KOENIG & BAUER

Group Interim Report Third Quarter 2018

we're on it.

Koenig & Bauer Group in Figures

01.01. - 30.09. in €m	2017	**2018**
Order intake	903.4	**943.2**
Revenue	847.7	**788.8**
Order backlog at 30.09.	613.2	**769.3**
Export level in %	89.1	**87.0**
Earnings before interest and taxes (EBIT)	36.4	**28.6**
Earnings before taxes (EBT)	35.0	**25.4**
Net profit	29.5	**20.4**
Balance sheet total at 30.09. (prior year: 31.12.)	1,163.9	**1,119.6**
Equity at 30.09. (prior year: 31.12.)	424.0	**418.8**
Investment in intangible assets, property, plant and equipment	29.7	**27.4**
Depreciation on intangible assets, property, plant and equipment	21.7	**21.4**
Payroll at 30.09.	5,542	**5,698** [1]
- thereof apprentices/trainees	357	**341**
Cash flows from operating activities	–24.6	**50.5**
Earnings per share in €	1.79	**1.23**

[1] including 31 following the consolidation of KBA LATINA

The 25.5% increase in order backlog to €769.3m provides us with a good basis for achieving our targets for 2018. Strong security press business and growth in packaging printing markets caused Group order intake to rise by 4.4% to €943.2m. While the project situation is good, bottlenecks in the availability of parts dampen new business due to longer delivery times. We are currently working intensely on optimising our entire supply chain to achieve a sustained reduction in delivery times.

Group revenue came to €788.8m but fell short of the previous year's figure of €847.7m due to the even greater accumulation of delivery dates requested by our customers in Q4 and bottlenecks in the parts availability. This was also reflected in EBIT, which at €28.6m was lower than in 2017 (€36.4m).

The numerous press deliveries and service activities scheduled in the final months of the year will trigger a surge in revenue and earnings in Q4. In view of this business concentration, which is challenging due to the high capacity utilisation and the parts situation but not really unusual, we aim to achieve organic growth of around 4% in Group revenue for 2018. As things currently stand, we cannot rule out a shift of around €35m in revenue into 2019 as a result of delivery delays caused by bottlenecks in the parts availability. In terms of our earnings target for 2018, we are confident that we will achieve an EBIT margin of around 7% for the full year with higher revenue in view of the EBIT margin of 6.6% in the third quarter with low revenue. Global macroeconomic risks have increased due to trade conflicts and barriers, rising US interest rates and political uncertainties in Europe (Brexit, Italy) and in emerging countries.

In our Sheetfed segment, order intake, revenue and EBIT were affected in particular by bottlenecks in the availability of parts. Despite the growth in flexible packaging printing, order intake for Digital & Web was up only slightly on the previous year's figure due to fewer orders for newspaper and digital printing presses. Together with market-entry and growth-related expenses for corrugated board and flexible packaging, the lower revenue exerted pressure on EBIT. Despite substantially higher orders, revenue in the Special segment was slightly below the previous year's figure. However, the EBIT margin remained stable.

For a stronger profitable growth, we want to actively exploit the currently available market opportunities in corrugated board printing, flexible packaging and 2-piece can decorating alongside our service initiative. The same thing applies to marking & coding and postpress equipment such as rotary and flatbed die-cutters. Based on an addressed total market volume of currently around €2bn p.a. for machines, these business fields are expanding at annual rates of between 2% and 10% as they are 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 and smaller sizes due to more single-person households. With newly developed products such as

CorruCUT, CorruFLEX and CorruJET for corrugated board printing, CS MetalCan for 2-piece can decorating and the Rapida RDC 106 rotary die-cutter, we want to stand out from the competition with improved total cost of ownership, shorter make-ready times for ever more frequent job changes, greater ease of operation and high production output. The same thing also applies to our new and enhanced products for flexible packaging printing, flatbed die-cutters and marking & coding. Complex customer surveys and analyses always form the basis for our decisions. Our growth offensive 2023 necessitates additional experts and specialists in our global service and sales network as well as targeted portfolio additions based on platform concepts. We estimate the cumulative market-entry, growth-related and R&D expenses for 2019 to 2021 at around €50m. By 2023, we want to gradually generate additional revenue of around €200m in these addressed business areas. Given this favourable market environment with structural and above-average growth as well as less cyclical end markets such as food, beverages and pharmaceuticals, we want to gradually increase the EBIT margin from additional business to a double-digit figure at steady-state.

