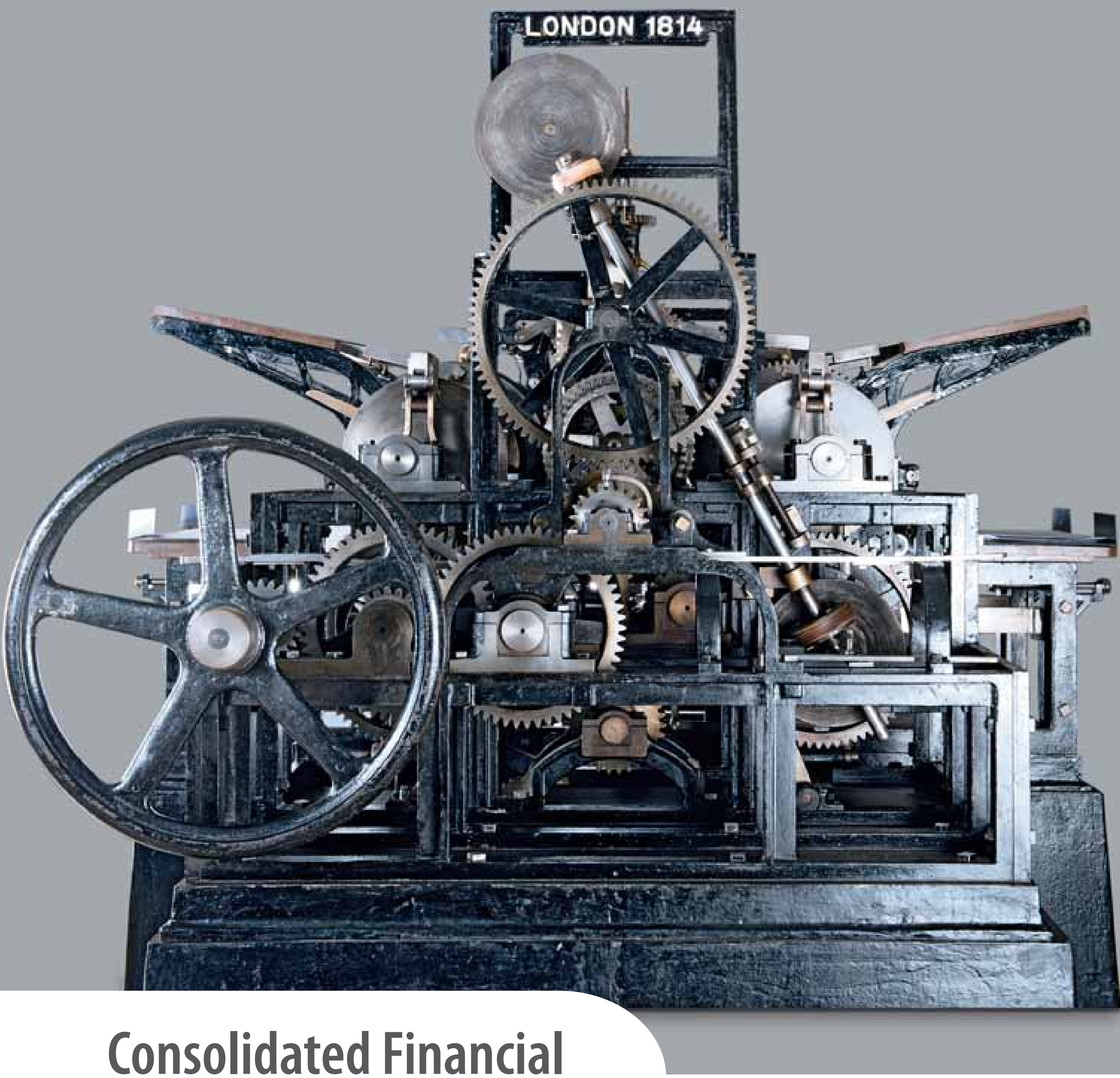


Consolidated Financial Statements 2014

KBA
Koenig & Bauer Group

At a Glance

The Times.

PRICE 6½d.

NUMBER 9378.

LONDON, TUESDAY, NOVEMBER 29, 1814.

360 years after Gutenberg invented the hand press *The Times* in London was printed for the first time on a steam-powered double-cylinder press from Friedrich Koenig and Andreas Bauer on 29 November 1814

Title photo:
200 years ago our company's founders laid the foundations for industrial printing and a better informed society with their cylinder press

KBA Group in Figures

€m	2010	2011	2012	2013	2014
Order intake	1,284.9	1,552.1	1,116.2	1,012.2	956.9
Sales	1,179.1	1,167.2	1,293.9	1,099.7	1,100.1
Order backlog at 31.12.	440.8	825.7	648.0	560.5	417.3
Operating profit before special items	22.2	9.9	40.8	24.5	24.1
Operating profit/loss after special items	22.2	9.9	13.7	–130.7	14.1
Earnings before taxes	15.3	3.3	3.7	–138.1	5.5
Net profit/loss	12.5	0.4	0.4	–153.7	0.3
Balance sheet total	1,164.4	1,222.8	1,151.8	1,098.0	1,014.7
Intangible assets, property, plant and equipment	269.4	275.0	243.1	227.5	228.7
Equity	461.3	466.6	441.3	277.9	227.2
Investment in intangible assets, property, plant and equipment	15.4	35.7	33.0	32.3	21.7
Depreciation on intangible assets, property, plant and equipment	31.0	35.5	64.9	59.6	30.5
Payroll: annual average	6,515	6,401	6,272	6,257	6,058
Cash flows from operating activities	30.1	83.9	83.3	34.1	43.2
Dividend per share in €	0.30	–	0.40	–	–

Contents

Banknote printing presses marketed by our Swiss subsidiary KBA-NotaSys
in Lausanne have long been a core business of the KBA Group

Major Events in 2014

January: KBA Radebeul unveils two energy-saving curing processes for commercial printing, HR-UV and LED-UV, and adopts a pioneering role with the market launch of LED-UV technology for medium format.

February: Swiss quality printer Atar Roto Presse orders two long Rapida 106 presses with a total of 18 printing, coating and drying units plus HR-UV for its Excellence Center of Printing Art.

March: KBA-MePrint extends its portfolio with the development of a keyless offset inking unit for tube decoration. This new development can be retrofitted to existing round-container printing systems and cuts waste while delivering a far better print quality.

April: Volksfreund-Druckerei Nikolaus Koch in Trier, Germany, fires up a waterless KBA Cortina with two coating units. Along with the *Trierischer Volksfreund* daily the press produces supplements, magazines and other print products in a top quality often finished with coating.

May: KBA-MetalPrint launches two new metal-decorating presses, the MetalStar 3 and Mailänder 280, at METPACK 2014 in Essen, Germany. In its most successful year to date this Stuttgart-based subsidiary receives the silver METPACK Innovation Award for its energy-saving HighEcon dryer.

June: KBA Radebeul holds two successful customer events in May and June entitled *Packaging. Competence. Network.* and *Commercial Printing. Competence. Network.* Some 700 print experts from over 40 countries took part in the events which looked at current topics in commercial and packaging printing.

From the left:

Some 500 participants attended the *Packaging. Competence. Network.* event in May 2014 at KBA Radebeul

A successful start for the first KBA Cortina with two coaters at newspaper house Trierischer Volksfreund in spring 2014

Directly after the football World Cup in Brazil KBA manned a stand at Latin America's largest trade show, Expoprint, in São Paulo

July: Directly after the World Cup win for Germany in Brazil, Koenig & Bauer do Brasil together with MBO exhibits at Expoprint in São Paulo, the largest and most important trade fair in Latin America.

August: Market success for our new subsidiary KBA-Flexotecnica. Strubl KG near Nuremberg, Germany, orders an eight-colour press from the compact EVO XDs series. It will go into operation in spring 2015.

September: At Graph Expo in Chicago Hewlett Packard and KBA announce a partnership to develop and produce an inkjet web press for the digital corrugated packaging market.

October: The comprehensive relocation of production activities as part of Fit@All is on schedule. KBA Radebeul has, for example, taken over the assembly of substructures and feeders for Rapida sheetfed offset presses from KBA-Mödling.

November: German and international KBA Cortina users and representatives from the supply industry meet for the 10th user workshop at KBA in Würzburg, where this waterless newspaper offset press was born at the millennium.

December: KBA delivers the first RotaJET VL inkjet web press with a web width of 1.68m to a decorative printer in Germany. The prospects look good for further digital orders from this market segment which until now has been dominated by gravure.

From the left:

In addition to the launch of the new KBA RotaJET L digital press platform at Graph Expo in Chicago, HP and KBA announced their collaboration to produce a new inkjet press for digital corrugated printing

Approx. 75 users and representatives of the supply industry came to Würzburg for the 10th Cortina User Workshop

As part of our Fit@All project KBA invested millions also in 2014 in cutting-edge production systems. Shown here the large-part manufacturing competence centre at the Würzburg facility

Letter to shareholders

2014 was a year characterised by the intensive restructuring of our company. We made rapid progress in the first twelve months of the most extensive realignment project in our company's recent history and were pleased to see its positive effects earlier than anticipated. Group sales of €1.1bn were at the top end of our forecast. Overall the operating result performed better than we planned and was positive in both segments. Group earnings before (EBT) and after taxes were also encouraging.

Koenig & Bauer management board (l-r):
Michael Kummert,
Dr Mathias Dähn,
Ralf Sammeck,
Claus Bolza-Schünemann (president),
Dr Andreas Pleßke,
Christoph Müller

In 2014 our operating result was once again strained by insufficient capacity utilisation at our web press plants. Nevertheless, we have set a new course and in the future new web offset press sales will only have a small influence on our company's results. Despite massive interference to capacities, processes and structures at our web press sites the additional expenses arising from the Group restructuring were limited. The success of our restructuring programme will have an increasingly apparent effect on our earnings from 2015 onwards. We can see that the company is on the right track and we will keep pushing ahead until we reach our goal of a flexible KBA Group with sustained profitability.

The adjustments associated with the restructuring including the reduction of up to 1,500 jobs and the focus on specialised and well-structured sites were necessary as the ongoing shift in the printing industry and the volatile climate dampen demand in our former key markets. In the meantime new presses for media-related print applications, such as publication, book and newspaper printing, contribute less than 15% to the total of new press sales. Ten years ago this proportion was still over 60%. As demand for web presses declined and business with banknote presses also slowed after several brisk years, order intake in our web and special press division fell by around 14% to €346.8m year-on-year.

The realignment of our capacities which is already at an advanced stage is in response to the foreseeable further slump in demand for publication printing systems. Our web offset business will have brighter future prospects albeit on a significantly smaller scale through its grouping with our growing inkjet digital activities and the formation of a new business unit KBA-Digital & Web Solutions. Our partnership with Hewlett Packard (HP) in the digital corrugated packaging sector is expected to support this.

Our sheetfed segment profited from KBA's strong position in packaging printing. At €610.1m order intake in this segment bucked the industry trend and was even slightly higher than the previous year. Packaging printers contributed nearly 80% to the total volume of new sheetfed press orders in 2014. While the slump in offset press sales has continued for many years in the ad-related commercial market due to new media, digital printing and consolidation, the global population and development of prosperity ensure a long-term growing need for packaging. Accordingly expansion in the flexible packaging and hollow container printing market was initiated with the acquisition of KBA-Flexotecnica and KBA-Kammann in 2013.

The future of our sheetfed offset group division, which since the outbreak of the financial crisis has often posted losses, is very encouraging. Sales of sheetfed offset presses were up 3.3% to €590.6m and this segment posted an operating profit of €11.5m, a result of the extensive turn-around programme at our plants in Radebeul and Dobruška as well as very brisk business at KBA-MetalPrint. In contrast the reasons mentioned led to a 3.5%-fall in sales to €509.5m in our web and special press division and resulted in a weaker operating profit of €2.6m compared to prior years.

The capacity and structural measures carried out at our web and security press sites Würzburg, Frankenthal, Mödling, Trennfeld and Ternitz in 2014 will again sustainably improve the profitability of these product segments, even with a lower sales volume. We are also vigorously pursuing the goal of achieving appropriate profitability, also for our other consolidated subsidiaries belonging to our special press division (in the future under special presses). They predominantly generated a profit or balanced results.

Our cash flow from operating activities which is extremely important for maintaining liquidity during a restructuring phase was clearly positive at €43.2m despite considerable cash outflows for staff cuts. We are able to compensate for these outflows and expand our comfortable net liquidity with strict working capital management by paying particular attention to reducing outstanding receivables and non-essential inventories.

Achieving and securing appropriate margins and earnings in all business fields served by KBA is also at the top of the management board's agenda for 2015. Cost savings amounting to a figure in the high double-digit millions resulting from our Fit@All programme, which we aim to complete to a large extent by mid-2015, will help us to reach this goal and will open up the financial scope necessary for an appropriate dividend for our shareholders as well as additional activities in growth markets.

A new de-central company structure with the Parent, Koenig & Bauer, as a holding and legally autonomous operational units for the business divisions sheetfed offset (KBA-Sheetfed Solutions) and digital & web (KBA-Digital & Web Solutions) as well as for various special press markets is projected to contribute to the achievement of our targets and to greater transparency, both internally and externally. Our production activities also spun-off as KBA-Industrial Solutions serves the operating segments as a joint manufacturing base. The AGM is expected to pass a resolution on the new structure and the new companies which will have a German legal company structure of an AG & Co. KG (limited partnership with public limited company as general partner) in May 2015. Upon approval this new structure will be implemented retrospectively with effect from 1 January (see chapter on Group Realignment starting on page 32).

The new company structure leads to changes in our segment reporting. In the future we will report on the segments sheetfed, digital & web and special presses. All of our subsidiaries active in the packaging printing market operating outside of our KBA sheetfed unit and KBA-NotaSys serving the security printing sector will be consolidated in the special press segment. In the past this subsidiary was reported under web offset and special presses in the Group.

Conflicts in numerous parts of the world, economic sanctions, the development of the euro and oil prices, the ECB's policy and many other influences make our international business less predictable. In the hope that the current turmoil does not escalate further, I am confident that the positive development of the KBA Group will continue in parallel to the completion of our restructuring measures and we will publish significantly better Group earnings before taxes (EBT) with similar sales as 2014 for the current business year.

We wish to thank you, our shareholders, for your interest in KBA and the trust you have placed in the management board. We hope that you will remain committed to the company. Many thanks to our customers worldwide for your loyalty and dedication to our company. And a big thank-you to all our executives and staff for the active contribution you have made towards implementing the restructuring and your various efforts for the benefit of the company.

Würzburg, 19 March 2015
Koenig & Bauer Management Board

Claus Bolza-Schünemann
President and CEO

Supervisory Board Report

Dr Martin Hoyos
Chairman, Koenig & Bauer AG

The implementation of Fit@All, a programme for the realignment of the KBA Group approved in December 2013, was the primary subject of intense debate during four regular and four extraordinary supervisory board meetings in 2014. Necessary board resolutions were passed after rigorous scrutiny and discussion with input from external experts. Further regular topics of deliberation were the current performance, financial position and earnings of the Parent and Group, individual business fields and major subsidiaries. Along with the development and competition in individual market sectors, further central issues discussed were corporate policy and planning.

Current restructuring topics and new rules of procedure for the supervisory and management boards were on the agenda of the extraordinary meeting on 28 January 2014. In addition, Dr Martin Hoyos was elected by the supervisory board to serve on the nomination committee.

The supervisory board adopted and approved its new rules of procedure and those for the management board in an extraordinary meeting on 5 February 2014. Possible options regarding temporary personnel reinforcements to the management board in the form of experienced restructuring experts were discussed in detail. In addition, the supervisory board also approved the investments required for the implementation of Fit@All.

In the extraordinary meeting held as a telephone conference on 14 February 2014 deliberations focused again on issues relating to the management board. Additionally, the annual declaration of compliance was adopted.

Following Heinz-Joachim Neubürger's resignation as chairman and member with immediate effect, the supervisory board elected Dr Martin Hoyos as its chairman and as the chair of the personnel and mediation committees in the extraordinary board session on 7 March 2014. At the same time Dr Martin Hoyos relinquished his seat in the audit committee. This meeting also looked at the information provided to the supervisory board on the implementation of the Fit@All programme submitted by the management board and its external consultants. Discussions focused on the corporate planning for 2014 to 2016 as well as developments in liquidity. The budget for 2014 was approved. Furthermore, the CEO of KBA-NotaSys reported on the current market and business situation in banknote printing. The management board then presented the installed risk management and internal controlling system, explained the compliance organisation and activities as well as key aspects of internal auditing carried out in 2013 and those planned for 2014.

On 20 March 2014 the supervisory board reviewed the year-end financial statements, management and audit reports for both the Parent and the Group to 31 December 2013 as well as the agenda for the AGM on 28 May 2014. On the basis of the nomination committee's suggestion, Dagmar Rehm was selected as a candidate to fill the seat as shareholder representative on the supervisory board left vacant by the departure of Heinz-Joachim Neubürger. The agenda for the AGM including the proposals for the supervisory board election and the new articles of association were approved. Moreover, the management board gave an update on the performance of the Group's subsidiaries and the current business and financial situation of the Group to 28 February 2014. With effect from 1 May 2014 the supervisory board appointed Dr Andreas Pleßke executive vice president for restructuring operations (CRO).

In the meeting on 27 May the main focus was again on the current status of the Fit@All restructuring programme as well as the performance of the Parent and Group to 30 April 2014. Discussions revolved around the AGM which took place on 28 May 2014. With effect from 1 June 2014 Dr Mathias Dähn was appointed CFO by the supervisory board, replacing Dr Axel Kaufmann who left the company of his own accord with effect from 30 September 2014. The supervisory board thanked Axel Kaufmann for all his work.

Dr Martin Hoyos and Dagmar Rehm, who were appointed by the register court on 14 October 2013 and 27 March 2014 respectively, were elected by the AGM on 28 May 2014 as shareholder representatives. The appointment of these two supervisory board members are each in effect for the period up to the end of the AGM which discharges duties for the 2018 business year. In the subsequent constituent supervisory board meeting chairman Dr Martin Hoyos was confirmed in office and changes to the composition of the committees were agreed. The nomination and mediation committees are chaired by Dr Martin Hoyos, personnel and strategy committees by Reinhart Siewert and head of the audit committee is Dagmar Rehm.

Along with the business development of the Parent and Group to 31 August 2014 and the forecast for 2014, the main focus of the meeting on 18 September 2014 was again Fit@All. Alternative options presented by the management board for the urgently needed sustainable restructuring and realignment of Albert-Frankenthal and KBA-FT Engineering due to ongoing insufficient capacity utilisation were extensively reviewed. After in-depth discussions and thorough consideration, the implementation of the alternative "continuation on a reduced basis" was agreed. The restructuring steps for 2014 in accordance with company law presented by the management board were also approved by the supervisory board. Furthermore, a decision in favour of an adjustment to management board contracts was made with changes to variable remuneration in particular as recommended by the personnel committee. More details can be found in the Compensation Report on page 26.

The meeting on 19 November revolved around the financial statements for the third quarter of 2014 and the corporate planning for 2015 to 2017. The supervisory board approved the investment plan for 2015. The KBA management board provided a detailed report on strategic alternatives for the foundry and the digital and web press business unit. After much deliberation the supervisory board approved spinning off the foundry in Würzburg as KBA-Gießerei and its future operation as a separate entity as well as the business concept "Digital & Web". In addition, after rigorously scrutinising all variants the supervisory board voted in favour of the business model for the structural restructuring decided by the management board.

The supervisory board and its committees fulfilled their legal and statutory obligations. The Fit@All programme was the subject of particular attention and intense debate. They supported, guided and monitored the activities of the Koenig & Bauer management board on a continual basis, and the members of the supervisory board were closely involved in all executive decision-making processes of any importance.

In addition to coordinating the work of the various committees the chairman fulfilled the monitory and advisory functions between plenary sessions in meetings and discussions with the management board. In 2014 a main topic was the Fit@All programme. Details concerning planning, business developments and risks were also in the foreground. The chairman was informed by the president and CEO about matters of significance. Important business activities and decisions were the subjects of intense discussion.

Five committees assist the supervisory board in the drafting of resolutions and formulating any issues that are to be raised at plenary sessions. In 2014 the audit committee held five meetings, the personnel and strategy committee each met four times and the nomination committee for new supervisory board members on the shareholders' side convened three times. The mediation committee appointed under section 27 (3) of the Law of Codetermination did not convene in 2014.

On 17 March 2015 the audit committee reviewed the 2014 financial statements, management reports and audit reports for both the Parent and the Group. During this meeting the auditors' representatives summarised the major focus and results of their audit, as well as providing further information upon request. In depth discussions were held in further sessions with the management board on interim reports, the risks in the Group and internal auditing. The early warning system and compliance were a further focus.

