KOENIG & BAUER

Group Interim Report First Quarter 2019

we're on it.

Koenig & Bauer Group in figures

01.01. - 31.03. in €m	2018	**2019**
Order intake	250.9	**276.4**
Revenue	217.3	**230.7**
Order backlog at 31.03.	648.5	**656.6**
Export level in %	87.7	**81.4**
Earnings before interest and taxes (EBIT)	–1.9	**–2.8**
Earnings before taxes (EBT)	–2.9	**–4.1**
Net loss	–2.3	**–4.9**
Balance sheet total at 31.03. (prior year: 31.12.)	1,178.3	**1,175.8**
Equity at 31.03. (prior year: 31.12.)	453.4	**441.4**
Investment in intangible assets, property, plant and equipment	6.3	**19.2**
Depreciation on intangible assets, property, plant and equipment	7.0	**8.7**
Payroll at 31.03.	5,604	**5,706** [1]
- thereof apprentices/trainees	271	**270**
Cash flows from operating activities	20.3	**–30.6**
Earnings per share in €	–0.15	**–0.30**

[1] including 51 following the consolidation of Koenig & Bauer Duran

2019 started well for the Koenig & Bauer Group, posting a double-digit increase in order intake in the first quarter year-over-year to €276.4m. This strong growth, which exceeded the industry average, was underpinned by significantly more orders for services and for folding carton, direct glass and security printing presses. Revenue exceeded the previous year's figure by 6.2%. EBIT was still slightly in negative territory due to the low revenue level, coming to –€2.8m despite high market-entry and growth-related expenses, and was thus not far off the previous year's figure of –€1.9m.

The order backlog, which rose to €656.6m as of 31 March 2019, gives us good forward visibility through to autumn 2019 and, in security printing with its good order situation, until 2020. With contract signings exceeding our expectations and reaching a figure in the mid double-digit millions of euros, the Print China trade fair held in mid-April in Guangdong was very successful. On the strength of the good order and project situation ensuring full capacity utilisation across the entire Group as well as the further progress made in our Group projects for boosting earnings by €70m compared to 2016, we are confident to achieve organic growth of around 4% in revenue and an EBIT margin of around 6% in 2019 in the Group. We are attaching particularly high priority to our 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. The resulting margin impact is already included in our 2019 earnings target.

In marking and coding, digital and packaging printing, which is experiencing structural growth and is less cyclical in nature, we have made further progress in strategically aligning our Group towards achieving sustainable profitable growth. With the acquisition of 100% of the capital of Swedish company All-Print Holding by our subsidiary Koenig & Bauer Coding in April, we are strengthening our presence in the marking and coding market in Scandinavia and substantially expanding our market position in tertiary packaging. A profitable company with revenue of around €5m, All-Print Holding is the majority shareholder of All-Print and Svenska Allen. All-Print's highly automated labelling systems will widen our range in an interesting market that we have not previously addressed. Svenska Allen is an established sales and service company for coding products in Sweden with further sub-distributions throughout the rest of Scandinavia.

A further important milestone was passed on 10 April when we signed the 50/50 joint venture agreement with inkjet pioneer Durst for digital folding carton and corrugated board printing. Against the backdrop of greater individualisation, the packaging industry is searching for new digital production processes, for which the new joint venture Koenig & Bauer Durst will offer efficient and economical solutions. With its broad expertise, 25 years of experience in inkjet and the successes achieved in digital ceramics and textile printing, Durst is a leading global manufacturer of advanced digital printing and production technologies and the ideal partner for us. Initially, the joint venture's portfolio will comprise the Koenig & Bauer CorruJET 170 and the Durst SPC 130 including ink business and all services for digital direct printing on corrugated board together with the development of the VariJET 106 for digital folding carton printing. We expect to receive the anti-trust clearance required for the commencement of business activities over the next few weeks.