The Supervisory Board has appointed its member Dr Andreas Pleßke to the Management Board for five years with effect from 1 December 2018 for managing the Special segment. His area of responsibility also includes the optimisation of our internal production network. Furthermore, we are very pleased to have been able to find Prof Dr-Ing Raimund Klinkner as his successor to the Supervisory Board.

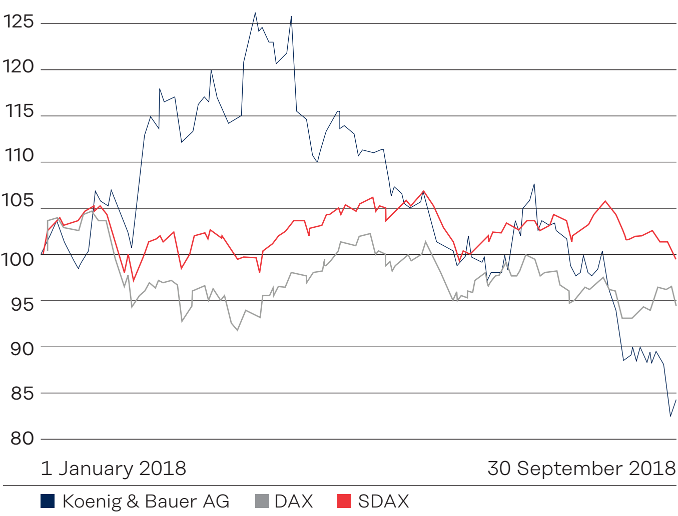
Claus Bolza-Schünemann
President and CEO of Koenig & Bauer AG

Koenig & Bauer Shares

After a good start to 2018 with new all-time highs, the German stock market came under pressure from mounting uncertainties in the global economy in the wake of trade conflicts, rising interest rates and political developments. This caused the DAX to drop by 5.2% at the end of September 2018 compared with the end of the previous year, while the SDAX was slightly lower. In this muted market environment, the Koenig & Bauer share was particularly 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 €52 at the end of the third quarter of 2018, our share was 17.2% down on its closing price at the end of 2017.

Koenig & Bauer shares

in %



Group Management Report

Business Performance

The Group's **order intake** rose by 4.4% over the previous year (€903.4m) to €943.2m, underpinned by strong security press business and growth in packaging printing markets. As a result of the accumulation of delivery dates in Q4 and bottlenecks in the parts availability, Group **revenue** of €788.8m was 6.9% lower than in 2017 (€847.7m). The export ratio narrowed from 89.1% to 87% due to the greater proportion of domestic business. Whereas the share of business in Europe excluding Germany contracted from 37.2% to 34.4% and North America from 18.1% to 15.4%, the share contributed by Asia/Pacific widened from 23.6% to 26.9%. Latin America and Africa accounted for 10.3% of Group revenue (2017: 10.2%). At €769.3m, the **order backlog** as of 30 September was up 25.5% on the previous year (€613.2m).