Along with management board appointments, adjustments to management board contracts stood on the personnel committee's agenda. The strategy committee avidly followed and promoted the implementation of Fit@All for the realignment and long-term development of the KBA Group and invited the entire supervisory board to all of its meetings. The nomination committee prepared the recommendation to the plenary session together with the candidate proposal for shareholder representative for election at the AGM. The supervisory board was informed about the conclusions of the committee meetings.

On 13 February this year the supervisory and management boards duly issued and published an updated declaration of compliance on the Group's website. Apart from company-specific, justified exceptions KBA complies with the recommendations and principles of the latest version of the German Corporate Governance Code from 13 May 2013. For more details see the Corporate Governance Report on pages 20 and 21. There were no conflicts of interest among members of the supervisory and management boards.

Nuremberg-based KPMG Bayerische Treuhandgesellschaft, the auditors approved by the AGM for the 2014 business year, examined the financial statements, management reports and method of accounting for Koenig & Bauer AG and for the KBA Group to 31 December 2014, and awarded them the auditor's certificate unreservedly. The auditors confirmed that the management board has put in place an early warning system conforming to section 91 (2) of German Stock Corporation Law. The statements, reports and auditors' reports for the Parent and the Group were distributed to the members of the supervisory board for perusal well in advance. The results of the audit committee's scrutiny were imparted to the supervisory board and approved together with the auditors' report. After conducting its own review the supervisory board raised no objections to the year-end financial statements and management report for the Parent and the Group. At the meeting on 19 March 2015 the supervisory board approved the 2014 year-end financial statements submitted by the management board. The consolidated financial statements and the management report statements were also approved.

The following changes occurred in the Koenig & Bauer supervisory board: with effect from 31 December 2014 Michael Gasbarri relinquished his seat on the supervisory board as workforce representative. On 22 January 2015 the register court in Würzburg appointed Marc Dotterweich, deputy chairman of the works council of the KBA plant in Würzburg. We expressed our gratitude to Michael Gasbarri for his contribution to the supervisory board.

The members of the supervisory board were deeply saddened to learn of the death of their former chairman Heinz-Joachim Neubürger before the completion of these financial statements. As chairman Heinz-Joachim Neubürger initiated important strategic steps for our company and pushed forward with great dedication. He will remain in our memories with grateful thanks for his contribution to our company.

The supervisory board would like to thank all Group employees, the members of the KBA management board, executives and staff representatives and all Group subsidiaries for their active commitment and constructive cooperation in 2014. And we thank you, our shareholders, for your confidence in KBA.

Würzburg, 19 March 2015
Koenig & Bauer AG
Supervisory Board

Dr Martin Hoyos
Chairman


RotaJET 168
People
&
Print

In 2014 KBA delivered the first inkjet web press with a printing width of 1.68m to a decorative printer. We continue to serve this challenging market with tailor-made, high-volume RotaJET presses

KBA Shares

Group realignment hinders share performance

Given the ongoing realignment investors continued to watch from the sidelines despite a great improvement to our financial figures this year compared to 2013. As the trading volume was relatively low the KBA share price fell by 22.4%, while the DAX and SDAX rose by 2.7% and 5.9% respectively.

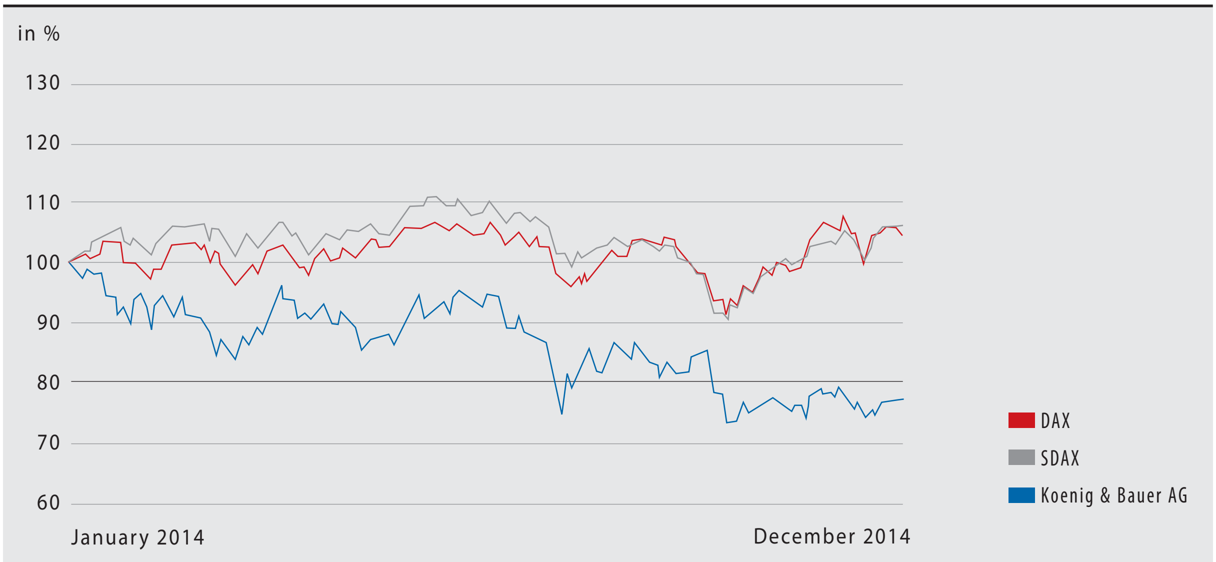
Disappointing stock market rating

After starting the year at €13.15 KBA shares fluctuated between €13 and €11 until the middle of the year. In contrast, the German share indexes ultimately picked up speed in spite of major fluctuations. Following the share price rally in 2013, share markets continued to profit from the abundance in liquidity due to the central banks' expansive monetary policy and limited returns from other types of investment given low interest rates. The stock market slump triggered by negative economic and crisis reports led to a fall in the KBA share price to €9.80 on 4 August. Our positively assessed half-year figures pushed shares back up to €11.44. However, as part of the further stock market slide share prices slipped again under the €10-mark and hit a low for the year at €9.65 on 15 October. Notwithstanding the subsequent recovery to €10.42 KBA shares hardly benefitted from the stock market boom in the fourth quarter which saw the DAX reach a new all-time high. On 30 December 2014 shares stood at €10, 22.4% down on last year's closing figure. The resulting market capitalisation of €165.2m falls significantly short of the company value based on equity and cash positions as well as our market footing.

Intensive communication

Talks with investors and analysts are of great importance in facilitating an appropriate evaluation of our company especially in a challenging industry environment which is why we wish to intensify our investor relations efforts further. Our annual AGM is vital for the management and supervisory boards to exchange views with our shareholders. Over 500 shareholders representing

Performance of KBA shares in 2014



60.8% of equity attended the event at the Vogel Convention Center (VCC) in Würzburg on 28 May 2014. Furthermore, we discussed our business performance, market and industry trends as well as the progress of our Group restructuring and realignment to growth markets in numerous talks and telephone conferences with institutional and private investors, banks and the economic press. We keep shareholders and the public informed about key developments and dates in the KBA Group via our website. Relevant presentations and quarterly, half-yearly and annual reports can be downloaded from our website under the heading "Investor relations".

Positive analyst recommendations

As a result of a decision made by the German stock exchange, since 23 June 2014 we are no longer listed on the SDAX as our stock market sales were too low. With its listing in the German stock market's Prime Standard segment KBA nevertheless continues to comply with the obligations of good Corporate Governance with prompt and transparent communication. Various financial institutions publish regular studies on our company and shares. Following the gradual progress made in restructuring the Group noticeable in our quarterly figures, some analysts raised their recommendations for Koenig & Bauer shares. Towards the end of 2014 most recommended buying or holding our shares.

Key data on ordinary KBA shares

	2013	**2014**
Earnings per share	–€9.31	€0.03
Highest price	€18.50	€13.15
Lowest price	€11.50	€9.65
Closing price	€12.88	€10.00
Market capitalisation in €m	212.8	165.2
Cash flow per share	€2.06	€2.61
Dividend	–	–

Corporate Governance

New organisation strengthens Corporate Governance

Koenig & Bauer identifies with the principles and objectives of good Corporate Governance and is geared to sustainable corporate development. Accordingly we place great importance on the responsible, value-based management and control of our company which aims at long-term success for winning the trust of our shareholders, customers, business partners and the public. In 2014 we strengthened our Group-wide Corporate Governance system further with the shift from a functional to a divisional organisation structure. The management of each individual business unit is responsible for achieving clear targets, e.g. its earnings. Permanent losses and cross-subsidies will not be tolerated. The new organisation structure is expected to also be anchored in accordance with company law in 2015 and increase the external transparency of our company with expanded segment reporting.

Declaration of compliance in accordance with section 161 of German Stock Corporation Law

On 13 February 2015 the Koenig & Bauer management and supervisory boards issued a declaration of compliance based on the current recommendations issued on 13 May 2013 by the German Corporate Governance Code. The present declaration may be accessed by the general public on the Group's website at http://www.kba.com/en/investor-relations/corporate-governance/. The recommendations relating to the Code are implemented with the following exceptions. Even voluntary recommendations are met as far as possible.

Policy excess borne by the supervisory board for D&O liability

At present the policy excess borne by members of the supervisory board for D&O liability insurance of €2,500 is lower than is recommended in provision 3.8 of the Code. We have no plans to adjust the excess to a minimum of one-and-a-half times the fixed annual remuneration because our supervisory board discharges its duties with conscientious dedication at all times and in full, irrespective of the level of such excess.

Management board compensation

In the new management board member contracts drawn up in 2014 payments to members of the management board whose contracts are terminated prematurely by KBA without serious cause are limited to an amount corresponding to three years' fixed remuneration including fringe benefits. Provision 4.2.3 of the Code recommends a severance pay cap of two years remuneration. As the payments are limited to the fixed basic salary Koenig & Bauer generally places an even stricter limit on the severance pay cap. Furthermore, provision 4.2.5 of the code stipulates that additional disclosures shall be provided regarding the individualised disclosure of management board remuneration. The AGM passed a resolution against the disclosure of individual management board remuneration on 16 June 2011 for the period ending with the 2015 business year. Accordingly, we waive the recommended disclosure of this additional information including the provision of two reference tables.

Disclosure of supervisory board compensation

In the Notes the remuneration of individual members of the supervisory board is not disclosed (provision 5.4.6). Koenig & Bauer has long stated the total sum as fixed and variable elements. We believe that this, together with the information on the remuneration agreements fixed in the articles of association and described in the management report, is largely an assessment of the adequacy of supervisory board remuneration and of the individual amount of remuneration possible. Supervisory board remuneration contains appropriate adjustments for the chairman and vice-chairman, but not for committee work, since this is covered by the raised annual remuneration (provision 5.4.6) agreed a few years ago.

Management and supervisory board shareholdings

At the end of December 2014 members of the management board owned 2.8% of equity capital, members of the supervisory board 0.1%. Since we feel that this separate disclosure is sufficient to meet shareholders' justifiable need for information, the figures for individual board members (provision 6.3) were not disclosed.

Board composition

In their proposal for shareholder representative candidates at the AGM the supervisory board and the nomination committee take the criteria in provision 5.4.1 section 2 of the Code into consideration. The rules of procedure for the supervisory board stipulate an age limit. In recent years we were able to gain independent entrepreneurs and executives with sound international experience and a good grasp of technology and industrial economics as supervisory board members. When nominating new candidates the supervisory board seeks to maintain diversity and an appropriate proportion of women on the board. Dagmar Rehm, an independent financial expert, joined the supervisory board in 2014. Selection criteria of the supervisory board for the management board composition also focuses on diversity.

Corporate compliance programme continued

In 2014 the compliance organisation focused on the training of executives and staff at our subsidiaries in order to embed the values set out in KBA's Code of Conduct more firmly there. For Koenig & Bauer regular training sessions and continual development of the existing compliance system are essential elements ensuring that its employees' and executives' conduct complies with legal requirements. Additionally, the KBA Code of Conduct was established for agencies which work for the KBA Group but do not belong to the KBA group of companies.

The compliance board met every quarter. It consists of Group individuals responsible for the control, implementation, monitoring and development of the corporate compliance programme. The extensive internal guidelines were supplemented further to guarantee that our employees' and executives' conduct is legally compliant.

Group Management Report

Over 1,000 print experts experienced cutting-edge sheetfed offset technology for commercial and packaging printing live at various events at our plant in Radebeul. The photo was taken at the *Commercial Printing. Competence. Network.* open house in June 2014

Despite ongoing investment reluctance on the part of publishing houses, in 2014 further KBA Commander CL newspaper presses went into operation in Germany, France and China. This press is currently the market leader in its class

Corporate Structures

Company Structure and Business Activities

Koenig & Bauer made printing history 200 years ago

On 29 November 2014 our company and indeed the entire printing industry looked back at a historical milestone in centuries of printing history. 200 years ago in the night of the 28 to 29 November 1814 *The Times* in London was printed for the first time on the new steam-powered cylinder press invented by our founders Friedrich Koenig and Andreas Bauer. They laid the technical foundations for industrial printing with their invention. Nearly three years later, in August 1817, the two pioneers founded Schnellpressenfabrik Koenig & Bauer in Würzburg. Since then manufacturing such machines able to transfer ink with a high level of precision onto many various substrates has been central to our business activities and a core competence of our company. This is expected to continue in the future despite massive shifts in technology and markets as the potential for print products in media-independent markets is by no means exhausted.

KBA is one of the world's leading press manufacturers with the broadest product range of all major press vendors. Banknotes, metal cans, books, brochures, CDs and DVDs, displays, decoration, labels, glass and plastic containers, board and film packaging, catalogues, magazines, smart cards, advertising flyers, newspapers and much more is printed on our machines using nearly all conventional analogue or digital technologies. Moreover, we already have a strong market footing in security and packaging printing which can be expanded on further in areas with a promising future.

Early diversification in special markets

KBA began expanding its portfolio through acquisitions early on to target print markets not affected by online media, such as packaging printing. This diversification strategy in special and growth markets has continued in recent years with the entry into the digital printing market, the takeover of KBA-Kammann active in the direct decoration of glass containers and KBA-Flexotecnica which serves the growing flexible packaging segment. Management will focus our product portfolio on packaging and security printing also in the years to come.

International Group Structure

Koenig & Bauer became a public limited company in 1920 and in 1985 it went public. At present our Group financial statements have distinguished between our batch-based sheetfed offset activities and our web and special press business which focuses more on large-scale installations. Sheetfed offset presses from Radebeul, KBA-Grafitec and KBA-MePrint as well as metal-decorating systems from KBA-MetalPrint in Stuttgart all belong to our sheetfed segment. Our web and special press segment comprises of offset and digital presses from Würzburg, folders from Frankenthal, banknote printing presses produced by KBA-Mödling and in Würzburg, coding systems from KBA-Metronic as well as printing systems from our new subsidiaries KBA-Kammann and KBA-Flexotecnica. Production and sales subsidiaries active in both segments are assigned proportionately.

Following the closure of the assembly plant in Trennfeld, near Würzburg, and the electroplating plant in Ternitz, Austria in 2014, the KBA Group now has nine production sites in Germany, Austria, Italy and the Czech Republic. Our two main plants in Würzburg and Radebeul form the Parent, Koenig & Bauer AG. The two subsidiaries KBA-FT Engineering and Albert-Frankenthal, both located in Germany's Palatinate region, that were spun off in 2011 offer engineering and production services to the Parent and other companies outside of the printing press industry.

Our facility in Radebeul is responsible for the development and sales of all our Rapida sheetfed offset presses as well as the production of medium and large-format presses. Our Czech subsidiary KBA-Grafitec builds half-format sheetfed presses. Sheetfed offset presses are our strongest revenue driver with the largest market volume. Global distribution via our sales network is controlled from Radebeul and KBA is the world's second-largest vendor of sheetfed offset presses. The KBA plant in Saxony profits from its strong footing in the growing folding carton packaging printing market.

Further growth-orientated packaging markets, such as metal decorating, printing on flexible materials, coding and hollow-container decoration, are served by our subsidiaries KBA-MetalPrint, KBA-MePrint, KBA-Metronic, KBA-Flexotecnica and KBA-Kammann. The last two companies mentioned concentrate on the development, construction, sales and after-sales service of their products. Capacity risks in case of fluctuations in demand are reduced as they do not carry out any manufacturing activities in-house.

Historically KBA has an export ratio of over 80%. Shifts in demand continue from advanced economies in Western Europe, North America and Asia to emerging markets on the edge of Europe, the Middle and Far East, Latin America and parts of Africa. New printing firms are even being founded in these new markets and we have strengthened our network of own sales and service subsidiaries in Latin America and Asia accordingly. We continue to work with longstanding agencies in smaller markets. The most important sales subsidiaries in the KBA Group have all been consolidated, see page 81 in the Notes.

Smaller sales offices in Russia, Eastern Europe, Scandinavia, Malaysia, Singapore, South Korea, Japan, Australia and Latin America have not been consolidated.

New segment reporting in preparation

In 2015 our segment reporting will be adjusted to the new company structure, which is subject to approval by the AGM in May, to legally autonomous business units instead of a previously large Parent company. It is planned that the Group financial statements will be divided into the segments sheetfed, digital & web as well as special presses. The business unit production will be assigned proportionately to the three other business units operating on the market in our reporting. It will predominantly serve as an internal service provider and KBA-Gießerei (foundry) will be allocated as a subsidiary. The new structure is due to the varying degrees of development within the markets and promotes the autonomy of the individual operating business units and transparency with regard to their performance.

Share Capital, Executive Bodies and Compensation Report

Long-term shareholder base

On 31 December 2014 the Parent's share capital stood at €42,964,435.80, divided among 16,524,783 bearer shares with a nominal value of €2.60 apiece. In accordance with section 12 (7) of the articles of association, every no-par share conveys a voting right. There are no restrictions on voting rights, the transfer of shares or special rights imparting powers of control. To our knowledge the only shareholders with an equity holding of more than 10% are Bestinver Gestión in Madrid, Spain, with 10.4% and MKB Holding in Vienna, Austria, with 10.2%.

Executive bodies

The appointment and dismissal of management board members as well as amendments to the articles of association comply with statutory regulations (sections 84, 85 and 179 of German Stock Corporation Law and section 31 of the Law of Codetermination). Section 17 of the articles of association authorises the supervisory board to amend the articles in compliance with resolutions passed by the AGM, more specifically with regard to the utilisation of authorised capital.

Compensation report

In 2014 two new management board contracts were signed, and four were adjusted and extended. Since 1 October 2014 all contracts have a duration of five years

KBA has in-depth knowledge in precision mechanical engineering for challenging substrates and large printing widths. We apply this know-how to the growing digital web printing segment for traditional and new applications with the upgradeable RotaJET L press platform for web widths of 89 to 130cm and the RotaJET VL for widths of over 2m with the exception of the CRO, whose contract has a shorter duration as a result of his primary responsibility for the implementation of our Fit@All programme and has a higher fixed remuneration. The fixed remuneration essentially remain unchanged, the performance-related remuneration were standardised as follows:

- All goals are geared to the EBT (pre-tax earnings).
- With effect from 2015 50% of the maximum variable remuneration achievable by members of the management board responsible for the business units will be calculated in accordance with the business unit's earnings and 50% according to Group earnings.
- Variable remuneration consists of a short-term and a long-term component. These are based on the targets for the percentage of EBT attainable. Sustainability is taken into account with the payment of long-term variable remuneration components which are dependent on maintaining the sales-related EBT percentage over two consecutive years.
- Variable remuneration is limited to the maximum fixed annual remuneration for each short-term and long-term goal achieved.
- As the duration of the contracts was extended to five years a provision was added stipulating that severance pay is limited to a maximum of three years' remuneration (not incl. performance-related bonuses) upon premature termination without serious cause. If the remaining contract duration is less than two years severance pay is granted pro rata accordingly.

Other compensation drawn by the management board covers the pension commitments and the costs of sundry benefits, such as the provision of a company car. Pursuant to section 314 (1) 6a clauses 5 to 8 of the German Commercial Code (HGB) on the disclosure of management board compensation, at the AGM on 16 June 2011 a resolution was passed to forego the disclosure of individual management board members' compensation as per section 286 (5) in conjunction with section 314 (2) 2 of the German Commercial Code. This resolution is valid for the period ending with the 2015 business year.

Supervisory board remuneration is regulated by section 11 of the articles of association. In addition to an attendance fee and the reimbursement of out-of-pocket expenses, each member of the supervisory board receives a fixed compensation of €21,000 per year plus a variable component of no more than €9,000 split into payments of €3,000 p.a. over three consecutive years in which the Group posts a profit. The chairman's remuneration is twice the fixed and variable total, his deputies' one-and-a-half times.

Share options and other share-based benefits form no part of board remuneration.

Approved capital and authority to purchase shares

Following the utilisation of authorised capital for employee shares on 31 December 2014 it stood at €15,443,766 or 5,939,910 no-par shares, which may be drawn on until 15 June 2016. 524,783 shares were issued to employees from 2002 to 2013. This represents 3.2% of our subscribed capital.

