germany, on 1 January 2018.

The acquisition of 80% of Koenig Bauer Duran Karton Ambalaj Teknolojileri Sanayi A.Ş., Istanbul, Turkey as of 31 December 2018 strengthened the Group's packaging printing business. The newly founded company for the sale and supply of folding-box gluing lines employs 51 people and achieved sales of €0.1m in 2018.

On 20 December 2018, 100% of Koenig & Bauer Immobilien GmbH, Würzburg, Germany, was acquired to manage real estate.

The sales and service company Koenig & Bauer LATAM, S A P I DE CV Mexico City, Mexico, was consolidated for the first time.

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

in €m	31.12.2017	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2018**	**Term to maturity up to 1 year**	**Term to maturity more than 1 year**
Trade receivables						
from affiliates	8.1	8.1	–	13.0	13.0	–
from companies in which interests are held	–	–	–	0.2	0.2	–
from third parties	300.2	288.0	12.2	142.8	137.1	5.7
	308.3	**296.1**	**12.2**	**156.0**	**150.3**	**5.7**
Investments	4.1	–	4.1	4.4	–	4.4
Other financial receivables						
from affiliates	1.8	1.8	–	3.2	3.2	–
derivatives	5.1	4.8	0.3	0.6	0.6	–
sundry other financial receivables	53.7	7.6	46.1	31.5	9.9	21.6
	64.7	**14.2**	**50.5**	**39.7**	**13.7**	**26.0**
Other assets						
contract assets	–	–	–	142.8	142.8	–
payments for inventories	12.7	12.7	–	15.4	15.4	–
tax receivables	13.6	13.6	–	16.7	16.7	–
prepayments	4.0	2.4	1.6	4.6	3.3	1.3
	30.3	**28.7**	**1.6**	**179.5**	**178.2**	**1.3**
	403.3	**339.0**	**64.3**	**375.2**	**342.2**	**33.0**

Due to the changes in accordance with IFRS 15, **trade receivables** include €19.2m (€151.5m) and contract assets include €114.3m for customer-specific production.

Other financial receivables included €0.1m (previous year: €0.4m) from customer finance leases totalling €0.1m (previous year: €0.4m), with those due in less than one year representing €0.1m (€0.2m) of a total of €0.1m (€0.2m) and in the previous year other receivables representing €0.2m of a total of €0.2m having terms to maturity of one to five years. Other financial receivables from derivatives are detailed in Note (G) (11).

Sundry other financial receivables comprise non-current claims of €21.2m (previous year: €45.2m) held against insurance companies arising from the partial external funding of the company pension scheme in Germany.

(3) Inventories

in €m	31.12.2017	**31.12.2018**
Raw materials, consumables and supplies	79.2	109.1
Work in progress	166.5	147.9
Finished goods and products	9.2	8.7
	254.9	**265.7**

The carrying amount of inventories balanced at net realisable value was €63.9m (previous year: €124m). Total value adjustments were reduced by €6.7m (previous year: €1.3m increased).

(4) Securities

These refer to shares in a fund combining stocks and bonds. The market value of the fund was €16.3m (previous year: €26m). 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	31.12.2017	31.12.2018
Cheques, cash in hand	0.1	0.1
Balances with banks	142.3	141.9
	142.4	**142.0**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

	Deferred tax assets		Deferred tax liabilities	
in €m	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**
Assets				
Intangible assets, property, plant and equipment	1.2	1.7	14.6	16.5
Inventories	21.9	40.0	2.4	3.2
Financial receivables and other assets	1.2	2.7	13.7	26.4
Securities	0.3	0.3	0.4	0.4
Equity and liabilities				
Provisions	34.8	37.1	5.2	4.2
Financial payables and other liabilities	5.5	5.0	17.6	29.6
	64.9	**86.8**	**53.9**	**80.3**
Tax loss carryforwards	43.5	39.1	–	–
Offset	-27.7	-46.4	-27.7	-46.4
	80.7	**79.5**	**26.2**	**33.9**
of which current deferred taxes	1.4	1.1	11.2	17.1

At the end of the year there were loss carryforwards totalling €281.8m (previous year: €286.8m) and temporary differences of €20.4m (€17.1m) for which no deferred tax assets were disclosed. Restructuring activities in recent years and other proposed reorganisational measures gave rise to positive earnings projections and the recognition of deferred tax assets totalling €0.5m (€3m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €1.6m (previous year: €1.1m), since a reversal in the foreseeable future was highly improbable.

Due to the selected planning period of only 3 years, the planned expenses for the growth offensive 2023 reduce the potential for capitalisation of deferred tax assets for technical reasons, as the positive earnings effects will only arise in the following years.

(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 89 and capital management methods on page 52 onwards.

Share capital

The Parent's share capital at 31 December 2018 totalled 16,524,783 (2017: 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 €3m (previous year: €9.5m). During completion of the underlying transactions €1.2m was recognised as an income (previous year: -€2m expense).

Deferred taxes increased reserves by €4.9m (previous year: -€0.8m), with defined benefit pension plans accounting for €4.1m (previous year: -€0.1m), derivatives of €0.8m (-€1.1m) and primary financial instruments of €0.4m in the previous year.

(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 connection with the external funding of part of the company pension plans the pension liability insurance claims of €63.8m reported within other financial receivables were netted with the pension provisions of €54m after being transferred to the eligible employees. The difference was recognised directly in equity.