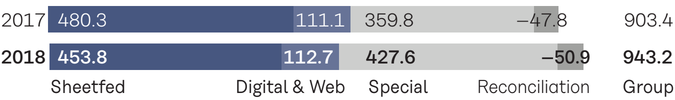
Earnings, Finances and Assets

Earnings

Together with market-entry and growth-related expenses for corrugated board and flexible packaging, the lower revenue exerted a material influence on the Group's **earnings**. The EBIT margin, which increased slightly year-on-year to 6.6%, is pleasing in the third quarter with a low level of revenue. Driven by good service business, the **gross profit margin** widened from 29.1% to 30.1%. At €36.7m, R&D costs were slightly up on the previous year's figure of €35.9m. Whereas administration expenses rose from €66.7m to

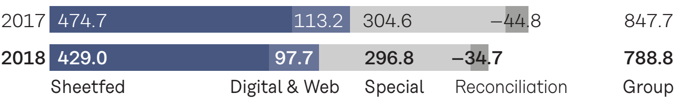
Group order intake

in €m



Group revenue

in €m



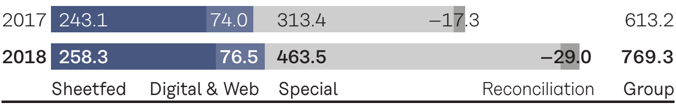
€73m, distribution costs dropped slightly to €102.6m (2017: €103.8m). Other operating income and expenses came to €3.2m after –€3.8m in 2017. This resulted in **EBIT** of €28.6m (2017: €36.4m). The interest result of –€3.2m (2017: –€1.4m) led to Group **earnings before taxes** of €25.4m, compared with €35m in the previous year. After income taxes, Group **net profit** stood at €20.4m (2017: €29.5m), equivalent to **earnings per share** of €1.23 (2017: €1.79).

Finances

Cash flows from operating activities were particularly strong, coming to €50.5m (2017: –€24.6m). Despite the higher inventories (+€82.5m) required for generating revenue in the fourth quarter, this significant improvement was particularly driven by lower customer receivables (–€101.5m) and higher customer prepayments (+€34.7m). In addition to the payments for investments, the **free cash flow** of –€13.1m (2017: –€87.8m) was burdened by the final payment instalment of €34.8m made in Q1 for the external funding of a part of the pension provisions. At the end of September 2018, **funds** stood at €123.4m (31 December 2017: €142.4m). Adjusted for bank loans of €49.1m, net liquidity equals €74.3m. In addition to securities of €15.7m that can be liquidated at any time, the Group also has access to syndicated credit facilities. Despite the Group net profit, the dividend distribution caused equity to contract to €418.8m (31 December 2017: €424m). The equity ratio widened from 36.4% at the end of 2017 to 37.4% due to the lower balance sheet total.

Group order backlog

in €m



Group net profit

in €m

Assets
With depreciation coming to €21.4m (2017: €21.7m), a total of €27.4m (2017: €29.7m) was spent on property, plant and equipment and intangible assets. Intangible assets and property, plant and equipment rose from €256.3m to €261.4m, while non-current assets dropped to €372.1m (31 December 2017: €389.1m) primarily as a result of lower financial receivables. 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. With current assets dropping from €774.8m to €747.5m, the Group **balance sheet total** contracted to €1,119.6m (31 December 2017: €1,163.9m).

Segment Performance
At €453.8m, order intake in the **Sheetfed segment** was below the previous year's figure of €480.3m. While the project situation is good, bottlenecks in the availability of parts dampened new business due to longer delivery times. The situation with regard to parts also caused revenue to drop to €429m, down on the previous year's figure of €474.7m. This is also reflected in EBIT, which fell to €14.6m, compared with €20.3m in the previous year. With the order backlog increasing from €243.1m to €258.3m, good capacity utilisation is assured over the next few months. Growth in large-format folding carton printing is particularly pleasing.

The realignment of flexible packaging business is showing first successes with a substantial increase in order intake. Overall, new orders in the **Digital & Web segment** rose only slightly from €111.1m to €112.7m due to fewer orders for newspaper and digital printing presses. At €97.7m, revenue was down on the previous year (€113.2m) as a result of lower deliveries of digital printing presses. Together with market-entry and growth-related expenses for corrugated board and flexible packaging, lower revenue exerted pressure on EBIT. In the third quarter, the loss was reduced significantly to –€1.5m. As of the end of September, segment earnings came to –€10.6m, compared with –€3.6m in the previous year. The order backlog rose from €74m to €76.5m.

