KOENIG & BAUER

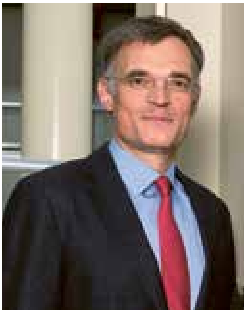
Group Interim Report First Quarter 2018

we're on it.

Koenig & Bauer Group in Figures

01.01. - 31.03. in €m	2017	**2018**
Order intake	321.5	**250.9**
Revenue	259.1	**217.3**
Order backlog at 31.03.	619.9	**648.5**
Export level in %	86.4	**87.7**
Earnings before interest and taxes (EBIT)	5.0	**–1.9**
Earnings before taxes (EBT)	4.3	**–2.9**
Net profit/loss	4.7	**–2.3**
Balance sheet total at 31.03. (prior year: 31.12.)	1,163.9	**1,089.3**
Equity at 31.03. (prior year: 31.12.)	424.0	**412.4**
Investment in intangible assets, property, plant and equipment	9.6	**6.3**
Depreciation on intangible assets, property, plant and equipment	7.3	**7.0**
Payroll at 31.03.	5,327	**5,604** [1]
- thereof apprentices/trainees	281	**271**
Cash flows from operating activities	–14.9	**20.3**
Earnings per share in €	0.30	**–0.15**

[1] including 30 following the consolidation of KBA LATINA S A P I DE CV



After fully achieving and even exceeding our guidance last year thanks to our strong revenue and earnings performance in the fourth quarter, the Koenig & Bauer Group remains on track to meet its targets for 2018, underpinned by continued positive order development and a well filled project pipeline. In addition to the increase in the order backlog to €648.5m, the progress made in the projects for achieving further EBIT gains by 2021 and good capacity utilisation across the entire Group are providing a solid basis. Service revenue climbed from €67.4m in the previous year to €71.8m in the first quarter of 2018.

At €250.9m, order intake in Q1 was down on the previous year's figure of €321.5m, which had been influenced by a major security project. Alongside our expansionary service business, we made further progress in the flourishing packaging printing. With our customer-centric solutions, we were able to increase order intake in cardboard and film printing, metal decorating, marking and coding. As expected, demand for digital printing presses was subdued.

Due to the delivery dates requested by our customers, press installations in 2018 will be concentrating on the second half of the year and particularly Q4 to an even greater extent than last year. Accordingly, Group revenue (€217.3m) and EBIT (–€1.9m) were down on the previous year (€259.1m and €5m, respectively) in Q1.

Our largest segment, Sheetfed, which is dominated by packaging printing, posted a 5.3% increase in order intake.

After widening our share of the global market across all format classes in 2017, we expanded our market leadership in large formats in Q1 2018. EBIT was down on the previous year due to the delivery-related decline in revenue. Despite the encouraging growth in new business for flexible packaging, Digital & Web order intake fell short of the previous year as fewer orders were received for digital and newspaper web presses. With revenue up slightly, EBIT came under pressure from the low revenue level and R&D expenses as well as expenses on future growth. Despite the significant growth in metal decorating and marking and coding, order intake in the Special segment fell short of the previous year, which had included a large order for a security printing press. With a good project situation in security printing, the completion of the usually large projects is not spread evenly over the individual quarters. EBIT in the Special segment was also slightly lower than in the previous year due to the delivery-related decline in revenue.

Looking ahead over the next few quarters, we expect a positive order development thanks to the ongoing expansion of our service business, growing demand in the packaging markets and expected new orders in security printing alongside our high order backlog. The significantly increasing revenue momentum in the second half of the year together with further progress made by the cost-cutting projects in security printing, purchasing and production will lead to a clear improvement in Group earnings. In the absence of any material deterioration in global economic and political conditions for our international business, we expect to achieve organic growth of around 4% in Group revenue and an EBIT margin of around 7% in 2018. This will put us on track to achieving our EBIT margin target of 9% and an organic revenue growth rate of around 4% p.a. by 2021.

We are working intensively on further applications in packaging, digital and industrial printing to achieve additional profitable growth beyond our medium-term goals. One focus is 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 milestone was reached with the first CorruCUT order from the renowned pilot customer Klingele. After the completion of initial testing at our new demonstration centre in Würzburg, the CorruCUT will be installed on the first customer's premises at the beginning of 2019. As a globally leading supplier of presses for 3-piece can decorating, we want to expand our profile by entering the 2-piece can market. The newly developed CS MetalCan offers users decisive advantages. Following two contract signings at the end of last year, we will be commencing intensive field-testing shortly with the target of sales launch at the end of 2018.

