

2006

Group figures 2002 – 2006

		2006	2005	2004	2004	2003	2002
		IFRS	IFRS	IFRS	HGB	HGB	HGB
Sales							
Sales revenues	in € m	1,911	1,695	1,514	1,524	1,435	1,305
Germany	in € m	289	229	279	282	287	306
Rest of world	in € m	1,622	1,466	1,235	1,242	1,148	999
Export share	in %	85	87	82	82	80	77
Earnings							
Earnings before taxes	in € m	110	91	100	96	111	102
Net income	in € m	78	63	62	62	60	57
Earnings per share	in €	7.34	6.01	5.86	5.87	5.74	5.44
Asset and capital structure							
Non-current assets	in € m	430	403	382	290	306	261
of which property, plant and equipment, intangible assets, and financial assets	in € m	374	357	335	268	272	250
Current assets	in € m	1,042	880	828	704	564	545
of which cash and equivalents	in € m	58	57	75	75	56	36
Equity	in € m	629	572	526	483	435	409
Total debt	in € m	843	711	684	511	435	397
Non-current liabilities	in € m	147	155	151	—	—	—
Current liabilities	in € m	696	556	533	—	—	—
Total	in € m	1,472	1,283	1,210	994	870	806
Cash flow/capital expenditures							
Cash flow	in € m	127	110	107	101	100	94
Capital expenditures	in € m	78	78	60	41	52	88
Depreciation, amortization, and write-downs	in € m	50	47	45	42	40	38
Net cash position (cash and cash equivalents less debt)	in € m	57	52	74	74	50	35
Profitability ratios							
ROS	in %	5.7	5.4	6.6	6.3	7.8	7.8
Return on equity before taxes	in %	18.3	16.6	19.9	20.9	26.4	25.9
ROCE	in %	16.1	14.7	18.0	18.7	22.5	22.8
Employees (at 31 Dec)							
Germany		9,165	9,029	8,897	8,897	8,690	8,494
Rest of world		7,531	7,409	7,345	7,345	7,258	7,322
		1,634	1,620	1,552	1,552	1,432	1,172
Dividend							
Dividend per ordinary share	in €	1.60*	1.40	1.30	1.30	1.10	1.00
Dividend per preference share	in €	—	—	—	—	1.20	1.10

* As per proposal for appropriation of profit

KRONES GROUP ANNUAL REPORT 2006

Long-term success comes only to those companies whose products stand out above the competition. KRONES lines offer customers added value because they use less energy and work faster and more reliably than comparable products from our competitors.

We want to further consolidate our market leadership. So we're investing heavily in research and development to keep bringing a steady flow of innovative products to market.

More and more, customers want a single supplier to provide for all of their needs. KRONES offers complete solutions and is a dependable partner, supporting our customers through the entire process from the product idea to beverage production to the installation of complete bottling or canning operations. This is a valuable competitive advantage – for us, and for shareholders, who can count on KRONES to do our utmost to achieve our growth and profit targets in the future.

KRONES COMPACT

To our shareholders	4
2006 in review	6
KRONES at a glance	8
KRONES worldwide	10
The Executive Board	12
The KRONES share	32

CONSOLIDATED MANAGEMENT REPORT

Disclosures required under §§ 289 and 315 of the German Commercial Code	42
Economic environment	44
KRONES in figures	56
Reports from the segments	68
Risk report	80
Social responsibility	84
Events after the balance sheet date	92
Outlook	94

CORPORATE GOVERNANCE

Report by the Supervisory Board	102
Members of the Supervisory Board and the Executive Board	104
Compensation report (part of the management report)	105
Corporate governance at KRONES	108

OTHER INFORMATION

Commercial glossary	114
Technical glossary	116

To our shareholders



»We're investing heavily in research and development to further consolidate our market lead.«

*Volker Kronseder
Chairman of the Executive Board*

Dear shareholders and friends of KRONES,

KRONES AG faced many challenges once again in 2006. The process of consolidation in the packaging industry continued and the sometimes irrational competition for orders pushed prices down, particularly in the first half of the year. But we were well prepared for these difficult economic circumstances and were able to not only defend but further strengthen our position as the world's market leader for beverage filling lines and packaging machinery.

One reason for our success this year was our steady focus on the needs of the market and the products that result. Only when our machines and lines are technologically superior to the competition do they give our customers added value. In order to secure and sharpen our competitive edge, we invested some €60.4m in property, plant and equipment to improve our facilities, particularly those in Germany. One example of these efforts is the new technology centre in Neutraubling that is slated for completion in late summer of 2007.

Steadily rising sales and profits as well as honours from industry professionals attest to the value of these investments. For example, KRONES received the 2006 European Food Tec Award for our aseptic rainbow filler, which is capable of bottling and labelling four different flavours of yoghurt smoothies or other dairy drinks at one time.

We will continue to do everything within our power to enable our customers to employ sophisticated products. Demand is shifting away from individual machines toward complete solutions. And KRONES is the only supplier worldwide capable of constructing not only comprehensive lines but complete production operations – from the »green field« of possibilities to delivery of the packaged product.

Our operating figures are the clearest measure of our success. At €1.91bn, sales were up 12.7% in 2006. We are pleased to report that strong domestic demand in Germany also contributed to the sharp increase in sales revenues. KRONES certainly benefited from renewed capital spending in Germany in 2006, after companies had put off investments for the past few years due to uncertainties relating to the details of the new law on beverage can deposits. We received large orders from the us for bottling water in PET containers. Earnings before taxes rose 20.3% to €109.6m and after-tax earnings were up 22.2% to €77.5m).

This is the seventh year in succession that the KRONES GROUP has improved sales and earnings – and once again demonstrated its outstanding position in the industry. We're proud of this, but we also know that we can't sit back on our laurels. We're not satisfied with a pre-tax return on sales of 5.7%. The main factors that prevented KRONES from achieving our medium-term target of 7% in 2006 were poor price quality in some areas and increased costs of goods and services purchased. At 16.1%, ROCE also fell short of our medium-term target of 20% in 2006.

KRONES has already undertaken measures to further increase efficiency and meet the rising demands placed on our work. An important factor here is the plant agreement reached with our employees back in 2005. In addition, we have improved and continue to optimise our internal process flows.

We will continue to grow in the years ahead. Although sales will not increase as sharply every year as they did in 2006, we are standing by our growth corridor of 5–10% per year. We expect to achieve more than proportionate growth in process engineering and in our profitable lifecycle services. In addition to organic growth, we also plan to grow our business through acquisitions in the medium term. With our solid financial position and extremely sound capital structure, we are able to finance acquisitions without resorting to the capital markets. And because sales alone are not enough, we will continue to sharpen our focus on earnings.

Our success depends on the dedication and qualifications of our employees. Therefore, I would like to thank all employees of the KRONES GROUP for their commitment and hard work. I would also like to thank our business partners – it has been a pleasure working with you this year – and, last but not least, our shareholders, for whom we plan to increase our dividend by 20 cents to €1.60 per share in 2006.

Yours truly,

Volker Kronseder

We're proud to report that the KRONES GROUP has increased sales and earnings for the seventh year in a row.

We will do our utmost to achieve our ROS target of 7% again this year.

2006 in review



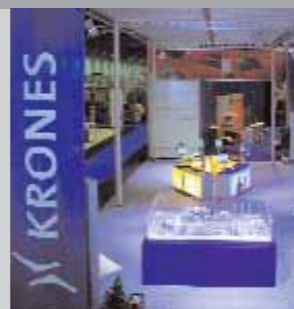
Q1

KRONES gets 2006 off to a good start, with a double-digit increase in sales and new orders in the first quarter. Earnings also continue to increase. And the KRONES share passes the €100 mark for the first time in February.



Rapid progress is made in the expansion of KRONES' production sites in Germany. In Neutraubling, the new assembly centre for filling technology, which consists of six assembly halls and a total footprint of almost 18,000 m², is almost complete.

The new labelling centre is officially dedicated on 14 March. KRONES now uses the 700 m² centre to conduct practice-based, customer-specific testing and basic research on the way bottles, adhesives, and labellers interact.



Q2

Price wars in the packaging industry pose major challenges for KRONES. Nevertheless, steady process improvements in production enable KRONES to increase profits in the first half of 2007. At €920m, sales are up a solid 12% on the previous year. Thus, KRONES is well on its way to achieving its seventh record-breaking year in succession.

At the Anuga FoodTec, the world's largest food and beverage trade fair, which took place from 4 to 7 April in Cologne, Germany, KRONES makes clear its intentions to be more heavily involved in the food industry in the future.



The aseptic bloc exhibit – consisting of a steriliser, a rinser and a filler featuring an isolator for aseptic filling of milk and milk-based drinks – provides a taste of what's to come.

The DLG (Deutsche Landwirtschafts-Gesellschaft e.V.) attests to KRONES' leadership in innovation by awarding the company the European FoodTec Gold Award at the Anuga fair. Our aseptic rainbow filler concept, which bottles and labels four different flavours of yoghurt smoothies or other dairy drinks at one time, earned us the honour.



Q3

A strong global economy puts even more wind into KRONES' sails. At the end of the third quarter of 2007, profits are up 14.5% on the previous year. The price wars have abated and the Executive Board is optimistic about the rest of the year.

KRONES celebrates fifty years of packing and palletising technology in Rosenheim on 1 July with an open house at the Rosenheim plant, which employs more than 900 of the group's 9,000 worldwide staff.

KRONES expects to gain significant competitive advantage from a cooperation agreement with Deutsche Leasing AG, Bad Homburg v. d. Höhe, Germany's leading manufacturer-independent movable equipment leasing company.



Some 50 participants from Germany, Switzerland, Austria, the Netherlands, and Scandinavia learn about the upgrades available for Contiform blow-moulding machines at KRONES' first in-house lifecycle symposium. The upgrades can increase machine performance and reduce energy consumption.

KRONES is honoured with the »iF product design award 2006« for the new machine design we unveiled at the drinktec 2005. The uniform design for our entire product range combines functionality, identity and ergonomics. It also receives the »red dot Product Design Award 2006«, one of the most coveted honours for sophisticated, innovative design.



Q4

As the fall trade fair season gets underway, demand for KRONES machines and lines for the beverage industry increases. We use occasions such as the Pack Expo in Chicago from 29 October through 2 November, the international packaging fair Emballage in Paris from 20 to 24 November, and, of course, the industry event of the year, the Brau Beviale in Nuremberg from 15 to 17 November to show off our latest innovations.

Our new corporate website www.krones.com goes live just in time for the Brau Beviale. A convenient industry menu makes it easy for users to access all the technologies, products, and services available for their needs.



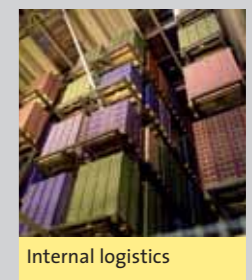
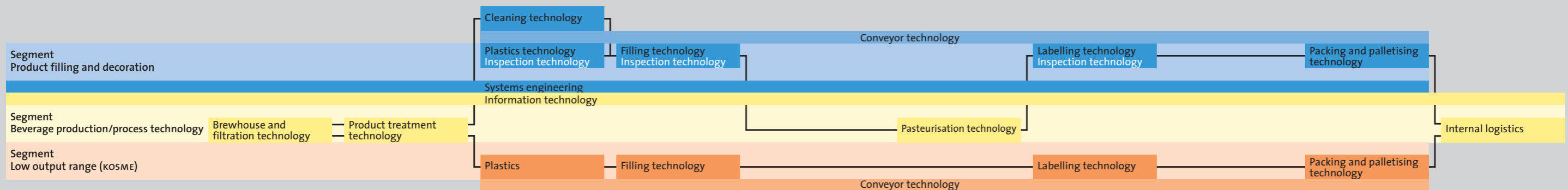
Demand for KRONES lines is high – and so is demand for the KRONES share.

The share price gathers renewed upward momentum in the last trading days of 2006 as investors reward KRONES for a successful year and acknowledge the company's prospects for continued growth.

KRONES at a glance

By focusing on making KRONES a systems supplier for the beverage and food industries, we are systematically aligning ourselves with our customers' needs. Our customers expect the highest levels of quality and technological sophistication of our machines and lines. They also expect us to have comprehensive knowledge of their production processes, so we can deliver the right solutions for their applications. Thus, intelligently combining individual building blocks forms the foundation for our success.

Constant innovation drives us forward, both in terms of fast and flexible development of new machines and products and in terms of the changes that are taking place within our company. Our employees attach great importance to improving all of the processes involved in our business to keep KRONES highly competitive. Our divisional organisation enables us to put all of our specialists to work in the best possible way to utilise their skills and to bundle their knowledge in each of our company's specialisations.



KRONES worldwide

KRONES has subsidiaries or representative offices in almost every country around the globe. These companies and offices provide our customers with local contacts who know all the ins and outs of their regional markets. Our local presence worldwide enables us to focus on individual customer needs – our regional representatives are close at hand for our customers and speak their language. KRONES focuses on global partnerships in which our customers can always count on the support of our specialists.

● Production sites





Volker Kronseder *1953
Chairman of the Executive Board
Personnel Management and
Social Affairs
Corporate Communications

Volker Kronseder, an industrial engineer and a son of company founder Hermann Kronseder, has been a member of the Executive Board since 1989. He became chairman of KRONES AG's Executive Board in 1996.

KRONES will utilise growth opportunities

Mr Kronseder, KRONES AG has grown strongly in the past few years. Will this growth continue?

Volker Kronseder: Continuing annual sales growth between 5% and 10% should be possible in the future. We operate in a sector that involves food and drink. Hunger and thirst are constants the world over that ensure rising demand for beverages. Add to that the fact that drinking water is becoming scarcer in some regions of the world. KRONES is especially well positioned to take on this situation with its machinery and equipment for producing and filling plastic bottles. In general, we are in the favourable position of supplying complete turnkey systems or even factories from a single source, including solutions for beer, water, juice, and dairy beverages. We are also advancing into new areas such as internal logistics and process engineering. We are going beyond beer, our traditional strength, in the area of product manufacturing. Our active involvement in all these fields will continue to ensure respectable growth rates for KRONES in the future.

What challenges does KRONES face in the years ahead?

Volker Kronseder: The market in which KRONES operates will remain highly competitive. Therefore, we have to continue to offer our customers better products and services than the competition. To do so, we have to continue to innovate in all of our segments and divisions. That means KRONES will continue to invest heavily in research and development. Our ability to utilize the opportunities presented by new regions and markets will also be crucial to our continued success. We are already positioned globally and are always expanding our network. For example, we established a new distribution company last year in China, where we also manufacture replacement parts.





There have been several mergers in the packaging industry in the past few years. Will this process of consolidation continue and how do you view this development?

Volker Kronseder: The consolidation of the industry has created a new competitive environment. Some of KRONES' competitors were bought out by groups with a lot of financial strength that can gain market share by pushing prices down. For this reason, we have to take this consolidation seriously and continually improve our own processes in order to remain competitive. I don't expect to see any major takeovers in the industry in the future – quite simply because Salzgitter's takeover of KHS leaves very few large independent companies in the field. But there are several small companies out there that could come under new ownership.

In KRONES publications, you often see the claim: »People are our key to success«. What developments do you see in personnel management, for which you are also responsible as Executive Board chairman?

Volker Kronseder: Highly qualified employees are critical for a company like KRONES. Various factors come into play. One is the German system of vocational education, which makes us the envy of many countries. It forms the very foundations of a young team. You need a good education if you want to be able to produce, service, and put into operation today's increasingly sophisticated machinery and equipment. Continuing education also plays an important role for us, and we offer instructional courses, management seminars, and project training. We strive to maintain continuing education in all areas to keep our older employees up to date with the latest technology. I believe that employees will stay with the company longer in the future. That presupposes continuing education measures, but it also requires that the company can make good use of the experienced workers. To do that, we must be and remain competitive. And that brings us full circle.



Hans-Jürgen Thaus *1949
Deputy Chairman of the
Executive Board
Finance and Accounting,
Controlling, Information
Management, and Process
Management

Mr Thaus is a graduate in
business administration and
commercial informatics and
has been deputy chairman of
KRONES AG's Executive Board
since 1997.

Doubling sales in 10 years

Let's look to the future. Where will KRONES be 10 years from now?

Hans-Jürgen Thaus: First I'd like to take a brief look back. Ten years ago, we wanted to double sales and improve earnings accordingly. And we did it. Let's recall that in 1996 our sales were €834m. In 2006, they were 2.3 times that. With the emphases that we are now pursuing, KRONES is in a position to double sales again in the next ten years and to make corresponding profits. I believe we will achieve our target margin of a 7% return on sales before taxes this year. When I look at the markets, the market environment, the competitive situation, and the internal measures we are pushing forward, it should even be possible to achieve a better margin in the medium term.

Return on capital is a performance indicator for KRONES. How do you plan to improve it?

Hans-Jürgen Thaus: Our target for ROCE (return on capital employed) – the ratio of earnings before interest and taxes (EBIT) to average net tied-up capital – is 20%. In 2006, our ROCE was 16.1%. In order to achieve our target, we want, as we mentioned earlier, to improve our earnings significantly. We also have to reduce the amount of tied-up capital, particularly working capital. To do this, we will streamline our inventories and further improve our receivables management.





One of KRONES' growth fields is process engineering. What is process engineering?

Hans-Jürgen Thaus: Process engineering includes, among other things, beverage production at the customer's site, whether beer, soft drinks, or milk. Then come internal logistics and, binding everything together, information technology, which enables us to visualise all these processes and operationally quantify them with a view to energy and water consumption. With process engineering, we are growing into a completely new area where our customers invest at least as much as they do in plant engineering.

Can you foresee how the market for process engineering will develop?

Hans-Jürgen Thaus: All indications are that process engineering, which means beverage production machinery, and internal logistics are growing faster than plant engineering has. KRONES' big advantage consists in the fact that we are already operating very successfully in those markets. Not one of our competitors supplies a full range from a single source. To date, only we offer a complete spectrum of process, systems, and information technologies. That means we have a unique business model.

Finally, how will KRONES finance this growth?

Hans-Jürgen Thaus: We intend to continue growing under our own steam. Our good liquidity situation and rising earnings make this possible. Our dividend policy provides that we distribute 20-25% of earnings to our shareholders. The rest of earnings will be retained because we have to finance our growth. This enables us to make the large investments we have planned without becoming dependent on banks. We also have enough in reserve to make acquisitions to enter our new target markets. Moreover, we have the option of using a capital increase to finance any exceptional growth opportunities that might arise.



Rainulf Diepold *1955
Member of the Executive Board
Sales and Marketing

Mr Diepold is a graduate in economics. He began an educational programme in sales engineering with KRONES AG in 1983 after completing his university studies and has been a member of the Executive Board since 1996.

Milk drinks on the shelf alongside cola

Mr Diepold, what trends will shape KRONES' sales activities in the future?