Koenig & Bauer is authorised to purchase and allot company shares on a non-pre-emptive basis of up to a maximum of 10% of the share capital of €42,808,201.80. This authority is valid until 15 June 2016 and is purely a contingency measure permitting Koenig & Bauer to purchase shares and offer them as a negotiating tool for acquisitions of other companies or shareholdings. On 31 December 2014 the Group had no such shares.

Disclosures under section 315 (4) 8 and 9 of the HGB

Koenig & Bauer has entered no basic agreements and has made no special provisions governing a change in control or the acquisition of control in the event of a takeover bid, nor do any compensation agreements exist for such a contingency with either the members of the management board or workforce.

Corporate Planning, Control and Monitoring

Solid controlling on all levels

As part of the decentralisation initiated in 2014, resources and components for controlling which were previously managed centrally were directly assigned to the operating business units. In parallel, central Group controlling was established with a focus on comprehensive Group management. This organisational measure strengthens the individual business units operating on the market and prioritises controlling in the Group.

KBA uses cutting-edge controlling tools for the efficient control and monitoring of the company. Along with short and mid-term corporate planning including regular forecasts the weekly rolling 13-week liquidity planning with cash management as well as the monthly reporting also provide current feedback on the business situation and our progress towards achieving our goals. Together with the monthly working capital reports these deliver a reliable set of figures for management decisions.

Our three-year integrated corporate plan is drawn up annually. The first planning year is furnished with detailed monthly planning with regard to income statements, balance sheets and cash flow statements. The two following years each indicate the respective quarterly figures. The KBA Group uses central target and controlling figures based on the International Financial Reporting Standards (IFRS), such as sales and EBT margins. Annual performance-related graduated bonuses for all executives ensure commitment to achieving Group and segment objectives.

Up-to-date forecasts for the current year are created in parallel to the quarterly financial statements. Along with controlling measures, the detailed monthly reporting and the regular discussions on the current business situation with the operating units ensure a permanent target/actual analysis. The causes of negative deviations are detected promptly and measures to remedy the source are defined. The rolling planning, forecasting and reporting process allows for the extensive evaluation of Group-wide developments. Opportunities and risks can be identified and the necessary decisions can be made.

Orderly accounting through internal monitoring

At KBA an internal system for monitoring our accounting practices encompasses principals, procedures and measures for safeguarding their efficacy, cost efficiency and compliance with legal regulations. Work instructions and directives support these organisational monitoring structures.

The Parent and its subsidiaries all have their own departments responsible for controlling, human resources, payroll management, accounting, financing and cost accounting. Group accounting, internal auditing and compliance are managed by the Parent. The duties of the departments that are materially involved in accounting processes are explicitly segregated and their responsibilities are clearly assigned. Those departments involved in the accounting process are appropriately equipped.

The IT systems used for financial and payroll accounting are protected against unauthorised access. Along with the standard software SAP at the Parent, various other systems are in use at the subsidiaries. The IT systems, which have been subjected to a raft of own developments in the past, will be gradually switched to SAP widespread in the machinery and project business. The business blueprint for the project started in 2013 with the goal of harmonising processes and data Group-wide was drawn up in 2014.

Group accounts are compiled with the aid of consolidation software and are meticulously checked on a quarterly basis. Numerous Group-wide planning, forecasting and early warning procedures all promote transparency. Accounting and evaluation guidelines ensure that the principles set out by the International Accounting Standards Board (IASB) are applied. The risk management manual documents the process of recognising risks and the communication procedures for reporting risks in order to ensure their timely detection and prompt information to the management board on risks at the Parent and Group. The reporting guidelines are regularly updated and extended. In 2014 the guidelines on individual accounting topics were expanded to include financial assets and financial liabilities, and were summarised as an IFRS accounting guideline for the KBA Group.

The integrity and accuracy of accounting data are monitored regularly using random sampling in conjunction with manual or physical inspections that include annual inventories of stock and tasks associated with the year-end financial statements as well as inventories of property, plant and equipment at certain times. In addition, the software used carries out programmed plausibility checks. The four-eyes principle is applied to all key processes. Regular training and independent supervision ensure that our Group financial statements and management report comply with the pertinent regulations. Fundamental accounting-specific procedures and fields are subjected to analytical scrutiny by our internal auditing department and controlling. The efficiency of these checks is safeguarded by automated input, output and processing controls. Where necessary, external experts are enlisted for assistance, such as actuaries for the evaluation of pension obligations.

The authorising and implementing units are segregated as a matter of principle. Read/write authorisation is controlled in all systems and there is a strict separation of functions for booking business transactions. Staff access to IT applications is also controlled and authorisation restricted. No individual personnel assigned to the various functions have access to the entire process level of the accounting software (goods reception, additions to stock, invoice auditing, release and transfer of payments).

We can be confident that our financial reporting complies with statutory regulations with fixed principles, methods and measures. The supervisory board's audit committee monitors accounting practices, the end-of-year audit and the efficacy of the early warning system.

KBA-MetalPrint had the most successful year in its company history in 2014. Along with the new MetalStar 3 and Mailänder 280, highly automated coaters such as the MetalCoat 480 and the energy-saving HighEcon dryer have made a substantial contribution to this success

Group Realignment

Print and KBA are evolving

Print in all of its breadth and diversity still has a future, albeit with differing prospects in traditional and new fields of application. Printed newspapers, magazines, catalogues and supplements have to share a piece of the information and advertising pie with online and mobile media resulting in lower circulations and revenue. In contrast, demand for printed packaging and banknotes increases in line with the swelling prosperity of the world's growing population.

Print continues to offer entrepreneurial opportunities

The market for printed matter has shifted fundamentally and demands that we adjust our business models. We see growth for KBA predominantly in packaging and digital printing as well as in special markets where we are already well-positioned.

In order to accelerate the transformation of our portfolio to focus on growth markets, to minimise our dependence on shrinking markets such as publications and newspaper printing and to sustainably increase the company's earnings in all business fields, the management and supervisory boards passed the Fit@All programme in December 2013. It is a package of measures for the realignment of the Group which goes far beyond any previously implemented.

Fit@All programme presses ahead

The implementation of Fit@All, which started at the beginning of 2014 and continues until 2016, made good progress in its first year and is in the media from time to time. Reports often focused on the rapid progress of the Group-wide reduction of up to 1,500 jobs. Fit@All, however, comprises of many other changes besides further consolidation in our web press division and our production network. It encompasses the integration of digital printing, production realignment with extensive relocations between plants and specialisation of the sites as well as the optimisation of the depth of added value in terms of capacity utilisation and profitability. It also revolves around the implementation of a de-central company structure with autonomous business units and a stronger focus on the growth markets mentioned.

As part of restructuring our production activities, the implementation of site-specific competence centres for manufacturing and assembly was largely finalised in 2014 and the redundancies between the individual production sites have been eliminated. One example of many is the relocation of the manufacturing of parts and assembly of substructures and feeders for sheetfed offset presses from Mödling to Radebeul. Numerous machining centres have been moved, re-installed and have gone back into operation with the goal of bundling similar manufacturing components at one site. This process took place without any considerable interruptions to production. Furthermore, we invested €21.4m in property, plant and equipment. This includes highly productive machining centres for large parts in Würzburg as well as a new hall with cutting-edge systems for surface coating in Radebeul. The newly equipped manufacturing islands are expected to be used more intensively for jobs from external companies.

Positive effects are already noticeable

Provisions for sizeable special expenses for capacity and restructuring measures associated with Fit@All were made as far as possible already in the financial statements for 2013 and in connection with impairments on the balance sheet led to high pre-tax loss in that year. At €10m the additional expenses that occurred in 2014 remained within manageable limits and primarily consisted of relocation expenses for which provisions could not be made. In contrast, the initial positive impacts of the ongoing restructuring programme were already visible in the second-half of 2014. We anticipate annual cost savings in the higher double-digit million range after the project is complete, in particular from the reduction of about 1,500 jobs.

New company structure strengthens accountability

The supervisory board gave the final green light for the preparation of a new company structure in its meeting in November. Given the raft of KBA's target markets, the realignment in accordance with company law is expected to lead to improved operational transparency and underscore the clear responsibility of each business unit for its market and the earnings obtained there. The new structure will be submitted to the AGM on 21 May 2015 for approval and could be implemented with effect from 1 January upon approval retrospectively.

The sheetfed, digital & web and production business units shall operate as autonomous units under Koenig & Bauer AG which will then be set up as a holding with central functions including financial accounting, human resources, IT, treasury, legal affairs, patents, controlling, internal auditing, communication, marketing and other areas. The spun-off business units will be named KBA-Sheetfed Solutions, KBA-Digital & Web Solutions and KBA-Industrial Solutions and will have a German legal status of an AG & Co. KG (limited partnership with the Parent as general partner). The business unit KBA-NotaSys, responsible for our security printing systems, will be adapted in accordance with the added-value chain together with KBA sites in Lausanne, Würzburg and Mödling. It will be consolidated in the new segment special machines just like KBA-MetalPrint, KBA-MePrint, KBA-Metronic, KBA-Kammann and KBA-Flexotecnica. The segment unites and pushes forward with markets that are less at the centre of our current focus and which have potential for growth, particularly special applications in packaging and security printing.

KBA-Sheetfed Solutions, our largest business unit based in Radebeul, profits from its strong footing in the packaging printing market and operates relatively independently even today. Our sales subsidiaries in Germany and abroad whose main business is in sheetfed will be assigned under the strategic management of this unit. However, these subsidiaries will continue to deliver sales support and services to other business units.

Our web press business which has especially felt the impact of the media shift will be carved out from its previous segment, web and special presses, and will be grouped with the growing field of digital printing in one joint business unit. In connection with the further expansion of our service activities for own and third-party presses and the new partnership with HP in the digital corrugated packaging market, we expect this significantly smaller business division to soon return to appropriate profitability.

The future Group-wide merging of production activities as KBA-Industrial Solutions will improve the cost transparency of our own production facilities towards external suppliers, enhance flexibility for the planned extension of production services for external customers and will illustrate which production capacities are viable based on the earnings achieved. The foundry in Würzburg which was upgraded a few years ago was spun-off into an independent legal entity, KBA-Gießerei, with effect from 1 December 2014. Following the implementation of the new structure it shall be assigned to the Industrial Solutions unit as a subsidiary.

The goal of all of the Fit@All measures is to substantially increase the flexibility of the KBA Group further as well as cutting our cost base and dependence on shrinking markets. In parallel we will step up business in growth markets. Group sales of €1bn will lead to an appropriate level of earnings for the machinery and plant manufacturing industry.

Research and Development

New solutions for growth markets

In 2014 our engineers focused on the development and expansion of our broad product portfolio for various printing applications, integrated solutions for data flows, substrate logistics and post-press as well as new systems for banknote, digital, packaging and industrial printing. By way of example, the newly launched MetalStar 3 and Mailänder 280 metal-decorating lines made a substantial contribution to KBA-MetalPrint's positive performance. Designs to boost productivity, cut costs and save energy have remained a top priority with regard to innovations in process technology. In 2014 this included the unveiling of HR and LED-UV curing in sheetfed offset following rigorous testing, new drying concepts in packaging printing and a new module for the double-sided coating of banknotes.

Flexible digital printing platform

In autumn 2014 KBA presented the new RotaJET L digital printing platform which can be adjusted flexibly to suit growing market demands. The RotaJET L product series for paper web widths between 895 and 1,300mm covers the digital printing market's core areas and joins the RotaJET 76 launched in 2012. The opportunity to upgrade the smallest press belonging to the RotaJET L series at a later date for different format requirements or a higher output is new to the high-volume market. The top-of-the-range RotaJET 130 achieves a monthly print volume of 175m A4 pages compared to 116m A4 pages with the RotaJET 89.

Moreover, KBA developed the RotaJET VL series of individually configurable presses with a printing width of over 1.60m for industrial applications, such as decorative printing. The first RotaJET VL with a printing width of 1.68m was delivered to a German decorative printer. The new partnership between HP and KBA for the development and production of an inkjet press for corrugated packaging is also founded on our know-how in precision engineering for various printing applications and large substrates widths.

Investment in research and development represented 5% of Group sales (2013: 5.8%).

Quality Management

Fewer quality costs through stringent processes

The trend towards even more productive and complex printing systems due to increasing levels of automation is continuing. Customers' demands regarding press performance and reliability have grown further given tough competition in the industry. Against this background sophisticated quality management from product creation to the acceptance in the printing house is of great importance for maintaining customer satisfaction and avoiding unnecessary costs. In 2014 significant progress was made in reducing quality costs through more stringent control, acceptance and release processes in production and assembly, part purchasing as well as the market launch of new features. Stricter rules when drawing up contracts and the transfer of the responsibility for quality management to the operating business units on the market have proven helpful. We still perceive potential for optimisation with regard to internal customer/supplier relationships within the new company organisation.

Business Report

Economic Environment

Numerous international conflicts, sanctions and weaker global economic growth acted as a brake on demand within the export-orientated machinery and plant engineering industry in 2014. While the economy gained momentum in the USA, Great Britain and in some Central Eastern European countries, hopes of a sustained economic recovery were dampened by the in debt euro states Italy and France. Exports to emerging markets, such as Turkey, India, South Africa or Brazil, decreased due to regional economic and currency issues and sales in the Middle East and North Africa were affected by instability throughout the entire region. Growth market China, an important market for the German machinery industry, also lost momentum. Insecurity regarding future economic and political developments strengthened investment reluctance in Germany.

"Painstaking progress" was the title of the economic bulletin issued by the VDMA (German Machinery and Plant Manufacturer's Association) in December 2014 and in March 2015 it announced a real growth in production of only 0.7% with strong disparities between industry segments. According to VDMA statistics 5% fewer orders for printing machinery were placed in 2014 year-on-year and sales sank by 12%.

Business Performance

Realignment to growth markets advances

Strong variations in demand dynamics are reflected clearly in the Group's incoming order and sales figures for the past year. Whereas orders for printing systems in packaging-orientated markets, such as board, metal and coding, rose significantly in some areas, the market for conventional printing presses for commercials, books, catalogues and newspapers which has been contracting for some years continued to shrink. Economic and political influences strengthened structural impacts. KBA's diversification strategy pursued early on was able to compensate at least in part for declining sales in former core markets and somewhat cushion the impacts of the shift. In the last ten years the media-related percentage of new orders for web and sheetfed presses fell from over 60% to under 15%, while the number of new presses used for printing packaging grew from 25% to 60%.

Group business segments: order intake / sales / order backlog

in €m	2013	**2014**
Order intake	1,012.2	956.9
sheetfed offset presses	608.0	610.1
web and special presses	404.2	346.8
Sales	1,099.7	1,100.1
sheetfed offset presses	571.9	590.6
web and special presses	527.8	509.5
Order backlog	560.5	417.3
sheetfed offset presses	209.3	228.8
web and special presses	351.2	188.5

To sum up Group order intake came to €956.9m, a 5.5% decrease year-on-year (€1,012.2m). The main reasons were a decline in our web press business and fewer new orders for banknote printing systems.

80% of orders in sheetfed division for packaging printers

Bucking the industry trend, incoming orders of €610.1m in our sheetfed offset division were up slightly on the previous year (€608m) and we were able to maintain our position as one of world's leading press manufacturers. The economic slowdown in key markets and subdued demand in the commercial and ad printing sector led to a slide in orders for medium-format presses. In contrast, orders for large format, which is geared strongly towards packaging production, remained relatively stable. Compared to 2013 KBA was even able to win more orders from Asia, Latin America and Central Eastern Europe with a revised press design for half format.

The percentage of the total volume of orders in the sheetfed division placed by packaging printers, a key target group for KBA, grew to almost 80% in 2014. Brisk business at KBA-MetalPrint, a manufacturer of systems for metal decorating, was particularly encouraging. A major contribution to this was the successful unveiling of a raft of new innovations at the METPACK trade fair in Essen, Germany. The extensive know-how of our Stuttgart-based subsidiary as a systems supplier offering entire solutions for print, coating, drying and waste air purification is favourably received by the metal packaging industry. This applies above all not only to the growing Chinese and Asian markets, but also for new investments in Europe. On the other hand, demand dipped for special systems for UV printing from KBA-MePrint which is also consolidated in this segment. Technology for new applications, such as tube and label printing, is expected to open up new markets.

Weak demand for web offset presses

At €346.8m order intake in our web and special press division failed to reach the prior-year figure of €404.2m by 14.2%. The volume of incoming orders for new web presses remained far below our already dampened expectations in light of the publishing industry's stronger focus on online offers and mobile communication services. From the few contracts awarded we limited ourselves to those projects with acceptable margins. We are pleased with the growth of our service business which offers maintenance, overhauls, retrofits and technical support of older web presses. A rise in service activities for third-party presses contributed to this.

The intake of new orders for banknote presses was also lower as a result of postponed projects and increasing competition. This sector is highly volatile due to the large size of the orders. Subsidiary KBA-NotaSys maintained its footing as technology and market leader with new products, new security features and the expansion of its service portfolio. Orders for coding systems from KBA-Metronic used in the automobile, food processing and other industries rose slightly. With their printing solutions for flexible packaging materials and glass/hollow containers KBA-Flexotecnica and KBA-Kammann, which joined the Group in 2013, contributed well over €50m to order intake in our web and special press segment. A ramp-up in sales activities and further applications are expected to enhance the contribution of these new business fields further.

Fewer large-scale press lines on the books

On 31 December 2014 Group order backlog came to €417.3m, 25.5% less than the year before (€560.5m). The backlog of orders in our sheetfed offset division increased by 9.3% to €228.8m (2013: €209.3m). In contrast, a decline in demand for large-scale projects reduced the total of web and special press orders on the books from €351.2m to €188.5m. The adjustment of our web offset capacities, which is now at an advanced stage and will be completed in 2015, takes into account the lower business volume expected in the future.

Earnings, Finances and Assets

Earnings

Stable sales and positive results

Group sales of €1,100.1m were slightly above the previous year (2013: €1,099.7m) and thus at the top end of our goal for 2014 of €1bn to €1.1bn. The savings achieved through previous initiatives and the current Fit@All programme had a positive impact on our earnings compared to 2013, although ongoing idle-capacity costs at our web press sites hit our earnings. In 2014 Group pre-tax earnings were considerably better than the negative EBT originally forecasted again thanks to cost savings already attained.

Higher sheetfed sales

At €590.6m sales of sheetfed offset presses were up 3.3% on the prior-year figure of €571.9m. The segment's contribution to Group sales rose from 52% in 2013 to 53.7%. Along with higher service sales, this growth was predominantly driven by large and half-format Rapidas. KBA safeguarded its leading position in large format thanks to the Rapida 145 and 164 cutting-edge press technology as well as longstanding partnerships with big packaging groups. Medium-format Rapida 106 and 105 implemented in all fields of application and regions again generated more than half of sheetfed sales. The half-format Rapida 75 manufactured by KBA-Grafitec is particularly popular in emerging countries, whereas the more highly automated Rapida 76 targets users predominantly in industrial countries. After adjusting capacity, higher sales led to a pre-tax profit at this Czech site. Our successful subsidiary KBA-MetalPrint posted a further significant increase in sales of metal decorating and exhaust air purification systems and at approximately €100m sales were the highest in its history. In contrast, revenue with used presses was lower than the previous year.

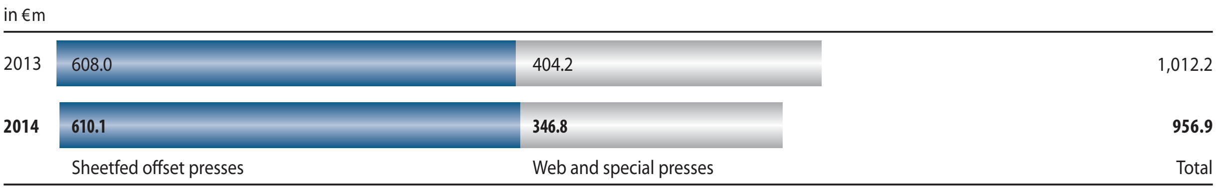
Less revenue for web and special presses

Despite a considerable growth in our service business, at €509.5m sales in the web and special press segment were down 3.5% year-on-year (2013: €527.8m). This was a result of ongoing weak propensity to invest on the part of newspaper and commercial printers. Along with France and Norway, most press installations were in Germany. Security press revenue was slower in 2014 compared to previous years but exceeded the long-term average. Sales of industrial coding systems from KBA-Metronic were up slightly on 2013. KBA-Flexotecnica and KBA-Kammann contributed around €54m to their segment's revenue, as did the delivery of the first KBA RotaJET VL from our relatively new digital printing business field.

