

Statement of the administration of Koenig & Bauer Aktiengesellschaft regarding the announced counter-motion by Phoenix Value Fund in the Annual General Meeting 2015*

Regarding the resolution proposed by the administration as to agenda item 6 of the Annual General Meeting of Koenig & Bauer Aktiengesellschaft on May 21, 2015, a counter-motion was received from Phoenix Value Fund, c/o Mourant Ozeannes Corporate Services (Cayman) Limited, Grand Cayman, Cayman Islands, by letter dated May 5, 2015. This counter-motion was made available to the shareholders on the Company's website on May 7, 2015.

The supervisory board and the management board deem this announced counter-motion unfounded and suggest not supporting it.

This suggestion is based from the administration's point of view on the following considerations, which are summarized in tabular form directly comparing them with the arguments used by the shareholder for the sake of clarity.

The administration reserves the right to further remarks during the Annual General Meeting, if the counter-motion is effectively filed.

Nr.	Submission of the shareholder (literal reproduction)	Administration's statement
1	<p><i>„The company should not be split in 5 different legal entities and should be organized instead along strategic business units (SBU) within Koenig & Bauer AG. These SBU are divisional entities with full operational responsibility (Design of Strategy, Sales, marketing, R&D, Assembly and manufacturing, controlling) but remain part of the existing legal entity. This would achieve the contemplated goal, namely transparency, accountability and Strategic Focus, with less cost and more flexibility for the future.“</i></p>	<ul style="list-style-type: none"> • The gaining of independence of the individual business areas combined with the preparation of separate financial statements establishes clear responsibilities in connection with transparency of costs and proceeds. • The legal independence comes with an increased flexibility for each business unit. It motivates each business unit to act independently and economically. • The centralization of the four different business areas, each being the subject of different market requirements, has complicated a fast and individual reaction of the respective business area to specific market requirements in the past. Smaller units can usually adjust more easily and quickly. • The legal separation can simplify the financing of individual business units. • The identification of the respective employees with their respective business unit and thereby with the overall group will be encouraged even more (see spin-off report (<i>Ausgliederungsbericht</i>) page 18).

* This English convenience translation of the statement of the administration serves solely for information purposes of our shareholders. In any case, the German version of this statement shall be binding.

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2	<p><i>„Divisional accounts plus management delegation achieve the goal of transparency, accountability and Strategic focus. A split of the company in legal entities is by no way necessary. The SAP information system used by our company offers this possibility as a standard feature because most companies use this solution!“</i></p>	<ul style="list-style-type: none"> • The legal separation also supports individual legal and economic responsibility of the respective management for the business unit. • As the past has shown, a purely technical separation of segments would still lead, to an overall view ultimately. The clear allocation of asset items to the respective business unit, mandatorily connected with the legal separation as well as the creation of formalized contractual relations between the future subsidiaries, increases the transparency and comparability of the business relation.
3	<p><i>„Creating four more companies is costly (legal and tax advisors) and increases the administrative cost: 4 more accounts to audit, 4 more tax filing, intra-company sales, intracompany contracts to maintain legally.“</i></p>	<p>The significant part of the legal and fiscal preparatory work has already been done. The slightly increased administrative expenses due to additional audits etc. are from the administration's point of view more than compensated, particularly by the additional transparency and flexibility achieved through the separation. The overall costs are comparably low measured by the advantages.</p>
4	<p><i>„The split is detrimental and destroys value because it makes industry restructuring through alliances virtually impossible, as an operation could not enter into an alliance without its share of manufacturing. Despite what management says, an industry-wide consolidation is the only option to restore a satisfactory level of margin in a mature and declining industry such as ours,“</i></p>	<ul style="list-style-type: none"> • The production completely remains in existence as legally independent and thereby more flexible unit. • With the structure proposed by the administration investors gain a clear insight into the results and progress of the individual units and can convince themselves of the increased efficiency in all areas. A demanded consolidation of the industry will particularly only be a possible option for individual cases only by means of the planned change of structure. • Following the spin-off, potential investors may specifically invest by segment in a subdivision due to the existence of legally independent units. • Alliances can be formed much more easily by segment. An inclusion of the production unit in the respective alliance may occur on a contractual basis in the future. • The intended legal separation does not conflict with the consolidation being pursued in any case and having already been carried out to a considerable extent.