Rainulf Diepold: Let me first say that in the next hundred years, we will have more to do with the topic of food than ever before. Among food products, we at KRONES distinguish between solid foods and liquid foods. The latter, otherwise known as beverages, is the area that will grow the most. That is shown by a current study by Nestle, which concludes that the ratio of about 80% solid food to about 20% liquid food will shift to 40% liquid and 60% solid in the next five years. In other words, people will drink more and more. That will change the entire food segment.

That sounds very promising from KRONES' viewpoint. What effects will it have?

Rainulf Diepold: This shift in consumer behaviour will have effects in all segments of the beverage industry. Beer consumption will change, and new forms of soft drink and water consumption will emerge. There will be new milk drinks that are no longer kept in the refrigerated section of the supermarket, but as a soft drink on the shelf next to cola. There will be new creations in the soft drink segment, and we will encounter products in the milk and dairy world that have not even been invented yet. All that will be good for KRONES, because we will actively support our customers in developing these new markets with our systems and technologies.





What will that look like in detail?

Rainulf Diepold: We expect fundamental changes in some aspects of beverage packaging for beer and alcoholic beverages as well as for water, soft drinks, and milk. Glass packaging will still be used, but it will have a new image. Exclusive water in glass bottles will stand for high quality, as is already the case today in the restaurant segment. The beverage can will also be redefined. Resealable cans will require new technologies. The PET segment, which has been growing for a long time, has enormous growth potential. Flexibly designed bottles made of plastic will compete with boring cardboard packages, and we can supply all manner of equipment for their production, filling, and decoration.

What changes in customers will we see from the standpoint of sales?

Rainulf Diepold: What we are already observing worldwide is that the big markets, the discounters, are growing very fast in beverage sales. That is shown, for example, by the figures available for our home market. In Germany, big discounters already account for a phenomenal 27.28% of beverage sales. That figure was only 17% a year ago. Their share is even greater in the eastern part of Germany, having risen from 23% to over 45%. That also entails advantages for KRONES, of course. This trend, which is driven by consumers, is resulting in globalisation among beverage suppliers, our customers. They have to operate with minimal margins in business with discounters, and they can only do that if they produce huge volumes. For that, they need highly efficient production systems. That is where KRONES comes in. We not only have the necessary size and can cover everything in the beverage segment from process engineering to internal logistics. KRONES is also so profitable that we can make the appropriate investments in research to support, help shape, and advance the emerging trend toward liquid food.



Christoph Klenk *1963
Member of the Executive Board
Research and Development,
Engineering, and Product
Divisions

Mr Klenk is an engineering graduate who came to KRONES in 1994. His roles at KRONES have included regional head of sales for the Asia-Pacific region and he has been a member of the Executive Board since 2003.

When the modular idea spreads to all machines

Mr Klenk, what will the emphases of KRONES' future development activities be?

Christoph Klenk: One emphasis in plant and packaging systems will be consistent expansion of our filling technology expertise. We want to take account of all beverage trends that are emerging now or will in the future, including particularly the new soft drinks and milk drinks. Aseptic filling will of course play a crucial role. In this sensitive area, KRONES offers two basic technologies, wet sterilisation and dry sterilisation. Another emphasis of our development work will be packaging systems. As highly diverse new beverage trends evolve, packaging will be the means by which the many different products in the supermarket stand out and are differentiated.

What role does labelling technology play in this?

Christoph Klenk: Labelling technology has already undergone dramatic change in the past three years, moving away from paper labels in favour of self-adhesive labels. We have met this development with our modular technology, which makes extreme flexibility in bottle decoration possible. All major bottlers in the world have already invested in this technology or will do so.





Doesn't this ever greater differentiation in all machinery segments mean an increase of complexity?

Christoph Klenk: No, not at all. For example, at the last drinktec trade fair, we presented the prototype of the F1 filler, whose modular design enables it to perform the most essential filling tasks without our having to develop a corresponding machine for each application. Another example is our plastic blow-moulding machines for PET bottle production. They were developed according to that concept from the beginning. We will gradually transfer the modular idea to all other machinery lines. To bring them all up to this standard, we are relying on our experience in the fields of technology, materials management, manufacturing, and internal and external assembly.

What further challenges does KRONES have to face from a customer's standpoint?

Christoph Klenk: Our customers are increasingly demanding complete turnkey solutions. In the past, that has meant mainly plant and packaging technology. But today, it also very clearly includes process engineering, that is, beverage production and logistics for the complete flow of products up to loading on the truck. In particular, materials handling engineering, as we call internal logistics in-house, will gain new importance given the growing number of our customers' products. Five hundred different products is nothing unusual any more. Accordingly, our customers demand that the variety of products be loaded on the truck correctly routed and as efficiently as possible. So it's easy to imagine what highly complex warehousing strategies and solutions are needed to manage material flows.



Werner Frischholz *1951
Member of the Executive Board
Materials Management, Assem-
bly, Manufacturing, After-Sales
Service, and Quality Assurance

A graduate in mechanical engi-
neering and business adminis-
tration, Mr Frischholz was head
of the KRONES plant in Nittenau
from 1974 to 1997 and head of
the Materials and Process Man-
agement division from 1997 to
2002. He has been a member of
the Executive Board since 2003.

Shifting complexity to shorten throughput times

Mr Frischholz, KRONES has made great progress in productivity in recent years. Are further measures in that direction planned for the future?

Werner Frischholz: We have done some things at KRONES in the past to make our production competitive compared with foreign production, for example, in Eastern Europe or China. I think we have put the right ideas into practice. We have moved away from traditional task-oriented production to process-oriented production. We have taken up the component assembly idea in our systems, combined entire production units, and gradually introduced group work. This process is now largely complete.

We currently build systems at our customers' sites, which is very time-consuming. The strategy for the future is to shift this complexity to our internal assembly operation. Our efforts are aimed at performing final assembly and operational start-up of systems already at our plant. In the future, we will launch entire processes, for example, not just the filler machines, but the entire process technology surrounding them. At the same time, we will inject more complexity from internal assembly into production. This transfer of complexity will lead to shorter lead times or keep them at today's low level even if demands rise.





All new machine production and most replacement part production are done in Germany. Why is that?

Werner Frischholz: KRONES has great vertical depth of production. We have proven that we can compete with low-wage countries, especially in the parts spectrum that we serve. We have such great possibilities of in-house sourcing that in times like these, when the machine tool market is booming, we are not constrained by long waits for supplies. Otherwise, we might have problems meeting our own delivery deadlines.

How do things look regarding availability of materials, with prices having risen sharply due to the booming world economy?

Werner Frischholz: In fact, the sharply higher price of steel is just one of several factors, but the actual availability of materials is the crucial point. Because we have done well in our buying and selling operations, we have managed to avoid shortages. We have even helped some suppliers lacking our purchasing possibilities to obtain certain steel products.

By what criteria does KRONES select its suppliers?

Werner Frischholz: Very clear rules apply to KRONES' more than 5,000 suppliers. All of them had to apply to become suppliers through our web portal. We place special importance on their being certified. Furthermore, we conduct quality audits at our suppliers and enter into agreements with them in which, for example, we prescribe product features and measurements of delivery reliability. In this way, we ensure that KRONES obtains the appropriate quality.

The KRONES share

- Share hits new record high
- Share price up more than 33%
- Dividend increased from €1.40 to €1.60

After an impressive end-of-year rally, the KRONES share closed 2006 at a record high. A strong business trend and the prospect of continued growth gave shareholders a boost of 33.9%.

The stock markets in 2006

On the whole, the major international stock markets developed favourably in 2006. It didn't look like that would be the case back in the second quarter, when share prices took a beating as a result of high energy and raw material prices and the associated fears of higher interest rates. Strong corporate profits, waning fears of inflation, and high market liquidity were the main factors that allowed most of the indexes to end the year with strong gains after all. The DAX closed 2006 at 6,597, for a gain of 22% since the start of the year. The DAX made significantly more headway than the EURO STOXX 50, which climbed 15%. The MDAX made an outstanding gain of 28.6%. In the US, the Dow Jones advanced 16.7%. Japan's Nikkei index gained only 6.9%.

KRONES share price performance compared with the MDAX in 2006



Strong finish: Thanks to an incredible rally in the last trading days of the year, the KRONES share outperformed the MDAX in 2006.

Another record for the KRONES share

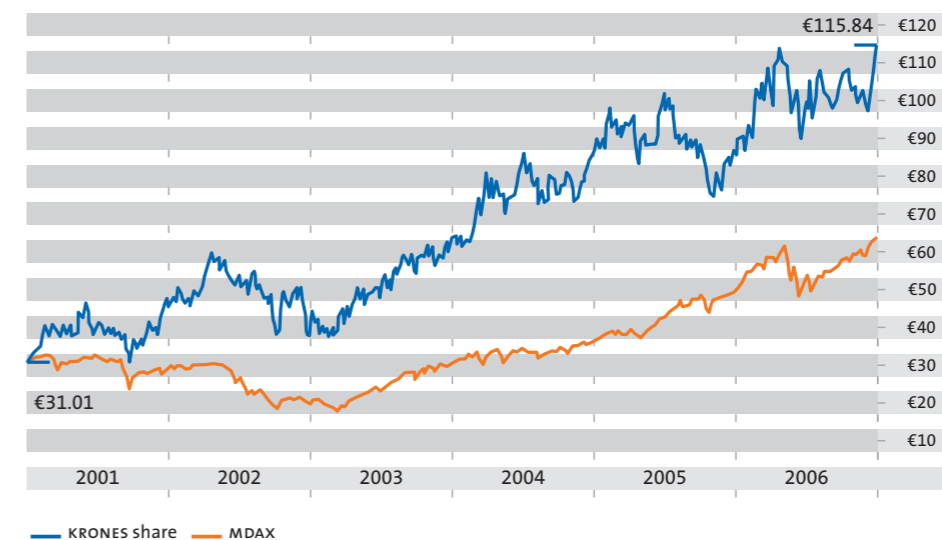
At first, the prospect of a successful year helped boost the KRONES share from €86 at the start of the year to €112 in April. But weak markets in May and June meant »return to go« for the share price. The KRONES share recovered as sentiment on the stock markets improved, but investors' fears that price pressures in the industry would continue prevented a sharp upturn.

Not until the end of the year did the share really take off. The first burst of momentum came from analyst comments pointing to the company's potential to further increase margins and its favourable ratings. In December alone, the share price climbed more than 16%. All told for the year, the KRONES share rose 33.9% in 2006 to €115.84. That means it did even better than the MDAX. The share's price trend was also exceptional compared with industry peers. The Prime Industrial – Deutsche Börse AG's industry index that includes the shares of machinery manufacturers – rose by only 18.6%.

Over the past few years, the markets have rewarded our steadily rising profits and dividends and the conversion of our preference shares to ordinary shares. The KRONES share outperformed the MDAX by a wide margin.

The KRONES share closed 2006 at €115.84, for a gain of 33.9% over the start of the year.

KRONES share price performance compared with the MDAX from 2001 to 2006



Key figures for the KRONES share

	2006	2005
Number of shares (million)	10.53	10.53
Price/earnings (PE) ratio	16	14
Cash flow per share	€ 12.09	10.45
Equity per share	€ 59.71	54.32
Earnings per share	€ 7.34	6.01
High	€ 115.84	103.99
Low	€ 86.49	71.98
Year's closing price	€ 115.84	85.11
Dividend per ordinary share	€ 1.60*	1.40

* As per proposal for profit appropriation

The KRONES share on the German stock exchanges

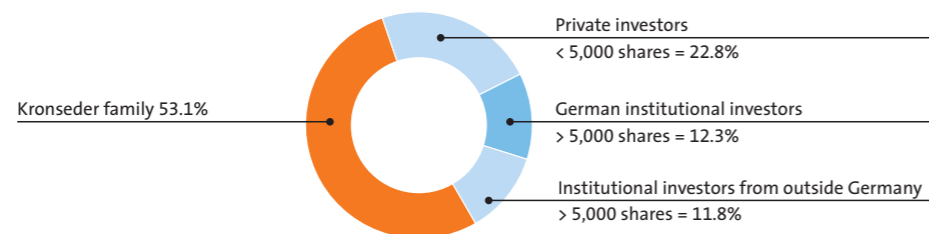
KRONES stock has been listed on the stock exchanges of Frankfurt, Munich (official trading), Berlin, Düsseldorf, Hamburg, Hanover, and Stuttgart (over the counter) since 29 October 1984. In fiscal 2006, 5.7 million KRONES shares were traded on the German stock exchanges. The daily trading volume averaged 23,026 shares. In 2005, a total volume of 3.2 million KRONES shares were traded, for a daily average of 14,321 shares. Besides the MDAX, KRONES is also included in, among others, the German Entrepreneurial Index GEX.

At 5.715 million for 2006, the total trading volume of KRONES shares on the stock exchanges was up sharply from 2005.

Shareholder structure

KRONES AG's capital stock remains unchanged at €26.92m and is divided into 10,531,024 shares. Free float is at 46.9% (4,941,077 shares), and voting rights held by the Kronseder family correspond to a capital share of 53.1% (5,589,947 shares).

Shareholder structure (as of February 2007)



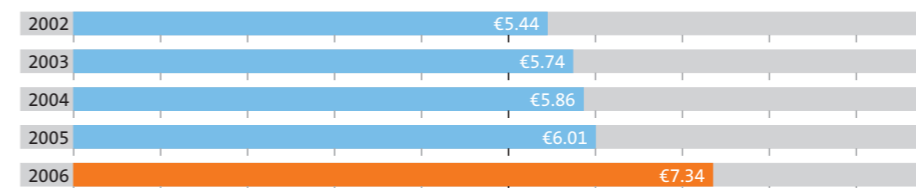
According to a survey conducted on 18 January 2006, investors owning stakes of less than 5,000 shares each hold 22.8% of KRONES stock (2.40 million shares). Twenty-three German investors holding stakes in excess of 5,000 shares own 12.3% of our stock (1.30 million shares), and foreign investors from the United States, Canada, and other European countries holding stakes in excess of 5,000 shares own 11.8 % of KRONES stock (1.24 million shares).

Earnings per share climbs to €7.34

Earnings per share came to €7.34 for 2006. Earnings per share are calculated by dividing KRONES AG's share of consolidated net income for the year by the weighted average of shares outstanding.

Earnings per share improved 22.1% to €7.34 (previous year: €6.01).

Earnings per share



HGB through 2003, IFRS from 2004 onward

Dividend increased once again

The Executive Board of KRONES AG will propose to the annual shareholders' meeting on 20 June 2007 a dividend of €1.60 per share. This will be the eighth dividend increase in a row and corresponds to a total dividend increase of 14.3% over the previous year. Thus, our dividend has gone up at an annual average rate of 20% since 1999. Based on our share price of €115.84 at the end of trading on 29 December 2006, the dividend yield comes to 1.4%.

Analysts tracking the KRONES share

Seventeen analysts from banks in Germany and abroad are regularly tracking our share. The overwhelming majority of the analysts took a positive view of our share at the end of 2006. Only one analyst recommended selling our share.

Key data for the KRONES share

Ordinary shares	10,531,024
German securities identification number (WKN)	WKN 633500
ISIN	DE0006335003
Ticker symbol	KRN

Intensifying investor relations

We deepened our dialog with investors and analysts in 2006. We presented the company at 12 road shows in Germany and abroad. KRONES management held some 100 individual meetings with analysts and investors. Besides our traditional analyst conference following publication of our financial statements, KRONES also participated in seven investor conferences around the world in 2006.

The new KRONES website went live on 16 November 2006. The Investor Relations section of our website offers shareholders comprehensive information, including financial reports, important figures, current news, information about the share and our shareholder structure, and key dates on our financial calendar.

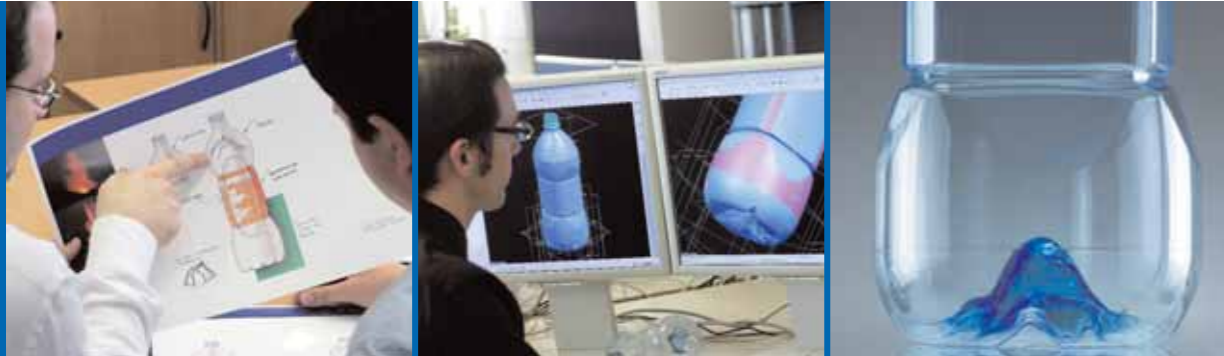


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Design is more than a formality

Container design plays a crucial role in the successful launch of a product. That's why, at KRONES, container development is an in-depth process carried out in collaboration with our customers. It begins with a few hand-drawn sketches and ends with a final PET container design that's ready for production. In the process, we take into account both marketing and technical requirements.

This precise development process is key to our customers' success at the point of sale.

Added value





On the fast track to profitability

Market analysts expect the use of PET bottles to continue to grow by around 10% each year. In just a couple of years, PET will have surpassed glass bottles and aluminium cans as the container of choice.

And KRONES is making this megatrend profitable for our customers. The KRONES Contiform stands head and shoulders above the competition in terms of lower energy consumption, more cost-effective maintenance, and fewer wear parts. For our customers, that means a faster return on their investment.

Added value



Disclosures required under §§ 289 (4) and 315 (4) of the German Commercial Code (HGB)

Pursuant to §4 (1 and 2) of the articles of association, KRONES AG's share capital amounts to €26,922,135.36 and is divided into 10,531,024 ordinary bearer shares.

Pursuant to § 20 (1) of the articles of association, each share entitles its holder to one vote in the annual shareholders' meeting. Unless mandatory provisions of the law stipulate otherwise, resolutions of the annual shareholders' meeting are made with a simple majority of the votes cast or, in cases in which the law prescribes a majority of shares in addition to a majority of votes, with a simple majority of the share capital represented in the vote.

Pursuant to § 18 of the articles of association, only those shareholders who register with the company in writing in German or English and provide proof of their shareholding prior to the annual shareholders' meeting are entitled to participate and vote in the annual shareholders' meeting. A special written document confirming the shareholding, issued in German or English by the institution with which the investment account is held, constitutes sufficient proof. This document must refer to the start of the 21st day prior to the annual shareholders' meeting.

Pursuant to § 18 (2) of the articles of association, votes may be cast by proxy. Proxy voting is permissible only if proof of authorisation is submitted in writing, in electronic form pursuant to § 126 a of the German Civil Code (BGB), or in the form of a printed fax. In the annual shareholders' meeting, the meeting's chair can set appropriate time limits for shareholders' questions and comments (§ 19 (3) of the articles of association).