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. When the pension fund was placed in collective asset management, the retirement benefit claims held by the pensioners were transferred and settled in full. This reduced the present value of pension obligations by €49.3m and the fair value of plan assets by €40.1m.

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: 1.9%) 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 0.9% to 3% (previous year: 0.7% to 2.7%). Calculations were further based on a pay increase of 1.8% (1.5%) and a fluctuation rate of 2.5% (2.7%). Pension adjustments were calculated at 1.4% (1.5%). 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:

	Present value of pension obligations		Fair value of plan assets		Net obligation/ Net asset	
in €m	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**
Status at 01.01.	**345.8**	**327.0**	**-133.3**	**-128.6**	**212.5**	**198.4**
Recognised in profit or loss						
Current service cost	11.0	9.4	–	–	11.0	9.4
Past service cost	-13.1	7.5	–	–	-13.1	7.5
Plan settlements	–	-49.3	–	40.1	–	-9.2
Interest cost/income	4.4	4.7	-1.1	-2.4	3.3	2.3
	2.3	**-27.7**	**-1.1**	**37.7**	**1.2**	**10.0**
Recognised in other comprehensive income						
Actuarial gain/loss						
demographic assumptions	–	1.6	–	–	–	1.6
financial assumptions	-7.0	-3.0	-1.2	0.7	-8.2	-2.3
experience adjustments	5.2	0.6	-7.8	6.9	-2.6	7.5
Other gain/loss	–	–	–	2.6	–	2.6
Cap due to limitation of net assets	–	–	–	–	–	9.9
	-1.8	**-0.8**	**-9.0**	**10.2**	**-10.8**	**19.3**
Other						
Contributions paid by employer	–	-	-3.6	-40.0	-3.6	-40.0
Contributions paid by plan beneficiaries	0.2	0.3	-1.8	-2.9	-1.6	-2.6
Benefits paid	-7.3	-8.2	1.8	2.8	-5.5	-5.4
Foreign currency changes	-12.1	3.9	10.2	-3.0	-1.9	0.9
Transfers	–	–	–	-28.0	–	-28.0
Other changes	-0.1	–	8.2	–	8.1	–
	-19.3	**-4.0**	**14.8**	**-71.1**	**-4.5**	**-75.1**
Status at 31.12.	**327.0**	**294.5**	**-128.6**	**-151.8**	**198.4**	**152.6**

Pension provisions and similar obligations constituted the following:

in €m	31.12.2017	**31.12.2018**
Present value of non-funded obligations	177.3	110.0
Present value of funded obligations	149.7	184.5
Present value of obligations	**327.0**	**294.5**
Fair value of plan assets	-128.6	-151.8
Cap due to limitation of net assets	–	9.9
Pension provisions and similar obligations	**198.4**	**152.6**

Plan assets comprised €19.4m (previous year: €55.1m) from shares and equity securities, €27.7m (€34.4m) from loans, €14.5m (€6.3m) from cash and cash equivalents, €75.1m (€10.2m) from pension liability insurance and €15.1m (€22.6m) 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 €1.7m (previous year: €2.3m). The anticipated rate of return is 1.6% (previous year: 0.9%), based on returns in previous years.

Plan contributions for 2019 are estimated at €7.8m (previous year: €3.1m).

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:

	Benefit obligation			
	Increase		Decrease	
in €m	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**
Discount rate (0.5% change)	-28.0	**-26.2**	32.1	**30.3**
Salary increase rate (0.5% change)	1.5	**1.6**	-1.4	**-1.5**
Pension increase rate (0.5% change)	17.6	**15.2**	-16.1	**-13.8**
Fluctuation rate (0.5% change)	-0.4	**-0.5**	0.4	**0.5**
Life expectancy (1 year change)	9.3	**8.9**	-9.3	**-8.9**

The weighted duration of pension obligations is 20.1 years (previous year: 18.7). In 2018 pension payments totalled €8.2m (previous year: €7.3m).

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 €30.1m (previous year: €31.6m).

(9) Other provisions

in €m	01.01.2018	Group additions	Con-sumption	Reversal	Allocation	Unwind of discount	Exchange differences	Reclassi-fications	**31.12.2018**
Other provisions									
for personnel and social obligations	28.1	–	15.6	1.2	8.5	0.1	0.1	–	**20.0**
for warranties and goodwill gestures	43.3	0.1	13.7	10.8	18.2	–	–	-0.8	**36.3**
for obligations related to sales	21.0	–	5.6	2.7	4.7	–	–	1.3	**18.7**
for self-disclosure proceed-ings in Switzerland	40.3	–	2.0	–	3.5	–	0.9	–	**42.7**
for sundry obligations	39.0	0.2	24.6	1.0	27.8	–	0.3	-0.5	**41.2**
	171.7	**0.3**	**61.5**	**15.7**	**62.7**	**0.1**	**1.3**	**–**	**158.9**
of which									
long-term provisions	27.1								**20.9**
short-term provisions	144.6								**138.0**
	171.7								**158.9**

Provisions for **personnel and social obligations** include provisions for the realignment of the Group as well as long-service benefits, performance-related remuneration and partial retirement credits as far as these were not offset against securities.

Provisions for **obligations related to sales** primarily concern litigation risks and commission obligations.