Driven by large orders in security printing and growth in marking and coding, order intake in the **Special segment** rose to €427.6m (2017: €359.8m). With slightly lower revenue of €296.8m (2017: €304.6m), EBIT remained with €25m at the previous year's level (€25.6m). At €463.5m (2017: €313.4m), order backlog reached an extraordinarily high level at the end of September, in security printing hitting the highest level since 2012.

Supplementary Statement and Risks

No events with a material impact on Group earnings, finances and assets occurred after 30 September 2018. The major risks facing our business and the early warning system are described in detail in the annual report for 2017 (pages 45 onwards). Risks to global economy are currently rising due to trade conflicts and barriers, higher US interest rates and the heavy debt of some emerging countries. Political uncertainties in Europe (Brexit, Italy) and in other regions are also exacerbating global economic concerns. Although the effects on the real economy have so far been negligible and global printing production continues to grow, a decline in printing companies' sentiment caused by any of these risks may place a damper on their investment plans. This reluctance to invest could lower sales of our products and services, leaving traces on our forecast. By increasingly aligning our product range to the high-growth market of packaging printing, we are addressing less cyclical segments such as the food industry to a greater extent. The bottlenecks in the availability of parts dampen new business due to longer delivery times. We are currently working intensely on optimising our entire supply chain to achieve a sustained reduction in delivery times.
We currently do not see any risks that either individually or cumulatively could jeopardise the Koenig & Bauer Group's going-concern status.

Outlook and Opportunities

The heightened risks to the global economy have prompted the International Monetary Fund to lower its growth forecast by 0.2 percentage points. Accordingly, it now expects global gross domestic product (GDP) to rise by 3.7% in 2018. Industry association VDMA assumes that the German mechanical and plant engineering sector will experience an end-of-year rallye and achieve 5% growth in real machinery production in 2018.

Our forecast for 2018 is based on the high order backlog of €769.3m at the end of the third quarter. The numerous press deliveries and service activities scheduled in Q4 will trigger a surge in revenue and earnings. In view of this business concentration, which is challenging due to the high capacity utilisation and the bottlenecks in the parts availability but not really unusual, we aim to achieve organic growth of around 4% in Group revenue for 2018. As things currently stand, we cannot rule out a shift of around €35m in revenue into 2019 as a result of delivery delays caused by bottlenecks in the parts availability. In terms of our earnings target for 2018, we are confident that we will achieve an EBIT margin of around 7% for the full year with higher revenue in view of the EBIT margin of 6.6% in the third quarter with low revenue.

By 2021, we are targeting a Group-wide organic revenue growth rate of around 4% p.a. and an EBIT margin of between 4% and 9% depending on global economy, end markets and the necessary investments in growth. We are making good progress in the projects aimed at boosting earnings by €70m compared with 2016. For a stronger profitable growth, we want to actively exploit the currently available market opportunities in corrugated board printing, flexible packaging and 2-piece can decorating. The same thing applies to marking & coding and postpress equipment such as rotary and flatbed die-cutters. The effects of the additional growth offensive 2023 described on pages 5 and 6 are not included in these medium-term targets, neither revenue nor costs.

Group Balance Sheet

Assets

in €m	31.12.2017	**30.09.2018**
Non-current assets		
Intangible assets, property, plant and equipment	256.3	261.4
Investments and other financial receivables	50.5	25.1
Other assets	1.6	1.6
Deferred tax assets	80.7	84.0
	389.1	**372.1**
Current assets		
Inventories	254.9	337.4
Trade receivables	308.3	206.8
Other financial receivables	14.2	13.4
Other assets	33.4	50.8
Securities	21.6	15.7
Cash and cash equivalents	142.4	123.4
	774.8	**747.5**
Balance sheet total	**1,163.9**	**1,119.6**