The Executive Board of the company is not aware of any other restrictions relating to voting rights or the transfer of shares.

The compensation report summarises the principles used for determining the compensation of the Executive Board of KRONES AG and explains the amount and structure of Executive Board remuneration. The report also describes the principles and amounts of Supervisory Board compensation.

The company is aware of the following direct and indirect shareholdings in the company's capital that exceed 10% of the voting rights:

Name	Direct share of voting rights, in %
Beteiligungsgesellschaft Kronseder mbH	14,59
Volker Kronseder	10,12
Norman Kronseder	10,34
Harald Kronseder	10,12

At 23 January 2007

Changes to the shareholdings listed above may have occurred since the date cited above that are not required to be reported to the company. Because the company's shares are bearer shares, the company is generally only aware of changes in shareholdings if these changes are subject to reporting requirements. The compensation report constitutes part of the consolidated management report.

The appointment and dismissal of Executive Board members is governed by §§ 84 and 85 of the German Stock Corporation Act (AktG). Pursuant to § 6 (1) of the articles of association, the Executive Board consists of at least two members. Pursuant to § 6 (2) of the articles of association, determination of the number of Executive Board members, appointment of regular and deputy members of the Executive Board, execution of their employment contracts, and revocation of appointments are done by the Supervisory Board.

Amendments to the articles of association are subject to the provisions of §§ 179 et seq. of the German Stock Corporation Act. Such amendments are to be resolved by the annual shareholders' meeting (§119 (1) No.5 and §179 (1) of the German Stock Corporation Act). The Supervisory Board is authorized to make amendments that affect only the wording of the articles of association (§13 of the articles of association).

Pursuant to §4 (4) of the articles of association, the Executive Board may, with approval of the Supervisory Board, increase the share capital by a total of up to €10m through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 31 May 2007. The annual shareholders' meeting on 21 June 2006 passed a resolution authorising the company to buy and sell treasury shares totalling up to 10% of the current share capital on its behalf up to and including 20 December 2007. The annual shareholders' meeting on 21 June 2006 passed a resolution authorising the Executive Board, with the approval of the Supervisory Board, to call in treasury shares of KRONES AG acquired on the basis of the above authorisation without a further resolution by the annual shareholders' meeting.

KRONES AG has not made any material agreements containing special provisions relating to a change or acquisition of control following a takeover offer.

The company has not made any agreements with members of the Executive Board or company employees relating to compensation in the event of a takeover offer.

Economic environment

- Strong global economic growth
- Better-than-expected growth for machinery manufacturing in Germany
- Increased demand for packaged beverages

Global economy continues on growth course

At 5.1%, global economic growth in 2006 outperformed not only the previous year's rate of 4.4% but also optimistic forecasts.

The global economy was in excellent shape once again in 2006, despite some disruptive factors. Oil prices reached new highs, sharp declines on the world's stock exchanges shook the financial markets in spring, and interest rate hikes threatened to dampen previously positive economic sentiment. Nevertheless, at 5.1%, global economic growth in 2006 outperformed not only the previous year's rate of 4.4% but also optimistic forecasts. Thus, 2006 was the fourth growth year in a row for the global economy.

In the US, the world's largest economy, gross domestic product increased 3.4% in 2006 (2005: 3.2%) despite a temporary slackening of momentum. Japan also developed well again in 2006, with GDP growth holding steady at the previous year's rate of 2.8%.

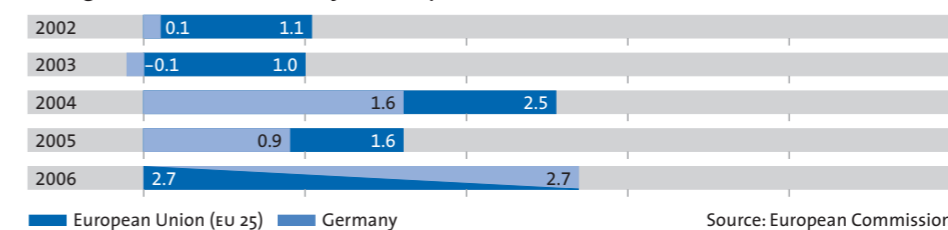
China continued to boom. At 10.6%, the country's economic growth outpaced its 2005 rate of 10.2% despite tighter monetary policy there. The other emerging markets of Southeast Asia also grew at a brisk pace. India did particularly well, maintaining its upward momentum and growing GDP by 6.7%. Burgeoning economies like Russia also kept up a rapid pace. Russia's economy gained 6.7% in 2006. The countries of Latin America also regained momentum.

Unlike in previous years, euro area countries also participated in the global upswing in 2006. Real economic growth within the European monetary union was 2.7% in 2006, almost double the 2005 rate (1.4%).

The German economy grows 2.7%

The German economy grew more in 2006 than in each of the previous six years. Driven by increased capital spending on the part of German industry and a rise in private consumption, Germany's GDP grew 2.7% adjusted for price inflation. In 2005, GDP growth was a mere 0.9%. Thus, the economy far outperformed forecasts predicting up to 1.7% growth, which had been deemed optimistic at the start of 2006.

Change in GDP, in % (Germany vs. European Union)



»The world's export champion is now also a force driving the world's economy«, says Michael Glos, Germany's Economic Minister, about the German economy's new role after years of lagging behind the rest of Europe. Last year, German companies sold 13.7% more goods abroad than in 2005. Although imports increased even more sharply, 16.5%, a record surplus of €161.9bn secured Germany the title of »export world champion« in goods trade for the fourth consecutive year, putting Germany ahead of the United States, China, and Japan.

Germany's economy is ready for takeoff. »The world's export champion is now also a force driving the world's economy«, says Michael Glos, Germany's Economic Minister, about the German economy's new role after years of lagging behind the rest of Europe.

Private consumption, which accounts for nearly 59% of Germany's GDP and has been a cause for concern in previous years, finally got off the ground in 2006. For the first time since 2001, private consumption was up by a noteworthy 0.6%

This uptrend also affected the labour markets. The number of gainfully employed individuals increased 0.7% to 39.1m on average for the year – more than in each of the past six years. The employment rate had even declined 0.1% in 2005.

Another result of this strong growth was a 6.2% increase in tax revenues. At the same time, the German government's net new debt decreased by around €33bn to €39.5bn. The debt ratio was 1.7% of GDP. Thus, Germany met the deficit criteria of the European Stability and Growth Pact, which stipulates a maximum limit of 3.0%, for the first time since 2001.

Machinery sector sees orders boom

German machinery and industrial equipment manufacturers did better than expected in 2006. The steady rise in orders that began at the start of 2006 and was driven in part by growing domestic demand for the first time prompted the German Engineering Federation (VDMA) to revise its forecasts for 2006 upward several times. In February 2006, the VDMA was still forecasting 2% growth. At the end of May it raised its prediction to 5%. And in December the VDMA was expecting a real increase in output of 7%. At the end of 2006, German machinery and industrial equipment manufacturers reported a 7.4% increase in output to €158.4bn. Domestic demand accounted for around one-quarter of this figure.

*»The machinery sector is in a very good situation right now.«
Dieter Brucklacher, President of the German Engineering Federation (VDMA)*

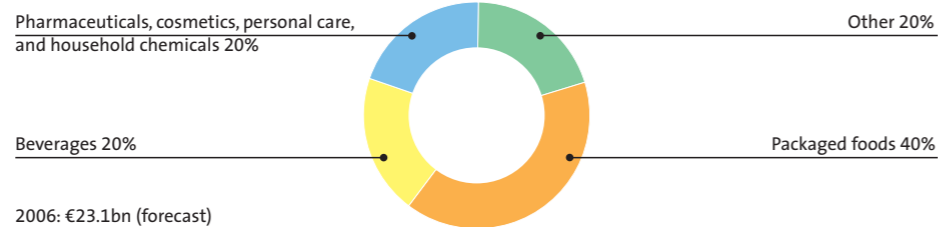
Germany's machinery sector employs 880,000 people and is the country's largest industrial employer – and it has become a driving force behind the economic recovery in Germany. »The machinery sector is in a very good situation right now,« says Dieter Brucklacher, President of the VDMA.

The market for packaging machinery is growing steadily

With our beverage bottling lines, KRONES operates within the global market for packaging machinery, which had a volume of €23.1bn in 2006 and is growing steadily at about 3% each year. The beverage industry accounts for one-fifth of this market. The food industry accounts for the largest portion of the market, around 40%. The chemicals, pharmaceuticals, and cosmetics industries combined make up around 20% of the market.

The beverage segment is KRONES' most important market, where we generate 77% of our revenues, primarily with breweries, soft drink producers, and mineral springs. The other 23% of our revenues come from the sale of lines and solutions to companies in the food, chemicals, pharmaceuticals, and cosmetics industries. The strongest demand for packaging systems for the beverage industry is from breweries, soft drink producers, and water bottlers in the countries of North and Central America, with the United States topping the list. Japan and China, the world's second and fourth-largest economies, follow the Americas in terms of demand for packaging machinery, ahead of the countries of Western and Central Europe. While growth rates in the established markets of North America and Europe are now very low, demand in the countries of Asia is growing by as much as 9% each year.

The global market for packaging machinery by application



The market for packaging machinery is growing at an annual rate of around 3%.

Demand for beverages continues to rise

Global consumption of packaged beverages increased 3.8% to more than 804bn litres in 2006. For KRONES, the steady rise in demand means stable growth of the market for lines and solutions for the production, bottling, and packaging of beverages.

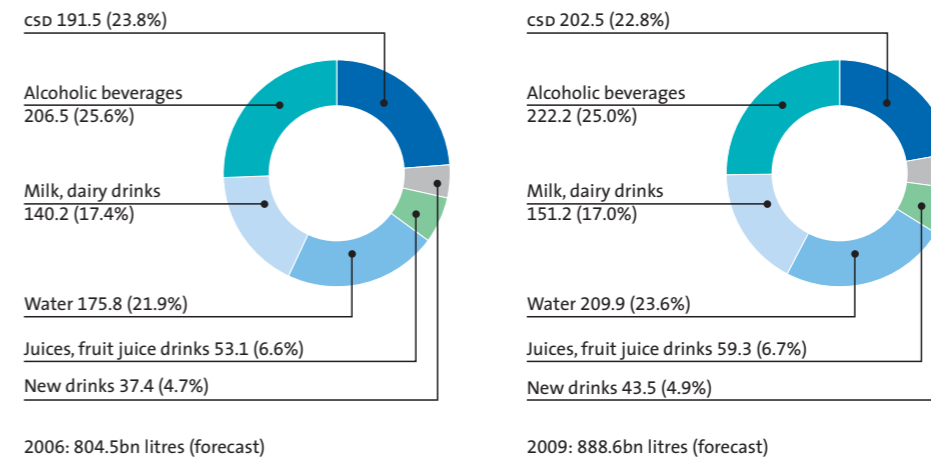
Carbonated soft drinks were the most popular thirst quencher in 2006. These products accounted for 23.8% of packaged beverages consumed, ahead of water (21.9%), beer (20.2%), and milk (15.4%). Fruit juices make up 6.6%, and wines and other alcoholic beverages constitute only a small portion of the market, 3.2% and 2.2% respectively.

We follow future trends very closely because they are crucial to KRONES' sales orientation. The average annual growth rate forecast for global beverage consumption through 2009 is 3.4%. Global consumption of beer and milk will grow at slightly slower rates of 2.7% and 2.1% annually. However, looking at the dairy market as a whole and the small share of milk-based drinks that are currently bottled in PET, and at the clear trend toward flexible PET packaging options in the industry, the potential for our systems in this market is much greater. This is why we are giving special attention to the growth markets.

Water is one of the most promising markets, offering high potential for our beverage bottling lines and annual growth rates of 6.1%. We also see great potential in the development of special products like energy and sports drinks. At 0.3% and 1.3% respectively, their share of global consumption is still extremely small. But annual growth rates of 8.4% and 5.8% suggest that we can expect them to generate correspondingly high demand for our specialised lines and solutions. The same is true of milk drinks, which currently account for 2.0% of consumption and are growing at 6.0% annually. In absolute terms, consumption of alcoholic beverages will also increase through 2009, but their share of the overall market will shrink.

Water is one of the most promising markets, offering high potential for our beverage bottling lines and annual growth rates of 6.1%.

Global consumption of industrially packaged beverages, in billions of litres, 2006 and 2009



Packaged beverages in billions of litres/in %	2006		2009		Annual growth, in %
	bn	%	bn	%	
Central Europe	52.3	6.5	54.2	6.1	1.2
Western Europe	132.7	16.5	141.3	15.9	2.1
Eastern Europe	31.4	3.9	33.8	3.8	2.5
Russia/Central Asia	38.6	4.8	45.3	5.1	5.5
North America (us, Canada, Mexico)	180.2	22.4	187.5	21.1	1.3
South America	127.9	15.9	143.1	16.1	3.8
China/Japan	116.7	14.5	137.7	15.5	5.7
Asia-Pacific	80.5	10.0	93.3	10.5	5.1
Africa/Middle East	44.2	5.5	52.4	5.9	5.8
Worldwide	804.5		888.6		3.4

Sources: Euromonitor, company's own research

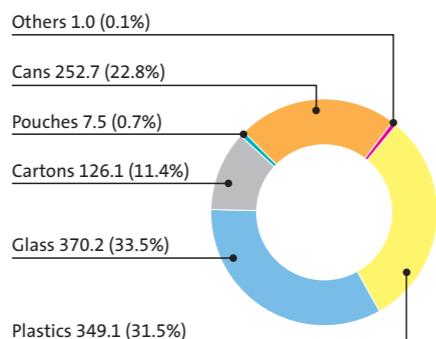
The trend in packaging is toward plastic

PET is the most rapidly growing packaging material for beverages. Although 43.6% of the carbonated soft drinks that are consumed most heavily worldwide are still packaged in cans, PET bottles already account for 35.1% while glass bottles account for 21.3%. In the case of beer, the ratio of glass bottles to cans is 67.7% to 30.6%, while PET's share is a mere 1.4%.

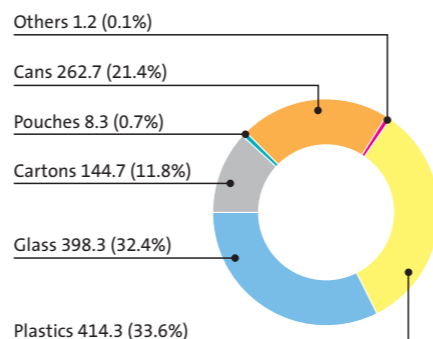
In the case of water, the opposite is true. While 85.3% of the packaged water consumed worldwide is in plastic bottles, only 13.0% is bottled in glass. Cartons currently dominate the milk (69.3%) and fruit juice (41.6%) markets, but plastic bottles are also a strong presence, with shares of 23.6% and 25.9%.

Beverage packaging materials worldwide, in units, 2006 and 2009

PET will have the highest growth rates among beverage packaging materials in the years ahead.



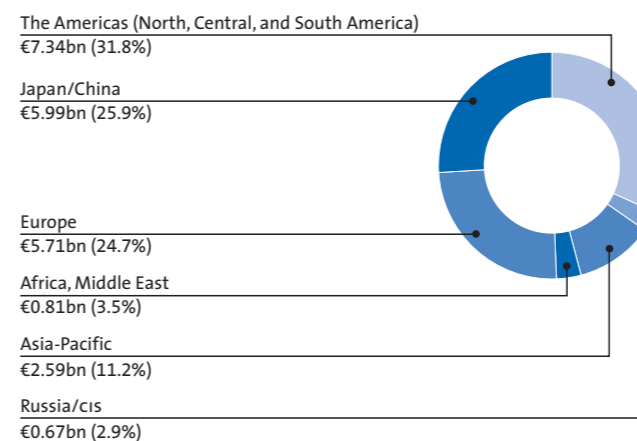
2006: 1,106.6bn units (forecast)



2009: 1,229.5bn units (forecast)

All told, glass is still the preferred beverage packaging material, with a solid one-third of the market (33.5%). This share will shrink to 32.4% by 2009. The beverage can will also lose market share, going from 22.8% to 21.4%. Beverage cartons will grow somewhat, from 11.4% to 11.8%. But PET bottles will experience the highest growth rates in the future. By 2009, this type of beverage packaging will increase its share of the overall market from 31.5% to 33.6%. KRONES has been focusing on PET for years and will benefit from this trend for many years to come. In 2006, more than three-quarters of our sales revenues came from the PET segment.

The global market for packaging machinery in 2006 by region, in €bn



2006: €23.11bn

Growth markets around the globe

More and more sales markets are developing for KRONES around the world. In China in particular, we see great potential for our beverage filling lines and packaging machinery as the country's vigorous economic growth is reflected in beverage sales.

Beverage sales are also growing rapidly in other regions, like Central Asia, Russia, and Eastern Europe, on the back of strong economic momentum. Water is an increasingly important product in these burgeoning economies.

The following is a review of developments in regions that are important to KRONES.

China and Japan

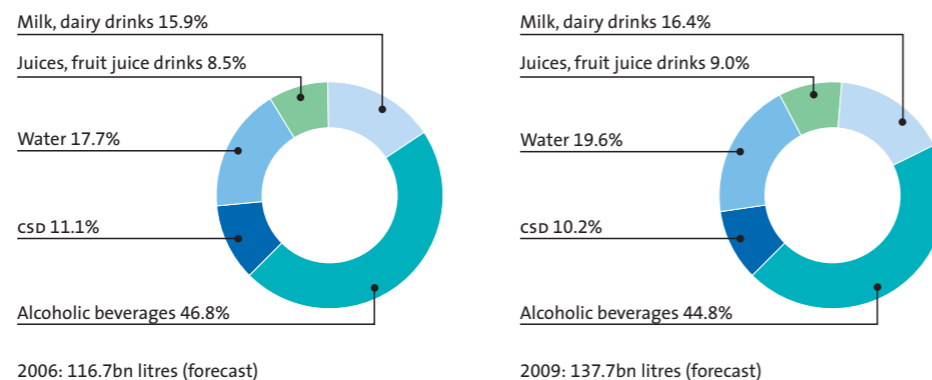
The portion of the Chinese market for beverage filling lines that is accessible to Western companies totalled €200m in 2006. KRONES was able to secure a €75m share of this market.

China and Japan form a single sales region for us. China is one of the most rapidly growing economies in the world. So it is hardly surprising that beverage consumption is also on the rise there. Forecasters predict that the beverage market will grow 5.9% annually in the years ahead. KRONES does not have a production site for new machines in China and does not plan to have one in the future. However, we did establish our own distribution company in Taicang in November 2006.