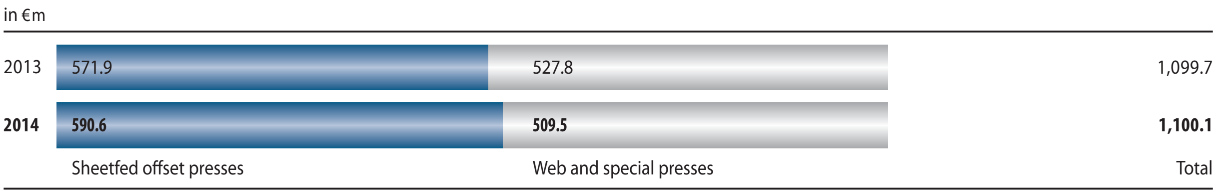
European sales up

Domestic sales sank by 8.3% to €180.6m (2013: €197m) due to fewer sheetfed and web press deliveries. Our

Group order intake



Group sales



Group order backlog

export level thus rose from 82.1% to 83.6%. Deliveries to other parts of Europe increased by 17.8% to €389.8m (2013: €331m) as both business segments posted growth. Compared to 2013 (30.1%) this traditional KBA market gained ground again with 35.5% of Group sales.

Suspended growth in Asia and the Pacific

Given weaker demand in China at €263.4m sales attributable to Asia and the Pacific stood below the prior-year figure (€301m). Nevertheless, this region's contribution of 23.9% was still considerable (2013: 27.4%). In the current business year we expect deliveries to rise again in this promising region triggered by the Print China trade fair in April 2015 and our expansion in Asian growth markets.

Sheetfed offset business grows in North America

An increase in sheetfed press deliveries to North America failed to compensate for the decline in the web press business which has shrunk here by almost 50%. The regional total plummeted from €140.5m to €117.6m, or from 12.8% to 10.7% of Group sales.

Gains in Latin America and Africa

Mainly driven by an increase in special press shipments revenue in Africa and Latin America rose to €148.7m compared to €130.2m in 2013. At 13.5% the region's contribution was up from 11.8% the year before and above the long-term average.

Sharp rise in gross profit margins

Cost of sales totalled €802.9m in 2014 (2013: €941.1m). Despite insufficient capacity utilisation at our web press facilities, a reduction in staff costs resulting from jobs cuts starting in April and our expanded service business led to a major increase in gross profit of €297.2m. Savings in materials through the consistent implementation of product group management, consolidating volumes and system partnerships all contributed to this rise. At €158.6m the previous year's figure was affected to a large extent by restructuring expenses and impairments associated with Fit@All. Our gross profit margin widened from 14.4% to 27% accordingly. R&D costs sank to €54.8m compared to 2013 (€64.2m), which corresponds to 5% of sales (2013: 5.8%). While administration costs were up from €78.9m to €80.8m also due to temporary high consulting expenses, at €134.5m distribution costs remained on a par with the previous year (2013: €134.2m). Other operating income stood at €31.5m (2013: €30m) and other operating expenses came to €44.5m (2013: €42m). Our operating profit rose to €14.1m compared to the prior-year figure of –€130.7m which was strained by the special effects mentioned.

Excluding special expenses of €10m we posted an operating profit of €24.1m compared to +€24.5m the previous year. Thanks to the savings already achieved we surpassed our goal of an operating profit before special items. Earnings before interest, taxes, depreciation and

Geographical breakdown of sales

in %	2013	2014
Germany	17.9	16.4
Rest of Europe	30.1	35.5
North America	12.8	10.7
Asia/Pacific	27.4	23.9
Africa/Latin America	11.8	13.5

The direct decoration of premium quality hollow containers made of glass and other materials is just one of the challenging niche markets addressed by KBA-Kammann. The market is growing predominantly in emerging countries like China amortisation (EBITDA) as well as special items totalled +€51.9m (2013: +€54.7m).

Despite underemployment at our web press sites, our web and special press division posted an operating profit of €2.6m, an improvement on last year's loss of €53.1m triggered by one-off effects connected to Fit@All. Along with the savings achieved, this was a main result of higher contribution margins due to a rise in service activities and our advantageous product mix. Increased sales and progress with regard to costs and prices led to an operating profit in our sheetfed segment of €11.5m compared to the previous year's loss of €77.6m which was also impinged on by special expenses.

Group net profit

Interest income fell from €3.2m to €2.7m in 2014 following a decline in customer prepayments and interest rate level. Around half of the interest expenses of €10.5m (2013: €10.6m) consisted of interest compounding on pension provisions. Following a financial loss of €8.6m (2013: –€7.4m), we posted a pre-tax profit of €5.5m. This is in contrast to the loss in 2013 of €138.1m given special expenses from Fit@All totalling €155.2m. Compared to the previous year (–€153.7m) we recorded a net Group profit of €0.3m in 2014 with taxes on income including deferred taxes of €5.2m. This corresponds to earnings per share of €0.03 (2013: –€9.31). In view of the Parent's residual net loss, the management and supervisory boards cannot propose a dividend payment for 2014 to the AGM.

Finances

Active working capital management boosts net liquidity

Despite high cash outflows for staff cuts of around €40m and a €45.3m-slide in customer prepayments to €129.7m, the KBA Group still has a solid amount of own liquidity. A sizable quantity of cash was freed up by intensifying our working capital management in 2014 which included a substantial reduction of inventories and receivables. Investments were financed from our positive cash flow and bank loans were scaled back by €6.3m. Management is targeting sustained positive liquidity by reducing working capital further. Along with the active management of receivables, inventories are expected to fall further due to the implementation of the pull-principle in production and assembly. We have access to credit lines totalling €100m from domestic banks for cash use and guarantees until the end of 2016 for fluctuations in liquidity in the volatile capital goods business. Moreover, the Group has access to additional credit lines, e.g. a mixed cash and guarantee facility of 100m Swiss Francs from a large bank in Switzerland available until the end of

Group income statement

as % of sales	2013	**2014**
Cost of sales	–85.6	–73.0
Research and development costs	–5.8	–5.0
Distribution costs	–12.2	–12.2
Administrative expenses	–7.2	–7.3
Other income/expenses	–1.1	–1.2
Financial result	–0.7	–0.8
Income taxes	–1.4	–0.5
Net profit/loss	–14.0	+0.03

March 2016. Along with securing liquidity, our financial strategy focuses on limiting currency risks (see page 52 for more details).

Strong cash flow despite severance payments

At €43.2m cash flows from operating activities exceeded the previous year's figure of €34.1m significantly, although a high sum of severance payments was made and customer prepayments and trade payables plummeted. This was achieved by an improvement in earnings and a reduction in inventories and receivables. After deducting funds for investments the free cash flow soared to €28.7m compared to €3.2m the year before. Cash outflows from financing activities, which mainly consisted of repaying loans, stood at –€6.5m (2013: –€22.4m).

Comfortable net liquidity level

Liquid assets rose to €207.6m (31.12.2013: €185.4m) thanks to our positive cash flow. Compared to the prior year (€21.5m) bank loans (for more details see page 87 onwards in the Notes) were reduced to €15.2m. On the balance sheet date net liquidity, the difference between funds and bank loans, came to €192.4m (2013: €163.9m). From the credit lines available, only guarantee credit lines were used to secure customer prepayments. None of the credit lines were drawn upon for cash purposes. Notwithstanding the net Group profit, a further decrease in the discount rate for German pensions reduced equity to €227.2m (2013: €277.9m). The ratio of equity to the balance sheet total stood at 22.4% (2013: 25.3%).

Lower liabilities

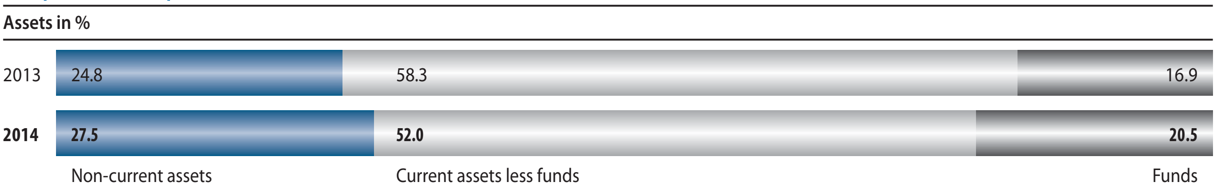
Other provisions sank from €296.9m to €259.2m given the restructuring measures implemented. The lift in pension provisions from €142.5m to €195m was mainly a result of changes in interest rates. Trade payables fell by €15.1m. The decline in other liabilities from €198.2m to €164.2m is attributable to lower customer prepayments. Current and non-current liabilities dropped from €820.1m to €787.5m year-on-year.

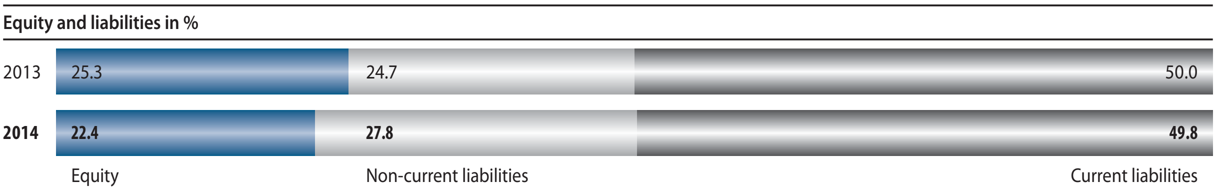
Assets

Major investments in bundling production

Investment in intangible assets, property, plant and equipment of €21.7m (2013: €32.3m) primarily related to projects for establishing higher performance competence centres at the sites in Radebeul and Würzburg. Five new universal machining centres were installed in Würzburg, where large part manufacturing activities are based. Further replacement and supplementary investments were made in small part manufacturing for ink ducts. Along with new milling,

Group assets and capital structure





drilling and grinding machines, manufacturing cells and assembly lines, in Radebeul investment focused on setting up a competence centre for plasma coating including a new production hall. Investment represented 2% (2013: 2.9%) of sales. With depreciation at €30.5m the investment rate came to 71.1% (prior year: 54.2%). The reclassification of demo presses in the customer centre at KBA-NotaSys in Lausanne contributed to the rise in property, plant and equipment to €190.9m (2013: €188.4m). Equity corresponds to 119% of property, plant and equipment. Following €272.1m the previous year, at 31 December 2014 non-current assets were worth €278.8m.

Despite higher funds (+€22.2m), current assets dropped from €825.9m to €735.9m due to reduced inventories (–€77.9m) and receivables (–€29.4m). Working capital stood at €230.7m (2013: €277.2m). By 31 December 2014 the Group balance sheet total sank to €1,014.7m, €83.3m below the prior-year figure of €1,098m.

Summary of the Economic Situation

The ongoing Group restructuring programme in place since the beginning of 2014 and a stronger focus on profitable growth markets, such as digital and packaging printing, is expected to improve earnings and the company's equity base as well as secure sustainable dividend payments. This is why we invested considerable funds in new products, future-focused markets and efficient production systems in addition to capacity reductions. Notwithstanding additional special expenses, initial success on our gross profit margin was visible and we anticipate further incremental improvements in 2015. From 2016 onwards our cost base will be reduced annually with a figure in the high double-digit millions by the restructuring.

Efficient working capital management has released cash for internal financing in spite of substantial cash outflows for job cuts. High net liquidity and access to additional credit lines provide a solid financial backing. Our working capital programme which is at the top of our agenda is expected to improve our cash generation further and sustainably strengthen the KBA Group's financial power. Although our equity ratio has fallen due to interest compounding on pension provisions despite a Group net profit, the equity-to-fixed-assets ratio and net financial position in relation to equity (gearing) were a good average for the machinery industry.

Sustainability Report

Ecological and social responsibility

We fulfil our environmental and social obligations by greening up production on an ongoing basis and by supporting a range of social and cultural activities.

Environmental protection and work safety in production

A raft of individual measures once again contributed to energy savings, cutting carbon and solvent emissions as well as waste and noise reduction. The switch from the galvanic coating of components to the environmentally friendly use of plasma technology was tied to the construction of a new hall in Radebeul. Along with less waste water, waste and emissions, temperature adjustments in the new hall via heat recovery also significantly reduces energy consumption together with LED lighting. Tests with low-solvent high-solid varnishes were used to sustainably cut the consumption of solvents (VOCs) when coating parts. In the interests of our

The EVO XG 12 from KBA-Flexotecnica featuring 12 print decks, printing widths of up to 2m and speeds of up to 600m/min is our Italian subsidiary’s leading product for the flexible packaging market

KBA-MePrint developed the Varius LX-TX for printing and finishing high quality labels and laminates in small to mid-sized runs. This narrow-web press based on waterless and keyless offset inking units can be expanded individually by further printing, finishing and post-press modules employees the key topic of work safety and ergonomics was addressed with new and revised working guidelines, training and advice. A new extraction system was installed to improve the working conditions in the foundry, especially for those working at the unpacking station.

Focus on climate and energy efficiency

Initiatives for ecological printing have been a longstanding practice at KBA. We attained a unique position in the high-volume inkjet printing segment with the development of our polymer pigment inks. The RotaColor inks for the KBA RotaJET can be deinked to a very high degree during the process of recycling paper. In 2014 we focused on improving efficiency in general with regard to energy and consumables. This was in addition to our proven solutions for climate-neutral printing, the Rapida sheetfed offset presses which have been awarded with eco-certificates for 15 years and environmentally friendly coating in waterless newspaper printing offered exclusively by KBA. Our HR and LED-UV curing technology launched recently provides a sustainable means of lowering energy consumption in sheetfed offset while increasing productivity. A further notable eco-friendly innovation is the new HighEcon dryer for metal decorating for which KBA-MetalPrint received the silver METPACK Innovation Award. The HighEcon is the only dryer able to handle thin metal sheets with a thickness of just 0.1mm thus saving considerable amounts of materials. Furthermore, compared to conventional processes this technology leads to average energy savings of 50% a year. Less energy also means fewer carbon emissions.

Assuming social responsibility

Along with environmental issues, we are also dedicated to social and cultural initiatives. Examples of this are our longstanding sponsorship of the annual Bach festival in Würzburg and a yearly benefit concert organised together with other printing and media companies. The proceeds from the most recent ninth annual event went to five social and charitable projects in the region. A large part went to “PSA – Pedagogic Social Assistance” which offers individual help to vulnerable children and youngsters. Immigrants received training in special metalworking and cookery classes at the Franz-Oberthür school in Würzburg as part of a pre-vocational year, followed by one year of on-the-job training. KBA collaborated with a shoe supplier to cover the costs for protective footwear in order to enable practical metalworking training. In addition to the above there are several other examples.

Human Resources and Welfare

Personnel adjustments at an advanced stage

At the end of December 2014 there were 5,731 employees on Group payroll. This was down by 678 compared to the previous year (6,409). Excluding apprentices, trainees and employees exempted from their duties, the Group workforce totalled 5,114.

As markets in some segments shrank beyond our expectations, in 2014 a considerable reduction in capacity was urgently needed at some sites which was extremely painful for all involved. We implemented phased retirement schemes, voluntary programmes and social compensation plans in order to make the staff cuts as socially acceptable as possible. Nevertheless, redundancies could not be avoided.

4,500 employees in 2016

The amendments to wage agreements which were originally valid until the end of the year for our plants in Würzburg and Trennfeld were replaced by new regulations agreed at the beginning of 2014. Social compensation plans, cancellation agreements and phased retirement schemes were agreed at our plants in Frankenthal, Mödling/Ternitz and Würzburg/Trennfeld by the end of 2014 resulting in a reduction of more than 1,000 jobs. Most of the employees affected have already left the company although some remain listed on Group payroll given transition phases and the periods of notice which must be observed. In the first half of 2015 specific regulations for some 400 jobs at our sites in Würzburg and Radebeul will follow, whereby there are general agreements already in place regarding the distribution between sites. After all of the measures have been completed, from today’s point of view the KBA Group

The training and further education of our highly qualified staff remains a key pillar of our company's success in spite of the necessary personnel adjustments to various prospects in the individual segments of the broadly diversified print market will only employ around 4,500 staff in 2016 not including apprentices and those on phased retirement schemes.

Although shifting market conditions make personnel adjustments unavoidable, a highly qualified workforce in all areas is vital for our sophisticated products, our international business and the future of our company. This is why we continue to place great importance on apprenticeship and training of our skilled employees. They are just as significant for our success in new markets as the expansion of our business for third-parties.

Outstanding reputation in training

KBA's reputation for excellence in training extends beyond the sector. The same is true of the state-certified training school founded nearly 150 years ago in Würzburg and the training facilities in Radebeul. The Dresden chapter of the Chamber of Industry and Commerce (IHK) has awarded our Radebeul plant a certificate of excellence every year since introducing the accolade in 2000. Along with training our own specialists and the technical apprentices from KBA-Metronic, we also train the staff of other companies in the region. The Free State of Bavaria therefore recently began supporting the upkeep of the region's key training school with subsidies.

70 youngsters started an apprenticeship at Koenig & Bauer in 2014. Electromechanics, metalworking and industrial mechanics were very popular, nevertheless other apprenticeships included electronics technician, technical product design, foundry mechanics, industrial clerk, commercial clerk and computer science. KBA is above the average of comparable companies with a total of 422 apprentices and student trainees, and a training rate of 7.4% of the workforce.

In view of the sinking numbers of school pupils we have taken new paths for some time now in order to ensure our requirements for new skilled workers are met. Along with the usual open days at our training centres, career information days and participation in education fairs, we also support initiatives for the vocational training of young migrants. By regularly taking part in Girls' Day, a technology camp for girls and an orientation day giving girls insights into technical vocations, we aim to increase the percentage of female professionals at KBA further. At 10.3% the proportion of female apprentices stood above the industry average of 7.4% in the metal sector. 155 youngsters gained experience in machinery and plant engineering via practical training and we also supervised 24 undergraduate and masters' thesis in KBA in 2014.

In 2014 62 apprentices finished their training successfully at the Parent. Outstanding results were achieved in the qualifying examinations set by the Chamber of Industry and Commerce (IHK). Four of these were top of their IHK class, two came in second place and two in third which underscores the high quality of the training we provide. Additionally, an apprentice industrial clerk at our Radebeul plant carried off the title of best junior skilled worker in Saxony in the category commercial profession.

Training and further education

In 2014 many of our employees took advantage of our training programme which focused on foreign languages, communication and sales training as well as specialist seminars. Moreover, an extensive series of training courses began for our executives.

Cost cutting through employee ingenuity

Once again our in-house suggestion scheme contributed to enhancing the efficiency of our production processes, products and costs. 367 proposals were submitted in 2014 in Würzburg and Radebeul and 247 of these were awarded a prize.

Promoting well-being and healthcare

The KBA health-insurance scheme (BKK) with 9,527 full and 3,046 family members organised a number of activities focusing on prevention. Along with training on health matters for apprentices and health groups, events and seminars on reducing stress and resource management took place. The cycling initiative “People & Bike” again proved a great success. KBA supported corporate sport days and employee participation in company runs furthering staff well-being and team spirit.

Family-friendly staff policy

KBA promotes balancing career and family with a raft of special offers including flexible working times, part-time contracts, job sharing, child care during school holidays and by working closely with local child-care centres. A highlight is our seventh activity day on a school-free day in November for the staff’s children and adolescents at our facility in Würzburg.

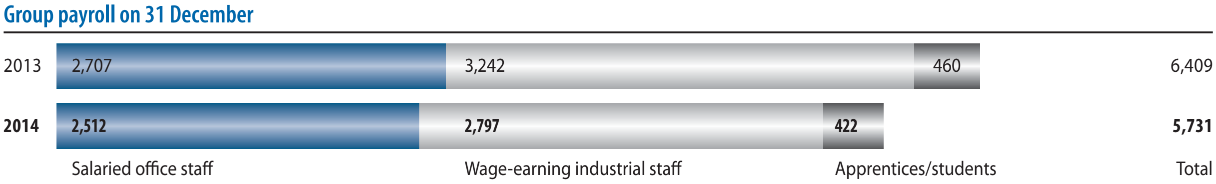
Many longstanding employees

145 employees at Koenig & Bauer were honoured for their long service to the company in 2014: 6 for 50 years, 52 for 40 years and 87 for 25 years. We wish to thank all of them for their loyalty and dedication.

Supplementary Statement

No events with a material impact on Group earnings, finances and assets occurred after the balance sheet date.

Group payroll on 31 December



KBA invested €18m in establishing high-performance competence centres in Würzburg and Radebeul as part of the extensive relocation of production activities in 2014. Shown here is one of many new machining centres for large part manufacturing in Würzburg

Risks

Systematic early warning system

Our active Group risk management policy is based on an early warning system. Its aim is to provide prompt identification of potential risks, quantify their possible consequences and support timely invention through a high level of transparency. Along with our reporting on critical market and corporate developments and their possible impacts on Group earnings, finance and assets, the early warning system improves the accuracy of our planning procedures and heightens our risk awareness in general.

Extension of risk management system

In 2014 the early warning system was expanded to cover all of our sales and service companies. The detection, assessment and communication of significant dangers are systematically categorised in accordance with standard practices. The instruments for recognising and communicating risks are detailed in a dedicated manual. In addition to the provisions of stock corporation law and the German accounting standards, the KBA Group's risk management system is based on the principles and models of the IIA (Institute of Internal Auditors) and the COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Our risk management system comprises a central risk co-ordination unit under the CFO and dedicated central risk managers. The risk inventory with reporting is carried out de-centrally at half yearly intervals by the so-called risk owners of the operating business units. A risk is quantified as a negative deviation from an established business plan using probabilities. The risk managers report on their individual risks in accordance with the procedures laid down and clearly defined communication channels.