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5	<p><i>„The proposed split would unavoidably lead to internal conflicts between product units and manufacturing unit around transfer prices and delivery time.“</i></p>	<ul style="list-style-type: none"> • It corresponds with KBA's interests to conduct a "stress test" of the competitiveness of the individual business units in order to increase the profitability of the overall group. This aspect is also particularly emphasized by the applicant in its counter-motion as an essential goal. • The business units are to become more competitive in order to potentially also perform services for third parties at competitive prices and respectively purchase services to a certain degree. This is also true for the production unit which shall in the future be put in a position to perform services also for third parties at competitive prices.
6	<p><i>„The rationalisation of the manufacturing activity (specialization of locations) can perfectly be made within the current legal structure. Actually it has already been made in the current structure.“</i></p>	<p>It is precisely not the goal of the separation into legal units to only carry out a rationalization. It is rather ultimately about the increase of the competitiveness of each individual business unit.</p>
7	<p><i>„A smaller board supervising the central function can be setup, while SBU managers focus on their operation. The variable compensation scheme also does not need separate legal entities, only divisional accounts and proper target setting.“</i></p>	<ul style="list-style-type: none"> • The structure proposed by the administration carries with it a downsized management board and clear responsibilities. • A downsize of the management in the current structure without the pursued spin-offs would not be reasonable due to the loss of expertise. For in this case a departmental responsibility, which cannot be guaranteed within the framework of a downsized management, would have already to remain in existence with respect to company law requirements. • In the new structure the transferring members of the management board will no longer have to deal with questions of group management anymore but can exclusively focus on the promotion of their business area in the respective unit.
8	<p><i>„The creation of a manufacturing unit is the worst part of the plan. It will hide the cost of excess capacity by spreading it on all product units so that it will be impossible to understand which product unit loses money.“</i></p>	<ul style="list-style-type: none"> • Due to the legal independence of the production unit, it is precisely revealed which capacities are used within the intercompany relation and which excess capacities are potentially existent. • The independent status of the production unit will create a customer-supplier relation for the first time between production and the ordering

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		<p>business areas (e.g. sheetfed or banknote and security) and additionally allows for a transparent assessment of the competitiveness of production (for example based on the charged transfer prices).</p> <ul style="list-style-type: none"> • The efficiency of the production unit can thereby be better measured in comparison with external third party suppliers. This will become all the more relevant, since the business with external customers becomes more and more important in production and the group has to position itself accordingly in this area.
9**	<p><i>„The creation of a central manufacturing unit is unfair to the workforce. The largest part of it would be transferred to a general-purpose manufacturing unit without proprietary technology and without access to market, fully dependent on the product units. Such entities tend to rapidly run into trouble as demonstrated by the sad fate of the two Frankenthal GmbH. Selling parts outside the group is an illusion (except for the foundry). This argument was already used to justify the spin-off of the two GmbH in Frankenthal. KBA CEO Mr Claus Bolza-Schünemann reported during the 2014 AGM, that this hope never materialized.“</i></p>	<ul style="list-style-type: none"> • The access to the market is to be particularly opened up for the production unit, since this unit will be allowed to and is supposed to also produce for third-party customers in the future. • The technical know-how and the other required intellectual property is permanently made available for the production unit (partly based on licenses). • The production unit is provided with the required technology, the respective machines and qualified employees in order to provide services for all business areas. • Due to the intra-group business relation, a permanent commissioning of the production unit is ensured by the other business units. • The present spin-off of the complete production unit can particularly not be compared with the spin-off of the two companies in Frankenthal, since production with about 950 employees fulfills a comprehensive function for all business units as central and largest service provider within the Group. • Due to financial reasons, it is additionally reasonable to only provide one production means for similar tasks, for example one foundry, one production of large parts, one gear tooth manufacturing center (<i>Verzahnungsinself</i>), one sheet metal processing cen-

** The English version includes the following addition within the framework of the reasons as to No. 9 above not being included in the German binding version of the counter-motion: *“Selling parts outside the group is an illusion (except for the foundry)”*. The administration still also addresses this argument in the above overview despite the non-binding character of the English version of the counter-motion

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		<p>ter etc. A separation for the respective business unit always causes parallel activities and therefore increased costs.</p> <ul style="list-style-type: none"> • The allocation of the overall production to one business unit has in this context deliberately been refrained from in order to avoid any preferences with respect to target date, quality or costs of one business unit over another as the result of the allocation of production.
10	<p><i>„The company should disclose divisional accounts of all SBU's, be it SBU's within KBA AG like web-fed or including subsidiaries like Security or Metal Decoration.“</i></p>	<p>The reporting by segments will be continued unrestrictedly. It does not conflict with the intended legal separation in any way. A merely technical separation of segments would furthermore still lead to an overall view (see above, No. 2).</p>
11	<p><i>„Divisional accounts already exist since 1st January 2014, though not disclosed.“</i></p>	<p>This statement is without reference to the question of the necessity of the spin-offs. Commencing from the first quarter of 2015 Koenig & Bauer Aktiengesellschaft additionally publishes a revised reporting by segments. In this context, the first quarter of 2014 will also retroactively be shown in the new structure for the first time pursuant to the requirements of the IFRS (International Financial Reporting Standards).</p>