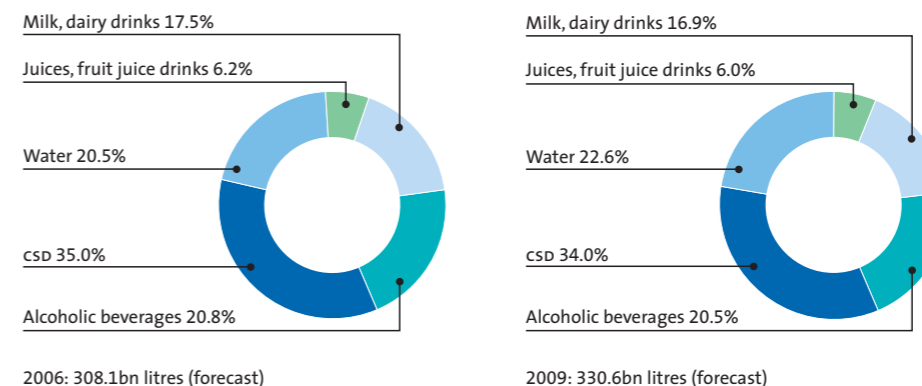
Rising demand for packaged beverages is driving the market for bottling and packaging lines. In 2006 the beverage machinery market in China totalled €700m, but the portion of that market that is accessible to Western companies was just €200m. KRONES was able to secure a large portion, €75m, of this. Our sales in China consisted almost exclusively of complete lines, very few individual machines.

Beer dominates the Chinese beverage industry with a share of 38.5%, followed by water with 17.7%. Carbonated soft drinks and milk occupy 11.1% and 10.5% of the market, respectively. According to a government development programme, milk production is to grow by 8% on average over the next several years – and KRONES is the world leader in aseptic filling, which is crucial to packaging milk. Alongside water, which is growing at 9.5%, milk drinks and fruit juices have the highest growth rates.

Beverage consumption in China and Japan in 2006 and 2009



Beverage consumption in the Americas (North, Central, and South America) in 2006 and 2009



The Americas

North America

North America is not only the world's leader in terms of demand for packaging systems. The region of North and Central America also has the world's highest beverage consumption. Though the market is largely saturated, the high volume and the sharp growth curve for bottled water make this an attractive region. Water's share of total beverage consumption in the region was 17.7% in 2006. With a growth rate of 5.4%, this product segment is by far the most dynamic. PET bottles are also gaining ground in the region.

Water was in fourth place, with a 17.7% share of total beverage consumption in North America in 2006. But with a growth rate of 5.4%, it is by far the most dynamic segment.

Total beverage consumption in the entire Americas region (North, Central, and South America) was 300bn litres. Of that, the lion's share – more than one-third – was carbonated soft drinks.

South America

In South America, beverage consumption is likely to grow by just under 4% on average in the next few years. Alongside soft drinks, beer is very popular in the region, accounting for just less than one-fifth of total beverage consumption. Mexico's beer market is dominated by just two breweries.

With rates of more than 6%, water is by far the fastest growing segment in South America.

On the whole, beverage consumption in the region is expected to increase from 128bn litres today to 143bn litres by 2009.

Water was the fastest-growing beverage in the Middle East and Africa, at 9.4%. With a 19.3% share of total consumption, it is the second-most popular beverage in the region.

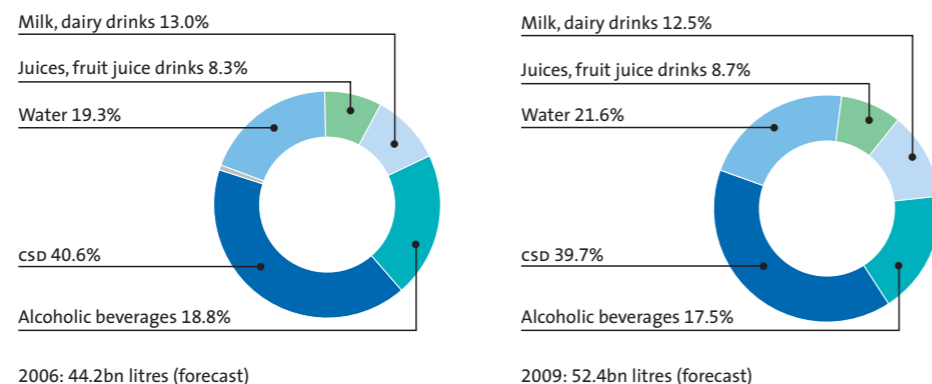
Middle East and Africa

This region is one of the smallest beverage markets, with total consumption of 44.2bn litres. But its growth rates of 5% for packaged beverages are not bad by international comparison. With a share of 40.6%, carbonated soft drinks are the top beverage segment in Africa and the Middle East.

At 9.4%, water is the fastest growing beverage and accounts for 19.3% of total beverage consumption, making it the second-most popular packaged beverage. Alcoholic beverages are close behind water, with a share of 18.8%, but alcohol consumption is expected to decline. Plastic bottles, which are still on equal footing with cans, are becoming increasingly popular in the region.

The Middle East and Africa Region is marked by several trouble spots. Wars like those in Iraq and Afghanistan and conflicts like the one in Somalia make planning difficult. In addition, delivery times are subject to delays in crisis areas. Nevertheless, the Middle East and Africa still represent an attractive market for KRONES.

Beverage consumption in Africa and the Middle East in 2006 and 2009



Europe

Western Europe

At 6% annually, milk-based drinks are the fastest-growing packaged beverages in Western Europe.

Consumption of packaged beverages is also on the rise in the Old World. With 132.7bn litres in 2006, Western Europe held second place for volume worldwide behind North America – and ahead of China. The Western European market is expected to grow to 141.3bn litres by 2009. Although the rate of growth in Western Europe is far lower than that in China, the region will still be ahead of China in terms of volume two years from now.

The global trend toward bottled water has advanced the furthest in the countries of Western Europe. Water, which is primarily packaged in plastic bottles, already accounts for 30.9% of total beverage consumption in the region – and it continues to grow 3.9% per year. Milk follows water with a share of 20.8%, ahead of soft drinks (17.5%) and beer (14.6%). Beer sales are on the decline. At 6% annually, milk-based drinks are the fastest-growing packaged beverages in Western Europe.

Central Europe

The situation in Central Europe is very similar to that of Western Europe. Here, too, water is the No. 1 beverage, with a share of 25.1%. Beer consumption is stronger here than in Western Europe, with a 22.9% share, but it is stagnating or even declining, as are carbonated soft drinks (19.0%) and milk (15.2%). Only water (2.7%) and milk drinks (4.7%) are growing.

Producers in Germany are investing heavily in plants for single-use PET bottles following the passage of new legislation relating to deposits on single-use bottles. KRONES has always remained loyal to Germany as a business location and is now reaping the benefits of the economic upswing there.

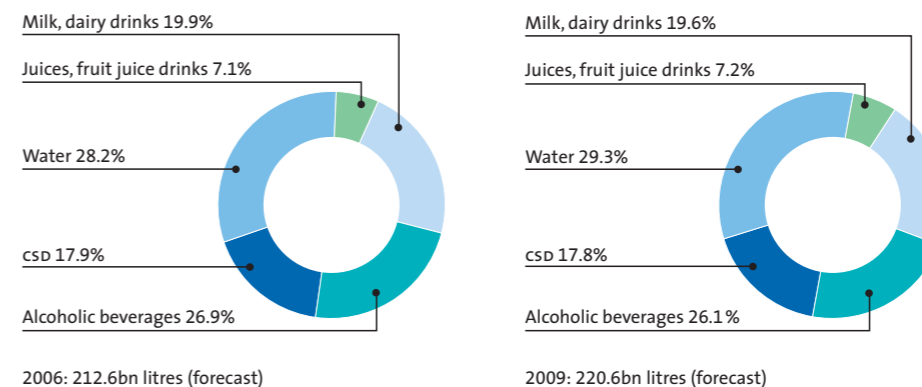
KRONES has always remained loyal to Germany as a business location and is now reaping the benefits of the economic upswing there.

Eastern Europe

KRONES is also very well positioned in the rapidly growing region of Eastern Europe. The PET segment is the driving force behind growth in all areas. A characteristic example of this trend is the Croatian Lura Group's conversion of all of its production from cartons to PET last year at its dairy subsidiary Somboled in Serbia.

Total beverage consumption in Eastern Europe will grow from 31.4bn to 33.8bn litres by 2009.

Beverage consumption in Europe in 2006 and 2009



Beer remains the most popular beverage in Eastern Europe, with a share of 30.9% and forecast growth rates of 1.7% annually. But, here too, water is the fastest growing beverage, with annual growth rates of 6.3%. Water's share of total consumption is currently 21.7%. The smaller milk drinks segment is also growing at 4.5% on average each year. Soft drinks and milk have shares of 17.7% and 13.6% and both are expected to lose momentum in the future. Nevertheless, total beverage consumption in Eastern Europe will grow from 31.4bn to 33.8bn litres by 2009.

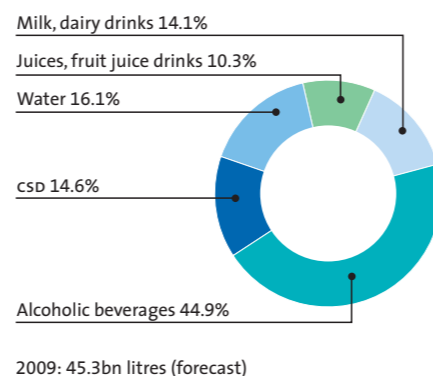
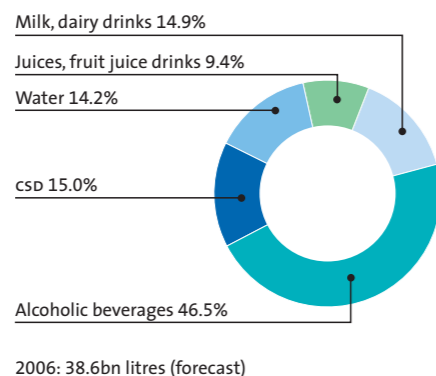
Russia and Central Asia

In Russia and the countries of the former Soviet Union, beer consumption accounts for 34.9% of total consumption of packaged beverages. That is the highest share for beer worldwide.

KRONES enjoyed a boom in orders in Russia in 2006. The strong demand resulted from the country's robust economic development on the one hand and from accelerated capital spending on the part of our customers in Russia due to new tax legislation on the other. Companies pushed investments forward ahead of an import tax that is to take effect in 2007. Nevertheless, we expect this region to continue to grow well in the future because the new tax legislation applies only to Russia. The other CIS states are unaffected by the change. Total beverage consumption was 38.6 billion litres in 2006 and is expected to increase by more than 6 billion litres – or 17.3% – by 2009.

Alcoholic beverages top the list in this region. In Russia and the countries of the former Soviet Union, beer consumption accounts for 34.9% of total consumption of packaged beverages. That is the highest share for beer worldwide. With beer consumption growing at an annual rate of 5.3%, this will continue to be the case in the future. Soft drinks (15.0%), milk (14.3%), and water (14.2%) follow beer with roughly equal shares. Of these, water has the highest growth rate, 9.9%. Fruit juices, which account 9.4% of consumption, are growing at 8.7%.

Beverage consumption in Russia and Central Asia in 2006 and 2009



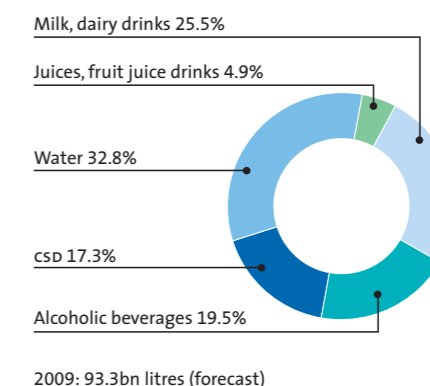
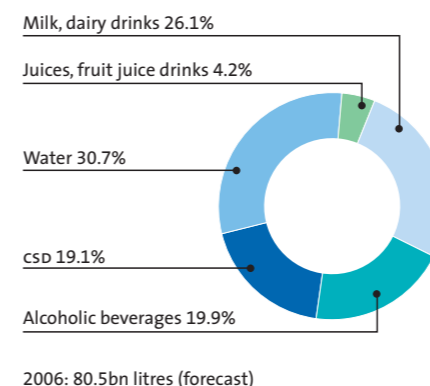
Asia-Pacific

Packaged beverages are growing at average rates of 4.9% per year in Asia (excluding China and Japan). Water has the highest growth rate (7.2%) and the largest share of overall consumption (30.7%). Milk, which accounts for 21.3% of total consumption, is growing at an average rate of 5.7% each year. Milk has its highest regional market share here, as do milk drinks, which make up a share of 5.4% beverage consumption in the region.

Nearly one-quarter of the packaged beverages consumed in the Asia-Pacific region are milk or milk drinks.

Consumption of packaged beverages will see strong growth in the region in the years ahead and is expected to increase by more than 10 billion litres from the current 80.5 billion litres by 2009.

Beverage consumption in the Asia-Pacific region in 2006 and 2009



Sources: Euromonitor international, company's own research

KRONES in figures

- Sales up 12.7% year-on-year to €1,910.8m
- New record profit of €77.5m
- Cash and cash equivalents total €57.7m

KRONES achieves record figures for the seventh year in a row

KRONES continued to achieve impressive growth in 2006, with new records in sales, new orders, orders on hand, and earnings. For the seventh year in succession, we demonstrated our outstanding position in the industry.

Sales up 12.7 percent

At €1,910.8m, consolidated sales were up 12.7% in 2006 over 2005. Several factors contributed to this sharper-than-expected increase. Our business benefited from economic growth worldwide and from increased capital spending in Germany. Companies in Germany had been putting off investments for the past few years because of uncertainties relating to the new container deposit system there. Demand for lines for bottling water in PET remained high in the US, and the strong trend toward PET also held steady in Western Europe. Thus, our innovations in PET have once again paid off. We also received large orders from burgeoning markets like Russia.

A quarterly breakdown of sales reveals an exceptionally strong fourth quarter. From October through December 2006, KRONES generated sales of €570.4m, 17.0% more than in the same period of 2005. Sales for the first three quarters were €451.6m, €468.8m, and €420.0m.

Consolidated sales, in € m



HGB through 2003, IFRS from 2004 onward

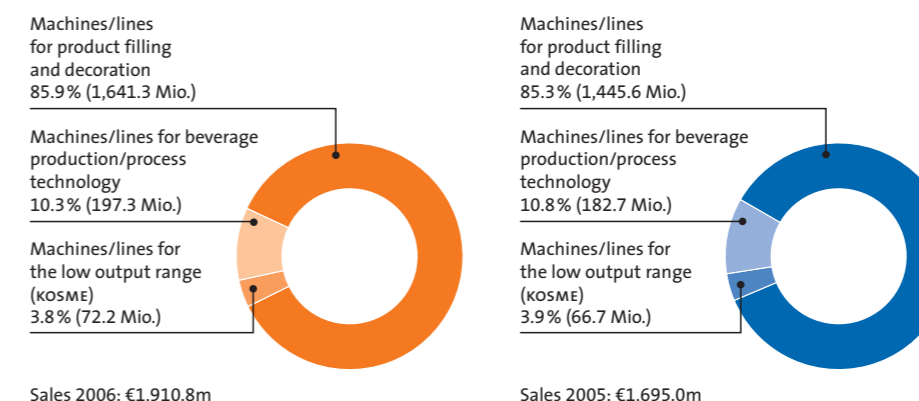
We are pleased to report that strong domestic demand in Germany also contributed to the sharp increase in sales.

Sales by segment

»Machines and lines for product filling and decoration,« our largest and most profitable segment, generated €1,641.3m in sales in 2006, 13.5% more than in 2005. The segment increased its share of consolidated sales to 85.9% (2005: 85.3%). Our »machines and lines for beverage production/process technology« segment increased sales nearly 8% to €197.3m. KOSME, our smallest segment contributing 3.8% of total sales, increased sales 8.4% to €72.2m.

Further information can be found in the section »reports from the segments and divisions«, which begins on p. 68, and under segment reporting on p. 12 of the financial statements.

KRONES GROUP sales breakdown by segment, in € m



Machines and lines for product filling and decoration, our most profitable segment, gained even more importance in 2006.

Sales by region

In Germany, sales climbed a solid 26% from the previous year (€228.9m) to €288.7m. That corresponds to a 15.1% share of consolidated sales (2005: 13.5%). In response to new legislation on beverage container deposits, the German beverage industry stepped up investment in lines for filling and packaging single-use PET bottles. This and a recovering domestic economy made for brisk business in Germany.

Western Europe became KRONES' most important market in 2006. With sales of €360.9m, for an 18.9% share of total sales, Western Europe surpassed the region of North and Central America, which contributed 18.5% to consolidated sales in 2006. The unbroken trend toward packaging beverages – particularly water – in PET resulted in further sales growth in the region.

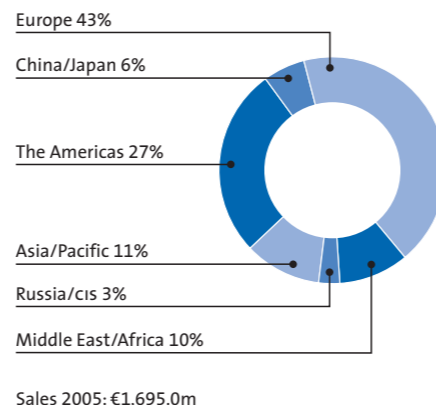
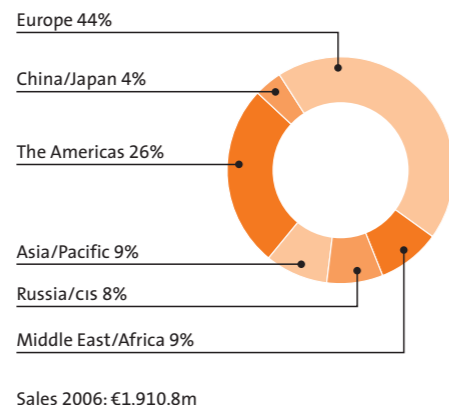
Our highest rates of growth were achieved in the Russia/CIS region, where revenues tripled to around €153m. This explosion was due in part to renewed strong development of the Russian economy and in part to a new import tax that was to take effect in early 2007 in Russia, which prompted some companies to move investments forward.

Sales in the China/Japan region shrank by around one-fifth to €85.8m in 2006 compared with 2005. It should be noted that, in 2005, KRONES had received large orders from Western companies expanding their presence in China.

We are pleased to note that sales were once again up in our South America/Mexico region, particularly in Venezuela and Colombia. In Venezuela, a major customer, the Polar brewery, took over its competitor Bavaria and invested heavily in new plant there. On the whole, revenues in the region rose from €122.3m to €135.1m.

KRONES generated around 85% of sales revenues outside Germany in 2006, with the largest share coming from customers in Western Europe.