The provisions for **sundry obligations** include performance obligations of €22.3m (€22m) as well as professional association contributions, archiving costs and similar obligations.

Long-term provisions include 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

		Term to maturity			**Term to maturity**	
in €m	31.12.2017	up to 1 year	more than 1 year	**31.12.2018**	**up to 1 year**	**more than 1 year**
Trade payables						
to affiliates	0.7	0.7	–	2.4	2.4	–
to companies in which interests are held	0.3	0.3	–	–	–	–
to others	71.1	70.9	0.2	80.1	80.1	–
	72.1	**71.9**	**0.2**	**82.5**	**82.5**	**–**
Bank loans	43.0	42.0	1.0	74.4	73.4	1.0
Other financial payables						
from derivatives	1.2	1.1	0.1	1.5	1.4	0.1
to affiliates	0.1	0.1	–	–	–	–
sundry	65.2	57.7	7.5	72.7	67.4	5.3
	109.5	**100.9**	**8.6**	**148.6**	**142.2**	**6.4**
Other liabilities						
from payments received from affiliates	0.7	0.7	–	–	–	–
from payments received from third parties	130.1	130.1	–	111.1	111.1	–
from taxes	16.8	16.8	–	16.4	16.4	–
sundry	4.2	3.0	1.2	9.0	8.1	0.9
	151.8	**150.6**	**1.2**	**136.5**	**135.6**	**0.9**
	333.4	**323.4**	**10.0**	**367.6**	**360.3**	**7.3**

Bank loans were secured by mortgages to the value of €5.3m (previous year: €4.9m), the assignment of trade receivables totalling €2.8m (€2.8m) and the pledging of securities worth €32.9m in the previous year. The carrying amounts of property, plant and equipment pledged as collateral came to €8.6m (€8.1m) and of trade receivables €4.3m (€62.9m). 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 €110.8m (previous year: €172.9m).

Sundry **other financial payables** included finance leases to the sum of €6.9m (previous year: €9m). Standard market conditions apply to renewal and purchase options.

The present value of future payments for finance leases was broken down as follows:

in €m	31.12.2017	Term to maturity up tp 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2018**	**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	2.8	6.7	–	7.2	2.4	4.8	–
Interest portion	-0.5	-0.2	-0.3	–	-0.3	-0.2	-0.1	–
Present value of finance lease	**9.0**	**2.6**	**6.4**	**–**	**6.9**	**2.2**	**4.7**	**–**

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: €16.4m) for customer-specific production.

(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 Total 31.12.2017	Nominal amount Term to maturity more than 1 year	Market value 31.12.2017	**Nominal amount Total 31.12.2018**	**Nominal amount Term to maturity more than 1 year**	**Market value 31.12.2018**
Forward contracts	241.8	4.0	3.9	103.9	3.0	-0.7
Currency options	59.6	–	0.1	10.5	–	-0.1
Interest rate hedges	1.0	1.0	-0.1	1.0	1.0	-0.1
	302.4	**5.0**	**3.9**	**115.4**	**4.0**	**-0.9**

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 €78.8m (previous year: €151.4m) was -€0.7m (€2.8m).

A 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 hedge expires when a defined maximum improvement is reached.

Currency forwards to hedge cash flows denominated in CHF have been executed for CHF 24m (previous year: CHF 20m).

Interest rate swaps with a maturity of up to 1.5 years (previous year: 2.5 years) covered subsidiaries' existing interest risk.

(12) Further disclosures on financial instruments

in €m (in accordance with IAS 39)	Carrying amount	of which not impaired, not overdue	of which not impaired, but overdue			of which impaired
			< 3 months	3-12 months	> 12 months	
31.12.2017						
Loans and receivables	**313.3**	279.3	15.8	4.5	1.2	12.5
Gross amounts 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 (in accordance with IAS 39)	Category under IAS 39[1]	31.12.2017 Carrying amount	Carrying value			31.12.2017 Fair value
			Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	
Assets						
Investments and other financial receivables						
interests in affiliates	afs	4.1	4.1	–	–	–
other financial receivables from finance leases	lar	0.4	0.4	–	–	0.4
other financial receivables from derivatives	rafv	2.0	–	2.0	–	2.0
other financial receivables from hedge accounting	–	3.1	–	–	3.1[3]	3.1
sundry other financial receivables	htm	45.2	45.2	–	–	45.2
	lar	9.9	9.9	–	–	9.9
		64.7	**59.6**	**2.0**	**3.1**	**60.6**
Trade receivables	lar	160.6	160.6	–	–	160.6
Gross amounts due from customers for contract work	lar	147.7	147.7	–	–	147.7
Securities	afs	21.6	–	–	21.6[2]	21.6
Cash and cash equivalents	lar	142.4	142.4	–	–	142.4
		537.0	**510.3**	**2.0**	**24.7**	**532.9**
Liabilities						
Bank loans and other financial payables						
bank loans	ofp	43.0	43.0	–	–	43.0
other financial payables from finance leases	ofp	9.0	9.0	–	–	8.7
other financial payables from derivatives	rafv	0.9	–	0.9[3]	–	0.9
other financial payables from hedge accounting	–	0.3	–	–	0.3[3]	0.3
sundry other financial payables	ofp	56.3	56.3	–	–	56.3
		109.5	**108.3**	**0.9**	**0.3**	**109.2**
Trade payables	ofp	72.1	72.1	–	–	72.1
		181.6	**180.4**	**0.9**	**0.3**	**181.3**