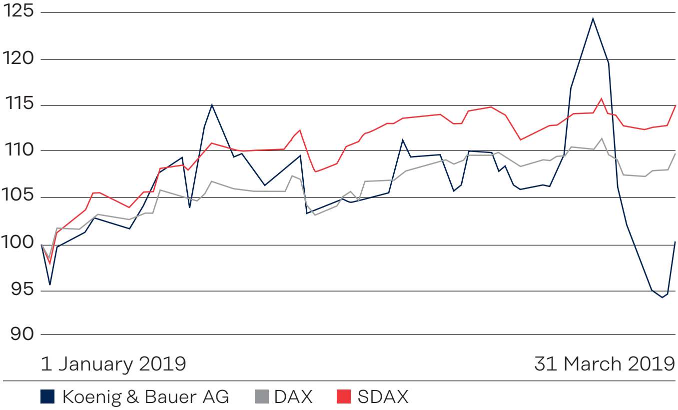
Claus Bolza-Schünemann
President and CEO of Koenig & Bauer AG

Koenig & Bauer shares

Following the subdued macroeconomic expectations in the wake of trade conflicts and political developments late last year and early this year, sentiment in the capital market brightened in the course of the first quarter of 2019 thanks to good real economic data. Reflecting this, the DAX rose by 9.2% over the end of the previous year. The SDAX also recorded gains, was up 15% at the end of March. As with other companies in the engineering industry, the performance of the Koenig & Bauer share was limited during the reporting period. After entering the year at €37, our share reached a high of €48.04 for the first three months of 2019 on 18 March, closing the quarter at €37.34, up 2.3% on the end of 2018. We are not satisfied with the development of the share price and are working intensively on boosting our Company's enterprise value to bring it into line with the substantially higher valuations of our peers.

Koenig & Bauer shares

in %



Group management report
Business performance

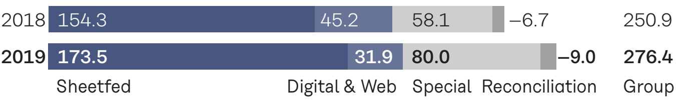
At €276.4m, the Koenig & Bauer Group's **order intake** was up 10.2% on the first quarter of the previous year (€250.9m). Group **revenue** rose by 6.2% to €230.7m (2018: €217.3m). The export ratio narrowed from 87.7% to 81.4% due to the substantially higher domestic business. Whereas the share of business in Europe excluding Germany contracted from 41.8% to 32.7% and North America from 15.3% to 12.9%, the share contributed by China increased from 8.4% to 11%. Overall, Asia/Pacific business contributed 21.2% to Group revenue (2018: 26.5%), while the share accounted for by Latin America and Africa widened from 4.1% to 14.6%. At €656.6m, the **order backlog** as of 31 March was up 1.2% on the previous year's figure of €648.5m. The figure at the beginning of 2019 (€610.9m) was exceeded by 7.5%.

Earnings, finances and assets
Earnings

In addition to market-entry and growth-related expenses in connection with the growth offensive 2023, the low revenue level exerted material influence on Group **earnings** in the first quarter. The **gross margin** came to 27.4%, after 30.7% in the same period of the previous year. At €11.2m, R&D expenses were at the previous year's level (€12.1m). Whereas administration expenses declined from €26.2m to €22.2m, distribution costs rose from €30.9m to €32.8m. Other income and expenses came to €0.1m, after €0.6m in 2018. This resulted in **EBIT** of –€2.8m (2018: –€1.9m). The interest

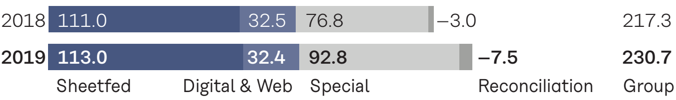
Group order intake

in €m



Group revenue

in €m



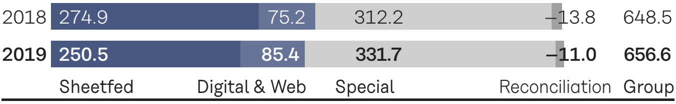
result of –€1.3m (2018: –€1m) led to Group **earnings before taxes** of –€4.1m for the quarter, compared with –€2.9m in the previous year. After income taxes, Group **net earnings** came to –€4.9m as of 31 March (2018: –€2.3m), equivalent to **earnings per share** of –€0.30, compared with –€0.15 in the same quarter of the previous year.