KRONES GROUP sales by region

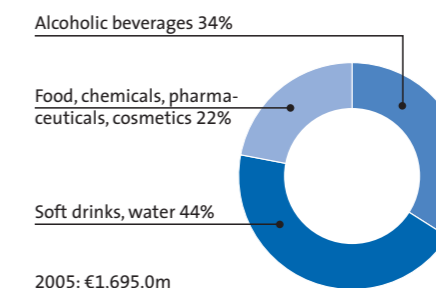
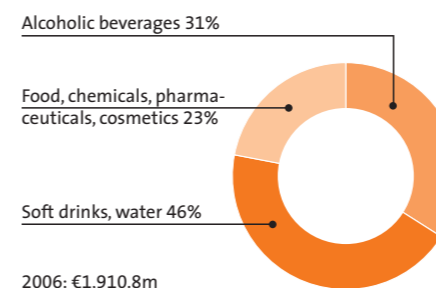


Sales by industry

KRONES sold more to all of our customer industries in 2006 than in 2005. The highest growth rates were achieved in the non-beverage segment (food, chemicals, pharmaceuticals, and cosmetics).

Of all of our customer industries, we achieved the highest growth rates in terms of percentages in the non-beverage segment (food, chemicals, pharmaceuticals, and cosmetics) in 2006. We also include our steadily growing sales to the dairy industry under »food« in this segment. Our sales revenues from the non-beverage segment grew by nearly one-fifth to €441.4m (2005: €373.0m). The segment's share of consolidated sales increased from 22.0% to 23.1%.

KRONES GROUP sales, by industry

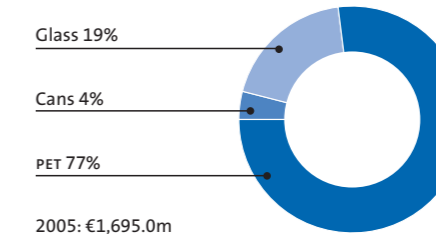
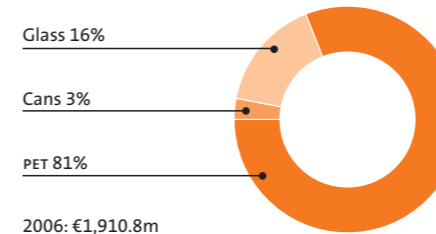


Once again, we generated our highest sales (2006: €869.5m; 2005: €745.7m) with producers and bottlers of soft drinks, water, and juices. The segment's share of consolidated sales increased from 44.0% to 45.5%. A large part of the increase can be attributed to robust growth in water, a trend that is likely to continue in the future.

The share of total sales that KRONES generated with producers and bottlers of alcoholic beverages declined from 34.0% to 31.4%. However, in absolute figures, sales with this segment increased 4% to €600m (2005: €576.3m). The lower growth rate compared with consolidated sales is due to the fact that the alcoholic beverages segment brought fewer new products to market than other beverage segments.

Sales by packaging type

In terms of packaging type, the lion's share of sales (81%) came from PET again in 2006. PET is increasingly replacing cartons as the packaging of choice for juices and milk. The shares of filling lines for glass containers and cans continue to shrink. Although cans did experience something of a revival among consumers, there was already plenty of capacity available with existing lines.



New orders up sharply

At €1,967m, new orders at KRONES set a new record and came very close to hitting the €2bn mark in 2006.

Strong demand for our products was reflected in our order intake, which rose 13.3% to €1,967.1m in 2006 (2005: €1,735.6m). As the world's only provider of complete systems, KRONES benefited from customers' growing preference for »one-stop shopping.« More and more, customers want to have a single supplier cover all of their needs – from beverage production to packaging and logistics.

New orders amounted to €488.5m and €453.4m in the first two quarters, and then really took off in the third (€516.5m) and fourth quarters (€508.7m).

KRONES GROUP new orders, in € m



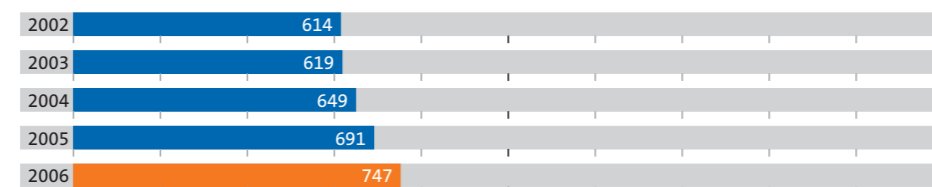
HGB through 2003, IFRS from 2004 onward

Orders backlog up 8.1% despite shorter lead times

Orders backlog pushes well past the €700m mark – giving us a high level of planning security.

Orders on hand at 31 December 2006 totalled €746.7m. That's 8.1% higher than at the same point in 2005 (€690.6m). We had shortened project lead times by streamlining production. So the fact that our orders backlog nevertheless grew indicates brisk ordering activity on the part of our customers. A backlog of nearly €750m gives us added planning security for the months ahead. Because we are assured of good capacity utilisation for the coming months, we can focus increasingly on good price quality when considering new orders.

KRONES GROUP orders on hand, in € m



HGB through 2003, IFRS from 2004 onward

KRONES GROUP earnings structure, in € m

	2006	2005	Change
Sales revenues	1,910.8	1,695.0	12.7%
Changes in inventories of finished goods and work in progress	45.6	1.2	
Total operating revenue	1,956.4	1,696.2	15.3%
Goods and services purchased	-1,003.3	-827.1	21.3%
Personnel expenses	-563.3	-521.6	8.0%
Other operating income/expenses and capitalised development costs	-232.0	-210.7	10.1%
EBITDA	157.8	136.8	15.4%
Depreciation, amortisation, and write-downs on non-current assets	-49.8	-46.6	6.9%
EBIT	108.0	90.2	19.7%
Financial income (expense)	1.6	1.0	60.0%
EBT	109.6	91.2	20.2%
Taxes on income	-32.1	-27.8	15.5%
Net income	77.5	63.4	22.2%

Analysis of this abridged income statement of the KRONES GROUP clearly shows that, apart from a 12.7% increase in sales revenues to €1,910.8m, expenses for goods and services purchased also had a major impact on earnings.

At €1,003.3m, our spending on goods and services purchased was up 21.3% from the previous year (€827.1m), which means it increased far more sharply than sales. The ratio of this figure to total operating revenue rose from 48.8% to 51.3%. This change is due primarily to sharply higher steel prices and a €49.6m increase in services purchased, which accounts for just less than one-third of the total increase in our goods and services purchased expense.

The second-largest cost factor was personnel expenses, which grew less than proportionately to sales, just 8.0% to €563.3m (2005: €521.6m). This reflects the positive effects of the employment pact made in 2005. The ratio of personnel expenses to total operating revenue decreased from 30.8% to 28.8%.

Other operating expenses, which consisted primarily of freight costs, travel expenses, and commissions, increased only 1.9% to €300.6m.

EBITDA was up 15.4% and EBIT was up nearly 20% in 2006.

KRONES GROUP EBITDA, in € m

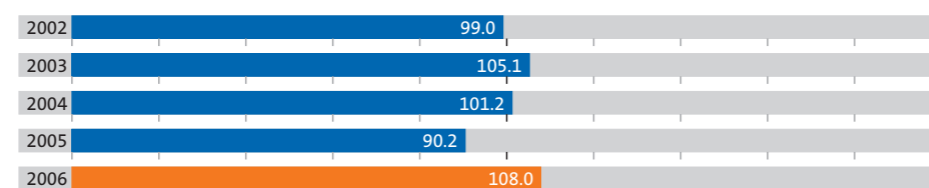


HGB through 2003, IFRS from 2004 onward

KRONES GROUP EBITDA and EBIT

Earnings before interest, taxes, and depreciation and amortisation (EBITDA) improved 15.4% to €157.8m in 2006 (2005: €136.8m). The EBITDA margin, expressed as a percentage of consolidated sales, rose from 8.1% to 8.3%. Since depreciation and amortization increased only slightly, earnings before interest and taxes (EBIT) rose 19.7% to €108.0m (2005: €90.2m). Thus, our EBIT margin improved to 5.7% (previous year: 5.3%).

KRONES GROUP EBIT, in € m



HGB through 2003, IFRS from 2004 onward

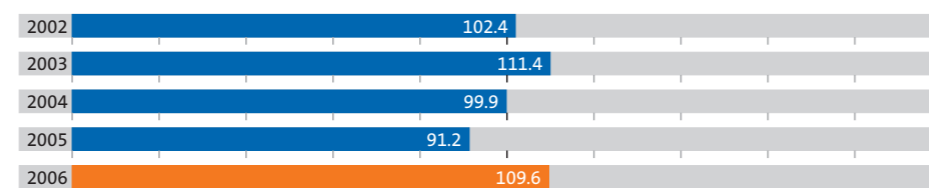
KRONES GROUP EBT

Although we improved EBT more than 20%, we are not satisfied with our EBT margin of 5.7%.

Since KRONES has very little interest-bearing debt like bank debts, our interest expense does not have a material impact on earnings. On the whole, our financial income (expense) figure was slightly positive at €1.6m in 2006 (2005: €1.0m). Earnings before taxes (EBT) grew to €109.6m in 2006, a 20.2% improvement over 2005.

Nevertheless, we are not satisfied. At 5.7% (previous year: 5.4%), our EBIT margin falls far short of our medium-term target of at least 7.0%. High steel prices, at times fierce competition, and consequently poor price quality prevented us from achieving a better result.

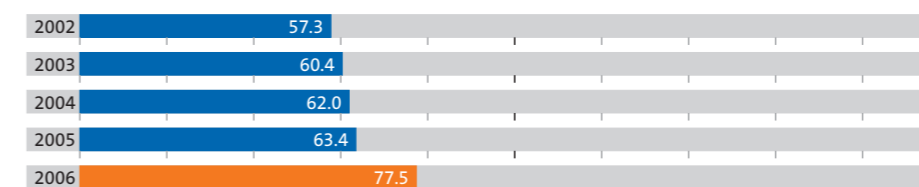
KRONES GROUP EBT, in € m



HGB through 2003, IFRS from 2004 onward

KRONES has already implemented measures – such as improving our internal process flows – aimed at increasing efficiency. Moreover, price pressures have not intensified further. Therefore, we expect to achieve our target EBT margin of at least 7% in the first half of 2007.

KRONES GROUP net income



HGB through 2003, IFRS from 2004 onward

Net income after taxes was influenced by one-off effects in 2006. The tax rate for 2006 was 29.3%. While the previous year's tax rate (30.4%) was largely influenced by a considerable decline in deferred tax items, one-time tax effects influenced the 2006 rate. Changes to the corporate income tax law in Germany resulted in one-time proceeds of €14.9m. Set against deferred tax expenses from prior years totalling €7.1m, the result is a positive balance of €7.8m. Including this positive balance, net income was up 22.2% (€63.4m) over the previous year, to a new record of €77.5m. Excluding this balance, net income was up by just under 10%.

Earnings per share



HGB through 2003, IFRS from 2004 onward

Earnings per share were €7.34 in 2006, from €6.01 in 2005.

At 10.53 million, the number of shares outstanding was virtually unchanged from the previous year. Thus, earnings per share were up 22.1% to a record €7.34.



Cash flow

KRONES GROUP financial structure, in € m

	2006	2005	Change
EBT	109.6	91.2	20.2%
Cash flow from operating activities	86.9	62.4	39.3%
Cash flow from investing activities	-64.2	-74.4	-13.7%
Free cash flow	22.7	-12.0	
Cash flow from financing activities	-18.9	-10.6	78.3%
Net change in cash and cash equivalents	3.8	-22.6	
Change in cash and cash equivalents arising from exchange rates	-2.6	3.7	
Cash and cash equivalents at the beginning of the period	56.5	75.4	-25.1%
Cash and cash equivalents at the end of the period	57.7	56.5	2.1%

In 2006 KRONES generated €86.9m in cash flow from operating activities, 39.3% more than in 2005 (€62.4m). This increase resulted from a 20.2% higher EBT (€109.6m) and a €59.0m increase in provisions in 2006 (2005: reduction of €6.7m) as well as an €8.0m reduction in income taxes paid (2006: €14.0m).

An increase in working capital is the reason why cash flow from operating activities is considerably less than EBITDA.

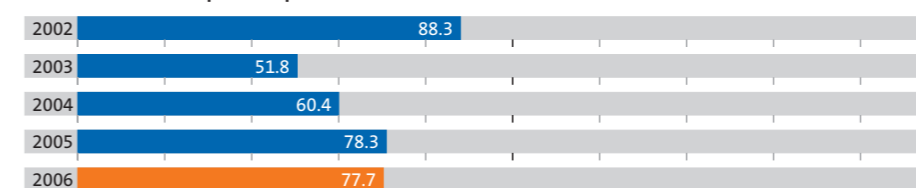
KRONES GROUP cash flow from operating activities, in € m



HGB through 2003, IFRS from 2004 onward

We were able to finance our €78m in capital spending from our cash flow from operating activities. The largest portion, around €60m, of capital expenditures went to property, plant and equipment, primarily the new filler assembly hall and the technology centre in Neutraubling as well as new machines for our plant in Nittenau, Germany.

KRONES GROUP capital expenditures, in € m

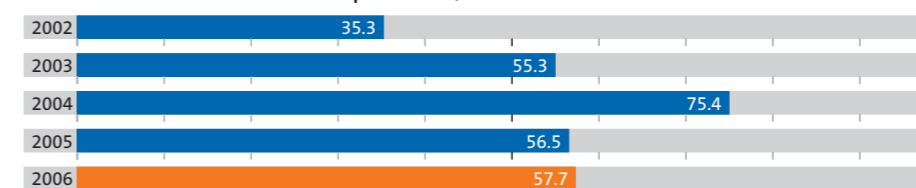


HGB through 2003, IFRS from 2004 onward

After deducting net capital expenditure, free cash flow was €22.7m in 2006. This is a considerable improvement over 2005 (-€12.0m). We expect free cash flow to continue to improve in 2007 as the capital investments we have planned for the current year are smaller than for 2006.

We used €14.7m of the free cash flow for dividend payments to our shareholders and around €4m to service debt, which falls under cash flow from financing activities.

KRONES GROUP cash and cash equivalents, in € m



HGB through 2003, IFRS from 2004 onward

Taking into account changes due to exchange rates, cash and cash equivalents increased from €56.5m in 2005 to €57.7m at the end of 2006.

KRONES GROUP asset and capital structure, in € m

	2006	2005	2004	2004	2003	2002
	IFRS	IFRS	IFRS	HGB	HGB	HGB
Non-current assets	430	403	382	290	306	261
of which property, plant and equipment, intangible assets, and financial assets	374	357	335	268	272	250
Current assets	1,042	880	828	704	564	545
of which cash and equivalents	58	57	75	75	56	36
Equity	629	572	526	483	435	409
Total debt	843	711	684	511	435	397
Non-current liabilities	147	155	151	—	—	—
Current liabilities	696	556	533	—	—	—
Total	1,472	1,283	1,210	994	870	806

The expansion of our business is reflected in the KRONES GROUP's balance sheet total, which increased 14.8% to €1,472.3m (previous year: €1,282.5m).

The total of property, plant and equipment, intangible assets, and financial assets increased from €356.7m to €374.2m. Of this, property, plant and equipment is by far the largest asset group, at €305.5m (2005: €287.1m). A detailed presentation of changes in non-current assets can be found on pages 8–11 of the consolidated financial statements.

Current assets amounted to €1,042.6m, up 18.5% from the previous year (€879.9m). Trade receivables saw the greatest increase, a factor of the reporting date, growing 27.9% to €540.9m. In all, current assets now account for a 70.8% of total assets (2005: 68.6%).

The KRONES GROUP had cash and cash equivalents of €57.7m at 31 December 2006 (2005: €56.5m). Net cash and cash equivalents (cash and cash equivalents less bank debt) amounted to €56.8m (previous year: €51.7m).

Equity totalled around €628.7m, for an equity ratio of 42.7% for the group. Thus, the KRONES GROUP maintained a very favourable ratio of debt to equity,

KRONES reduced its non-current liabilities to €147.6m in 2006 (2005: €154.7m). Current liabilities totalled €696.0m (2005: €555.9m). This increase resulted from higher prepayments received and higher trade payables. Other provisions were also considerably higher.

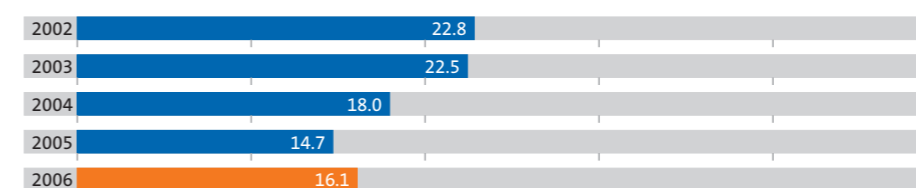
ROCE

The return on capital employed (ROCE), which is the ratio of EBIT to average net tied-up capital (total assets less interest-free liabilities and other provisions), improved to 16.1% (2005: 14.7%). With this, we are still far below our medium-term target of at least 20%.

We will have to work hard to achieve this target. On the one hand, further earnings growth should help boost ROCE, and we intend to expand our profit margin by steadily improving our internal production processes.

On the other hand, we will also optimise the amount of tied-up capital, particularly working capital. We have already begun to improve our receivables management. In addition, we want to reduce the amount of capital tied up in inventories.