Cash flows from operating activities rose substantially over the previous year. The free cash flow was burdened by the final payment instalment of €34.8m for the external funding of a part of the pension provisions. Following the transfer of our reinsurance claims against the insurer to the beneficiary active employees, we netted the financial receivables against the pension provisions. This reduced the balance sheet total by €59.9m, causing the equity ratio to rise to 37.9%.

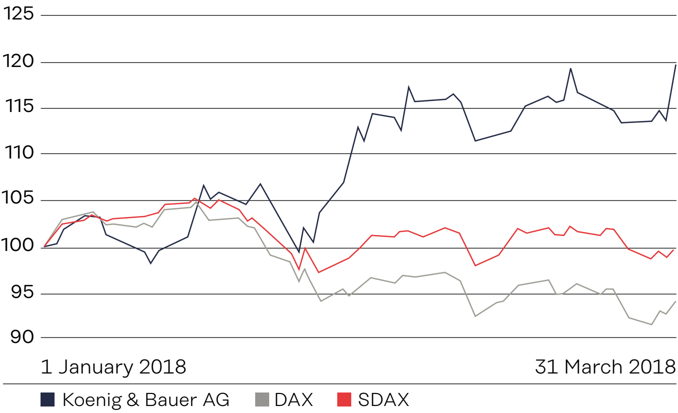
Claus Bolza-Schünemann
President and CEO of Koenig & Bauer AG

Koenig & Bauer Shares

Concerns over a slowdown in the dynamic global economy in the wake of trade and political conflicts exerted pressure on the international equity markets in the first quarter of 2018. This caused the DAX to drop by 6.4% over the end of the previous year, while the SDAX was virtually unchanged. By contrast, Koenig & Bauer shares continue to outperform, driven by the good business figures for 2017 and the next steps taken to achieve the medium-term targets by 2021. After entering the year at €62.55, our shares reached an all-time high of €78.70 on 3 April. At the end of March, it closed at €74.55, up 18.7% on the end of 2017.

Koenig & Bauer shares

in %



Group Management Report

Business Performance

At €250.9m, the **Group order intake** in the first three months of 2018 was down on the previous year's figure of €321.5m, which had been influenced by a major security project. Whereas demand for digital printing presses was subdued as expected, we posted an increase in order intake in the growing packaging sector with our customer-centric solutions for cardboard and film printing, metal decorating, marking and coding. As deliveries are primarily concentrated on the second half of the year, **Group revenue** reached €217.3m, thus falling short of the previous year (€259.1m). The export ratio widened from 86.4% to 87.7%. The share of business in Europe excluding Germany increased particularly sharply from 35.5% to 41.8%. North American business contributed 15.3% (2017: 16.6%), while the share accounted for by Asia/Pacific increased from 25.4% to 26.5%. Latin America and Africa contributed 4.1% of Group revenue (2017: 8.9%). At €648.5m, the **Group order backlog** as of 31 March exceeded the figure at the end of the year 2017 (€606.2m) by €42.3m and the previous year's figure of €619.9m by 4.6%.

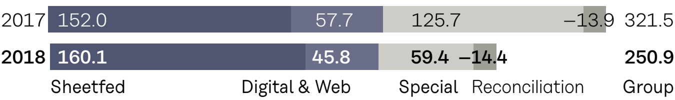
Earnings, Finances and Assets

Earnings

The delivery-related decline in Group revenue in the first quarter exerted material pressure on **earnings**. Driven by good service business, the **gross profit margin** widened from 28.4% to 30.7%. At €12.1m, R&D expenses were down on the