These standard procedures promote a systematic, homogenous approach and assessment of risks. The bundled risks are forwarded to the management board after being collated, quantified and classified. Group-wide corporate planning procedures, regular reports to the management board during the course of the year, ad-hoc releases and forecasts by affiliate controlling and an internal reporting system complete our systematic approach. Management is responsible for taking the appropriate action.

The early warning system installed by the management board is discussed annually by the supervisory board's audit committee and is monitored by the auditor in accordance with statutory regulations. Internal auditing oversees the reporting procedure and performs plausibility checks.

The key risks are described below. They affect both segments equally as long as they are not specially allocated. The risks described are not necessarily the only imponderables facing the Group.

Economic and sector risks

The global economic situation and structural shifts in the print industry have a major impact on our business. Political decisions, international conflicts and currency fluctuations can reduce the sales of our products and affect our outlooks and budgets. The developments in the media arena and ever more efficient presses constrain demand in some segments.

Far-reaching adjustments have already been carried out in past years to reduce market and capacity risks resulting from sustained lower market volumes. The restructuring programme in place since the beginning of 2014 with the reduction of up to 1,500 jobs is at an advanced stage and is scheduled to end in 2015. Fundamentally, there is the risk that the measures might not deliver in full the success expected. As part of the Group realignment the redundancies in production between the sites will be eliminated. The management aims to improve the capacity utilisation of our cutting-edge and highly specialised facilities by expanding the business with third parties.

Along with press automation, automated substrate and pile logistics in industrial sheetfed offset printing is becoming increasingly more important. This is especially true of the packaging sector in which KBA Radebeul has a strong footing

The diversification strategy in non-media-related markets, such as security, coding and packaging printing, pursued for many years has reduced the contribution of new press sales influenced by digital media to below 15% of Group sales. KBA already has a strong footing in the packaging printing market for paper, board and metal. In 2013 we expanded our portfolio for the growing packaging markets for film and hollow containers with two acquisitions. We are addressing the future-focused digital printing market with our own RotaJET L press platform as well as a partnership with Hewlett Packard to co-develop a new digital corrugated packaging printing press. An important task is to transform our portfolio quickly with new products and applications for new growth markets. Thanks to our know-how built up over decades, KBA is the leading supplier of banknote printing systems. Competitive pressure has grown in this segment due to overcapacity on the user side and increased competition. We are responding to this development with new products and the expansion of our service activities.

Acquisitions and alliances will also occur as part of our strategic realignment. Such transactions can lead to substantial acquisition, management, consultancy, integration and restructuring costs. The goal of such activities and expenses is appropriate profitability delivered by a future-orientated product portfolio.

We are counteracting the sales risks resulting from economic and regional fluctuations in demand with an expansion of our sales and service network in promising international markets. Our after-sales service opens up further potential for increased sales and earnings. New offers, organisational measures and the extension to presses from other manufacturers led to an significant expansion of our profitable service business.

Currency, sales and financial risks

The further movement of the euro against the US dollar and Japanese Yen has a big impact on the sales prospects of our products in key export markets like North America, Asia and the Middle East. While the appreciation of the US dollar strengthens the competitiveness of German companies, the significantly weaker Yen has made Japanese products cheaper at the expense of German suppliers.

Due to persistent overcapacity on the manufacturer's side, pricing pressure for sheetfed and web presses continues unabated. With clear sales targets and permanent controls on the pricing of new and used presses, as well as reasonable premiums on technical advantages, we limit the risks associated with the current buyer's market. Immediate adequate provision is made for obligations arising from unprofitable contracts.

Furthermore, we pay special attention to sales financing especially in the sheetfed division in order to reduce the amount of risk-bearing financing activities. Nonetheless, KBA has to be able to offer its customers the usual financing options. Occasionally customer-specific co-ventures are agreed with leasing companies we work with. Loan insurance combined with the monitoring of customer accounts down to individual project level, enables us to obviate bad-debt risks as far as possible. Customer creditworthiness is reviewed and collateral called in prior to shipment, and after shipment ownership is transferred only when full payment has been made. On top of this, credit checks are routinely carried out on new customers. Adequate allowances or provisions are made for potential bad debts, repurchasing obligations and sales returns. We expect the number of printing companies to fall further and the size of these companies to increase in industrial countries as a result of the shift in the print sector. At present we can discern no customer-specific or geographical concentrations of credit risks.

Framework agreements negotiated by our purchasing department form the basis for calculating profit margins on major fixed-price contracts. The impact of fluctuations in the cost of raw materials is offset where possible by inserting price escalation clauses in customer contracts.

No commodity derivatives were held on the balance sheet date. In 2015 we expect a decrease in prices due in particular to lower raw materials prices.

Although we are in close contact with our suppliers, delays in the delivery of individual components, which has a corresponding impact on the anticipated sales volume, can never be entirely ruled out. The same is true of the on-time readiness for acceptance by our international customers. Delays can occur, e.g. with the completion of printing house buildings.

Development risks

In order to maintain our competitiveness, fulfil market demands and access new customer groups, every year KBA invests substantial resources in improving existing and developing new products and processes. This causes technical and market-related risks. Before development begins we analyse the market and start marketing activities as part of launching products to counter market risks. We keep technical risks to a minimum by our comprehensive project and quality management, as well as ongoing beta testing. Given ever shorter innovation cycles the efforts to sustainably reduce quality costs for technically sophisticated products have a substantial impact on our earnings.

Financial risks

Financial risks mainly comprise credit, liquidity, currency and pricing risks. The type, scope and market value of the financial instruments used by KBA to contain financial risks are detailed in the Notes. At present we perceive no major country or counterparty-related risks. Management receives regular breakdowns of receivables by maturity and region, so potential concentrations of risks can be identified.

Foreign currency risks relate to balance sheet items and pending transactions in foreign currencies, primarily dollar-denominated transactions and receivables. The Group risk position is pooled centrally by transferring risk positions from the subsidiaries affected to the Parent by internal hedges, if necessary. Opposed foreign currency payment flows of a specific currency are used as natural hedges. Hedging (forward exchange transactions in particular) with banks secure remaining risk positions, where economically viable and based on the expected currency rate. We only do business of this kind with banks that have first-class credit ratings. Receivables and anticipated net positions of projected sales are secured by hedges. Our treasury unit assesses foreign-currency risks by calculating the value of the unhedged portion using a sensitivity analysis based on a fluctuation of ±5% in the relative value of the euro. Detailed figures can be found in the Notes.

Despite the ECB's and other central banks' expansionary monetary policy, the print industry continues to face considerable obstacles with regard to the credit financing of investments as relatively high risk premiums are demanded for loans. In contrast, interest on savings is very low. Since we deploy financial instruments whose exposure to market interest rates may have an impact on their fair value or the cash flows they generate, in some cases we use derivatives to limit such risks, see page 88 onwards in the Notes for more details. A further decrease in the discount rate would lead to an increase in pension provisions with a corresponding fall in equity.

The liquidity of the Parent and its subsidiaries is monitored and managed via daily status reports. In addition to this Group-wide cash management system, liquidity and financial planning is reviewed and reported weekly for the Parent and monthly for the Group. Incoming and outgoing payments are monitored continually.

We have credit and guarantee lines of €100m needed for fluctuations in cash flows in the cyclical machinery and plant manufacturing industry from our domestic banks until the end of 2016. Among other credit lines the Group has access to a mixed cash and guarantee facility of 100m Swiss Francs from a large Swiss bank until the end of March 2016. This allows us to accommodate imponderable fluctuations in our cash flow.

Risks in human resources

Our success primarily depends on highly qualified engineers, specialists and executives. There is a risk that given the currently challenging situation in our sector we could fail to keep or gain qualified staff. Flexible tools designed to alleviate fluctuations in capacity utilisation, such as working time accounts, are available and are expected to be extended Group-wide. A reduction in working times is in place at our web press facilities to counteract ongoing under-utilisation. The implementation of personnel adjustments as part of our restructuring programme is on schedule and has made significant progress.

Legal risks

The Group is not currently involved in any court proceedings which would have an impact on our economic situation. Nevertheless, we are subject to various risks in connection with legal procedures from our usual field of business. Provisions are made when it is likely an obligation will occur and an estimation is possible. In addition, in our business with technically sophisticated capital goods there is always the latent risk of unquantifiable damage to our reputation through quality issues, infringements of property rights or similar issues.

IT risks

The planned Group-wide rollout of SAP poses risks for the KBA Group regarding the smooth handling of future business processes. To limit these IT risks KBA has hired the services of a renowned IT consultant and has formed a project group. Sizeable financial consequences could arise if the installation of the ERP software does not take place on time and without issues.

Other risks

Individual imponderables are covered by insurance with standard indemnity limits. Adequate provisions have been made against other risks. The assessment of provisions for losses resulting from orders, for restructuring expenses, legal disputes as well as warranty obligations is largely dependent on estimates.

Despite growing economic and political uncertainties, and ongoing Group restructuring activities, we perceive no risks that could pose an existential threat to the KBA Group. The implementation of our Fit@All restructuring programme is on schedule and at an advanced stage. The expansion of our product portfolio for the growing packaging and digital printing markets, our strong position in some special markets and our continued solid financial base limit the potential for risks. The goal of the Group realignment is to reduce our dependency on shrinking market segments and sustainably strengthen our profitability.

Outlook

2015: Restructuring programme bears fruit

The overall prospects for the global economy in 2015 are dampened by a raft of imponderables. Unsolved conflicts in the Ukraine, Middle East and North Africa, sanctions against Russia, possible new economic priorities in China and the not yet foreseeable consequences of the ECB's decision to purchase government bonds to support the European economy harbour dangers for the export-orientated engineering industry. On the other hand, the weak euro has boosted the competitive position of German suppliers outside of the EU. In many countries low oil prices have revived the economy which has already gained momentum in the USA, Great Britain and other regions. Risks and opportunities are closely linked and often lead to short-lived forecasts.

The International Monetary Fund (IMF) reduced its growth forecast in January 2015 from 3.8% to 3.5% for the global economy, from 1.4% to 1.2% for the eurozone and from 1.5% to 1.3% for Germany. This is a result of the weaker outlook for China, Japan, Russia and the eurozone. The German Machinery and Plant Manufacturer's Association anticipates a 2% real growth in production with considerable upward and downward fluctuations in the individual segments for the industry overall in 2015, as was the case in 2014.

No growth in traditional KBA markets

KBA sees no overall growth for the global press market for 2015 and based its planning on a slight decline in total volume with varying prospects in the different market segments we serve. We have adjusted our web press sites to a permanently lower volume in demand and have greatly reduced our dependence on this market segment by cutting capacity considerably. Following several brisk years we expect demand in the cyclical securities market to return to a normal level. The structural and personnel changes carried out in this segment in 2014 were in anticipation of this development.

Order intake for sheetfed offset presses is more promising given the stabilising effect of the packaging printing market, nevertheless in the year before Drupa we do not expect significant growth in this segment. However, the restructuring measures carried out in connection with our production network and the associated rise in value added depth at our plant in Radebeul deliver markedly more flexibility should a moderate fall in demand occur. In parallel, capacity measures implemented as part of realigning KBA-Mödling purely as an assembly site for security presses reduce risks related to capacity utilisation at our Austrian plant.

Growth potential in digital and packaging printing

After a successful 2014, we see promising prospects again in 2015 for KBA-MetalPrint active in metal decorating. Further opportunities for growth exist predominantly in digital printing, flexible packaging printing and hollow container decoration, which are still relatively new to the KBA Group, as well as in coding market segments.

In the growing flexible packaging market we will continue to press ahead with the integration of KBA-Flexotecnica, which has belonged to the KBA Group for over a year, and strengthen resources in this area where necessary. KBA-Kammann will remain focused on the premium segment for the direct decoration of glass and hollow containers with its screen and digital printing systems and additionally will use its know-how for a partnership with KBA-MePrint to develop a new web press for printing high-quality labels. KBA-Metronic, which addresses the market for inkjet, laser and hot-stamping systems for product coding, will concentrate primarily on regional growth markets as part of its expansion plans and aims to expand its subsidiary founded in the people's Republic of China in 2013.

New KBA-Digital & Web Solutions business unit

With its newly formed business unit KBA-Digital & Web Solutions, KBA aims to focus mainly on digital printing applications which demand specialist expertise in handling challenging materials and large substrate widths. As an experienced press manufacturer we have an advantage over many other suppliers in this area. A technological platform was created in 2014 with the RotaJET L and RotaJET VL and an expansion of our digital press portfolio is conceivable. HP and KBA are addressing a future market with their partnership for the development and production of an inkjet press for the digital corrugated printing sector. The first results are anticipated in the course of the year 2015.

Additionally, we wish to unlock the Group's potential of installed press base even further and increase our profitable service and consumables sales. With a view to stabilising the utilisation of our cutting-edge manufacturing systems for casting and precision machining of large parts, we aim to use these more intensively for jobs from other machinery and plant manufacturers. Such expandable partnerships are already in the pipeline. We are also preparing the necessary strengthening of our sales organisation in this field.

The further implementation of our Fit@All programme in 2015 has an exceptionally important role to play given major shifts in the print market. The associated fundamental changes will release considerable upside potential in earnings and are decisive for a long-term profitable business model.

The first positive effects on earnings resulting from Fit@All were already apparent in the second-half of 2014 with incremental improvements from 2015 onwards. Provisions made in the previous year for the restructuring programme were sufficient and the additional expenses in 2014 of €10m kept within manageable limits. As the Group realignment should largely be complete by the end of 2015, management does not anticipate any high special expenses in the Group income statement for 2015.

Outlook: Improved earnings with similar sales

In contrast, cost-saving effects from measures that have already been implemented and progress in reducing our net working capital in 2015 will have a positive impact on our operating result, pre-tax earnings and liquidity available. The gains in efficiency and cost savings associated with Fit@All have lowered the Group profit threshold greatly to sales of slightly below €1bn.

Assuming the general economic environment remains relatively stable, management is targeting over €1bn in Group sales for 2015. Furthermore, considering the cost savings delivered by the restructuring we expect an improvement in earnings to an EBT margin of up to 2% of sales.

Management will provide further information on the implementation of Fit@All and the development of key figures in the regular interim reports and other announcements.

As part of our Fit@All programme for the market-orientated realignment of the company KBA Radebeul took over the final assembly of sheet feeders from KBA-Mödling in 2014

Our new business unit KBA-Industrial Solutions aims to intensify offering its technical expertise and substantial resources in hand-moulded casting and the precision processing of complex large parts more to other companies in the machinery and plant industry

Koenig & Bauer
Group Financial Statements 2014

Group Balance Sheet to 31 December 2014

Assets in €m	Note	31.12.2013	**31.12.2014**
Non-current assets			
Intangible assets	**(1)**	39.1	37.8
Property, plant and equipment	**(1)**	188.4	190.9
Investments and other financial receivables	**(2)**	16.7	14.8
Other assets	**(2)**	0.6	0.1
Deferred tax assets	**(6)**	27.3	35.2
		272.1	**278.8**
Current assets			
Inventories	**(3)**	357.2	279.3
Trade receivables	**(2)**	228.2	198.8
Other financial receivables	**(2)**	17.4	15.4
Other assets	**(2)**	31.7	22.6
Current tax assets		3.1	2.1
Securities	**(4)**	0.9	9.6
Cash and cash equivalents	**(5)**	185.4	207.6
Assets held for sale		2.0	0.5
		825.9	**735.9**
		1,098.0	**1,014.7**

Equity and liabilities in €m	Note	31.12.2013	**31.12.2014**
Equity	**(7)**		
Share capital		43.0	43.0
Share premium		87.5	87.5
Reserves		146.6	96.2
Equity attributable to owners of the Parent		**277.1**	**226.7**
Equity attributable to non-controlling interests		0.8	0.5
		277.9	**227.2**
Liabilities			
Non-current liabilities			
Pension provisions and similar obligations	**(8)**	142.5	195.0
Other provisions	**(9)**	92.4	55.7
Bank loans and other financial payables	**(10)**	15.3	10.1
Other liabilities	**(10)**	5.3	2.0
Deferred tax liabilities	**(6)**	15.9	19.5
		271.4	**282.3**
Current liabilities			
Other provisions	**(9)**	204.5	203.5
Trade payables	**(10)**	72.2	57.1
Bank loans and other financial payables	**(10)**	76.7	78.6
Other liabilities	**(10)**	192.9	162.2
Current tax liabilities		2.4	3.8
		548.7	**505.2**
		1,098.0	**1,014.7**

Group Income Statement 2014

in €m	Note	2013 Operating profit before special items	2013 Operating profit special items	2013	2014 Operating profit before special items	2014 Operating profit special items	2014
Revenue	(14)	1,099.7	–	1,099.7	1,100.1	–	1,100.1
Cost of sales	(15)	–813.3	–127.8	–941.1	–796.3	–6.6	–802.9
Gross profit		**286.4**	**–127.8**	**158.6**	**303.8**	**–6.6**	**297.2**
Research and development costs	(15)	–57.5	–6.7	–64.2	–54.8	–	–54.8
Distribution costs	(15)	–128.4	–5.8	–134.2	–134.3	–0.2	–134.5
Administrative expenses	(15)	–67.9	–11.0	–78.9	–80.7	–0.1	–80.8
Other operating income	(17)	30.0	–	30.0	30.1	1.4	31.5
Other operating expenses	(17)	–38.1	–3.9	–42.0	–40.0	–4.5	–44.5
Operating profit/loss		**24.5**	**–155.2**	**–130.7**	**24.1**	**–10.0**	**14.1**
Other financial results				–			–0.8
Interest income				3.2			2.7
Interest expense				–10.6			–10.5
Financial result	(19)			**–7.4**			**–8.6**
Earnings before taxes				**–138.1**			**5.5**
Income tax expense	(20)			–15.6			–5.2
Net profit/loss				**–153.7**			**0.3**
of which							
- attributable to owners of the Parent				–153.7			0.5
- attributable to non-controlling interests				–			–0.2
Earnings per share (in €, basic/dilutive)	(21)			**–9.31**			**0.03**

For further information concerning special items see explanatory Note (18).

Statement of Comprehensive Group Income 2014

in €m	2013	2014
Net profit/loss	**–153.7**	**0.3**
Items to be reclassified to consolidated profit or loss		
Foreign currency translation	–1.6	0.2
Measurement of primary financial instruments	0.4	1.1
Measurement of derivatives	0.4	–1.4
Deferred taxes	–0.2	0.1
	–1.0	**0.0**
Items not to be reclassified to consolidated profit or loss		
Defined benefit plans	4.7	–52.3
Deferred taxes	–7.9	1.3
	–3.2	**–51.0**
Losses recognised directly in equity	**–4.2**	**–51.0**
Total comprehensive income	**–157.9**	**–50.7**
of which		
- attributable to owners of the Parent	–157.9	–50.4
- attributable to non-controlling interests	–	–0.3

For further information see explanatory Note (7).

Statement of Changes in Group Equity 2014

in €m	Share capital	Share premium	Reserves – Recognised in equity – Defined benefit plans	Primary financial instruments	Derivatives	Exchange differences	Deferred taxes	Other	**Equity attr. to owners**	Equity attr. to non-controlling interests	**Total**
1 January 2013	**42.9**	**87.3**	**–40.8**	**4.2**	**0.1**	**44.4**	**7.8**	**295.4**	**441.3**	**–**	**441.3**
Net loss	–	–	–	–	–	–	–	–153.7	–153.7	–	–153.7
Gains/losses recognised directly in equity	–	–	4.7	0.4	0.4	–1.6	–8.1	–	–4.2	–	–4.2
Total comprehensive income	**–**	**–**	**4.7**	**0.4**	**0.4**	**–1.6**	**–8.1**	**–153.7**	**–157.9**	**–**	**–157.9**
Capital increase from authorised capital	0.1	0.2	–	–	–	–	–	–	0.3	–	0.3
Dividend	–	–	–	–	–	–	–	–6.6	–6.6	–	–6.6
Other changes	–	–	–	–	–	–	–	–	–	0.8	0.8
31 December 2013	**43.0**	**87.5**	**–36.1**	**4.6**	**0.5**	**42.8**	**–0.3**	**135.1**	**277.1**	**0.8**	**277.9**
1 January 2014	**43.0**	**87.5**	**–36.1**	**4.6**	**0.5**	**42.8**	**–0.3**	**135.1**	**277.1**	**0.8**	**277.9**
Net profit/loss	–	–	–	–	–	–	–	0.5	0.5	–0.2	0.3
Gains/losses recognised directly in equity	–	–	–52.2	1.1	–1.4	0.2	1.4	–	–50.9	–0.1	–51.0
Total comprehensive income	**–**	**–**	**–52.2**	**1.1**	**–1.4**	**0.2**	**1.4**	**0.5**	**–50.4**	**–0.3**	**–50.7**
Other changes	–	–	–	–	–	–41.0	–	41.0	–	–	–
31 December 2014	**43.0**	**87.5**	**–88.3**	**5.7**	**–0.9**	**2.0**	**1.1**	**176.6**	**226.7**	**0.5**	**227.2**

For further information see explanatory Note (7).