KRONES GROUP ROCE, in %



HGB through 2003, IFRS from 2004 onward

Reports from the segments and divisions

- Strong growth in our most profitable segment
»machines and lines for product filling and decoration«
- Considerable improvement in earnings for
»machines and lines for beverage production/process technology«
- EBT jumps to €3.3m at KOSME

The KRONES GROUP

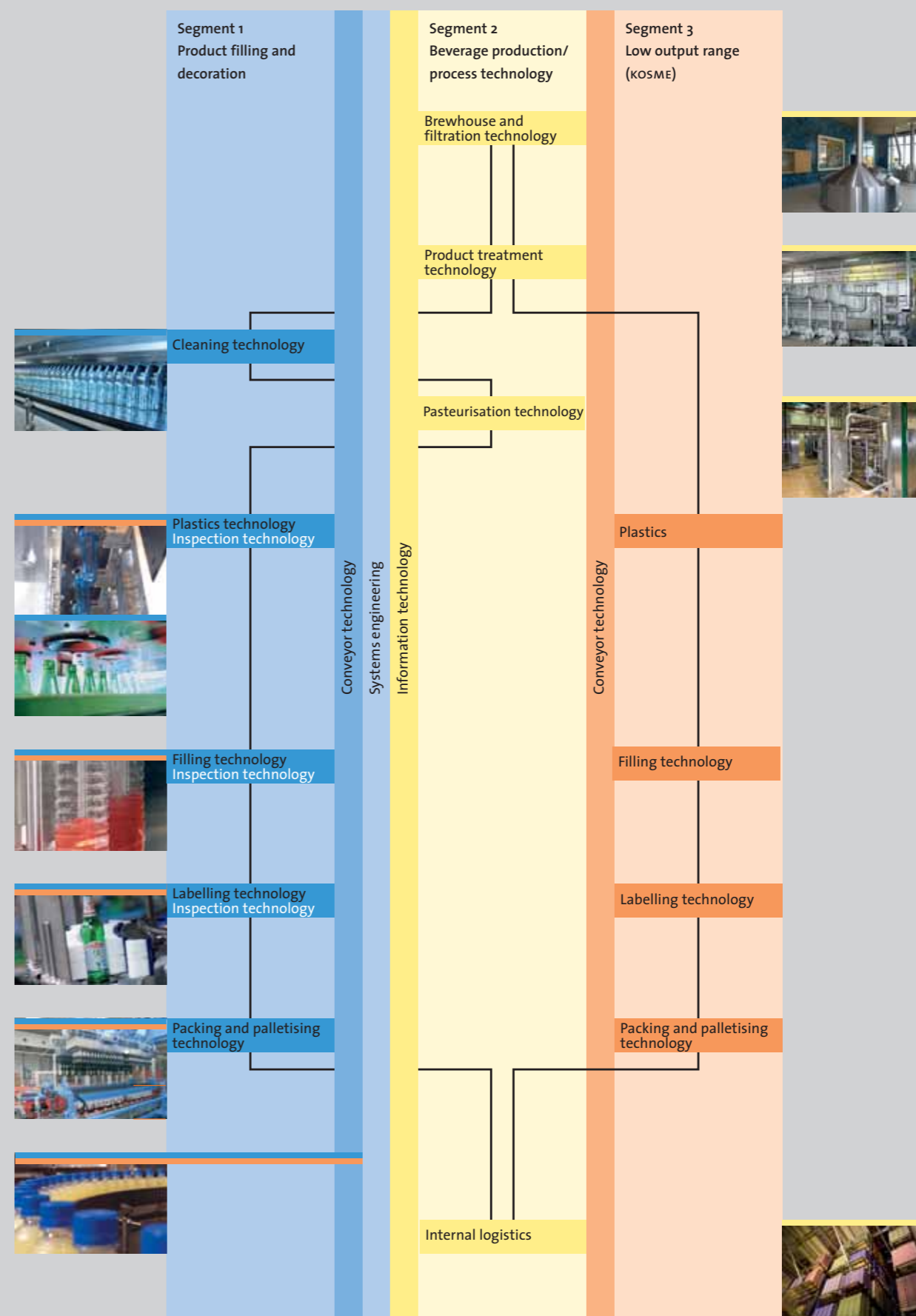
The KRONES GROUP's business activities are divided into three segments. »Machines and lines for beverage production/process technology« comprises our process engineering, pasteurisation technology, and internal logistics divisions. »Machines and lines for product filling and decoration« comprises the system engineering, labelling, filling, inspection technology, cleaning, plastics, packing and palletising, and conveyor technology divisions. KOSME is our third segment, providing »machines and lines for the low output range«.

KRONES GROUP segments and product divisions

Machines and lines for product filling and decoration	Machines and lines for beverages production/process technology	Machines and lines for the low output range (KOSME)
Systems engineering Labelling technology Inspection technology Filling technology Cleaning technology Plastics technology Packing and palletising technology Conveyor technology	Brewhouse and filtration technology Information technology Internal logistics Product treatment technology	Labelling technology Filling technology Plastics technology Packing and palletising technology Conveyor technology

KRONES increases its stake in KOSME

In 2006, KRONES increased its stake in our independent subsidiary KOSME S.R.L., Roverbella, from 55% to 70%. In 2003, KRONES acquired a majority stake in the Italian-Austrian group, which, like KRONES, produces complete filling and packaging lines, but for the »lower output range«. Machines and lines for filling, packaging, and labelling are produced at the company's headquarters in Roverbella, Italy, while KOSME's plastics technology division is based in Sollenau, Austria. KOSME operates worldwide, with a focus on Europe and Russia.



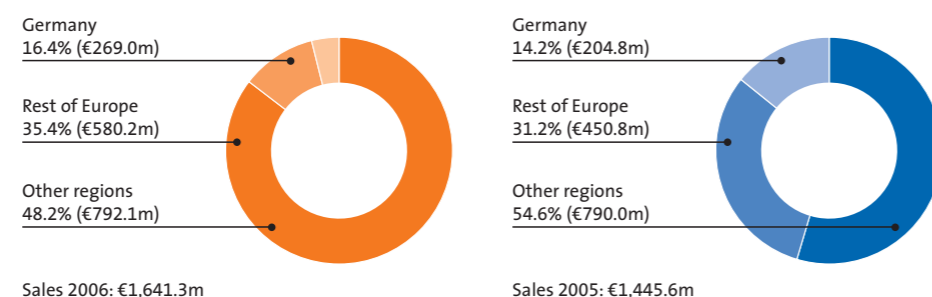
Product filling and decoration

This is by far our largest segment, which offers machines and complete lines for filling, packaging, labelling, and moving products.

Sales revenues

Our strongest segment increased sales 13.5% to €1,641.3m in 2006 (2005: €1,445.6m). Once again, a significant portion of this strong growth came from our plastics division, which supplies machines and lines for producing and filling PET bottles. We landed several large orders for bottling milk in PET in 2006. With bottlers in Germany investing heavily in lines for bottling water in PET, the share of this segment's sales that was generated in Germany increased from 14.2% to 16.4%.

»Machines and lines for product filling and decoration« contributed 85.9% of consolidated sales (2005: 85.3%).



Segment earnings

Machines and lines for product filling and decoration is not only our largest segment. It is also our most profitable. Earnings before taxes (EBT) grew from €103.5m in 2005 to €110.0m in 2006. High costs for materials, steel in particular, and at times severe price pressures prevented an even better result. The segment's EBT margin dipped from 6.7% to 7.2%.

Return on sales (EBT to sales), in %



Sales in our core segment increased sharply in 2006.

New pilot plant joins the network

KRONES' new state-of-the-art labelling pilot plant went into operation in March 2006. KRONES now uses the 700 m² centre to conduct practice-based, customer-specific testing and basic research on the way bottles, adhesives, and labellers interact.

Prior to 2006, we were already operating pilot plants for plastics, recycling (in Flensburg, Germany), and filling and process engineering (with an aseptic system, a filling simulator, and a microbiological and chemical-physical laboratory). Together, our pilot plants form a network for experiments based on customer orders and for joint research and development work. The dedication of a packaging pilot plant in Rosenheim, Germany, is slated for summer 2007.

Rainbow filler wins European FoodTec Gold Award

Deutsche Landwirtschafts-Gesellschaft e.V. (DLG) honoured KRONES with the *European FoodTec Gold Award* for its concept of an aseptic »rainbow« filler. This special filler, which is one of the innovative technologies we developed specially for process engineering and filling in the dairy industry, is designed to fill and label four different flavours of yoghurt smoothies or milk drinks at one time.

Honours for new machine design

Our new machine design, which applies across our entire product range and combines functionality, identity and ergonomics, earned KRONES the *iF product design award* as well as the *red dot Product Design Award 2006*, one of the most coveted honours for sophisticated, innovative design.

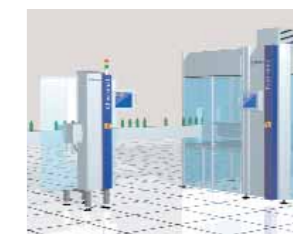
500th Contiform for producing plastic bottles

The *Contiform S* – our standard-series stretch blow-moulding machine for the production of PET bottles – is our plastics division's top model. It was presented for the first time at the drinktec in Munich, the world's largest trade fair for the beverage industry, in 2001. And at the end of 2006, we had already produced our 500th *Contiform S*. The milestone machine left our plant for a beverage production facility in China in early January 2007.

KRONES entered the realm of plastics technology ten years ago, in early 1997, with the *Contiform Compact*. In the years that followed, we have evolved into a technological leader in the market for stretch blow-moulding machines. Our biggest-selling machine to date is the *Contiform S14*, followed by the *S20* and *S24* models. The numbers following the S stand for the number of blow-moulding stations. In addition to the *Contiform S* (standard), KRONES also produces the H (hot fill), SK (standard small cavities), HK (hot fill small cavities), M (medium sized), and G (large cavities) series, covering a range of bottle sizes from 0.1 to 5 litres.



Our new 18,000 m² filling technology centre went into operation in May 2006.



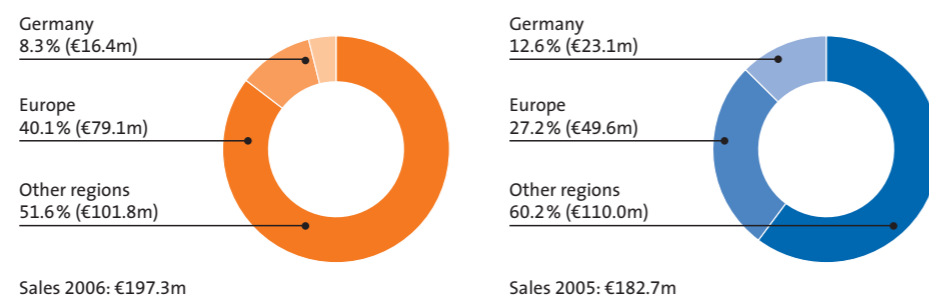
We received the *iF product design award* in 2006 for the new, uniform design of our machines and lines.

Beverage production/process technology

This segment includes our brewhouse and filtration technology and pasteurising technology divisions. KRONES' internal logistics division offers solutions for ensuring efficient materials flows throughout the entire production process.

Sales revenues

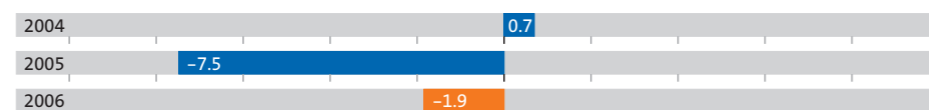
After taking severe losses from a poorly calculated large-scale order in 2005, we placed even more emphasis on price quality in 2006 – and nevertheless increased segment sales by around 8% to €197.3m. The segment contributed 10.3% of consolidated sales.



Segment earnings

We improved earnings in this segment by €10m in 2006 after having closed 2005 with a negative EBT of -€13.7m. Measures such as the integration of Steinecker, our process engineering division for beer, into KRONES and the division's restructuring began to bear fruit in 2006. That EBT remained in the red, at -€3.6m, was due in part to the fact that we have not yet reached critical mass in our relatively new area of process engineering for soft drinks and milk.

Return on sales (EBT to sales), in %



Process engineering

At KRONES, process engineering means combining system expertise and process technology with microbiological and IT expertise to form a seamless, comprehensive solution for our customers' entire production line. KRONES now intends to increasingly apply the process engineering expertise we have gathered over many years of working with sectors like the brewing industry to other sectors.

Like milk. Milk is an extremely sensitive product that requires especially careful handling – and even more so the longer it is supposed to keep. KRONES process engineering delivers state-of-the-art systems for ultra heat treatment and pasteurisation as well as systems for mixing milk-based products according to specific formulas.

Our VarioAsept and VarioFlash UHT and flash pasteurisation systems provide the treatment needed to give dairy products the desired shelf life properties. By integrating the sterile tanks and the necessary peripherals like our AquaAsept sterile water UHT system and our VarioClean CIP system, KRONES process engineering is once again effectively combining individual modules into powerful systems. What is critical here is that we are implementing all the current knowledge about hygienic design as well as the comprehensive definition of the aseptic area in order to ensure the greatest possible degree of biological safety. Our flash pasteurisers are designed in accordance with the rules of »hygienic design« and support CIP cleaning.

KRONES filling and process engineering pilot plant

Our state-of-the-art filling and process engineering pilot plant provides a scientific basis for new process engineering methods and trials. Here, we treat and fill beverages and other liquid products under live production conditions – for example, in order to try out new formulas in small batches. In this way, we can work together with our customers to test the production, optimal processing, and filling of their products in a manner specific to each of their needs in a test run.

Above-average growth in process engineering

With a volume of around €4bn, the global market for process engineering is almost as large as the market for beverage bottling and canning lines. In 2006, KRONES process engineering generated sales of around €197m, following €183m in 2005. A higher percentage of our process technology sales in 2005 came from breweries due to a number of larger projects in that area. In 2006, sales shifted toward process technology for CSD and milk. We expect earnings results in this area to be in the black for the first time this year. Our annual growth target for process engineering is 10% on average.

With a volume of around €4bn, the global market for process engineering is almost as large as the market for beverage bottling and canning lines.

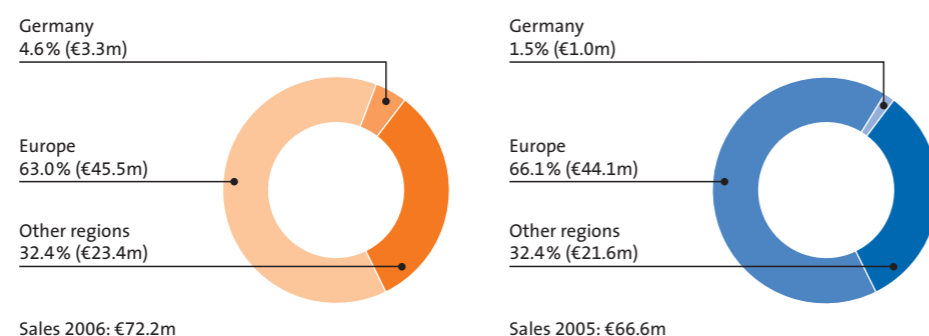
Low output range (KOSME)

Our KOSME segment, which offers lines for outputs of up to 12,000 containers per hour, developed well in 2006, increasing its return on sales from 2.0% to 4.6%.

Our subsidiary KOSME offers a product range similar to that of our »machines and lines for product filling and decoration segment«, but for less demanding applications. KOSME serves customers with smaller operations, which perfectly complements KRONES' business.

Sales revenues

KOSME our smallest segment contributing 3.8% of overall sales in 2006, increased sales 8.4% to €72.2m. The segment's strongest sales region was Southern Europe, particularly Italy. Since smaller German breweries prefer to do business locally, KOSME has established a sales organisation in Germany.

**Segment earnings**

KOSME boosted its profits considerably in 2006. Earnings before taxes jumped from €1.3m to €3.3m. Thus, having KOSME offer a full range of products and services has paid off. The segment's EBT margin was 4.6% in 2006, up from 2.0% in 2005 when restructuring costs kept the margin low.

Return on sales (EBT to sales), in %**KOSME is strategically important for KRONES**

KOSME is a perfect complement to KRONES in the market for beverage filling lines, particularly now that our subsidiary has made the transition from building individual machines to providing complete systems. With KOSME lines, which are specially tailored to the production requirements of smaller operations, KRONES has access to customers who would never consider using the large high-performance lines KRONES produces. KOSME also gives us access to industries outside the beverage industry and regions in which we were previously underrepresented. Strategically, KOSME gives our customers access to markets like beverages in PET. They might start with a small-scale line from KOSME with an output of up to 10,000 containers per hour, which is perfect for making a cost-effective shift into this type of packaging. As volume increases, they might begin to consider a larger line from KRONES.

KRONES technology in KOSME lines

In addition to KRONES' financial participation, KOSME also benefits heavily from KRONES technology. Innovations made at the parent company also make their way into KOSME lines, which are smaller and less complex than KRONES lines but of equal quality. KOSME also made impressive innovations in 2006, for example, planning and delivering its first complete PET filling line for beer to a brewery that had previously bottled its products exclusively in glass and has now begun bottling in plastic. KOSME also unveiled the *Isoblock*, a new beer filler that is specially designed for low-oxygen filling and capable of filling and capping up to 10,000 glass beer bottles with swing-stopper closures per hour.

KOSME now has a sales team in Germany

In March 2006, KOSME launched its own sales organisation in Germany. While smaller breweries and wineries had seemed hesitant to contact KOSME directly in Italy, the new representative office in Germany was very well received at the Brau Bevale in Nuremberg in November. The German market has since advanced to one of our subsidiary's focus areas alongside Eastern Europe and Russia. KOSME has now delivered a complete PET line for beer to Germany for the first time and was also chosen by a winery to supply its compact machines that are specially designed for bottling wine and labelling wine bottles.



Isoblock is a new beer filler that is specially designed for low-oxygen filling and is capable of filling and capping up to 10,000 glass beer bottles with swing-stopper closures per hour.

Research and development (R&D)

The research and development teams within the KRONES GROUP work with cutting edge technologies and methods to transform ideas into innovative systems, machines, and services. This is essential to KRONES' ability to maintain and expand its market leadership. We have been increasing R&D spending for several years in order to keep our company's innovative power at the highest possible level and to secure our technological edge. In 2006, R&D spending was up similarly to sales and accounted for five to six percent of sales revenues – a very large share compared with other companies in the industry.

New products – the result of our longtime spirit of innovation

For KRONES, it is important that the R&D process be conducted in a way that is efficient and customer-oriented. At the end of the innovation process, this is reflected in new products and satisfied customers. In 2006, KRONES R&D yielded new machines and systems in all of our divisions. The following are a few highlights and examples of our R&D activities.

Our new labelling pilot plant went into operation in March 2006, joining an existing network of pilot plants covering filling and process engineering, plastics, and recycling. This network gives us a broad basis upon which to conduct interdisciplinary trials in the best way possible to meet our customers' highest expectations.

In filling technology, KRONES expanded its product range for aseptic filling to include an entirely new variant, the *PET Asept FDA* process, designed to meet the requirements of the US Food and Drug Administration (FDA) for the aseptic filling of low-acid products.

In collaboration with the Dutch brewery Bavaria, we developed the world's most advanced double-end bottle washer. The machine is capable of handling up to 60,000 reusable glass bottles per hour. Design modifications resulted in longer maintenance and cleaning intervals, increasing machine uptime. We significantly improved the microbiological quality of the bottle cleaning result. We also reduced the amount of energy, water, and chemicals consumed by the machine, thus bringing down operating costs considerably.

KRONES developed a multireel magazine for wrap-around labelling from a reel with our *Contiroll* labeller. The new magazine can accommodate eight label web reels, so it can operate for up to an entire eight-hour shift – depending on operating speed and label length – without the need for operator intervention.

In our lower output range, we designed a new empty bottle inspector, the *Smartronic*, specially for smaller breweries and beverage producers. With a maximum throughput of 18,000 containers per hour, the *Smartronic* provides an optimal cost-benefit ratio for small and mid-sized operations.

We're investing more heavily in research and development than our competitors to further consolidate our technological leadership in the market.

We set a new milestone in PET bottle production with our *Wall Wizard* and *Temperature Wizard*. Combined, the two devices reduce variation in wall thickness and thus the amount of material used.

A new modular design for our packing and palletising technology enables our customers to considerably improve efficiency along their entire value chain.

In systems engineering, we used the iPanel visualisation platform to develop an all-in-one device that operates and monitors the controls of the base machine as well as all its associated subsystems.

Steinecker innovations ensure top product quality

The Steinecker *Calypso*, a newly designed tank for hot wort treatment, has been cost-effectively optimising brewing processes in several breweries since 2006. With our brewhouse system, which includes innovative developments like *ShakesBeer* mashing technology, the *Pegasus* lautering system, and the *Stromboli* wort boiling system as well as automation and process control technology, we're responding to the exact needs and demands of the brewing industry. Steinecker innovations help breweries achieve considerable savings in energy, material, and labour costs while at the same time ensuring environmentally friendly production, high efficiency, and outstanding product quality.