Finances

Despite substantially lower receivables and higher customer prepayments, the increase in inventories for revenue growth in future quarters as well as lower provisions left traces on the **cash flows from operating activities**, which came to –€30.6m (2018: €20.3m). Following the completion of the self-disclosure proceedings in connection with shortcomings in corruption prevention at the Swiss subsidiary KBA-NotaSys SA, we made a part payment of CHF20m to the Swiss Office of the Attorney General within the framework of the agreed skimming of profits. The final instalment of CHF10m is scheduled for payment in the second half of 2019. The **free cash flow** of –€51.2m (2018: –€20.4m) was burdened by high investment activities for the demonstration centre in Radebeul, the plant development in Würzburg, the new Kammann facility and the SAP roll-out. At the end of March 2019, **funds** stood at €80.8m (31 December 2018: €142m). Adjusted for bank loans, which were reduced to €64.3m, net liquidity came to €16.5m. In addition, there were securities of €17.1m that can be liquidated at any time. As well as this, the Group has access to syndicated credit facilities of €350m.

Group order backlog

in €m



Group net earnings

in €m

Assets

A sum of €19.2m (2018: €6.3m) was spent on property, plant and equipment and intangible assets in connection with construction and IT projects. This was accompanied by depreciation of €8.7m (2018: €7m). On balance, intangible assets and property, plant and equipment increased from €293m to €329.5m. This was partially driven by the recognition of leases in accordance with IFRS 16 under which lessees must recognise rights to use the leased items as assets from 1 January 2019. At the same time, other financial liabilities rose due to the recognition of lease payment obligations. Whereas non-current assets rose from €399.8m to €440m, current assets declined from €778.5m to €735.8m. All in all, the Group **balance sheet total** stood at €1,175.8m, this was just below the figure at the end of 2018 (€1,178.3m).

The cut in the discount rate from 1.9% to 1.5% applied to domestic pensions contributed to a reduction in equity from €453.4m to €441.4m. Consequently, the equity ratio fell to 37.5% (31 December 2018: 38.5%).

Segment performance

As of 1 January 2019, the domestic and foreign subsidiaries that mostly offer sales and service functions for several segments are no longer allocated to the largest segment Sheetfed but are now spread across the segments according to their activities. The previous year's figures have been adjusted accordingly.

In addition to strong new service business, the substantially higher orders for packaging printing presses caused order intake in the **Sheetfed** segment to rise by 12.4% to €173.5m

(2018: €154.3m). Revenue increased slightly by 1.8% to €113m (2018: €111m). The good order backlog of €250.5m (2018: €274.9m) ensures continued high capacity utilisation. At –€3.1m, EBIT was below the previous year's figure (€0.4m) due to the product mix and the costs arising in connection with the Print China trade fair.

Despite the encouraging growth in service business, orders in **Digital & Web** came to €31.9m, thus falling short of the previous year's figure of €45.2m due to lower orders for newspaper and flexible packaging printing presses. At €32.4m, revenue remained at the previous year's level. The previous year's figure of €32.5m had been spurred by high service revenue due to large press relocations. At –€5.6m (–€4.5m in the previous year), EBIT was burdened by market-entry and growth-related expenses. At €85.4m, order backlog and capacity utilisation are at a high level (2018: €75.2m).