[1] lar = loans and receivables
htm = held to maturity
rafv = recognised at fair value
afs = available for sales
ofp = other financial payables
[2] level 1 of fair-value hierarchy
[3] level 2 of fair-value hierarchy

in €m (in accordance with IFRS 9)	31.12.2018 Carrying amount	Carrying value: Amortised cost	Carrying value: FVTPL Fair value through profit and loss	Carrying value: FVOCI Fair value through OCI	Carrying value: Fair value hedges	31.12.2018 Fair value
Assets						
Investments and other financial receivables						
interests in affiliates	4.4	–	–	4.4	–	–
other financial receivables from finance leases	0.1	0.1	–	–	–	0.1
other financial receivables from derivatives	0.1	–	0.1	–	–	0.1
other financial receivables from hedge accounting	0.5	–	–	–	0.5[2]	0.5
sundry other financial receivables	34.6	34.6	–	–	–	34.6
	39.7	**34.7**	**0.1**	**4.4**	**0.5**	**35.3**
Trade receivables	136.8	136.8	–	–	–	136.8
Gross amounts due from customers for contract work	19.2	19.2	–	–	–	19.2
Securities	16.3	–	16.3[1]	–	–	16.3
Cash and cash equivalents	142.0	142.0	–	–	–	142.0
	354.0	**332.7**	**16.4**	**4.4**	**0.5**	**349.6**
Liabilities						
Bank loans and other financial payables						
bank loans	74.4	74.4	–	–	–	74.4
other financial payables from finance leases	6.9	6.9	–	–	–	6.7
other financial payables from derivatives	0.3	–	0.3[2]	–	–	0.3
other financial payables from hedge accounting	1.2	–	–	–	1.2[2]	1.2
sundry other financial payables	65.8	65.8	–	–	–	65.8
	148.6	**147.1**	**0.3**	**–**	**1.2**	**148.4**
Trade payables	82.5	82.5	–	–	–	82.5
	231.1	**229.6**	**0.3**	**–**	**1.2**	**230.9**

[1] level 1 of fair-value hierarchy
[2] level 2 of fair-value hierarchy

For **interests in affiliates** no prices were quoted in an active market. A fair value is not determined because the non-consolidated subsidiaries are of minor importance to the Group.

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 **sundry other financial receivables/payables** were basically the carrying amounts recognised at amortised cost.

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 €76m (previous year: €45m) within the next twelve months, €5.4m (€5.7m) in one to three years and €0.6m (€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.

			from subsequent measurement			
in €m	**Net gain/loss**	from interest	due to impairment	currency impact	from disposal	Other
2017 (in accordance with IAS 39)						
Loans and receivables	**-17.5**	–	-5.6	-9.8	-2.1	–
Gross amounts 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**
2018 (in accordance with IFRS 9)						
Equity instruments at fair value through other comprehensive income	**0.1**	–	–	–	–	0.1
Debt instruments at fair value through profit and loss	**-1.6**	–	–	-0.9	–	-0.7
Financial assets at amortised cost	**1.0**	-0.5	5.9	–	-4.4	–
Gross amounts due from customers for contract work at amortised cost	**-0.4**	–	-0.4	–	–	–
Financial liabilities at amortised cost	**-0.7**	-0.5	–	-0.2	–	–
	-1.6	**-1.0**	**5.5**	**-1.1**	**-4.4**	**-0.6**

The credit risk for trade receivables and contract assets is managed by recognising loss allowances in the amount of the expected credit losses over the term. In addition, there are secured assets of €12.3m that are not exposed to any credit risk.

Carrying amount

in €m (in accordance with IFRS 9)	Credit-worthiness not impaired	Credit-worthiness impaired	31.12.2018
Carrying amount			
not overdue	229.1	0.7	229.8
Overdue by 1-30 days	12.0	–	12.0
Overdue by 31-90 days	8.9	1.0	9.9
Overdue by more than 90 days	20.7	0.9	21.6
Group	**270.7**	**2.6**	**273.3**

The following table presents the impairments of trade receivables and contract assets for 2018 and the comparative figures for 2017 in accordance with IAS 39. Impairments of €7.5m have also been recognised on other financial assets.

Impairments

in €m (in accordance with IFRS 9)	Credit-worthiness not impaired	Credit-worthiness impaired	31.12.2018
1 January in accordance with IAS 39	3.6	22.4	26.0
Adjustment in accordance with IFRS 9	-0.5	–	-0.5
1 January in accordance with IFRS 9	3.1	22.4	25.5
Utilised	–	-1.1	-1.1
Reversed	–	-7.8	-7.8
Added	0.1	2.4	2.5
31 December	**3.2**	**15.9**	**19.1**

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 €48.9m (previous year: €95.5m), primarily relating to the “at amortised cost” category (previous year: “loans and receivables”). The effects of changes in currency exchange rates on equity and the net profit/loss are shown in the following table.