Internal logistics completes its first projects

Last year, KRONES ventured into a new market segment with its solutions for internal logistics. Among the projects we completed were the construction of a new fully automated high-bay warehouse and the modernisation and expansion of an existing warehouse during ongoing production. For the latter, we reorganised the entire warehouse in terms of space and controls. In addition to providing the structural steel work and conveyor technology, we also provided the complete control technology and integrated a new material flow computer and warehouse management system into the existing software structure.

We built the warehouse management system for a brewery's block warehouse and implemented the batch tracing system required by an EU Directive. KRONES-installed automated order-picking and loading processes and yard management for truck loading and unloading ensure optimal logistics.

In another project, KRONES was charged with building a high-bay warehouse for packaged sugar. In addition to the structural steel work, conveyor technology, and storage and retrieval systems, the order also provided the complete control technology and the integration of a new material flow computer and warehouse management system into the existing software architecture. The state-of-the-art warehouse accommodates 15,900 pallet slots.

KRONES impressed customers with new and innovative products in all its divisions in 2006. We're not only the market leader. We're also the technological leader.

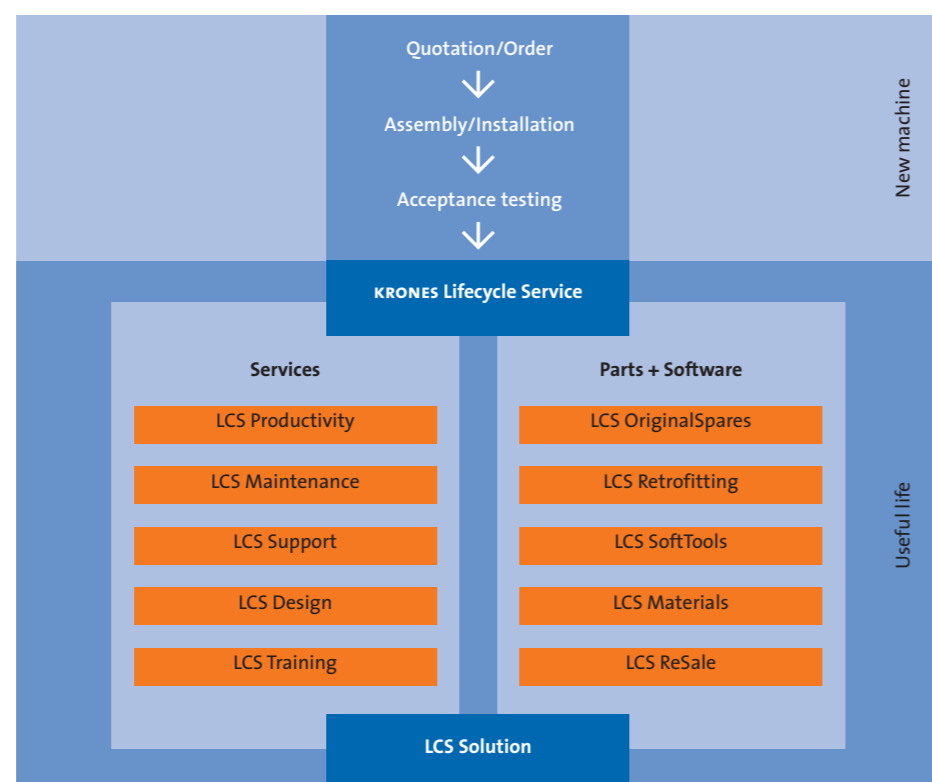


The Whirlpool Calypso is a newly designed tank for cost-effectively optimising the brewing process

Lifecycle Service rounds out our product spectrum

A substantial portion of our business comes from the services and machine and line maintenance activities provided by our *Lifecycle Service* division, which was established two years ago. With *KRONES Lifecycle Service*, we offer our customers comprehensive service support to ensure smooth production, maximum machine uptime, and cost-effectiveness throughout the entire useful lives of our machines and lines. In September 2006, we held the first *KRONES Lifecycle Service* symposium, in which we showed representatives from companies in the beverage industry in Germany and neighbouring countries how the right upgrades can boost the performance of their stretch blow-moulding machines for plastic bottle production.

Our customers choose from 10 Lifecycle Service (LCS) modules to create their own customised LCS solutions.



Our customers choose from 10 *Lifecycle Service* (LCS) modules to create their own customised LCS solutions. All of the modules help keep *KRONES* systems operating properly and efficiently for a long time to come.

The **services** we provide are LCS Productivity (line tuning for all stages of the line's life and systematic productivity increases), LCS Maintenance (maintenance and in-house overhauls), LCS Support across all stages of a line's life (support, help desk, tele-service), LCS Design for container design, and LCS Training for operating personnel.

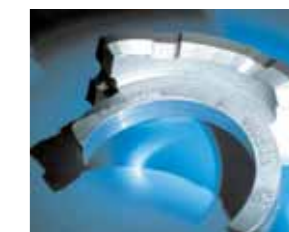
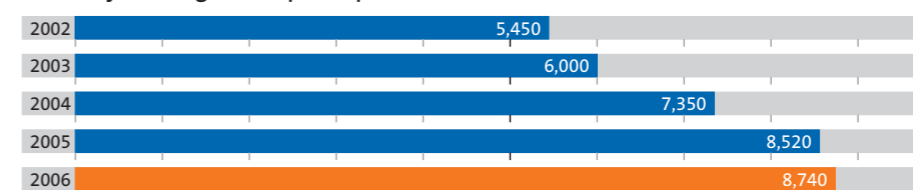
Parts + Software consists of the following modules: LCS Original Spares (original parts with a safety guarantee and inventory systems), LCS Retrofitting (conversions and upgrades), LCS SoftTools (software for optimising the line's entire life cycle), LCS Materials (high-quality materials and adhesives for labellers), and LCS ReSale (used machines).

In order to make our *Lifecycle Service* available worldwide and quickly deliver spare parts to our customers everywhere, *KRONES* maintains four centralised *Lifecycle Service* centres – »Europe« in Germany, »North America« in the United States, »South America« in Brazil, and »Asia« in China. Each of these centres manufactures wear and spare parts that are specially tailored to its region. The production centre at our German site in Neutraubling alone has more than 200 employees working exclusively on ensuring the fast, flexible production of spare parts.

KRONES Academy

Academy is an important element of our *Lifecycle Service*. Last year, 8,740 people participated in our LCS Training programmes. These programmes are conducted by trainers with experience in the field and give our customers' operating personnel the knowledge they need about how our machines work – because only when the operating personnel has a full command of our lines in all their complexity can these lines achieve the desired level of efficiency and cost effectiveness.

Academy training course participants



*LCS OriginalSpares is an excellent spare parts concept. The highest quality in manufacturing, certified materials, long-term availability, and fast, efficient logistics give our customers around the world security regarding the operation of their *KRONES* machines and lines.*

*The number of people participating in *KRONES* Academy training courses grew to 8,740 in 2006.*

Risk report

- Risks are identified on an ongoing basis
- Monitoring and control instruments improved further

Risk management

We use and continually evolve an internal system to continuously monitor and control all significant business processes so that we can actively manage risks.

KRONES is exposed to a variety of risks that are inextricably linked with doing business globally. We use and continually evolve an internal system to continuously monitor and control all significant business processes so that we can actively manage these risks.

Monitoring and control system

Long-term optimisation of our cost structures is a significant precondition for KRONES' continued success. Ongoing measures and those that are still in the planning are aimed at bettering our company's cost structures and thus steadily improving our earnings situation.

- Annual planning
- Forecasts
- Monthly and quarterly reports
- Capital expenditure planning
- Production planning
- Capacity planning
- Accounts receivable management
- Insurance policies

We record, analyse, and evaluate relevant risks in a process that entails planning, information, and monitoring. We monitor material risks and any implemented countermeasures in ongoing processes throughout the year.

The following risks could have a material influence on the continued development of KRONES:

Cost risks

In order to continually improve our earnings situation, we must optimise our cost structures for the long term. The aim of our cost-reduction measures is not to reduce the number of employees significantly. We are continually improving our production processes in order to further optimise costs.

Credit risks

In our export operations, we use traditional hedging instruments to minimise credit risks, particularly default and country risks. To limit our receivables risk, our payment terms are adapted to account for upstream work.

We help our customers finance the purchase of our machines and lines by advising them and putting them in touch with the appropriate banks, leasing companies, or other financing options.

KRONES expects to gain significant competitive advantage from a cooperation agreement with Deutsche Leasing AG, Bad Homburg v. d. Höhe. When customers wish to finance the purchase of a KRONES machine, each partner contributes its expertise to the financing concept so that the customer can be provided with a reasonable, tailored financing offer.

Price risks

KRONES operates in a highly competitive market in which some orders are generated by way of prices that do not cover costs. Fixed-price contracts with customers also entail price risks, as we must bear any additional costs that arise. To minimise this risk, KRONES has introduced a process of structured order analysis in which each inquiry and each quotation is assessed on the basis of financial, technical/technological, and regional risks. This allows us to assess risks and margins in advance.

Competition from »low wage countries« also presents a risk in the medium to long term.

Procurement risks

KRONES uses targeted material and supplier risk management to counter procurement risks. With respect to suppliers, we face risks relating to products, deadlines, and quality. A specially designed process for supplier selection, monitoring, and control helps minimise these risks.

Currency risks

Because exports to countries outside the European monetary union make up a significant portion of total sales, we are subject to currency risks. We use currency hedging tools to counter these risks as well as possible. We are also increasing the volume of purchasing and sales transactions we do in euros.

Personnel risks

KRONES depends on highly qualified employees. One risk we face is that we may have difficulty finding and holding on to such employees. We are countering personnel risks with our own education, training, and continuing education programmes.

We also ensure early access to qualified employees through ongoing cooperation with colleges and universities. We regularly employ doctoral candidates and interns. We also use professional personnel consultants to help us locate employees.

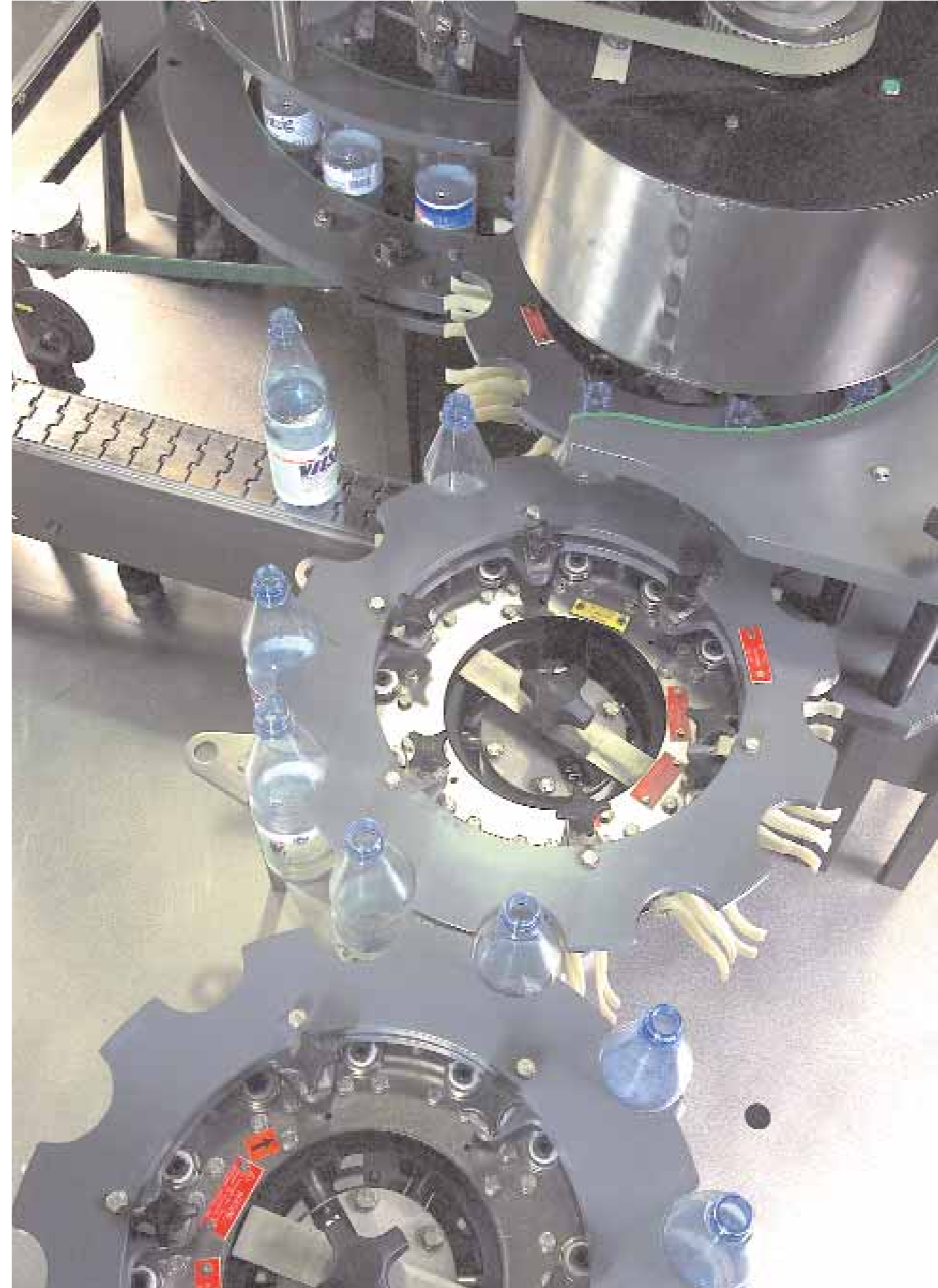
The company agreement that entered into force on 1 January 2005 has enabled us to counter personnel cost pressures as our employees have agreed to work longer, more flexible hours in exchange for our promise to secure employment and the future of our German sites until the year 2010.

Risk controlling

We continually assess and discuss operational risks and document them in reports. The effectiveness of countermeasures that have been implemented is also monitored in controlling processes throughout the year. Apart from sales and all types of expenses, we also look at cash flow and material components of our current assets and our balance sheet, using the figures to assess risks related to ongoing operations and options with respect to future projects.

Summary

Viewed from today's perspective, KRONES is not exposed to any risks that threaten the group's continued existence and we do not expect any fundamental changes to the risk situation. To the greatest extent possible, we have taken precautions, with comprehensive measures for preventing, reducing, and hedging risks, to mitigate business risks that could have a substantial impact on KRONES' assets, financial position, and results of operations.



Social Responsibility

- Energy efficient production and machines
- Resource-saving products
- Heavy investment in environmental protection
- More employees at KRONES
- Training and continuing education a high priority

Doing business sustainably – and successfully

For KRONES, the world's market leader for beverage filling systems, sustainability informs all of our business activities. This guiding principle places equal weight on economic, social, and environmental criteria. We firmly believe that our philosophy of social responsibility serves as a solid foundation for KRONES' long-term business success. Our systems and services also make an important contribution to the public good – because we are taking an active, sustainable approach to shaping the future, with a steady focus on benefiting our customers, employees, shareholders, and business partners.

Economics

Our business activities revolve around the machines, lines, and solutions we create for our customers. As the technology leader in our industry, we deliver innovative products and services that enable our customers to operate successfully over the long term. Our aim is to gain our customers' trust and confidence by providing high quality, reliability, and sustainability in our products and services. The »KRONES in figures« section of this report (p. 56) shows that we did very well again in 2006.

Environment

Several scientific studies, particularly the United Nations' climate report, have brought global warming to the front of people's minds in 2006. At KRONES, we've long been working to actively help mitigate climate change, undertaking many efforts to reduce the environmental impact of our operations.

At KRONES, a clear commitment to sustainability informs all of our business activities and shapes our long-term success.

We are continually assessing our production with respect to new aspects of environmental compatibility and taking appropriate measures. We also keep environmental criteria in mind when developing our machines. KRONES delivers technologies and systems designed with various ecological factors in mind to enable efficient use of resources.

Environmentally friendly production

For us, sustainability means making the smallest possible impact on the environment – across the entire production process from parts manufacturing to the assembly and installation of our lines. Every stage of our production processes is subject to the strictest of environmental standards. We see it as our duty to minimise the environmental impact of our manufacturing processes.

Our positive business performance over the past several years has resulted in a considerable expansion of our production. Nevertheless, we have managed to limit the increase in waste produced. We have done so by continually modernising our production processes and rigorously focusing on using environmentally compatible, reusable or recyclable materials.

Energy efficiency is equally important to KRONES. With energy costs soaring, energy efficiency is an enormous economic factor alongside environmental compatibility. In 2006 we implemented numerous measures to stem consumption of natural gas, electricity, and heating oil – despite a considerable increase in production. We plan to reduce consumption even further in 2007.

Recycling is good for the environment

At KRONES we take a holistic approach to the development and production of our lines. We rigorously ensure that our products are made of recyclable materials. Efficient use of the resources needed for operation is an important concern for us over the entire lifecycle of our products. It's one way we contribute to environmental protection. It also enables us to reduce energy costs – a major cost factor – for our customers in the beverage industry. Our aim is to reduce not only investment and operating costs but also the cost and resources involved in cleaning and maintenance.

Our PET lines incorporate an abundance of measures that focus on sustainability. Our *Contiform S* stretch blow-moulding machine is equipped with our innovative Air Wizard technology, which reduces compressed-air consumption by around 25% compared with older model series. The *Contiform S* also helps our customers reduce energy consumption thanks to a reflector system and the optimised arrangement of its heaters.

Efficient use of the resources needed for operation is an important concern for us over the entire lifecycle of our products. It's one way we contribute to environmental protection. It also enables us to reduce energy costs – a major cost factor – for our customers in the beverage industry.

The hygienic design of our products reduces cleaning times and consumption of chemicals, water, and electric power. More effective and efficient cleaning processes result in lower costs. We also rigorously ensure that our supplies are made of recyclable materials. For PET bottles, this applies in particular to labels and adhesives.

In addition to opening our labelling pilot plant in 2006, we also intensified our focus on PET recycling. We set up a test plant on a scale of 1:10 at our plant in Flensburg, Germany, for ongoing development in this sector. This enables us to recommend to our customers the optimal processes for container decoration that conform to the highest standards in terms of efficient use of adhesives and easy, complete removal of labels during cleaning. Our test plant allows us to track all of our activities relating to all aspects and all life stages of PET bottles.

Energy-saving machines and lines unite environmental protection and cost-effectiveness

Alongside functionality, cost-effectiveness is a top priority for all of the machines and lines we produce for our customers.

Improving a machine's cost-effectiveness includes assessing and improving its energy consumption. The processes involved in brewing beer are particularly energy-intensive. Our *ShakesBeer* mashing system considerably reduces the heating times involved in mashing, which lowers the amount of energy used in this process step accordingly. The newly developed *Calypso* system, which combines a whirlpool and coolship in one machine, yields remarkable energy savings for breweries.