Group Cash Flow Statement 2014

in €m	2013	**2014**
Earnings before taxes	–138.1	5.5
Appreciation/depreciation on intangible assets, property, plant and equipment	59.6	29.1
Currency measurement	–0.2	–0.4
Non-cash interest income/expense	8.8	10.0
Other non-cash income/expenses	1.8	1.9
Gross cash flow	**–68.1**	**46.1**
Changes in inventories	–10.2	72.6
Changes in receivables and other assets	32.3	32.9
Changes in other provisions	119.0	–38.8
Changes in payables and other liabilities	–32.0	–66.5
Interest received	2.8	3.2
Interest paid	–1.4	–1.0
Income tax paid	–9.0	–6.6
Income tax refunded	0.7	1.3
Cash flows from operating activities	**34.1**	**43.2**
Proceeds from the disposal of intangible assets, property, plant and equipment	2.6	3.6
Payments for investment in intangible assets, property, plant and equipment	–24.0	–18.4
Proceeds from the disposal of investments	0.2	0.5
Payments for investments	–1.0	–1.8
Payments for the acquisition of consolidated companies	–8.7	–
Investment subsidies received	–	0.6
Dividends received	–	1.0
Cash flows from investing activities	**–30.9**	**–14.5**
Free cash flow	**3.2**	**28.7**
Proceeds from capital contributions	0.3	–
Proceeds from loans	1.1	–
Repayment of loans	–17.2	–6.3
Changes in equity attr. to non-controlling interests	–	–0.2
Dividends paid	–6.6	–
Cash flows from financing activities	**–22.4**	**–6.5**
Change in funds	**–19.2**	**22.2**
Effect of changes in exchange rates	–1.7	–
Funds at beginning of period	206.3	185.4
Funds at end of period	**185.4**	**207.6**

For further information see explanatory Note (I).

Notes to the Group Financial Statements

(A) Preliminary Remarks

The KBA Group is a global manufacturer of sheetfed, web and special printing presses for all current processes. The Parent, KOENIG & BAUER AG (KBA) at Friedrich-Koenig-Str. 4, 97080 Würzburg, Germany, is a public limited company under German law. The consolidated financial statements include the Parent and all consolidated affiliates.

Consolidated financial statements for the Parent to 31 December 2014 were prepared in accordance with section 315a of the HGB (German Commercial Code), as was a Group 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 19 March 2015 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 2014 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 2014:

IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements – Separate Financial Statements
IAS 28	Amendments to IAS 28 Investments in Associates
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting a Financial Asset and a Financial Liability
IAS 36	Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
IAS 39	Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 10 / IFRS 11 / IFRS 12	Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities –Transition Guidance
IFRS 10 / IFRS 12 / IAS 27	Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities

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.

Amendments to IAS 32 Offsetting a Financial Asset and a Financial Liability

This addition to IAS 32 clarifies the criteria for offsetting financial instruments. It explains the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. For KBA this did not result in individual amendments in presentation in 2014.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

Additional disclosures arise from this amendment provided that an impairment originates from a goodwill impairment test conducted and the recoverable amount was calculated on the basis of a fair value. This amendment has no impact on the KBA financial statements presented for 2014.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

With a novation of a hedging instrument on a central counterparty under certain circumstances derivatives remain designated as hedges in existing hedging relationships. These amendments have no considerable impacts on the KBA Group.

Amendments to IAS 27 Separate Financial Statements and IFRS 10 Consolidated Financial Statements

IFRS 10 redefines the concept of control as being where one entity has decision-making powers over another entity through voting or other rights, has an interest in the entity's variable earnings components and can influence such components through its decisions. IFRS 10 supersedes IAS 27. This has no impact on the scope of KBA's consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 defines and expands the obligatory disclosures. The disclosure requirements have therefore been deleted from IAS 27, IAS 28 and IAS 31. These amendments have no considerable effects on the KBA Group.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance

The amendments contain reliefs upon adopting the standards for the first time regarding disclosures from comparative information of past years. This has no significant impacts on KBA.

The KBA Group did not apply in advance the following IASB standards, interpretations and amendments to existing standards that are not yet mandatory:

		Date applicable
IAS 1	Amendments to IAS 1 Presentation of Financial Statements	2016
IAS 19	Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	2015
IAS 27	Amendments to IAS 27 Equity Method in Separate Financial Statements	2016
IAS 16 / IAS 38	Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation	2016
IAS 16 / IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	2016
IFRS 10 / IAS 28	Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associates/Joint ventures	2016
IFRS 10 / IFRS 12 / IAS 28	Amendments to IFRS 10, IFRS 12 and IAS 28 Application of the Investment Entities Exceptions	2016
IFRS 11	Amendments to IFRS 11 Acquisition of an Interest in a Joint Operation	2016
IFRS 9	Financial Instruments	2018
IFRS 14	Regulatory Deferral Accounts	2016
IFRS 15	Revenue from Contracts with Customers	2017
Sundry	Improvements to IFRS (2010 – 2012)	2015
Sundry	Improvements to IFRS (2011 – 2013)	2015
Sundry	Improvements to IFRS (2012 – 2014)	2016
IFRIC 21	Levies	2015

The annual improvements of IFRS to the cycles 2010 – 2012 and 2011 – 2013 as well as IFRIC 21 were adopted as part of the EU endorsement process.

IFRS 14, IFRIC 21 and the issues treated in the amendments to IAS 27, IAS 16 and IAS 41, IFRS 10, IFRS 12 and IAS 28 are irrelevant to the business activities of the entities included in the statements.

Amendments to IAS 1 Presentation of Financial Statements

The amendments place greater importance on the principle of materiality when presenting disclosures in the Notes to the financial statements. Insignificant disclosures are not to be disclosed even when these are explicitly stipulated in other standards. Furthermore, the balance sheet and the statement of comprehensive income should be broken down further in the future and if necessary presented with subtotals when this aids understanding. Ultimately, the presentation of shares valued at equity to be shown in the statement of comprehensive income is clarified. With the introduction of this amendment if necessary KBA will abstain from non-material disclosures.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. A relief is provided for contributions that are independent to the number of years of service. This has no significant impacts on KBA.

Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation

It is specified that a revenue-based method is not considered to be an appropriate basis for amortisation. In the future amortisation based on revenue for intangible assets with a limited useful life is only permissible in certain exceptional cases. These amendments have no considerable effects on the KBA Group.

Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associates/Joint ventures

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business in accordance with IFRS 3. A gain or loss may otherwise be recognised partially. These amendments could have an impact on business operations of the KBA Group.

Amendments to IFRS 11 Acquisition of an Interest in a Joint Operation

The amendments to IFRS 11 stipulate that acquirers of interest in a joint operation shall apply all of the principles on business combinations accounting in IFRS 3. The disclosure requirements of IFRS 3 must be adhered to. This might have an effect on KBA if it acquires an interest in joint operations.

IFRS 9 Financial Instruments

This standard is phase one of a project to replace IAS 39. The existing four measurement categories will be replaced by two: “amortised cost” and “fair value”. Whether a financial instrument is measured at amortised cost or fair value depends on the entity’s business purpose for holding the instrument, and the nature of the instrument. Fair-value financial assets must basically be recognised at fair value through profit or loss, selected equity instruments may also be recognised in equity. Financial liabilities may be reported in the balance sheet at fair value. Changes in the market value resulting from changes in the entity’s credit risk must be disclosed in equity.

In addition, IFRS 9 introduced a new hedge accounting model. The circle of qualified underlying items and hedging instruments was expanded in order to link the risk management system more to the financial reporting. In so far as underlying items can be individually qualified, the designation of groups of underlying items is possible as well as net and net zero positions. As a hedge every financial instrument recognised at fair value can be implemented in so far as one of the options described in phase one of IFRS 9 is performed. The premature termination of a hedging relationship is no longer possible as long as the underlying risk management strategy remains unchanged. Additionally, some default risks of financial liabilities can be recognised in OCI without the application of the standard’s remaining requirements. The adoption of IFRS 9 will entail changes in the presentation of Group financial statements as well as in the expanded Notes but is not expected to have any major impact on recognition and measurement.

IFRS 15 Revenue from Contracts with Customers

The new standard provides a new five-step model to determine revenue recognition. Its framework determines when and if to recognise revenue and how much revenue to recognise. IFRS 15 replaces the existing revenue recognition guidance, including IAS 18 Revenue and IAS 11 Construction Contracts. This amendment could have an impact on KBA in terms of recognising revenue in the future.

Sundry Improvements to IFRS (2010 – 2012)

Amendments resulting from the annual improvements project (2010 – 2012) affect the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The improvements mainly serve to clarify existing regulations but there are also changes to the disclosures in the Notes. This has no considerable impact on the scope of KBA’s consolidated financial statements.

Sundry Improvements to IFRS (2011 – 2013)

Amendments resulting from the annual improvements project (2011 – 2013) affect the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40. The improvements mainly serve to clarify existing regulations. This has no considerable impact on the scope of KBA’s consolidated financial statements.

Sundry Improvements to IFRS (2012 – 2014)

Amendments resulting from the annual improvements project (2012 – 2014) affect the standards IAS 19, IAS 34, IFRS 5 and IFRS 7. The improvements serve to clarify existing regulations. These amendments have no significant effects on the KBA Group.

(C) Accounting Policies

The financial statements for Koenig & Bauer AG and its domestic and foreign subsidiaries were 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 available-for-sale financial assets and liabilities, and derivative financial instruments, which are measured at fair value.

In the process of applying the entity's accounting policies management makes various judgements, essentially on the categorisation of investments held to maturity.

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 a risk entailing 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 on losses carried forward.

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

Further fundamental assumptions are detailed under the individual items (e.g. provisions, deferred taxes, the useful life of intangible assets, property, plant and equipment).

Intangible assets

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

Development costs for new or significantly improved products were capitalised at cost if the technical feasibility, an intention to sell and the existence of a market could be demonstrated, the attributed expenditure measured reliably, adequate development and marketing resources were available and future economic benefits probable. Compliance with the above criteria was checked by conducting product trials in the marketplace, with development costs capitalised from the date on which these trials were initiated. The straight-line method was used to allocate the depreciable amount of such products over their projected useful life, and annual impairment tests carried out. Adequate allowance was made for future market trends. Research costs and non-capitalised development costs were recognised as an expense as they arose.

Property, plant and equipment

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

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

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

Depreciation

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

	Years
Industrial property rights and similar rights	3 to 7
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

If there was any indication that intangible assets, property, plant and equipment might be impaired these assets were tested for impairment on the balance sheet date as per IAS 36. The recoverable amount was 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 29. Three-year planning will be extended by two further years in some cases. Cash flows which surpass the planning period are calculated using a growth rate of 0.8% (previous year:0.8%). Where the recoverable amount was lower than the carrying amount the difference was disclosed as an impairment loss. If the reason for an impairment no longer applied, an adjustment in the allowance account was made, up to the amortised cost of acquisition or manufacture.

Depreciation on and impairments in intangible assets, property, plant and equipment were disclosed under the individual functions.

Goodwill is tested for impairment annually and attributed to the cash-generating units. Where the recoverable amount exceeded the carrying amount (goodwill included) of the cash-generating unit, the unit was defined as unimpaired. Where the carrying amount exceeded the value in use, an impairment adjustment to the lower market value was 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 was 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 and impairments under IAS 36 were disclosed under “Changes in Intangible Assets, Property, Plant and Equipment”.

Financial assets
These were initially measured at fair value where contractual claims existed and subsequently assigned to one of four categories under IAS 39: financial assets recognised at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Held-to-maturity investments, and also loans and receivables, were stated at their amortised cost using the effective interest method, and were tested for impairment loss on the balance sheet date. Available-for-sale financial assets were measured at fair value, with unrealised gains and losses recognised directly in equity, net of deferred taxes. Financial assets were recognised in the balance sheet on the settlement date. Value adjustments were made as appropriate for all recognisable risks.

Interests in affiliated, non-consolidated entities were reported under investments and classified as available for sale. Since they represent financial investments in equity instruments for which no price is quoted in an active market, and whose fair value cannot be reliably determined, they were carried at cost of purchase. Other loans were grouped under loans and receivables.

Other financial receivables included derivatives, receivables and held-to-maturity financial assets.

Trade receivables related to commercial loans and receivables. Non-interest-bearing claims and low-interest claims with maturities of more than one year were discounted.

Securities refer to available-for-sale financial assets carried at fair value on the balance sheet date. The same classification was used for fixed-interest securities and shares, since we have no plans to hold these until final maturity.

Cash and cash equivalents were disclosed under loans and receivables.

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 techniques for which any significant input is not based on observable market data.

Derivatives

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

Changes in fair value were reported in net profit or loss where no hedge accounting was used.

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

The KBA 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 50 onwards. Derivatives in the form of marketable foreign exchange transactions (forwards and swaps) and interest rate hedges were used. Where the conditions defined in IAS 39 for an effective hedging relationship were fulfilled, hedge accounting was used, more specifically cash flow hedges.

Inventories

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

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

Construction contracts

Contract revenue and expenses were disclosed using the percentage of completion method, as per IAS 11 insofar as they are material. Under this method, contract revenue is proportionate to the contract costs incurred in reaching the stage of completion on the balance sheet date, i.e. the revenue, expenses and profit disclosed are those attributable to the proportion of work completed. Contract revenue was carried under trade receivables after deducting payments received.

Equity

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

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

Reserves encompassed 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 included 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 were measured using the projected unit credit method described in IAS 19, based on actuarial reports that recognised the present and potential benefits known on the balance sheet date, and included 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 value of the net liability. The interest of the market value of plan assets is calculated with the discount rate of the present value of the pension obligation.

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

Financial payables

A financial payable was recognised on the balance sheet as soon as contractual obligations arose 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 were defined as **financial liabilities**.

Of **other financial payables**, derivatives with a negative market value were carried at fair value. Payables arising from finance leases were carried at present value.

Deferred taxes

Deferred tax assets and liabilities were recognised on temporary differences between IFRS and tax bases for Group enterprises, and on consolidation measures. Differences were calculated using the liability method specified in IAS 12, and only tax-relevant temporary differences were taken into account. Deferred tax assets also included claims to future tax reductions arising from the anticipated use of existing tax loss carryforwards, where this use was probable. Where the use was improbable, an impairment was disclosed. The tax rates used to calculate deferred taxes were the national rates applicable or notified on the balance sheet date, and ranged from 10% to 40%.

The effect of changes in tax rates on deferred taxes was reported when such changes were published.

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

Earnings

Revenue from the **sale of goods** was recognised at fair value if the entity had transferred to the buyer the significant risks and rewards of ownership of the goods, had retained neither continuing managerial involvement nor effective control over the goods sold, and it was probable that the economic benefits would flow to the entity. More details on the recognition of revenue from customer-specific construction contracts can be found on page 73.

Earnings from the **rendering of services** were recognised on the balance sheet date either in full subsequent to being rendered, or else calculated using the effort-expended method, provided the amount of earnings and costs could be reliably estimated.

Price reductions, rebates, bonuses and bulk discounts granted to customers were deducted from revenue.

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

Expenses by function

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

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

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

Administrative expenses included the amortisation of goodwill. Wherever possible, income and expenses were attributed to their respective functions; those that could not be attributed were 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 29 (previous year: 23) companies.

Altogether 20 (previous year: 20) subsidiaries were excluded from the consolidated financial statements since they were of minor significance to the Group's financial position and performance.

Consolidation principles

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

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

(E) Foreign Currency Translation

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

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

(F) Changes in Intangible Assets, Property, Plant and Equipment

in €m	Cost						
	01.01.	Group additions	Additions	Exchange differences	Reclassifi-cations	Disposals	**31.12.**
2013							
Intangible assets							
Industrial property rights and similar rights	41.1	6.1	1.3	–0.1	–	1.0	47.4
Goodwill	21.7	6.3	–	–0.1	–	–	27.9
Product development costs	8.4	–	–	–	–	–	8.4
Assets under construction	–	–	4.5	–	–	–	4.5
	71.2	**12.4**	**5.8**	**–0.2**	**–**	**1.0**	**88.2**
Property, plant and equipment							
Land and buildings	265.8	5.7	0.9	–1.2	0.1	3.9	267.4
Plant and machinery	262.9	1.7	8.6	–1.9	2.1	23.0	250.4
Other facilities, factory and office equipment	138.3	1.6	12.8	–0.5	0.1	16.0	136.3
Assets under construction	2.5	–	4.2	–	–2.3	–	4.4
	669.5	**9.0**	**26.5**	**–3.6**	**–**	**42.9**	**658.5**
	740.7	**21.4**	**32.3**	**–3.8**	**–**	**43.9**	**746.7**
2014							
Intangible assets							
Industrial property rights and similar rights	47.4	–	0.3	0.1	–	3.4	44.4
Goodwill	27.9	–	–	–	–	0.1	27.8
Product development costs	8.4	–	–	–	–	0.6	7.8
Assets under construction	4.5	–	–	–	–	–	4.5
	88.2	**–**	**0.3**	**0.1**	**–**	**4.1**	**84.5**
Property, plant and equipment							
Land and buildings	267.4	–	1.2	0.2	1.0	5.0	264.8
Plant and machinery	250.4	–	7.9	–0.1	12.3	31.4	239.1
Other facilities, factory and office equipment	136.3	–	7.8	0.3	0.7	13.1	132.0
Assets under construction	4.4	–	4.5	–	–3.7	0.3	4.9
	658.5	**–**	**21.4**	**0.4**	**10.3**	**49.8**	**640.8**
	746.7	**–**	**21.7**	**0.5**	**10.3**	**53.9**	**725.3**

[1] Business segment web and special presses €2m, business segment sheetfed offset presses €27.4m

[2] Business segment sheetfed offset presses

(G) Explanatory Notes to the Balance Sheet

(1) Intangible assets, property, plant and equipment

With finance leases the total includes €4.5m for assets under construction on intangible assets (previous year: €4.5m), €0.3m for land and buildings (previous year: €0.3m), €4.2m (€1.8m) for plant and machinery, and €6.3m (€10.1m) for other facilities, factory and office equipment. Further details of finance leases are given in Note (10) under other financial payables.

Government grants for promoting investment reduced the carrying amounts for property, plant and equipment by €5.2m (previous year: €5.2m).

Depreciation 01.01.	Group additions	Annual depreciation	Impairments	Appreciation	Exchange differences	Disposals	**31.12.**	Carrying amount 01.01.	**31.12.**
39.4	1.0	1.0	0.1	–	–0.1	0.9	40.5	1.7	6.9
0.2	–	–	–	–	–	–	0.2	21.5	27.7
8.4	–	–	–	–	–	–	8.4	–	–
–	–	–	–	–	–	–	–	–	4.5
48.0	**1.0**	**1.0**	**0.1**	**–**	**–0.1**	**0.9**	**49.1**	**23.2**	**39.1**
126.1	0.6	6.5	13.8	–	–0.6	1.9	144.5	139.7	122.9
213.5	1.5	10.7	11.1	–	–1.6	22.9	212.3	49.4	38.1
110.0	1.3	12.0	4.2	–	–0.4	14.0	113.1	28.3	23.2
–	–	–	0.2	–	–	–	0.2	2.5	4.2
449.6	**3.4**	**29.2**	**29.3**	**–**	**–2.6**	**38.8**	**470.1**	**219.9**	**188.4**
497.6	**4.4**	**30.2**	**29.4** [1]	**–**	**–2.7**	**39.7**	**519.2**	**243.1**	**227.5**
40.5	–	1.5	–	–	0.1	3.4	38.7	6.9	5.7
0.2	–	–	–	–	–	–	0.2	27.7	27.6
8.4	–	–	–	–	–	0.6	7.8	–	–
–	–	–	–	–	–	–	–	4.5	4.5
49.1	**–**	**1.5**	**–**	**–**	**0.1**	**4.0**	**46.7**	**39.1**	**37.8**
144.5	–	6.0	1.0	–	0.1	4.5	147.1	122.9	117.7
212.3	–	11.3	0.7	1.4	–0.1	31.1	191.7	38.1	47.4
113.1	–	9.8	0.2	–	0.2	12.2	111.1	23.2	20.9
0.2	–	–	–	–	–	0.2	–	4.2	4.9
470.1	**–**	**27.1**	**1.9**	**1.4**	**0.2**	**48.0**	**449.9**	**188.4**	**190.9**
519.2	**–**	**28.6**	**1.9** [2]	**1.4** [2]	**0.3**	**52.0**	**496.6**	**227.5**	**228.7**

Intangible assets

Additions to assets under construction as well as industrial rights and similar rights related to purchased software and licences.