	Equity		Net profit/loss	
in €m	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**
Devaluation USD by 5%	7.2	1.4	3.4	-0.4
Revaluation USD by 5%	-8.6	-2.0	-8.2	-0.1
Devaluation JPY by 5%	0.5	0.1	-0.1	-0.3
Revaluation JPY by 5%	-0.6	-0.1	0.1	0.3

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	31.12.2017	Term to maturity up to 1 year	Term to maturity 1 to 5 years	Term to maturity more than 5 years	**31.12.2018**	**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	6.6	3.2	3.4	–	6.5	3.4	3.1	–
rental and service contracts	22.5	10.0	12.4	0.1	30.4	12.2	18.0	0.2
investment plans	2.1	2.1	–	–	2.2	2.2	–	–
sundry other activities	6.6	4.3	2.1	0.2	6.8	4.4	2.2	0.2
	37.8	**19.6**	**17.9**	**0.3**	**45.9**	**22.2**	**23.3**	**0.4**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €4.3m (previous year: €4m) 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 €1.6m (previous year: €2m).

Contingent liabilities

These comprised contingencies totalling €21.8m (previous year: €19.4m) 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 €3.1m (previous year: €2.6m) were created for existing risks that were not classified as minor.

(H) Explanatory notes to the income statement

(14) Revenue

The Group primarily generates revenue from contracts with customers. Revenue from the sale of presses came to €882.3m (€876.4m) and revenue from other deliveries and services €343.7m (€341.2m). The breakdown by product group is shown in Note (J).

In the year under review, revenue from customer-specific production of €256.5m (€ 241.7m) was recognised; cumulative revenue from orders not yet completed as of the balance sheet date amount to €382.2m (€508.6m).

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

(15) Expenses by function

Cost of sales

The **cost of sales** includes product developments of €0.2m. In the previous year, it had included an environmental premium of €0.1m and advances of €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 €259.6m (previous year: €306.6m).

Following a change in the allocation of expenses within the functional areas, the cost of sales in the previous year was reduced by €9.5m to improve comparability.

Research and development costs

At €44.3m, **research and development costs** were below the previous year's figure of €48.4m.

Distribution costs and administrative expenses

Distribution costs fell from €140.9m (€141m before change in presentation) to €138.8m, while **administrative expenses** rose slightly from €90.1m (€80.5m before change in presentation) to €94.2m. This includes an advance 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	2017	2018
Cost of raw materials, consumables, supplies and purchased goods	455.8	445.7
Cost of purchased services	98.0	104.4
	553.8	**550.1**

Personnel costs (in accordance with the overhead cost method)

in €m	2017	2018
Wages and salaries	336.6	350.7
Social security and other benefits	60.4	63.5
Pensions	7.8	6.5
	404.8	**420.7**
Average payroll		
Wage-earning industrial staff	2.583	2.661
Salaried office staff	2.548	2.686
Apprentices/students	319	297
	5.450	**5.644**

(17) Other income and expenses

in €m	2017	2018
Gains from the disposal of intangible assets, property, plant and equipment	0.9	6.7
Foreign currency gains	10.0	3.3
Currency measurement	4.9	7.4
Sundry other operating income	7.2	12.1
Other operating income	**23.0**	**29.5**
Losses from the disposal of intangible assets, property, plant and equipment	-0.8	-1.3
Foreign currency losses	-5.3	-9.2
Currency measurement	-8.7	-5.1
Sundry other operating expenses	-17.3	-10.6
Other operating expenses	**-32.1**	**-26.2**
Impairment gains and losses on financial assets	**3.7**	**6.4**
Other income and expenses	**-5.4**	**9.7**

Sundry other operating income includes an amount of €3.9m (previous year: €2.6m) from the reversal of provisions. It also included insurance and compensation claims and other refunds.

Sundry other operating expenses include customer credit notes, warranty claims and contributions to provisions for legal and sales risks.

Impairment gains and losses on financial assets primarily relate to trade receivables and contract assets.

(18) Financial result

in €m	2017	2018
Other financial results		
Income from interests in affiliates	0.7	0.1
Expenses from securities	–	-0.7
	0.7	**-0.6**
Interest income/expense		
Other interest and similar income	3.3	1.4
of which affiliates	(0.3)	(0.1)
Other interest and similar expenses	-6.2	-4.9
from pension obligations	(-3.3)	(-2.3)
	-2.9	**-3.5**
Financial result	**-2.2**	**-4.1**

(19) Income taxes

in €m	2017	2018
Actual tax expense	-9.4	-5.2
Deferred taxes from loss carryforwards	16.9	-4.4
Deferred tax income from temporary differences	-4.4	-10.5
Prior-period income taxes	-0.7	-0.5
Deferred taxes from variances in tax rates	0.2	0.7
	2.6	**-19.9**

in €m	2017	2018
Earnings before taxes	**78.5**	**83.9**
Group tax rate	30%	30%
Expected taxes	**-23.6**	**-25.2**
Tax effects from		
variances due to different tax rates	-0.8	0.9
tax-free earnings	0.2	0.5
impairment gains	28.6	3.0
decreases and increases	-2.1	0.9
other	0.3	–
Income tax	**2.6**	**-19.9**

The approach of previously unrecognised tax losses and temporary differences relating to subsidiaries led to deferred tax income of €0.4m (previous year: €22.1m). Their use reduces the actual tax expense by €6.4m (previous year: €12.3m).

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

(20) Earnings per share

	2017	2018
Net profit attributable to owners of the Parent in €m	81.1	63.8
Weighted average of ordinary shares issued	16,524,783	16,524,783
Earnings per share in €	**4.91**	**3.86**

(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 €142m (previous year: €142.4m) included cash and cash equivalents.