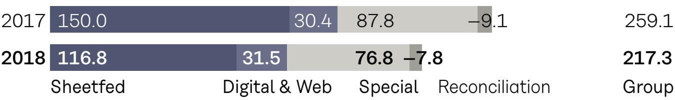
Group order intake

in €m



Group revenue

in €m

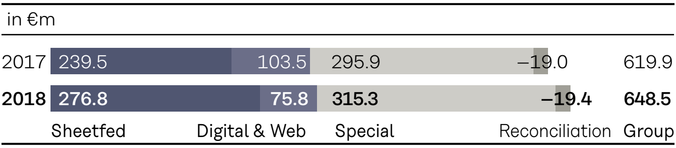


previous year's figure of €14.5m. Whereas administration expenses rose from €23.4m to €26.2m primarily as a result of the implementation of the SAP ERP system and other IT projects, distribution costs dropped slightly from €31.4m to €30.9m. Other operating income and expenses came to €0.6m, down from €0.8m in 2017. This resulted in **EBIT** of –€1.9m (2017: €5m). The interest result of –€1m (2017: –€0.7m) led to **Group earnings before taxes** of –€2.9m for the quarter, compared with €4.3m in the previous year. After income taxes, **Group net earnings** came to –€2.3m as of 31 March (2017: €4.7m), equivalent to **earnings per share** of –€0.15, down from €0.30 in the same quarter of the previous year.

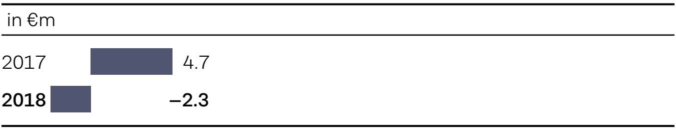
Finances

At €20.3m, **cash flows from operating activities** were clearly positive compared with the previous year's figure of –€14.9m. Despite the higher inventories required for revenue growth in future quarters, this clear improvement was particularly driven by lower receivables and higher customer prepayments. The **free cash flow** of –€20.4m (2017: –€44.4m) was burdened by the final payment instalment of €34.8m for the external funding of a part of the pension provisions. At the end of March 2018, **funds** stood at €94.9m (31 December 2017: €142.4m) Adjusted for bank loans, which were reduced to €13.8m, net liquidity equals €81.1m plus securities of €22.6m that can be liquidated at any time. In addition, the Group is able to draw on syndicated facilities of €350m.

Group order backlog



Group net earnings



Assets
A sum of €6.3m (2017: €9.6m) was spent on property, plant and equipment and intangible assets for additionally improving efficiency. Depreciation came to €7m (2017: €7.3m). On balance, intangible assets and property, plant and equipment dropped slightly from €256.3m to €255.5m. In connection with the external funding of a part of the Company pension provisions, we transferred €59.9m of the total reinsurance claims of €71.6m held against the insurer to the beneficiary active employees as of 31 March 2018. The netting of the reinsurance claims, recognised in the financial receivables, with the pension provisions led to a corresponding reduction in the balance sheet. All told, non-current assets fell from €389.1m to €368.2m and current assets from €774.8m to €721.1m. Accordingly, the **Group balance sheet total** dropped by €74.6m to €1,089.3m (31 December 2017: €1,163.9m).

This translates into an equity ratio of 37.9% in relation to the lower balance sheet total (end of 2017: 36.4%).

Segment Performance
In the **Sheetfed segment**, the increase in orders for large-format presses in particular caused order intake to rise by 5.3% to €160.1m (2017: €152m). At €116.8m, revenue fell short of the previous year's figure of €150m for delivery-related reasons. With a book-to-bill ratio of 1.37, order backlog climbed from €239.5m to €276.8m. Due to the low revenue, EBIT stood at €0.5m and was below the previous year's figure (€4.6m).

Despite the encouraging growth in new business for flexible packaging, **Digital & Web** order intake (€45.8m) fell short of the previous year (€57.7m) due to the subdued digital press business and fewer orders for newspaper web presses as expected. With revenue up slightly to €31.5m (2017: €30.4m), EBIT came under pressure from the low revenue level and R&D expenses as well as expenses on future growth. Segment EBIT came to –€3.9m, compared with –€2.3m in the previous year. At €75.8m, the order backlog and capacity utilisation remained at a good level (2017: €103.5m).

Despite the significant growth in metal decorating and marking and coding, the order intake of €59.4m in the **Special segment** was down on the previous year's figure of €125.7m, which had included a large order for a security printing press. At €3.6m, EBIT in the Special segment was also lower than in the previous year (2017: €4.6m) due to the delivery-related decline in revenue to €76.8m (2017: €87.8m). At €315.3m, the order backlog at the end of March was 6.6% larger than it had been twelve months earlier (€295.9m).

Supplementary Statement and Risks

No events with a material impact on Group earnings, finances and assets occurred after 31 March 2018. The major risks facing our business and the early warning system are described in detail in the annual report for 2017 (page 45 onwards). There have been no material changes in the period under review.