Goodwill is made up as follows:

in €m	31.12.2013	**31.12.2014**
KBA-MetalPrint GmbH, Stuttgart, Germany	12.6	12.6
KBA-NotaSys SA, Lausanne, Switzerland	8.8	8.8
KBA-Kammann GmbH, Bad Oeynhausen, Germany*	5.5	5.4
KBA-Flexotecnica S.p.A., Tavazzano, Italy*	0.8	0.8
	27.7	**27.6**

* preliminary

KBA is obligated to pay KBA-Kammann GmbH's former shareholders a further consideration of €1.7m if measures to reduce personnel can be avoided until 31.12.2015. The fair value of the contingent consideration is estimated at €0.9m. A further contingent consideration of €0.8m resulted from the purchase of shares in KBA-Flexotecnica S.p.A in 2013. The sellers are entitled to this provided that no warranty claims from before the shares were purchased are made and it is 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
KBA-MetalPrint GmbH, Stuttgart, Germany	3	10.1 %	7.3 %
KBA-NotaSys SA, Lausanne, Switzerland	3	8.5 %	7.8 %
KBA-Kammann GmbH, Bad Oeynhausen, Germany	3	10.0 %	7.3 %
KBA-Flexotecnica S.p.A., Tavazzano, Italy	3	9.8 %	7.4 %

Based on the results of various sensitivity analyses, KBA 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. At €10.3m showroom presses were reclassified from inventories.

(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. Equity interest corresponds to the number of voting rights.

Company, location	Capital share in %	Equity in €m
Consolidated affiliates		
KBA-Gießerei GmbH, Würzburg, Germany	100.0	3.1
KBA-FT Engineering GmbH, Frankenthal, Germany	100.0	2.0
Albert-Frankenthal GmbH, Frankenthal, Germany	100.0	4.0
KBA Deutschland GmbH, Radebeul, Germany	100.0	0.3
KBA-MePrint AG, Veitshöchheim, Germany	100.0	6.7
KBA-Metronic GmbH, Veitshöchheim, Germany [1]	100.0	12.3
KBA-MetalPrint GmbH, Stuttgart, Germany	100.0	7.2
KBA-Kammann GmbH, Bad Oeynhausen, Germany	85.0	0.4
KBA-Mödling GmbH, Mödling, Austria	>99.9	25.2
Holland Graphic Occasions B.V., Wieringerwerf, Netherlands	100.0	1.1
KBA-FRANCE SAS, Tremblay-en-France, France	100.0	–2.7 [2]
KBA ITALIA SPA, Tavazzano, Italy	100.0	0.4
KBA-Flexotecnica S.p.A., Tavazzano, Italy	90.0	1.7
KBA (UK) Ltd., Watford, UK	100.0	–7.8 [2]
KBA-Grafitec s.r.o., Dobruška, Czech Republic	100.0	4.5
KBA-SWISS HOLDING SA, Lausanne, Switzerland	100.0	85.1
KBA-NotaSys SA, Lausanne, Switzerland [1]	100.0	108.9
KBA-NotaSys International SA, Geneva, Switzerland [1]	100.0	0.2
Print Assist AG, Höri, Switzerland [1]	100.0	2.3
KBA North America Inc., Wilmington, DE, USA	100.0	8.9
KBA (HK) Company Ltd., Hongkong, China	100.0	2.2
KBA Printing Machinery (Shanghai) Co., Ltd., Shanghai, China	100.0	1.7
Non-consolidated affiliates		
PrintHouseService GmbH, Würzburg, Germany	100.0	0.1
KBA NORDIC A/S, Værløse, Denmark	100.0	–5.0 [2,3]
KBA CEE Sp. z o.o., Warsaw, Poland	100.0	–0.6 [2]
KBA RUS OOO, Moscow, Russia	100.0	–1.1 [2]
KBA-Kammann USA, Inc., Portsmouth, NH, USA [1]	85.0	3.6
KBA LATINA S A P I DE CV, Mexico City, Mexico	60.0	0.3
Koenig & Bauer do Brasil Comércio de Impressoras e Serviços Ltda., São Paulo, Brazil	80.0	–0.8 [2]
KBA Koenig & Bauer (Asia Pacific) Sdn. Bhd., Kuala Lumpur/Malaysia	100.0	1.0
MABEG Machinery (Shanghai) Co., Ltd., Shanghai, China	80.0	1.7
KBA KOREA CO., LTD., Goyang-si, South Korea	100.0	0.1
KBA Japan Co., Ltd, Tokyo, Japan	100.0	–0.6 [2]
KBA Australasia Pty. Ltd., Campbelltown, Australia	100.0	–0.4 [2]
KBA NotaSys India Private Limited, New Delhi, India [1]	100.0	0.4
Interests		
KBA Leasing GmbH, Bad Homburg, Germany	24.9	0.2 [3]

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

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

in €m	31.12.2013	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2014**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade receivables						
- from affiliates	9.5	9.5	–	10.5	10.5	–
- from companies in which interests are held	5.6	5.6	–	0.8	0.8	–
- from third parties	213.1	182.5	30.6	187.5	173.7	13.8
	228.2	**197.6**	**30.6**	**198.8**	**185.0**	**13.8**
Investments	4.2	–	4.2	3.9	–	3.9
Other financial receivables						
- from affiliates	5.6	5.6	–	5.6	5.6	–
- derivatives	1.1	1.1	–	0.4	0.4	–
- sundry other financial receivables	23.2	10.7	12.5	20.3	9.4	10.9
	34.1	**17.4**	**16.7**	**30.2**	**15.4**	**14.8**
Other assets						
- payments for inventories	13.3	13.3	–	9.5	9.5	–
- tax receivables	16.3	16.3	–	10.5	10.5	–
- prepayments	2.7	2.1	0.6	2.7	2.6	0.1
	32.3	**31.7**	**0.6**	**22.7**	**22.6**	**0.1**
	294.6	**246.7**	**47.9**	**251.7**	**223.0**	**28.7**

Adopting the percentage of completion method resulted in €9.2m (previous year: €6.2m) being carried in **trade receivables.**

Sundry **other financial receivables** included €1m (previous year: €1.2m) from customer finance leases totalling €1.2m (previous year: €1.5m) and an interest share of €0.2m (€0.3m), with those due in less than one year representing €0.1m (€0.1m) of a total of €0.2m (€0.2m) and other receivables representing €0.7m (€0.7m) of a total of €0.8m (€0.9m) having terms to maturity of one to five years. The terms to maturity of the remainder were less than six years. Other receivables from derivatives are detailed in Note (11).

Value adjustments for financial assets were based on item-by-item risk assessments. Allowance was made for potential credit risks such as default of payment relating to specific loans or countries. No separate allowance accounts were kept at Group level for credit losses.

(3) Inventories

in €m	31.12.2013	31.12.2014
Raw materials, consumables and supplies	68.1	63.7
Work in progress	259.5	201.2
Finished goods and products	29.6	14.4
	357.2	**279.3**

The carrying amount of inventories balanced at net realisable value was €114.3m (previous year: €107.8m). Total value adjustments were reduced by €10.7m (previous year: €11.1m increased).

(4) Securities

These refer to shares in a fund combining stocks and bonds. The market value of the fund was €34.6m (previous year: €33.7m). 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	31.12.2013	31.12.2014
Cheques, cash in hand	0.1	0.1
Balances with banks	185.3	207.5
	185.4	**207.6**

(6) Deferred taxes

Deferred tax assets and liabilities relate to the following items:

in €m	Deferred tax assets		Deferred tax liabilities	
	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**
Assets				
Intangible assets, property, plant and equipment	1.2	1.1	7.0	8.0
Inventories	20.1	4.6	3.5	1.7
Financial receivables and other assets	1.8	0.9	2.2	1.1
Equity and liabilities				
Equity	–	–	0.1	0.1
Provisions	16.0	18.4	8.4	10.4
Financial payables and other liabilities	3.9	7.3	19.5	6.9
	43.0	**32.3**	**40.7**	**28.2**
Tax loss carryforwards	9.1	11.6	–	–
Offset	–24.8	–8.7	–24.8	–8.7
	27.3	**35.2**	**15.9**	**19.5**
- of which current deferred taxes	10.1	7.9	5.1	2.6

At the end of the year there were loss carryforwards totalling €452.9m (previous year: €413m) and temporary differences of €106.2m (€83.9m) for which no deferred tax assets were disclosed. €13.7m of the unrecognised tax loss carryforwards are time-limited to 2024 or later. Restructuring activities in recent years and other proposed reorganisational measures gave rise to positive earnings projections and the recognition of deferred tax assets totalling €11.8m (€11.5m) in expectation of a profit, whereas the subsidiaries concerned posted a loss.

No deferred tax liability was recognised on temporary differences in investments of €1.3m (previous year: €3.4m), since a reversal in the foreseeable future was highly improbable.

(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 62 and capital management methods on page 40 onwards.

Share capital

The Parent's share capital at 31 December 2014 totalled 16,524,783 (2013: 16,524,783) no-par shares with a nominal value of €2.60. Part of the €15.6m capital authorised by the shareholders' meeting on 16 June 2011 represents the issue of employee shares in 2011 to 2013. The remaining €15.4m was authorised until 15 June 2016. Management was further authorised to repurchase shares up to a maximum of 10% of equity capital of €42.8m. This authorisation is valid at least until the next AGM and expires no later than 15 June 2016.

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 reduced reserves by €1.2m (previous year: €1.3m increase). During completion of the underlying transactions –€0.2m was recognised as an expense (previous year: –€0.9m).

Deferred taxes increased reserves by €1.4m (previous year: €8.1m decrease), with defined benefit pension plans accounting for €1.3m (previous year: €7.9m decrease), derivatives of –€0.3m (–€0.1m) and primary financial instruments of €0.4m (–€0.1m).

Due to change of the functional currency of the foreign subsidiaries to the euro, €41m of reserves from currency translation not recognised on the balance sheet were reclassified in other reserves.

(8) Pension provisions and similar obligations

The KBA-Group provides a number of employees with retirement, disability and surviving dependents' benefits.

In Germany the pension benefits are defined as a fixed amount with rates of increase or are determined by the wages and salary group upon retirement, incapacity or death. The benefits are paid monthly as a pension payment. The plans are generally unfunded.

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, incapacity 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.

The extent of the (defined-benefit) pension obligation was calculated using actuarial methods which necessarily entailed making estimates.

Calculations were based on a discount rate of 2% (previous year: 3.7%) in Germany and 1.3% to 3.5% (2% to 4.4%) in the rest of Europe. Calculations were further based on a pay increase of 1.7% (2.7%) and a fluctuation rate of 2.8% (2.7%). Pension adjustments were calculated at 1.8% (1.2%). 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 current market value of plan assets changed as follows:

in €m	Present value of pension obligations		Fair value of plan assets		Net obligation/ Net asset	
	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**
Status at 01.01.	**238.2**	**239.3**	**–93.0**	**–96.8**	**145.2**	**142.5**
Recognised in profit or loss						
Current service cost	7.8	9.6	–	–	7.8	9.6
Past service cost	–	1.5	–	–	–	1.5
Interest cost/income	7.0	7.3	–2.0	–2.2	5.0	5.1
	14.8	**18.4**	**–2.0**	**–2.2**	**12.8**	**16.2**
Recognised in other comprehensive income						
Actuarial gain/loss						
- demographic assumptions	0.1	–	–	–	0.1	–
- financial assumptions	–0.1	57.3	–3.4	–5.8	–3.5	51.5
- experience adjustments	–1.5	0.8	–	–	–1.5	0.8
Foreign currency changes	0.1	–	–	–	0.1	–
	–1.4	**58.1**	**–3.4**	**–5.8**	**–4.8**	**52.3**
Other						
Contributions paid by employer	–	–	–4.2	–5.6	–4.2	–5.6
Contributions paid by plan beneficiaries	–	–	–1.5	–1.6	–1.5	–1.6
Benefits paid	–11.1	–14.6	5.9	3.7	–5.2	–10.9
Changes in consolidated companies	0.2	–	–	–	0.2	–
Foreign currency changes	–1.6	2.8	1.4	–2.4	–0.2	0.4
Other changes	0.2	1.5	–	0.2	0.2	1.7
	–12.3	**–10.3**	**1.6**	**–5.7**	**–10.7**	**–16.0**
Status at 31.12.	**239.3**	**305.5**	**–96.8**	**–110.5**	**142.5**	**195.0**

Pension provisions and similar obligations constituted the following:

in €m	31.12.2013	**31.12.2014**
Present value of non-funded obligations	134.2	173.4
Present value of funded obligations	105.1	132.1
Present value of obligations	**239.3**	**305.5**
Fair value of plan assets	–96.8	–110.5
Pension provisions and similar obligations	**142.5**	**195.0**

Plan assets comprised €40.2m (previous year: €33.8m) from shares and equity securities, €44.4m (€36m) from loans, €4.5m (€9.8m) from liquid assets and €21.4m (€17.2m) from other assets. All 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 €8m (previous year: €5.5m). The anticipated rate of return is 2% (previous year: 2.2%), based on returns in previous years.

Plan contributions for 2015 are estimated at €3.3m (previous year: €3.3m).

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:

in €m	Benefit obligation			
		Increase		Decrease
	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**
Discount rate (0.5% change)	–19.5	–27.0	21.3	30.9
Salary increase rate (0.5% change)	3.6	4.3	–3.4	–4.0
Pension increase rate (0.5% change)	12.7	19.1	–12.5	–17.6
Fluctuation rate (0.5% change)	–0.1	–0.2	–	0.3
Life expectancy (1 year change)	5.0	7.6	–5.1	–7.7

The weighted duration of pension obligations is 19.1 years (previous year: 15.1). In 2014 pension payments totalled €14.6m (previous year: €11.1m).

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 €32.7m (previous year: €31.8m).

(9) Other provisions

in €m	Status at 01.01.2014	Con-sumption	Reversal of provisions	Allocation	Unwind of discount	Exchange differences	Reclassifi-cations	**Status at 31.12.2014**
Other provisions								
- for employees	129.3	62.9	3.0	10.4	0.2	0.2	2.3	76.5
- for sales	95.8	30.7	11.2	49.0	–	0.8	1.5	105.2
- for sundry other purposes	71.8	19.7	2.6	31.7	–	0.1	–3.8	77.5
	296.9	**113.3**	**16.8**	**91.1**	**0.2**	**1.1**	**–**	**259.2**
of which								
- long-term provisions	92.4							55.7
- short-term provisions	204.5							203.5
	296.9							**259.2**

Provisions for employees included expenses relating to the realignment of the KBA Group as part of the Fit@All programme as well as long-service bonuses, performance bonuses and credits for phased retirement plans, in so far as these have not been settled with securities.

Sales expenses covered provisions for process risks, warranty and anticipated goodwill obligations arising from contractual and legal agreements, and commission obligations.

Provisions for sundry other purposes primarily related to liability insurance premiums, archiving costs and similar obligations.

Long-term provisions included obligations relating to phased retirements plans, long-service bonuses, process risks and all sundry other provisions with a maturity of more than 1 year.

(10) Financial and other liabilities

in €m	31.12.2013	Term to maturity up to 1 year	Term to maturity more than 1 year	**31.12.2014**	Term to maturity up to 1 year	Term to maturity more than 1 year
Trade payables						
- to affiliates	0.9	0.9	–	0.6	0.6	–
- to companies in which interests are held	0.1	0.1	–	1.3	1.3	–
- to others	71.2	71.1	0.1	55.2	55.2	–
	72.2	**72.1**	**0.1**	**57.1**	**57.1**	**–**
Bank loans	21.5	21.5	–	15.2	15.2	–
Other financial payables						
- from derivatives	0.1	–	0.1	1.6	1.5	0.1
- to affiliates	–	–	–	0.2	0.2	–
- sundry other financial payables	70.4	55.2	15.2	71.7	61.7	10.0
	92.0	**76.7**	**15.3**	**88.7**	**78.6**	**10.1**
Other liabilities						
- from payments received	175.0	173.6	1.4	129.7	129.7	–
- from taxes	13.3	13.3	–	25.9	25.9	–
- sundry other liabilities	9.9	6.0	3.9	8.6	6.6	2.0
	198.2	**192.9**	**5.3**	**164.2**	**162.2**	**2.0**
	362.4	**341.7**	**20.7**	**310.0**	**297.9**	**12.1**

Bank loans (financial liabilities) were secured by mortgages to the value of €8m (previous year: €9.1m), the pledging of securities worth €1.3m (previous year: €1.3m) and the assignment of inventory and trade receivables totalling €4m (€7.2m). The carrying amounts of secured items of property, plant and equipment came to €10m (€15.8m), of trade receivables €5.5m (€13.5m), of pledged collateral (other financial receivables) €1.2m (€1.1m) and €6.2m the previous year for inventories. 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 KBA Group at the balance sheet date totalled €56.4m (previous year: €46.5m).

Sundry **other financial payables** included finance leases to the sum of €17.2m (previous year: €21.3m). Standard market conditions apply to renewal and purchase options.

Some sale and leaseback transactions were concluded for software licences or to finance showroom machinery, others were based on individual customer financing models, with sale and leaseback agreements being followed by financial leasing agreements with customers. Turnover was carried upon delivery of the machinery, liabilities set against accounts receivable.

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

in €m	31.12.2013	Term to maturity			31.12.2014	Term to maturity		
		up to 1 year	1 to 5 years	more than 5 years		up to 1 year	1 to 5 years	more than 5 years
Minimum lease payments	23.0	8.1	14.7	0.2	18.4	9.4	7.8	1.2
Interest portion	–1.7	–0.8	–0.9	–	–1.2	–0.6	–0.6	–
Present value of finance lease	**21.3**	**7.3**	**13.8**	**0.2**	**17.2**	**8.8**	**7.2**	**1.2**

The derivative items included in sundry other financial liabilities are explained more fully in Note (11).

Other liabilities included total payments received of €2.8m (previous year: €24.7m) for construction contracts.

(11) Derivatives

Forward contracts with a maturity of up to 1 year (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, GBP and JPY. The fair value of forward contracts qualifying as hedges with a nominal amount totalling €81.8m (previous year: €15.2m) was –€0.9m (€0.7m).

Interest rate swaps and the previous year also cap transactions with a maturity of up to 2.5 years (previous year: 3.5 years) covered subsidiaries’ existing interest risk.

The nominal amounts underlying derivatives, and their market values, are listed below.

in €m	Nominal amount Total 31.12.2013	Nominal amount Term to maturity more than 1 year	Market value 31.12.2013	Nominal amount Total **31.12.2014**	Nominal amount Term to maturity more than 1 year	Market value **31.12.2014**
Forward contracts	24.9	0.1	1.1	90.0	–	–1.1
Interest rate hedges	7.0	1.0	–0.1	1.0	1.0	–0.1
	31.9	**1.1**	**1.0**	**91.0**	**1.0**	**–1.2**

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.

(12) Further disclosures on financial instruments

in €m	Carrying amount	of which not impaired, not overdue	of which not impaired, but overdue < 3 months	of which not impaired, but overdue 3-12 months	of which not impaired, but overdue > 12 months	of which impaired
2013						
Loans and receivables	426.4	354.7	36.8	14.4	3.1	17.4
Gross amount due from customers for contract work	6.2	3.5	0.4	0.6	1.7	–
Assets held to maturity	8.4	8.4	–	–	–	–
Assets available for sale	6.5	6.5	–	–	–	–
Financial instruments recognised at fair value	0.4	0.4	–	–	–	–
	447.9	**373.5**	**37.2**	**15.0**	**4.8**	**17.4**
2014						
Loans and receivables	413.2	357.7	30.6	10.0	6.1	8.8
Gross amount due from customers for contract work	9.2	6.0	2.4	0.8	–	–
Assets held to maturity	8.2	8.2	–	–	–	–
Assets available for sale	15.2	15.2	–	–	–	–
Financial instruments recognised at fair value	0.1	0.1	–	–	–	–
	445.9	**387.2**	**33.0**	**10.8**	**6.1**	**8.8**

in €m					Carrying value
		31.12.2013			
	Category under IAS 39*	Carrying amount	Amortised cost	Fair value recognised in profit or loss	
Assets					
Investments and other financial receivables					
- interests in affiliates	afs	4.0	4.0	–	
- loans	lar	0.2	0.2	–	
- other financial receivables from finance leases	lar	1.2	1.2	–	
- other financial receivables from derivatives	rafv	0.4	–	0.4 [2]	
- other financial receivables from hedge accounting	–	0.7	–	–	
- sundry other financial receivables	htm	8.4	8.4	–	
	afs	1.6	–	–	
	lar	17.6	17.6	–	
		34.1	**31.4**	**0.4**	
Trade receivables	lar	222.0	222.0	–	
Gross amout due from customers for contract work	lar	6.2	6.2	–	
Securities	afs	0.9	–	–	
Cash and cash equivalents	lar	185.4	185.4	–	
		448.6	**445.0**	**0.4**	
Liabilities					
Bank loans and other financial payables					
- bank loans	ofp	21.5	21.5	–	
- other financial payables from finance leases	ofp	21.3	21.3	–	
- other financial payables from derivatives	rafv	0.1	–	0.1 [2]	
- other financial payables from hedge accounting	–	–	–	–	
- sundry other financial payables	ofp	49.1	49.1	–	
		92.0	**91.9**	**0.1**	
Trade payables	ofp	72.2	72.2	–	
		164.2	**164.1**	**0.1**	

* lar = loans and receivables
htm = held to maturity
rafv = recognised at fair value
afs = available for sale
ofp = other financial payables

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

The fair value of **interests in affiliates** could not be calculated since no prices were quoted in an active market. No sales are planned.