An amount of €6.1m was spent in the year under review for business combinations and settled in full through payment.

(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 such as rotary/flatbed die cutters and folding-box gluing lines.

Digital and offset web-fed presses for decor, flexible packaging, newspaper und commercial 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.

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.

	Segments						Reconciliation		Group	
	Sheetfed		Digital & Web		Special					
in €m	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**
Revenue by product group										
Presses	462.5	451.2	71.1	67.3	343.5	363.8	-0.7	–	876.4	882.3
Replacement parts	62.4	61.0	33.7	31.2	46.6	49.7	–	–	142.7	141.9
Service	60.9	66.1	45.7	48.5	62.7	61.6	–	–	169.3	176.2
Other	74.4	69.1	3.7	3.7	15.1	15.4	-64.0	-62.6	29.2	25.6
Revenue	**660.2**	**647.4**	**154.2**	**150.7**	**467.9**	**490.5**	**-64.7**	**-62.6**	**1,217.6**	**1,226.0**
EBIT	37.5	36.5	-4.3	-10.5	53.7	49.7	-5.5	11.7	81.4	87.4
Depreciation	12.0	12.7	2.3	2.1	8.0	7.0	8.7	7.1	31.0	28.9
Major non-cash expenses	27.6	28.4	5.0	5.3	22.4	21.8	5.5	7.3	60.5	62.8
Capital investments	13.8	16.9	10.0	9.4	5.9	6.8	20.4	17.4	50.1	50.5

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.

	Revenue		Capital Investments		Non-current assets	
in €m	2017	**2018**	2017	**2018**	2017	**2018**
Germany	132.7	170.6	45.0	45.2	200.0	233.9
Rest of Europe	448.1	414.6	4.9	5.1	57.2	56.2
North America	215.3	181.2	0.1	0.1	0.5	0.4
China	90.1	101.0	0.1	0.1	0.3	0.3
Rest of Asia/Pacific	202.1	209.1	–	–	–	3.5
Africa/Latin America	129.3	149.5	–	–	–	–
Reconciliation	–	–	–	–	131.1	105.5
Group	**1,217.6**	**1,226.0**	**50.1**	**50.5**	**389.1**	**399.8**

(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 2018 came to €717 thousand for auditing services, €56 thousand for other attestation services, €64 thousand for tax consulting and €239 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, services were rendered in connection with enforcement proceedings.

The other attestation services relate to a separate assurance engagement of the non-financial group report and the contractual audits under ISRS 4400. Tax consulting services primarily comprise support with transfer pricing matters. 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 2018.

Company/location
Koenig & Bauer Industrial AG & Co. KG, Würzburg, Germany
Koenig & Bauer Sheetfed AG & Co. KG, Radebeul, Germany
Koenig & Bauer Digital & Webfed AG & Co. KG, Würzburg, Germany
KBA-NotaSys AG & Co. KG, Würzburg, Germany
Koenig & Bauer (DE) GmbH, Radebeul, Germany
Koenig & Bauer Coding GmbH, Veitshöchheim, Germany
Koenig & Bauer Kammann GmbH, Bad Oeynhausen, Germany
Koenig & Bauer MetalPrint GmbH, Stuttgart, Germany

(M) Related party disclosures

Related parties as defined by IAS 24 are all consolidated subsidiaries, 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	2017	**2018**
Other current financial receivables at 31.12.	1.8	3.2
Trade receivables at 31.12.	8.1	13.2
Trade payables at 31.12.	1.0	2.4
Other current financial payables at 31.12	0.1	–
Payments received at 31.12.	0.7	–
Revenue	23.2	26.7

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 €0.2m (previous year: €28 thousand) for these services.

Short-term management board remuneration totalled €4.6m (previous year: €3.5m), with the fixed portion representing €2.4m (€2.1m). The variable portion was based on net profit. Pension provisions were increased by €1.3m (previous year: €0.6m) for the current service cost. Provisions of €1.6m (€1.4m) were recognised for remuneration for former members and their survivors. Supervisory Board remuneration totalled €0.4m (€0.4m), of which €0.4m (€0.4m) was fixed.

In accordance with the guidelines stated in IAS 19 (revised) €37.7m (previous year: €36.7m) 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 69 onwards. The Management Board's total remuneration in accordance with German commercial law corresponds to the short-term benefits mentioned.

At 31 December 2018 members of the Management Board held 5.08% and members of the Supervisory Board 0.02% of Koenig & Bauer's share capital, giving a total of 5.10%.

Supervisory Board

Dr Martin Hoyos
Chairman
Independent corporate consultant
Schwertberg, Austria

Gottfried Weippert[1]
Deputy chairman
Technician
Eibelstadt, Germany

Dagmar Rehm
Deputy chairman
CFO juwi AG, Wörrstadt
Langen, Germany

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

Carsten Dentler
Corporate consultant
Bad Homburg v. d. Höhe, Germany

Marc Dotterweich[1]
Cutting machine operator
Birkenfeld, Germany

Matthias Hatschek
Entrepreneur
St Martin, Austria

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

Christopher Kessler[1]
General Counsel Koenig & Bauer AG
Würzburg, Germany

Professor Raimund Klinkner[2]
(since 19 November 2018)
Managing Partner
Institute for Manufacturing Excellence GmbH
Gräfelfing, Germany