More orders for services and security printing and direct glass decorating presses caused order intake in the **Special** segment to rise by 37.7% to €80m (2018: €58.1m). Revenue climbed by 20.8% to €92.8m (2018: €76.8m). At €331.7m, the order backlog at the end of March was 6.2% higher than it had been twelve months earlier (€312.2m). Following a segment profit of €3.8m in the previous year, EBIT came to €2m in the first quarter of 2019.

Risk report

The major risks facing our business and the early warning system are described in detail in the annual report for 2018 (page 55 onwards). There have been no material changes in the period under review.

Outlook and opportunities

The Koenig & Bauer Group's order backlog, which rose to €656.6m as of 31 March 2019, provides good forward visibility through to autumn 2019 and, in security printing with its good order situation, until 2020. With contract signings exceeding our expectations and reaching a figure in the mid double-digit millions of euros, the Print China trade fair held in mid-April in Guangdong was very successful. On the strength of the good order and project situation ensuring full capacity utilisation across the entire Group as well as the further progress made in our Group projects for boosting earnings by €70m compared to 2016, we are confident to achieve organic growth of around 4% in revenue and an EBIT margin of around 6% in 2019 in the Group. We are attaching particularly high priority to our 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. The resulting margin impact is already included in our 2019 earnings target.

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 decline particularly in service business. 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.

Group balance sheet

Assets

in €m	31.12.2018	**31.03.2019**
Non-current assets		
Intangible assets, property, plant and equipment	293.0	329.5
Investments and other financial receivables	26.0	28.4
Other assets	1.3	1.3
Deferred tax assets	79.5	80.8
	399.8	**440.0**
Current assets		
Inventories	265.7	317.0
Trade receivables	156.0	118.9
Other financial receivables	13.7	12.9
Other assets	184.8	189.1
Securities	16.3	17.1
Cash and cash equivalents	142.0	80.8
	778.5	**735.8**
Balance sheet total	**1,178.3**	**1,175.8**

Equity and liabilities

in €m	31.12.2018	**31.03.2019**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	322.0	309.7
Equity attributable to owners of the Parent	**452.5**	**440.2**
Equity attributable to non-controlling interests	0.9	1.2
	453.4	**441.4**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	152.6	160.4
Other provisions	20.9	20.8
Bank loans	1.0	0.9
Other financial payables	5.4	20.9
Other liabilities	0.9	0.9
Deferred tax liabilities	33.9	33.9
	214.7	**237.8**
Current liabilities		
Other provisions	138.0	102.0
Trade payables	82.5	71.5
Bank loans	73.4	63.4
Other financial payables	68.8	97.1
Other liabilities	147.5	162.6
	510.2	**496.6**
Balance sheet total	**1,178.3**	**1,175.8**

Group income statement

01.01. - 31.03. in €m	2018	**2019**
Revenue	217.3	230.7
Cost of sales	–150.6	–167.4
Gross profit	**66.7**	**63.3**
Research and development costs	-12.1	–11.2
Distribution costs	-30.9	–32.8
Administrative expenses	–26.2	–22.2
Other income and expenses	0.6	0.1
Earnings before interest and taxes (EBIT)	**–1.9**	**–2.8**
Interest result	–1.0	–1.3
Earnings before taxes (EBT)	**–2.9**	**–4.1**
Income tax expense	0.6	–0.8
Net loss	**–2.3**	**–4.9**
- attributable to owners of the Parent	–2.4	–5.0
- attributable to non-controlling interests	0.1	0.1
Earnings per share (in €, basic/dilutive)	**–0.15**	**–0.30**

Statement of changes in Group equity

in €m	Share capital	Share premium
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/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2018	**43.0**	**87.5**
31.12.2018	**43.0**	**87.5**
Amendments in accordance with IFRS 16	–	–
01.01.2019	**43.0**	**87.5**
Net profit/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2019	**43.0**	**87.5**