Equity and liabilities

in €m	31.12.2017	**30.09.2018**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	293.5	287.9
Equity attributable to owners of the Parent	**424.0**	**418.4**
Equity attributable to non-controlling interests	–	0.4
	424.0	**418.8**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	198.4	145.3
Other provisions	27.1	16.6
Bank loans	1.0	0.7
Other financial payables	7.6	5.7
Other liabilities	1.2	1.2
Deferred tax liabilities	26.2	29.6
	261.5	**199.1**
Current liabilities		
Other provisions	144.6	133.1
Trade payables	72.1	47.1
Bank loans	42.0	48.4
Other financial payables	58.9	82.1
Other liabilities	160.8	191.0
	478.4	**501.7**
Balance sheet total	**1,163.9**	**1,119.6**

Group Income Statement

01.01. - 30.09. in €m	2017	**2018**
Revenue	847.7	788.8
Cost of sales	–601.1	–551.1
Gross profit	**246.6**	**237.7**
Research and development costs	–35.9	–36.7
Distribution costs	–103.8	–102.6
Administrative expenses	–66.7	–73.0
Other operating income and expenses	–3.8	3.2
Earnings before interest and taxes (EBIT)	**36.4**	**28.6**
Interest result	–1.4	–3.2
Earnings before taxes (EBT)	**35.0**	**25.4**
Income tax expense	–5.5	–5.0
Net profit	**29.5**	**20.4**
- attributable to owners of the Parent	29.5	20.3
- attributable to non-controlling interests	–	0.1
Earnings per share (in €, basic/dilutive)	**1.79**	**1.23**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2017	**43.0**	**87.5**
Net profit	–	–
Gains recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Dividend	–	–
Other changes	–	–
30.09.2017	**43.0**	**87.5**
31.12.2017	**43.0**	**87.5**
Amendments in accordance with IFRS 9	–	–
Amendments in accordance with IFRS 15	–	–
01.01.2018	**43.0**	**87.5**
Net profit	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Dividend	–	–
Other changes	–	–
30.09.2018	**43.0**	**87.5**

Statement of Comprehensive Group Income

01.01. - 30.09. in €m	2017	**2018**
Net profit	**29.5**	**20.4**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	–1.5	0.2
Measurement of primary financial instruments	–1.3	–
Measurement of derivatives	9.0	–3.6
Deferred taxes	–0.7	0.6
	5.5	**–2.8**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	9.0	–7.5
Deferred taxes	–2.6	2.1
	6.4	**–5.4**
Gains/losses recognised directly in equity	**11.9**	**–8.2**
Total comprehensive income	**41.4**	**12.2**
- attributable to owners of the Parent	41.4	12.1
- attributable to non-controlling interests	–	0.1

Reserves: Recognised in equity	Reserves: Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
–79.1	**285.9**	**337.3**	**0.5**	**337.8**
–	29.5	29.5	–	29.5
11.9	–	11.9	–	11.9
11.9	**29.5**	**41.4**	**–**	**41.4**
–	–8.3	–8.3	–	–8.3
–	–0.9	–0.9	–0.5	–1.4
–67.2	**306.2**	**369.5**	**–**	**369.5**
–64.4	**357.9**	**424.0**	**–**	**424.0**
–2.9	3.4	0.5	–	0.5
–	–4.0	–4.0	–	–4.0
–67.3	**357.3**	**420.5**	**–**	**420.5**
–	20.3	20.3	0.1	20.4
–8.2	–	–8.2	–	–8.2
–8.2	**20.3**	**12.1**	**0.1**	**12.2**
–	–14.9	–14.9	–	–14.9
–	0.7	0.7	0.3	1.0
–75.5	**363.4**	**418.4**	**0.4**	**418.8**