Outlook and Opportunities

Thanks to the dynamic growth of the global economy and the continued upbeat outlook for 2018, the International Monetary Fund expects global gross domestic product (GDP) to rise by 3.9%. That said, global political and economic risks could have an adverse effect on global growth. Currently, uncertainties are particularly arising from trade conflicts and political disputes in the Middle East.

In addition to the favourable global economy and the outlook for the consistently growing packaging and industrial printing industry, our forecast for 2018 is based on the high order backlog of €648.5m at the end of the quarter and the many projects that are currently in the pipeline. A further pillar is the progress being made in the projects for achieving further EBIT gains by 2021. The incremental increase in the share of service business to 30% and the performance improvement project in security printing should each contribute around €20m and the integrated production network and strategic purchasing each around €15m to earnings growth. At the same time, we increased prices across our entire product range by 3.7% effective 1 April 2018. Even so, targeted expenses on our future growth, e.g. in corrugated board and 2-piece can printing, are leaving traces on our cost position. Packaging printing, in which the Koenig & Bauer Group generates around 70% of its new press revenue, is growing in correlation with growth in global GDP and the global population. Moreover, demand for printing presses is being driven by the megatrend of home-shopping with its high returned-goods ratios, the trend towards more sophisticated packaging and smaller sizes due to the increasing number of single-person households as well as increasingly more stringent regulations. In addition to systematically expanding our service business, we want to further increase our share of the growing packaging market with our proven and new printing solutions as well as our rotary and flatbed die-cutters.

In the absence of any material deterioration in global economic and political conditions for our international business, we expect to achieve organic growth of around 4% in Group revenue and an EBIT margin of around 7% in 2018. All three segments are expected to contribute to our top and bottom line growth with substantially increased momentum as the year progresses. This will put us on track to achieving our EBIT margin target of 9% and an organic revenue growth rate of around 4% p.a. by 2021.

Group Balance Sheet

Assets

in €m	31.12.2017	**31.03.2018**
Non-current assets		
Intangible assets, property, plant and equipment	256.3	255.5
Investments and other financial receivables	50.5	25.2
Other assets	1.6	1.6
Deferred tax assets	80.7	85.9
	389.1	**368.2**
Current assets		
Inventories	254.9	311.0
Trade receivables	308.3	236.2
Other financial receivables	14.2	13.7
Other assets	33.4	42.7
Securities	21.6	22.6
Cash and cash equivalents	142.4	94.9
	774.8	**721.1**
Balance sheet total	**1,163.9**	**1,089.3**

Equity and liabilities

in €m	31.12.2017	**31.03.2018**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	293.5	281.4
Equity attributable to owners of the Parent	**424.0**	**411.9**
Equity attributable to non-controlling interests	–	0.5
	424.0	**412.4**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	198.4	149.5
Other provisions	27.1	18.7
Bank loans	1.0	0.9
Other financial payables	7.6	7.2
Other liabilities	1.2	1.0
Deferred tax liabilities	26.2	25.4
	261.5	**202.7**
Current liabilities		
Other provisions	144.6	143.8
Trade payables	72.1	53.4
Bank loans	42.0	12.9
Other financial payables	58.9	71.4
Other liabilities	160.8	192.7
	478.4	**474.2**
Balance sheet total	**1,163.9**	**1,089.3**

Group Income Statement

01.01. - 31.03. in €m	2017	**2018**
Revenue	259.1	217.3
Cost of sales	–185.6	–150.6
Gross profit	**73.5**	**66.7**
Research and development costs	–14.5	–12.1
Distribution costs	–31.4	–30.9
Administrative expenses	–23.4	–26.2
Other operating income and expenses	0.8	0.6
Earnings before interest and taxes (EBIT)	**5.0**	**–1.9**
Interest result	–0.7	–1.0
Earnings before taxes (EBT)	**4.3**	**–2.9**
Income tax expense	0.4	0.6
Net profit/loss	**4.7**	**–2.3**
- attributable to owners of the Parent	4.9	–2.4
- attributable to non-controlling interests	–0.2	0.1
Earnings per share (in €, basic/dilutive)	**0.30**	**–0.15**

Statement of Changes in Group Equity

in €m	Share capital	Share premium
01.01.2017	**43.0**	**87.5**
Net profit/loss	–	–
Gains recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2017	**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/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
31.03.2018	**43.0**	**87.5**

Statement of Comprehensive Group Income

01.01. - 31.03.