Statement of comprehensive Group income

01.01. - 31.03. in €m	2018	**2019**
Net loss	**–2.3**	**–4.9**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	–0.3	0.5
Measurement of derivatives	1.2	–0.9
Deferred taxes	–0.1	0.2
	0.8	**–0.2**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–10.5	–8.7
Deferred taxes	2.9	2.0
	–7.6	**–6.7**
Losses recognised directly in equity	**–6.8**	**–6.9**
Total comprehensive income	**–9.1**	**–11.8**
- attributable to owners of the Parent	–9.2	–11.9
- attributable to non-controlling interests	0.1	0.1

Reserves				
Recognised in equity	Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
–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**
–	–2.4	–2.4	0.1	–2.3
–6.8	–	–6.8	–	–6.8
–6.8	**–2.4**	**–9.2**	**0.1**	**–9.1**
–	0.6	0.6	0.4	1.0
–74.1	**355.5**	**411.9**	**0.5**	**412.4**
–84.6	**406.6**	**452.5**	**0.9**	**453.4**
–	–0.4	–0.4	–	–0.4
–84.6	**406.2**	**452.1**	**0.9**	**453.0**
–	–5.0	–5.0	0.1	–4.9
–6.9	–	–6.9	–	–6.9
–6.9	**–5.0**	**–11.9**	**0.1**	**–11.8**
–	–	–	0.2	0.2
–91.5	**401.2**	**440.2**	**1.2**	**441.4**

Group cash flow statement

01.01. - 31.03. in €m	2018	**2019**
Earnings before taxes (EBT)	–2.9	–4.1
Non-cash transactions	6.5	8.9
Gross cash flow	**3.6**	**4.8**
Changes in inventories, receivables and other assets	11.1	–17.5
Changes in provisions and payables	5.6	–17.9
Cash flows from operating activities	**20.3**	**–30.6**
Cash flows from investing activities	**–40.7**	**–20.6**
Free cash flow	**–20.4**	**–51.2**
Cash flows from financing activities	**–29.1**	**–10.5**
Change in funds	**–49.5**	**–61.7**
Effect of changes in exchange rates and consolidated companies	2.0	0.5
Funds at beginning of period	142.4	142.0
Funds at end of period	**94.9**	**80.8**

Notes to the interim accounts to 31 March 2019

1 New standards

The implementation of **IFRS 16 - Leases**, which is mandatory from January 1, 2019, impacted accounting and measurement practices for 2019.

Under IFRS 16, the lessee recognises its right to use the underlying 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.

As of January 1, 2019, the first-time application of this IFRS caused intangible assets, property, plant and equipment to increase by €25.9m and leasing liabilities by €26.3m. Reserves dropped by €0.4m.

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

2 Accounting policies

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

The interim accounts conform to IAS 34.

3 Consolidated companies and consolidation principles

There were no changes in our consolidated companies and consolidation principles.

4 Segment information

4.1 Business segments

As of 2019, the domestic and foreign subsidiaries that mostly offer sales and service functions for several segments are no longer allocated to the Sheetfed segment but are now spread across the segments according to their activities. The previous year's figures have been adjusted accordingly.

01.01. - 31.03.	Revenue		EBIT		Capital investments	
in €m	2018	**2019**	2018	**2019**	2018	**2019**
Segments						
Sheetfed	111.0	113.0	0.4	–3.1	1.4	5.1
Digital & Web	32.5	32.4	–4.5	–5.6	2.1	2.3
Special	76.8	92.8	3.8	2.0	1.7	5.7
Reconciliation	–3.0	–7.5	–1.6	3.9	1.1	6.1
Group	**217.3**	**230.7**	**–1.9**	**–2.8**	**6.3**	**19.2**

4.2 Geographical breakdown of revenue

01.01. - 31.03. in €m	2018	**2019**
Germany	26.8	43.0
Rest of Europe	90.8	75.4
North America	33.2	29.8
Asia/Pacific	57.6	49.0
Africa/Latin America	8.9	33.5
Revenue	**217.3**	**230.7**

Key financial dates

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

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