Professor Gisela Lanza
University Professor
Karlsruher Institute of Technology
Karlsruhe, Germany

Walther Mann[1]
Representative of IG Metall –
Administrative office Würzburg, Germany
(until 30 June 2018)
Consultant (since 1 July 2018)
Würzburg, Germany

Dr Andreas Pleßke
(from 1 June 2018 until 7 November 2018)
Restructuring Manager/Lawyer
Herrsching am Ammersee, Germany

Simone Walter[1,2]
Head of product development
Koenig & Bauer Coding GmbH
Arnstein, Germany

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 2018

Management Board

Claus Bolza-Schünemann
President and CEO
Würzburg, Germany

Dr Mathias Dähn
CFO
Krailling, Germany

Christoph Müller
Executive vice-president Digital & Web segment
Würzburg, Germany

Dr Andreas Pleßke
(until 31 May 2018 and from 1 December 2018)
Executive vice-president Special segment
Herrsching am Ammersee, Germany

Ralf Sammeck
Executive vice-president Sheetfed segment
Radebeul, Germany

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

	Member of the supervisory board at:
Dagmar Rehm, deputy chairman	O'Donovan Consulting AG, Bad Homburg, Germany
Julia Cuntz	KME Germany Beteiligungs GmbH, Osnabrück, Germany
Carsten Dentler	Scope SE & Co. KGaA, Berlin, Germany
Christopher Kessler	PrintHouseService GmbH, Würzburg, Germany
Professor Raimund Klinkner	Terex Corporation, Westport, CT, USA
Professor Gisela Lanza	Bosch Rexroth AG, Lohr am Main, Germany (until 31 March 2018) Mahle GmbH, Stuttgart, Germany ZF Friedrichshafen AG, Friedrichshafen, Germany Hager SE, Blieskastel, Germany
Walther Mann	Procter & Gamble Germany GmbH & Co. Operations oHG, Schwalbach am Taunus, Germany
Dr Andreas Pleßke	SmartOne Consulting AG, Berg, Germany m.a.x Informationstechnologie AG, München, 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 €16,524,783 as follows:

Distribution of a dividend of €1 per share comprising a total of 16,524,783 ordinary shares	€16,524,783.00

Würzburg, 20 March 2019
Management Board

Claus Bolza-Schünemann
Chairman

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 31 December 2018, and the consolidated income statement, the statement of comprehensive group income, statement of changes in group equity and the group cash flow statement for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report ("group management report") of Koenig & Bauer AG, Würzburg, for the financial year from 1 January to 31 December 2018.

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 of 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, 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 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 (IDW) [Institute of Public Auditors in Germany]. 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 1 January to 31 December 2018. 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 the 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

€79.5m in deferred tax assets was recognised as at 31 December 2018, of which €39.1m 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 €39.1m in deferred tax assets on loss carryforwards in financial year 2018. 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 tax specialists in the audit to assess the tax matters. We initially critically examined the temporary differences between the IFRS carrying amounts and the respective tax base. Furthermore, we reconciled the loss carryforwards to the tax assessments and the 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 management 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.

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 2018, 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 management of the Company. 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 management of the Company.

Our observations

The assumptions made by management are appropriate.

Migration of financial accounting to SAP S/4 HANA

Please see management's comments in the section "Orderly accounting through internal monitoring" in the chapter "Corporate structures" and the comments on IT risks in the chapter "Risk report".

The financial statement risk

With effect from 1 May 2018, the Company replaced the IT systems in the Koenig & Bauer Industrial AG & Co. KG business unit, which had previously been solutions largely developed in-house, with the SAP S/4 HANA integrated financial accounting system.

There is the risk for the financial statements that the system conversion to SAP S/4 HANA has led to stock and movement data not being accurately transferred during data migration and that the changed processes and financial reporting-related controls may result in material misstatement in the financial statements. Migration to SAP S/4 HANA affects nearly all items in the balance sheet and income statement and thus also core operational processes such as purchasing, sales and inventories of the Koenig & Bauer Industrial AG & Co. KG business unit.

Our audit approach

To assess the completeness and accuracy of data migration to SAP S/4 HANA and to evaluate the design and effectiveness of the automated controls, the project was supported by our IT specialists as part of a project-based audit. The necessary audit assurance was obtained largely by means of a control-based approach. To this end, from a risk perspective, we particularly evaluated the processes in purchasing, sales and stock control and valuation of inventory. We obtained an understanding of the processes based on interviews with project management and employees as well as by inspecting transactions selected according to risk criteria. Relevant controls were identified in order to assess the completeness and accuracy of data transfer and migration to SAP S/4 HANA. In this process, we focused on changes in the process, including the newly designed controls. The main emphasis was on automated controls for ensuring process transparency and the traceability and changeability of data. Among other elements, the effectiveness of the automated comparison of orders, delivery notes and invoices was assessed in the purchase and sales process.

We assessed the test cases conducted by Koenig & Bauer and the results that emerged from these test cases, and on this basis evaluated the functionality of the newly defined business processes.

As part of the migration to SAP S/4 HANA, Koenig & Bauer AG defined a migration process for the complete and accurate transfer of data. Following technical migration, all migrated balances documented in legacy systems were reconciled with those in SAP S/4 HANA. To check completeness and accuracy, we examined the documentation of this reconciliation using a deliberate selection.