in €m	2017	**2018**
Net profit/loss	**4.7**	**–2.3**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	–0.2	–0.3
Measurement of primary financial instruments	–0.1	–
Measurement of derivatives	–	1.2
Deferred taxes	0.1	–0.1
	–0.2	**0.8**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	3.1	–10.5
Deferred taxes	–1.7	2.9
	1.4	**–7.6**
Gains/losses recognised directly in equity	**1.2**	**–6.8**
Total comprehensive income	**5.9**	**–9.1**
- attributable to owners of the Parent	6.1	–9.2
- attributable to non-controlling interests	–0.2	0.1

Reserves				
Recognised in equity	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**
–	4.9	4.9	–0.2	4.7
1.2	–	1.2	–	1.2
1.2	**4.9**	**6.1**	**–0.2**	**5.9**
–	–	–	0.3	0.3
–77.9	**290.8**	**343.4**	**0.6**	**344.0**
–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**

Group Cash Flow Statement

01.01. - 31.03. in €m	2017	**2018**
Earnings before taxes (EBT)	4.3	–2.9
Non-cash transactions	7.3	6.5
Gross cash flow	**11.6**	**3.6**
Changes in inventories, receivables and other assets	–33.9	11.1
Changes in provisions and payables	7.4	5.6
Cash flows from operating activities	**–14.9**	**20.3**
Cash flows from investing activities	**–29.5**	**–40.7**
Free cash flow	**–44.4**	**–20.4**
Cash flows from financing activities	**2.2**	**–29.1**
Change in funds	**–42.2**	**–49.5**
Effect of changes in exchange rates and consolidated companies	–0.3	2.0
Funds at beginning of period	202.0	142.4
Funds at end of period	**159.5**	**94.9**

Notes to the Interim Accounts to 31 March 2018

1 New Standards

The following IFRSs, which are mandatory from January 1, 2018, impacted accounting and measurement practices for 2018. The new standards were applied using the modified retrospective method; the figures for the previous year were not restated.

IFRS 9 – Financial Instruments

For the purposes of subsequent measurement, IFRS 9 assigns **financial assets** to one of three categories: “measured at amortised cost”, “at fair value through profit or loss (FVTPL)” and “at fair value through other comprehensive income (FVOCI)”. In the future, securities will be assigned to the FVTPL category. An amount of €2.9m was transferred from reserves recognised in equity to other reserves effective January 1, 2018.

Impairments of financial assets are calculated on the basis of lifetime expected credit losses and historical loss quotas or 12-month expected credit losses. In the case of trade receivables, portfolios with similar characteristics are formed. As of 1 January 2018, this caused trade receivables to rise by €0.5m and deferred tax assets and liabilities by €0.1m. Reserves increased by €0.5m.

Koenig & Bauer will be initially continuing to apply the guidance provided by IAS 39 for **hedge accounting.**

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. Revenue from **customer-specific construction** contracts can only be recognised over time if the Company does not have any alternative use for the product and has a legal right to recover payment for the services already provided.

As of 1 January 2018, the first-time application of this IFRS 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.

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 the first quarter of 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.

3 Consolidated Companies

Effective 1 January 2018, KBA-MePrint AG, Veitshöchheim, Germany, was merged with 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. The Group holds 60% of the capital of KBA LATINA.

4 Segment Information

4.1 Business Segments

01.01. - 31.03.					Capital	
	Revenue		EBIT		investments	
in €m	2017	**2018**	2017	**2018**	2017	**2018**
Segments						
Sheetfed	150.0	116.8	4.6	0.5	2.8	1.4
Digital & Web	30.4	31.5	–2.3	–3.9	3.9	2.1
Special	87.8	76.8	4.6	3.6	0.9	1.7
Reconciliation	–9.1	–7.8	–1.9	–2.1	2.0	1.1
Group	**259.1**	**217.3**	**5.0**	**–1.9**	**9.6**	**6.3**

4.2 Geographical Breakdown of Revenue

01.01. - 31.03. in €m	2017	**2018**
Germany	35.3	26.8
Rest of Europe	91.9	90.8
North America	42.9	33.2
Asia/Pacific	65.8	57.6
Africa/Latin America	23.2	8.9
Revenue	**259.1**	**217.3**

Key Financial Dates

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

Interim report on 2nd quarter 2018
1 August 2018

Interim report on 3rd quarter 2018
6 November 2018

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