The fair value of **other financial receivables/payables from derivatives** was the market value. The figures disclosed for **securities, cash and cash equivalents** were the quoted market prices. 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.

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.

	31.12.2013	31.12.2014	Carrying value			31.12.2014
Fair value recognised in equity	Fair value	Carrying amount	Amortised cost	Fair value recognised in profit or loss	Fair value recognised in equity	Fair value
–	–	3.9	3.9	–	–	–
–	0.2	–	–	–	–	–
–	1.2	1.0	1.0	–	–	1.2
–	0.4	0.1	–	0.1 [2]	–	0.1
0.7 [2]	0.7	0.3	–	–	0.3 [2]	0.3
–	8.4	8.2	8.2	–	–	8.2
1.6 [1]	1.6	1.7	–	–	1.7 [1]	1.7
–	17.6	15.0	15.0	–	–	15.0
2.3	**30.1**	**30.2**	**28.1**	**0.1**	**2.0**	**26.5**
–	222.0	189.6	189.6	–	–	189.6
–	6.2	9.2	9.2	–	–	9.2
0.9 [1]	0.9	9.6	–	–	9.6 [1]	9.6
–	185.4	207.6	207.6	–	–	207.6
3.2	**444.6**	**446.2**	**434.5**	**0.1**	**11.6**	**442.5**
–	21.5	15.2	15.2	–	–	15.2
–	21.2	17.2	17.2	–	–	17.1
–	0.1	0.4	–	0.4 [2]	–	0.4
–	–	1.2	–	–	1.2 [2]	1.2
–	49.1	54.7	54.7	–	–	54.7
–	**91.9**	**88.7**	**87.1**	**0.4**	**1.2**	**88.6**
–	72.2	57.1	57.1	–	–	57.1
–	**164.1**	**145.8**	**144.2**	**0.4**	**1.2**	**145.7**

The maximum **credit risk** relating to financial assets corresponded to the carrying amounts, with no perceptible risks relating to 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 €24.7m (previous year: €29.5m) within the next twelve months, €6m (€12.2m) in one to three years and €2.9m (€2.5m) in more than three years from now. Additional liquidity was 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 chart below showing the associated net gains and losses.

in €m	Net gain/loss	from interest	from subsequent measurement due to impairment	from subsequent measurement currency impact	from disposal	Other
31.12.2013						
Loans and receivables	–24.2	2.3	–14.0	0.6	–13.1	–
Gross amount due from customers for contract work	1.4	0.9	1.2	–	–0.7	–
Assets available for sale	0.1	0.1	–	–	–	–
Financial instruments recognised at fair value in profit or loss	–0.2	–	–	–0.2	–	–
Other financial payables	–4.0	–4.1	–	0.1	–	–
	–26.9	**–0.8**	**–12.8**	**0.5**	**–13.8**	**–**
31.12.2014						
Loans and receivables	–8.7	2.0	–5.8	4.6	–9.5	–
Gross amount due from customers for contract work	2.0	–	2.0	–	–	–
Assets available for sale	–0.7	0.1	–	–	–	–0.8
Financial instruments recognised at fair value in profit or loss	–1.0	–	–	–1.0	–	–
Other financial payables	–2.7	–3.2	–	0.5	–	–
	–11.1	**–1.1**	**–3.8**	**4.1**	**–9.5**	**–0.8**

Value adjustments were made of €3.6m (previous year: €10.6m) on trade receivables and €0.2m (€2.2m) on investments and other financial receivables.

Foreign currency risks were assessed using a sensitivity analysis based on the premise that key currencies for the KBA-Group fluctuate in value by +/– 5% relative to the euro. On the balance sheet date the KBA Group was exposed to a foreign currency risk amounting to €126.7m (previous year: €65.6m), primarily relating to the category “available for sale” (previous year: “available for sale”).

The effects of changes in currency exchange rates on equity and the net profit/loss are shown in the following table.

in €m	Equity 31.12.2013	Equity **31.12.2014**	Net profit/loss 31.12.2013	Net profit/loss **31.12.2014**
Devaluation USD by 5%	0.6	1.5	0.6	–1.3
Revaluation USD by 5%	–0.7	–1.7	–0.6	1.4
Devaluation CHF by 5%	3.7	–4.2	3.3	–4.2
Revaluation CHF by 5%	–4.0	4.6	–3.7	4.6

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	31.12.2013	Term to maturity up to 1 year	1 to 5 years	more than 5 years	31.12.2014	Term to maturity up to 1 year	1 to 5 years	more than 5 years
Commitments from:								
- operating leases	6.4	2.5	3.7	0.2	6.0	2.8	3.2	–
- rental and service contracts	12.6	8.4	4.1	0.1	33.3	12.6	15.0	5.7
- investment plans	3.5	3.5	–	–	5.7	5.7	–	–
- sundry other activities	0.1	0.1	–	–	0.5	0.5	–	–
	22.6	**14.5**	**7.8**	**0.3**	**45.5**	**21.6**	**18.2**	**5.7**

Operating leases were mainly negotiated for IT equipment and our vehicle fleet, with renewal options at prevailing market conditions. Leasing payments of €3.9m (previous year: €3.9m) 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 €5.7m (previous year: €3.5m).

Contingent liabilities

These comprised contingencies totalling €44.6m (previous year: €50.1m) 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 €6.7m (previous year: €5.8m) were created for existing risks that were not classified as minor.

(H) Explanatory Notes to the Income Statement

(14) Revenue

Revenue from the sale of machinery came to €823.1m (previous year: €858.8m), other sales totalled €276.9m (€240.9m).

Construction contract revenue totalled €53.6m (previous year: €106.9m), accumulated revenue for percentage of completion contracts unfulfilled on the balance sheet date came to €18.2m (€207.3m).

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

(15) Expenses by function

Cost of sales

Cost of sales included €0.9m (previous year: €1m) in subsidies for apprentice training, job promotion and contract development projects.

Manufacturing costs for construction contract projects still in progress on the balance sheet date amounted to €14.1m (previous year: €190.1m).

Research and development costs

Research and development costs before special items fell slightly by €2.7m to €54.8m.

Government research grants for expenses already incurred were recognised at the time of approval, reducing research and development costs by €0.4m (previous year: €0.4m).

Distribution costs and administrative expenses

Distribution costs before special items rose by €5.9m to €134.3m compared to the previous year.

Given a climb in personnel and consultancy expenses associated with Fit@All **administrative expenses** rose by €12.8m before special items.

(16) Expenses by nature

Material costs

in €m	2013	**2014**
Cost of raw materials, consumables, supplies and purchased goods	429.4	430.4
Cost of purchased services	76.5	80.4
	505.9	**510.8**

Personnel costs

in €m	2013	**2014**
Wages and salaries	432.1	311.3
Social security and other benefits	60.4	59.1
Pensions	8.5	11.5
	501.0	**381.9**
Average payroll		
- wage-earning industrial staff	3,274	3,063
- salaried office staff	2,594	2,609
- apprentices/students	389	386
	6,257	**6,058**

Reimbursements from the Federal Employment Agency for social security expenses relating to short-time work reduced personnel expenses by €0.8m (previous year: €0.3m).

(17) Other operating income and expenses

in €m	2013	**2014**
Other operating income		
Gains from the disposal of intangible assets, property, plant and equipment	1.5	1.4
Foreign currency gains	5.0	3.9
Currency measurement	4.9	6.5
Reversal of write-downs	4.4	9.3
Sundry other operating income	14.2	10.4
	30.0	**31.5**
Other operating expenses		
Losses from the disposal of intangible assets, property, plant and equipment	–1.3	–1.2
Foreign currency losses	–5.2	–3.8
Currency measurement	–4.7	–6.1
Creation of write-downs	–17.2	–13.1
Sundry other operating expenses	–13.6	–20.3
	–42.0	**–44.5**
Other operating income and expenses	**–12.0**	**–13.0**

Sundry other operating income included €4.5m (previous year: €10m) from the release of provisions. It also included insurance and compensation claims and other refunds.

Sundry other operating expenses included the loss of receivables outstanding, customer credit notes and warranty claims.

(18) Special Items

Under the title Fit@All the management board developed a comprehensive restructuring concept for the realignment of the Group and to strengthen the company's profitability and competitiveness in the long-term. In 2014 further restructuring measures were agreed.

This led to write-ups on property, plant and equipment of €1.4m and impairments on intangible assets of €0.7m (previous year: €28.7m) as well as on inventories of €2.9m (previous year: €7.1m). Provisions totalling €1.1m (previous year: €114.8m) were made again for personnel and other measures connected to the planned restructuring of the Group. Relocation costs and similar expenses totalled €3m. Further special items affect allowances on receivables from non-consolidated sales subsidiaries and on assets held for sale worth €3.7m (previous year: €4.6m).

(19) Financial result

in €m	2013	**2014**
Other financial results		
Income from interests in affiliates	–	0.8
Impairments in investments	–	–1.6
	–	**–0.8**
Interest income/expense		
Other interest and similar income	3.2	2.7
- of which affiliates	(0.3)	(0.4)
Other interest and similar expenses	–10.6	–10.5
- from pension obligations	(–5.0)	(–5.1)
	–7.4	**–7.8**
Financial result	**–7.4**	**–8.6**

(20) Income taxes

in €m	2013	2014
Earnings before taxes	**–138.1**	**5.5**
Group tax rate	30.0 %	30.0 %
Expected taxes	**41.4**	**–1.7**
Tax effects from		
- variances due to different tax rates	11.5	5.3
- tax-free earnings	0.1	0.2
- write-downs	–69.2	–6.9
- decreases and increases	–0.6	–2.9
- other	1.2	0.8
Income tax	**–15.6**	**–5.2**

in €m	2013	2014
Actual tax expense	–3.9	–7.6
Prior-period income taxes	–0.2	–
Deferred taxes from loss carryforwards	–7.7	2.5
Deferred tax income from temporary differences	–3.8	–0.1
	–15.6	**–5.2**

The approach of previously unrecognised tax losses relating to subsidiaries led to deferred tax income of €2.3m. Their use as well as the use of previously unrecognised temporary differences reduces the actual tax expense by €2.3m (previous year: €1m).

The payment of a dividend to Parent company shareholders had no impact on income taxes. The recognised goodwill is non-tax-deductible.

(21) Earnings per share

	2013	2014
Net profit/loss attributable to owners of the Parent in €m	–153.7	0.5
Weighted average of ordinary shares issued	16,503,691	16,524,783
Earnings per share in €	**–9.31**	**0.03**

The increase in the weighted average of ordinary shares issued resulted from the issue of 38,830 employee shares in 2013. In 2014 no employee shares were issued. There was no dilution of earnings per share.

(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 €207.6m (previous year: €185.4m) included cash and cash equivalents.

(J) Segment Information

Business segments

In accordance with IFRS 8 segment information for the KBA Group distinguishes between the two business segments web and special presses, and sheetfed offset presses.

The business segment web and special presses encompasses newspaper, commercial, digital, banknote and security presses, systems for industrial coding as well as presses for the direct decoration of glass/hollow containers and flexible packaging. The business segment sheetfed offset presses constitutes packaging, commercial, book and poster printing presses, metal-decorating systems, and also presses for printing on film, labels, tubes and electronic data storage devices.

Segment information was based on the same accounting and consolidation procedures as the consolidated financial statements. Internal Group transactions contained in the segment result (operating profit/loss) were classed as arm's length transactions.

Inter-segment sales and other reconciliation effects between the two business segments were of minor significance.

in €m

	Web and special presses		Sheetfed offset presses		Group	
	2013	**2014**	2013	**2014**	2013	**2014**
Revenue	527.8	509.5	571.9	590.6	1,099.7	1,100.1
Operating profit/loss before special items	32.9	7.9	–8.4	16.2	24.5	24.1
Operating profit/loss after special items	–53.1	2.6	–77.6	11.5	–130.7	14.1
Depreciation	16.5	18.2	13.7	10.4	30.2	28.6
Major non-cash expenses	139.8	57.0	77.7	34.3	217.5	91.3
Capital investments	18.7	8.7	13.6	13.0	32.3	21.7

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.

in €m

	Revenue		Capital investments		Non-current assets	
	2013	**2014**	2013	**2014**	2013	**2014**
Germany	197.0	180.6	24.4	18.6	152.5	156.2
Rest of Europe	331.0	389.8	7.4	2.8	74.2	71.1
North America	140.5	117.6	0.2	0.2	0.8	0.9
China	134.9	103.5	0.3	0.1	0.5	0.6
Rest of Asia/Pacific	166.1	159.9	–	–	–	–
Africa/Latin America	130.2	148.7	–	–	–	–
Reconciliation	–	–	–	–	44.1	50.0
Group	**1,099.7**	**1,100.1**	**32.3**	**21.7**	**272.1**	**278.8**

(K) Notes to Section 285 no. 17 HGB

The auditors, KPMG Bayerische Treuhandgesellschaft, received €0.6m remuneration for their auditing services. This includes the annual and Group audit for 2014 as well as €0.1m for the auditing services for 2013.

(L) Related Party Disclosures

Related parties as defined by IAS 24 are all non-consolidated affiliates, interests (see Note (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 (2) and (10).

in €m	2013	**2014**
Other current financial receivables at 31.12.	5.6	5.6
Trade receivables at 31.12.	15.1	11.3
Trade payables at 31.12.	1.0	1.9
Other current financial liabilities at 31.12.	–	0.2
Revenue	26.2	54.8

Management board remuneration totalled €4.4m (previous year: €1.8m), with the fixed portion representing €2.4m (€1.8m). The variable portion was based on net profit. Expenses for former members of the management board came to €2.1m.

Pension provisions were increased by €0.6m (previous year: €0.5m) for the current service cost. Remuneration for former members and their survivors stood at €1.2m (€1.2m). Supervisory board remuneration totalled €0.4m (€0.3m), of which €0.3m (€0.3m) was fixed.

In accordance with the guidelines stated in IAS 19 (revised) €34.5m (previous year: €25.9m) 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 was omitted as per section 314 (2) in conjunction with section 286 (5).

At 31 December 2014 members of the management board held 2.8% and members of the supervisory board 0.1% of Koenig & Bauer's share capital, giving a total of 2.9%.

Supervisory Board

Dr Martin Hoyos
Chairman (since 07.03.2014)
Independent corporate consultant
Vienna / Austria

Heinz-Joachim Neubürger † (until 25.02.2014)
Chairman
Independent corporate consultant
London / United Kingdom

Gottfried Weippert*
Deputy chairman
Technician
Eibelstadt

Reinhart Siewert
Deputy chairman
Business economist
Würzburg

Marc Dotterweich* (from 22.01.2015)**
Cutting machine operator
Birkenfeld

Willi Eisele* (from 14.01.2014)**
Representative of IG Metall
Dresden

Michael Gasbarri* (until 31.12.2014)
Lathe operator
Frankenthal

Matthias Hatschek
Entrepreneur
St Martin / Austria

Baldwin Knauf
Deputy chairman of the shareholders' committee,
Knauf Gips KG
Iphofen

Walther Mann*
Representative of IG Metall
Würzburg

Dagmar Rehm (from 27.03.2014)
Financial director engineering, automation & control
and vice-president
Bilfinger SE
Langen

Klaus Schmidt*
Director Corporate Communications, KBA
Hettstadt

Claus Weihmann*
Gear grinder
Radebeul

Professor Horst Peter Wölfel
Department of Structural Dynamics (ret.)
Technical University Darmstadt
Würzburg

* workforce representative
** appointed by the register court

Committees

Mediation committee as per section 27(3)
of the Law on Codetermination
Dr Martin Hoyos (chairman)
Klaus Schmidt
Gottfried Weippert
Professor Horst Peter Wölfel

Personnel Committee
Reinhart Siewert (chairman)
Dr Martin Hoyos
Gottfried Weippert

Financial Audit Committee
Dagmar Rehm (chairman)
Reinhart Siewert
Claus Weihmann
Gottfried Weippert

Strategy Committee
Reinhart Siewert (chairman)
Matthias Hatschek
Walther Mann
Klaus Schmidt
Gottfried Weippert

Nomination Committee
Dr Martin Hoyos (chairman)
Baldwin Knauf
Dagmar Rehm

Committee appointments to 31 December 2014

Management Board

Claus Bolza-Schünemann
President and CEO
Würzburg

Dr Axel Kaufmann (until 30.09.2014)
Deputy president
CFO
Munich

Dr Mathias Dähn (from 01.06.2014)
CFO
Krailling

Michael Kummert
Executive vice-president for production business unit
Höchberg

Christoph Müller
Executive vice-president for digital & web business unit
Würzburg

Dr Andreas Pleßke (from 01.05.2014)
CRO
Herrsching am Ammersee

Ralf Sammeck
Executive vice-president for sheetfed offset business unit
Radebeul

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

	Member of the supervisory board at:
Dr Martin Hoyos Chairman	AMG Advanced Metallurgical Group N.V., Amsterdam/Netherlands Curanum AG, Munich/Germany (until 13.02.2015) CAG Holding GmbH, Marktl/Austria Prinzhorn Holding GmbH, Wiener Neudorf/Austria Korian Medica SA, Paris/France
Reinhart Siewert Deputy chairman	Bank Schilling & Co. AG, Hammelburg/Germany
Baldwin Knauf	Knauf Gruppe, Iphofen/Germany
Walther Mann	Braun GmbH, Marktheidenfeld/Germany
Dagmar Rehm	O'Donovan Consulting AG, Bad Homburg/Germany
Klaus Schmidt	KBA-MePrint AG, Veitshöchheim/Germany KBA-Metronic GmbH, Veitshöchheim/Germany KBA CEE Sp.z o.o., Warsaw/Poland

Other information

A declaration of compliance was issued in accordance with section 161 of German Company Law and made permanently accessible under www.kba.com/en/investor/corporate_governance.html .

Würzburg, 19 March 2015
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

Michael Kummert

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Auditor's Report

We have audited the consolidated financial statements prepared by KOENIG & BAUER Aktiengesellschaft, Würzburg, comprising the Group Balance Sheet, the group income statement, the statement of comprehensive group income, the statement of changes in group equity, the group cashflow statement and notes, together with the group management report for the business year from January 1 to December 31 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Nuremberg, 19 March 2015

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[Original German version signed by:]

Janz	Dr Kelle
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(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 management report of the Group includes a fair review 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, 19 March 2015
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Mathias Dähn

Michael Kummert

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Balance Sheet for Koenig & Bauer AG to 31 December 2014

under the German Commercial Code (HGB)

Assets in €m	31.12.2013	**31.12.2014**
Non-current assets		
Intangible assets	5.4	8.9
Property, plant and equipment	107.1	105.2
Financial assets	55.7	58.6
	168.2	**172.7**
Current assets		
Inventories less payments received	57.1	56.3
Trade receivables	71.3	62.9
Other receivables and assets	107.5	137.9
Cash and cash equivalents	93.4	68.2
	329.3	**325.3**
Prepayments	**1.4**	**1.2**
Positive difference from asset allocation	**1.8**	**7.3**
	500.7	**506.5**

Equity and liabilities in €m	31.12.2013	**31.12.2014**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	105.9	105.9
Loss carried forward	–	–122.0
Net profit (loss in previous year)	–122.0	49.4
	114.4	**163.8**
Special items with equity portion	**3.3**	**3.0**
Provisions		
Pension and similar provisions	75.0	83.1
Tax provisions	1.5	2.7
Other provisions	211.8	149.6
	288.3	**235.4**
Liabilities		
Trade payables	46.9	32.0
Other liabilities	47.8	72.3
	94.7	**104.3**
	500.7	**506.5**

Income Statement for Koenig & Bauer AG for 2014

under the German Commercial Code (HGB)

in €m	2013	2014
Revenue	768.8	706.6
Cost of sales	–638.4	–601.5
Gross profit	**130.4**	**105.1**
Distribution costs	–56.7	–52.0
Administrative expenses	–34.0	–45.1
Other operating income	21.4	26.8
Other operating expenses	–86.8	–60.5
Loss from operations	**–25.7**	**–25.7**
Financial result	24.9	76.9
Profit/loss from ordinary activities	**–0.8**	**51.2**
Extraordinary loss	–121.0	–1.5
Earnings before taxes	**–121.8**	**49.7**
Income taxes	–0.2	–0.3
Net profit (loss in previous year)	**–122.0**	**49.4**
Loss carried forward	–	–122.0
Net loss	**–122.0**	**–72.6**

Key Financial Dates

Interim report on 1st quarter 2015
12 May 2015

Koenig & Bauer Annual General Meeting
21 May 2015
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2015
11 August 2015

Interim report on 3rd quarter 2015
10 November 2015

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Consolidated Financial Statements

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