Group Cash Flow Statement

01.01. - 30.09. in €m	2017	2018
Earnings before taxes (EBT)	35.0	25.4
Non-cash transactions	28.1	23.6
Gross cash flow	**63.1**	**49.0**
Changes in inventories, receivables and other assets	–104.4	19.9
Changes in provisions and payables	16.7	–18.4
Cash flows from operating activities	**–24.6**	**50.5**
Cash flows from investing activities	**–63.2**	**–63.6**
Free cash flow	**–87.8**	**–13.1**
Cash flows from financing activities	**3.3**	**–8.8**
Change in funds	**–84.5**	**–21.9**
Effect of changes in exchange rates and consolidated companies	–0.4	2.9
Funds at beginning of period	202.0	142.4
Funds at end of period	**117.1**	**123.4**

Notes to the Interim Accounts to 30 September 2018

1 New Standards

After the first-time application of **IFRS 9 - Financial Instruments** as of 1 January 2018, an amount of €2.9m related to securities was reassigned from reserves recognised in equity to other reserves. Impairments on financial assets are calculated on the basis of expected credit losses and historical loss quotas. This caused trade receivables to rise by €0.5m and deferred tax assets and liabilities by €0.1m. Reserves increased by €0.5m.

As of 1 January 2018, the first-time application of **IFRS 15 - Revenue from Contracts with Customers** to customer-specific construction contracts caused inventories to increase by €3.6m and prepayments received by €6.5m, whereas trade receivables dropped by €2.2m and deferred tax liabilities by €1.1m. Reserves dropped by €4m.

The new standards were applied using the modified retrospective method; the figures for the previous year were not restated.

Starting 1 January 2019, leases are to be uniformly recognised on the lessee's balance sheet under **IFRS 16 - Leases**. The right to use the underlying leased item is recognised as an asset and the payment obligation is recognised as a lease liability.

The effects of the introduction of IFRS 16 as of 1 January 2019 are currently being analysed, but concrete quantification is not yet possible.

2 Accounting Policies

This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The consolidated financial statements were prepared in accordance with the standards valid on that date, as issued by the International Accounting Standards Board (IASB), London, and all binding interpretations by the International Financial Reporting Interpretation Committee (IFRIC), with due regard for EU directives.

The interim accounts conform to IAS 34.

In 2018, reinsurance claims of €59.9m held against the insurer were netted against the pension provisions due to the external funding of a part of the Company pension plans. This interim report does not yet apply the new Heubeck 2018 G biometric tables published on 20 July 2018.

3 Consolidated Companies

Effective 1 January 2018, KBA-MePrint AG, Veitshöchheim, Germany, was merged with Koenig & Bauer Coding GmbH (former KBA-Metronic GmbH), Veitshöchheim, Germany. In addition, the sales and service company KBA LATINA S A P I DE CV, Mexico-City, Mexico, was consolidated for the first time. Following the purchase of 20% in August, the Group holds 80% of the capital of KBA LATINA.

4 Segment Information

4.1 Business Segments

01.01. - 30.09.					Capital	
	Revenue		EBIT		investments	
in €m	2017	**2018**	2017	**2018**	2017	**2018**
Segments						
Sheetfed	474.7	429.0	20.3	14.6	9.1	11.4
Digital & Web	113.2	97.7	–3.6	–10.6	4.5	5.8
Special	304.6	296.8	25.6	25.0	2.4	3.4
Reconciliation	–44.8	–34.7	–5.9	–0.4	13.7	6.8
Group	**847.7**	**788.8**	**36.4**	**28.6**	**29.7**	**27.4**

4.2 Geographical Breakdown of Revenue

01.01. - 30.09.		
in €m	2017	**2018**
Germany	92.3	102.5
Rest of Europe	315.2	271.6
North America	153.2	121.6
Asia/Pacific	200.8	211.9
Africa/Latin America	86.2	81.2
Revenue	**847.7**	**788.8**

Key Financial Dates

Annual Report 2018
21 March 2019

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

Published by:
Koenig & Bauer AG
Postfach 60 60
97010 Würzburg, Germany

Contact:
Investor Relations
Dr Bernd Heusinger
T +49 931 909-4835
F +49 931 909-4880
bernd.heusinger@koenig-bauer.com
www.koenig-bauer.com