Our observations

The necessary data migration due to financial accounting at Koenig & Bauer Industrial AG & Co. KG being converted to SAP S/4 HANA, as well as the accompanying process changes, is suitable and appropriate as a whole.

Other information

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

- the separate non-financial group report and

- 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.

In accordance with our engagement, we conducted a separate assurance engagement of the separate non-financial group report. Please refer to our assurance report dated 20 March 2019, for information on the nature, scope and findings of this assurance engagement.

Responsibilities of Management and the Supervisory Board for the consolidated financial statements and the Group management report

Management is responsible for the preparation of 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 judgement and maintain professional scepticism 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 controls.

- 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 group auditor at the annual general meeting on 9 May 2018. We were engaged by the Supervisory Board on 6 November 2018. We have been the group auditor of Koenig & Bauer AG without interruption since financial year 2010.

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, 20 March 2019

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

Janz [German Public Auditor]	Dr Schroff [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 nonfinancial 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, 315c in conjunction with 289c to 289e German Commercial Code (HGB) for the period from January 1 to December 31, 2018.

Management's responsibility

The legal representatives of Koenig & Bauer AG are responsible for the preparation of the nonfinancial 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, this 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 for the period January 1 to December 31, 2018 has not been prepared, in all material respects in accordance with §§ 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 significantly less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

[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.

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

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 for the period from January 1 to December 31, 2018 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, 20 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Hell	Glöckner Wirtschaftsprüfer [German Public Auditor]

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined management report includes a fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Würzburg, 20 March 2019
The Management Board

Claus Bolza-Schünemann
Chairman

Dr Mathias Dähn

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Balance sheet for Koenig & Bauer AG to 31 December 2018

Under the German Commercial Code (HGB)

in €m	31.12.2017	**31.12.2018**
Assets		
Non-current assets		
Intangible assets	9.3	21.8
Property, plant and equipment	77.0	77.5
Financial assets	185.7	192.8
	272.0	**292.1**
Current assets		
Other receivables and assets	122.9	176.3
Cash and cash equivalents	18.0	42.3
	140.9	**218.6**
Deferred income	**2.4**	**2.4**
Positive difference from asset allocation	**11.5**	**2.5**
	426.8	**515.6**
Equity and liabilities		
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	113.9	113.9
Retained earnings	14.9	16.5
	259.3	**260.9**
Special items with equity portion	**2.1**	**1.8**
Provisions		
Pension and similar provisions	73.9	77.5
Tax provisions	7.3	10.0
Other provisions	23.8	25.0
	105.0	**112.5**
Liabilities		
Bank loans	–	65.0
Trade payables	4.1	5.9
Other liabilities	56.3	69.5
	60.4	**140.4**
	426.8	**515.6**

Income statement for Koenig & Bauer AG 2018

Under the German Commercial Code (HGB)

in €m	2017	**2018**
Revenue	78.4	86.8
Cost of sales	-55.1	-59.4
Gross profit	**23.3**	**27.4**
Administrative expenses	-25.2	-35.5
Other operating income	9.3	12.5
Other operating expenses	-25.1	-14.0
Profit from operations	**-17.7**	**-9.6**
Financial result	40.1	29.4
Income taxes	-6.6	-3.0
Earnings after taxes	**15.8**	**16.8**
Other taxes	-0.4	-0.3
Net profit	**15.4**	**16.5**
Profit carried forward	8.3	14.9
Distribution of profit	-8.3	-14.9
Transfer to other reserves	-0.5	–
Retained earnings	**14.9**	**16.5**

Key financial dates

Interim report on 1st quarter 2019

3 May 2019

Koenig & Bauer Annual General Meeting

22 May 2019
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2019

1 August 2019

Interim report on 3rd quarter 2019

7 November 2019

Contact / Imprint

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www.walchdruck.de

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5-year overview

in €m	2014	2015	2016	2017	**2018**
Order intake	956.9	1,182.7	1,149.7	1,266.3	**1,222.0**
Order backlog at 31.12.	417.3	574.9	557.5	606.2	**610.9**
Revenue	1,100.1	1,025.1	1,167.1	1,217.6	**1,226.0**
Earnings before interest and taxes (EBIT)	13.3	35.9	87.1	81.4	**87.4**
EBIT margin in %	1.2	3.5	7.5	6.7	**7.1**
Earnings before taxes (EBT)	5.5	29.7	81.0	78.5	**83.9**
EBT margin in %	0.5	2.9	6.9	6.4	**6.8**
Net profit	0.3	26.9	82.2	81.1	**64.0**
Balance sheet total	1,014.7	976.9	1,085.5	1,163.9	**1,178.3**
Intangible assets, property, plant and equipment	228.7	224.2	239.5	256.3	**293.0**
Equity	227.2	258.4	337.8	424.0	**453.4**
Equity ratio in %	22.4	26.5	31.1	36.4	**38.5**
Cash flows from operating activities	43.2	-15.3	21.9	23.8	**66.3**
Investment in intangible assets, property, plant and equipment	21.7	28.4	31.9	50.1	**50.5**
Depreciation on intangible assets, property, plant and equipment	30.5	29.1	27.7	31.0	**28.9**
Payroll: annual average	6,058	5,286	5,287	5,450	**5,644**
Earnings per share in €	0.03	1.62	4.98	4.91	**3.86**
Dividend per share in €	–	–	0.50	0.90	**1.00**

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