Washing returnable bottles for reuse is another energy-intensive part of beverage production and bottling. Efficient cleaning concepts for the main caustic bath and the post-caustic bath boost the performance of bottle washers while at the same time reducing operating costs. The bottle washing specialists at our plant in Flensburg, Germany, developed the Parcival microfiltration system as a solution that meets all the requirements of beverage operations. The basic concept is a membrane filtration system that uses hydrocyclone technology integrated into the fluid supply system. Initial practical operation of this system, which is available as optional equipment for bottle washers, showed that it is possible to reduce the level of surfactants in the post-caustic bath and downstream water baths by 50% while using the same amounts of chemicals and water.

Another outstanding example of the ecological efficiency of our systems is the *KRONES* solar concept for breweries. Enormous volumes of water must be heated in order to bring the hops and malt to the proper consistency for brewing beer. Oil and gas are the fuels traditionally used. Our innovative concept is similar to a solar heating system. It uses highly efficient solar collectors to preheat the water, which is then »fired« in the brewing container. Even on cloudy days, our customers can count on the system thanks to a hot water storage tank.

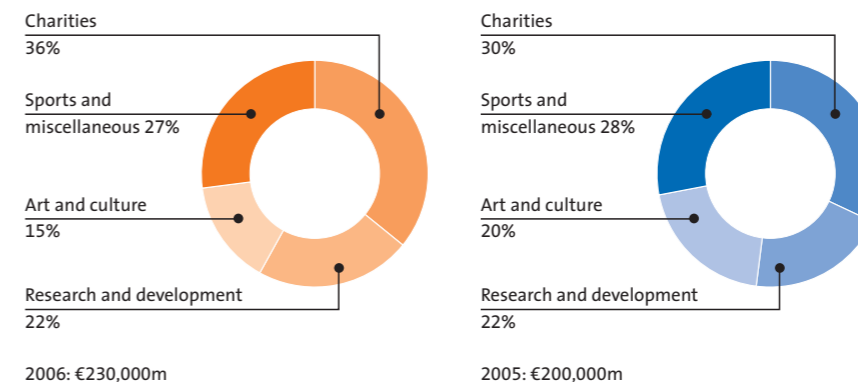
Investing heavily in environmental protection

Expansion of our site in Neutraubling, Germany, has also progressed steadily over the past several years. Investments totalling around €40m testify to our continued development of our home base. When investing in new and existing buildings, like the filling technology centre and other manufacturing and assembly areas, we replaced building materials that no longer met today's environmental standards. For example, we replaced asbestos-containing materials with new materials when renovating the buildings' roofs.

In our Nittenau, Germany, plant, a new system for cycling and recycling the water used for cleaning workpieces and parts is reducing fresh water consumption.

Social and cultural responsibility

The principles of sustainability also apply to our civic involvement. Beyond our business responsibilities, we are also highly committed to our responsibilities with respect to society, culture, and science and academics. We focus our efforts on those areas where we feel we can make the greatest impact, primarily with projects in our region. We provide charitable donations and sponsoring, particularly for youth work involving sports, charitable projects, and academic and research projects, to which we also contribute knowledge and people. For *KRONES*, such civic engagement is part and parcel of corporate social responsibility.



Qualified employees are the very backbone of KRONES' success. We promote not only our employees' technical and professional skills but also their personal development.

Employees

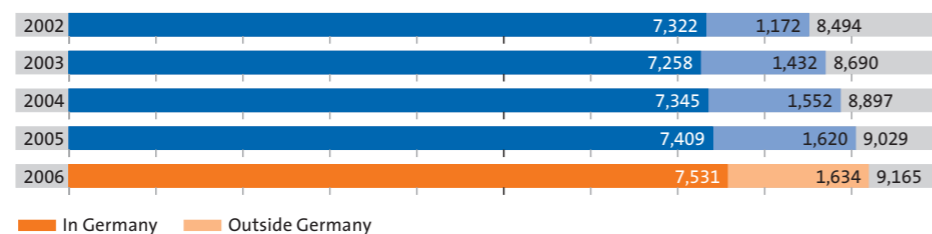
As an employer, we bear a very special responsibility with respect to our more than 9,000 employees worldwide. Our human resources policy is aimed at promoting and developing our employees' professional and technical skills as well as their personal skills. This enables us to develop internal structures and processes in harmony with our customers' needs and the demands of the markets and to work together to secure KRONES' future worldwide. We know that our employees are our company's future

Strong orders situation allows us to expand our workforce

At 31 December 2006, KRONES employed 9,165 people worldwide. That is 136 or 1.5% more than in 2005. KRONES passed the 9,000 mark for the first time in 2005, with 9,029 employees. The very strong orders situation enabled us to increase our workforce somewhat again in 2006, through the insourcing of previously outsourced personnel services, the use of temporary employment services, and the permanent hiring of all the trainees who had completed their training with us. A total of 7,531 people were employed at our German sites, of which 4,815 were in Neutraubling, 797 in Nittenau, 921 in Rosenheim/Raubling, 416 in Freising, and 543 in Flensburg. Another 39 employees are at MAINTEC GmbH in Collenberg am Main, Germany. All told, that represents an increase of 122 or 1.6% over 2005 (7,409 employees). In our subsidiaries and offices abroad, the workforce grew by 14 or 0.9% to 1,634 (2005: 1,620).

The very strong orders situation enabled us to increase our workforce somewhat again in 2006, through the insourcing of previously outsourced personnel services, the use of temporary employment services, and the permanent hiring of all the trainees who had completed their training with us.

Employees by region



Continuing education for employees and management

Our employees' and managers' high level of qualification is a critical factor for KRONES' success. That's why we have systematically expanded our human resources development work and are working hard to provide continuing education and development opportunities to our employees. Once again in 2006, we conducted numerous events aimed at enhancing increasingly important interdisciplinary skills and knowledge. These events were very well received by our employees.

Back in 2005, KRONES was already blazing new trails in human resources development with an innovative management training system that focuses on a modern understanding of management within the group. Management was a key topic once again in 2006. A special emphasis was on practical management training that is specially tailored to our company for central department managers, department managers, and group leaders within the Executive Board department of Research & Development and Product Divisions. A total of 104 participants assessed and improved their management skills in company-specific situations in more than 90 training days in 2006. Collaborative training in groups from different divisions and sites promoted networking and the exchange of ideas and experiences.

A similar training series offered management personnel from other Board departments an opportunity to expand their management skills and networks. Another emphasis of our continuing education efforts was on technical and interdisciplinary training in project management. The training series that was launched in 2006 will continue until 2008 and will provide 130 of our employees with holistic training through another 99 training days.

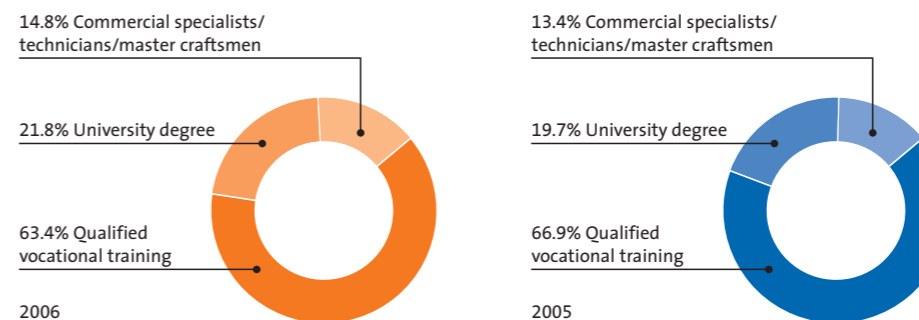
Our employees are well qualified for all aspects of their work

The high level of qualification of our employees is a critical success factor for KRONES. All of our employees have the education and training they need to handle the demanding tasks their work entails. But our employees have more than technical and professional skills. They also have excellent social, interdisciplinary, and intercultural skills, which are so critical to global companies like KRONES.

Almost our entire workforce in Germany has qualified professional training. The high level of qualification of our employees is a critical success factor for KRONES.

Almost our entire workforce in Germany has qualified professional training. Of our employees, 21.8% have a university degree. Skilled workers, who can take advantage of continuing education opportunities to become commercial specialists, technicians, or master craftsmen, make up 14.8% of our workforce.

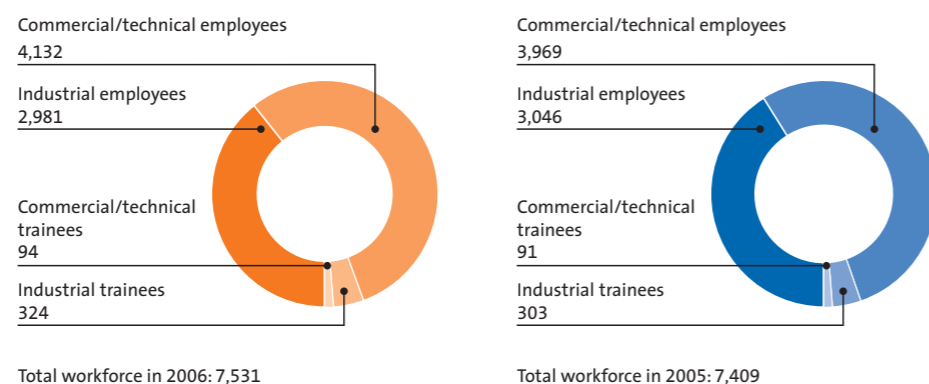
Employee qualifications in Germany



KRONES takes on more trainees and permanently hires all of its graduates

In Germany, KRONES trained 418 young people in 2006 (2005: 394), of whom 264 were in Neutraubling, 48 in Nittenau, 23 in Freising, 41 in Rosenheim, and 42 in Flensburg. Of these, 324 are receiving training in industrial fields and 94 in technical and commercial fields.

Workforce structure in Germany



»We're glad to invest in training because our future depends on our having a good, motivated workforce.« Volker Kronseder
KRONES invests between €65,000 and €70,000 in each of our trainees.

KRONES is investing in the future. Last year, KRONES invested between €65,000 and €70,000 in each of our trainees. On 1 September 2006, 126 school leavers began training within the KRONES GROUP. On 9 September 2006, we once again conducted a training day in our Neutraubling and Nittenau plants. The event was aimed at young people wishing to apply for a training slot with KRONES in the near future. The numerous participants received an inside look at the training options we offer and had an opportunity to speak one-on-one with trainers and current trainees.

KRONES permanently hired all of the trainees who successfully completed their final examinations with the Chamber of Industry and Commerce in winter or summer in 2006.

Vocational training offers young people excellent career perspectives in our company. KRONES permanently hired all of the trainees who successfully completed their final examinations with the Chamber of Industry and Commerce in winter or summer in 2006. All told, 74 graduates started their professional careers last year, of whom 57 were in Neutraubling, 14 in Nittenau, and 3 in Rosenheim.

KRONES works closely with colleges and universities

When it comes to using new technologies and seeking new solutions, KRONES maintains continuous contact with partners in academia. A good example of this is our close, long-time collaboration with the College of Applied Sciences in Regensburg and the University of Regensburg. We offer students direct experience in the industry through practical semesters and thesis-writing opportunities. These same opportunities also promote a knowledge and technology transfer that benefits both the students and our company. Student interns and degree candidates generally spend several months with KRONES, handling real projects in areas like software development, sales, process engineering, plastics, finance, and controlling. KRONES has honoured the best of the 100-plus graduate theses that have been written here over the past five years. For some students, this also marked the beginning of their career in our company. In order to utilise the potential of dedicated degree candidates for KRONES and to win the loyalty of graduates as highly qualified employees, we have created a special program for university degree candidates that includes a simplified online application process, efficient thesis assignment, and a standardised process for the advising of degree candidates.

Good work pays off

Our bonus system for our production employees offers financial incentives for excellent work. The employees working in each of our segments are personally responsible for calculated costs and quality, from acceptance of orders to production to delivery. Previously defined targets with respect to sales and profits are other yardsticks we use to measure and financially reward employee performance.

New pay structure takes shape

A uniform, fair pay system for all of our company's employees is the aim of our new general pay agreement. It represents a new era in collective pay policy. The system replaces the old, now outdated system that originated in the 1950s and provided for separate pay structures (wages vs. salaries) for blue-collar and white-collar workers. The pay structure under the new general pay agreement is identical for all employees and consists of twelve pay groups. The new structure will make possible uniform, comparable work evaluation across all employee groups. The result is clarity and comparability within our organisational structure and a motivating work environment. The details of the new approach will be optimised in a pilot project that was launched in 2006. The new general pay agreement is slated for implementation groupwide in 2008 and will entail little or no expense to the company.

The new general pay agreement represents a new era in collective pay policy. It creates clarity and comparability within our organisational structure and a motivating work environment.

Events after the balance sheet date

- Large-scale orders from Germany
- Good sales and earnings in early 2007
- Stock split planned

KRONES is building a complete bottling plant for Altmühltaler Mineralbrunnen worth more than €80m.

Strong domestic demand continues with large-scale order

As discussed earlier in this report, demand for our beverage filling lines in Germany increased sharply in 2006. This trend has continued in early 2007. In mid-January, KRONES signed a contract with a volume of over €80m with Treuchtlingen-based Altmühltaler Mineralbrunnen, one of Germany's largest mineral water bottlers. Under the contract, we will build a complete bottling plant with four bottling lines for Altmühltaler Mineralbrunnen. When it is finished, the plant will be capable of filling around 4 million PET plastic bottles with still and carbonated water products and soft drinks daily.

The »VITAQUA« project, as it is called, confirms the growing trend among our customers towards »one-stop shopping«. As general contractor, KRONES is responsible for the entire process technology, filling technology, and warehousing and distribution technology, including the information technology that links it all together. In terms of process technology, we will deliver the water softening and filtration systems, three mixing systems, and a carbonator. The bottling line itself comprises four PET fillers and upstream bottle production. The beverages and all materials and supplies will be stored in a fully automated high-bay warehouse designed by KRONES to accommodate 50,000 pallet slots.

The entire process technology and two of the filling lines will be installed by September 2007. The plant is slated to officially open in fall 2008 after installation of the other two bottling lines and the high-bay warehouse.

2007 off to a good start

KRONES experienced a brisk inflow of orders in the first two months of 2007. New orders and sales were up on the year-earlier figures. And because price pressures had subsided towards the end of 2006, the profitability of new orders has also improved.

The consolidation process in our industry continued with Salzgitter's purchase of Klöckner-Werke and, with it, our competitor KHS. We do not expect this takeover to have a negative impact on future prices.

Executive Board and Supervisory Board propose stock split

The KRONES share hit a new all-time high of €139 on 20 March 2007. In order to promote trading of our share and to make the share more attractive to a broader range of investors, the Executive Board and Supervisory Board of KRONES AG are proposing to the annual shareholders' meeting on 20 June 2007 a 1:3 share split, under which shareholders would receive two additional new shares for each share currently held. The increase in share capital needed for such a split would come from capitalisation of reserves.

Outlook

- Machinery production continues to grow
- New products and services
- Profitability takes priority over growth

Global economy continues to grow at a high rate

The global economy will continue to expand in 2007.

Although the global economy is likely to lose some momentum in 2007, it will likely continue to grow at a high rate. Optimistic forecasts like that of the International Monetary Fund are predicting 4.9% growth, while more cautious economic analysts are anticipating growth rates of just over 4%. In 2006, the global economy grew at a rate of 5.1%. Economists see the high price of oil and major movements on the currency exchanges – in particular, a sharp devaluation of the US dollar – as the greatest risks to the global economy.

The main factor slowing global economic growth will be a cooling of the US economy. After 3.4% GDP growth in 2006, the US economy is expected to experience a »soft landing« with 2.5% growth. However, this slowdown will not derail the global economy, which has been growing steadily for many years. The momentum that countries like China, India, and Russia have developed is too strong for that to happen. For China, economists are once again forecasting growth rates of at least 10%. For the burgeoning economies of Southeast Asia, forecasts are for more than 7% on average. Russia and Japan, the world's second-largest economy, are also expected to experience robust growth.

The economic recovery in Europe will also continue. Although Europe is not expected to repeat its 2.7% growth rate of 2006, economic analysts do expect the euro area to grow at least 2%.

Germany's economy on the upswing

Germany's economy is now experiencing robust growth. The increase in the value-added tax slowed the economy only temporarily. The prevailing mood of economic optimism remained undiminished. That prompted the economic research institutes to raise their growth forecasts for Germany's GDP for 2007 to 1.6% on average.

The machinery sector is booming

Germany's machinery sector will enter its fourth consecutive year of growth in 2007. The German Engineering Federation (VDMA) revised its forecast for output growth upward from 2% to 4%. The reasons for this optimism include large order backlogs, a flourishing export business, and continued high domestic demand.

Growth drivers and opportunities for KRONES

KRONES will share in the general growth of the beverage market again in 2007. We have continually gained market share over the past several years, and this is likely to be the case again in 2007. Our growth will come largely from increasing demand for complete beverage filling lines around the world. KRONES covers the entire process from beverage production and process engineering to bottling, labelling and packaging to the companies' internal logistics – and can thus benefit from the entire value chain.

The growing trend away from beverage cartons towards plastic (PET) bottles also holds considerable opportunities for us. In Germany, the changes to the beverage container deposit system that entered into effect in 2006 will also continue to drive demand for PET lines.

2007 should be another growth year for KRONES.

A significant and growing share of KRONES' sales revenues will come from spare parts and maintenance services provided under our *Lifecycle Service*. KRONES' entry into the field of process engineering also offers strong prospects for growth.

Investing heavily in expanding our sites

Our budget for capital expenditures in property, plant and equipment for 2007 amounts to €61.5m. Another €55.0m are already planned for capital expenditures in 2008. In 2007, KRONES will spend €24m on purchasing land and expanding our sites. In Neutraubling, we will invest around €17m in our technology centre, while around €5m will flow into our Nittenau site. Additional investments will go into machines and technical equipment for large-part manufacturing in our Neutraubling and Nittenau plants. We will also push ahead with the expansion of spare parts production at our plants in China and Brazil in 2007.

Sales will pass the €2bn mark in 2007

Continued high demand for our lines and services lead us to believe that our sales will pass the €2bn mark for the first time in 2007. We expect the highest growth rates in terms of percentages of overall sales to be in process technology and *Lifecycle Service*. In addition to organic growth, we also plan to grow our business through acquisitions, primarily in the area of process engineering, in the medium term.

Sales expectations for 2007



HGB through 2003, IFRS from 2004 onward

Profitability takes priority over growth

Our motto for 2007 is that profitability takes precedence over growth. By systematically optimising processes, focusing on innovation, and signing the employment pact with our employees, we have significantly boosted our company's efficiency and laid the foundations for more-than-proportionate earnings growth. We anticipate that the price pressures that have persisted for years will not intensify and improved price quality will also yield better earnings. This in turn will also help boost earnings growth.

KRONES is aiming to increase earnings before taxes considerably in 2007. Our target return on sales before taxes is 7%.

Looking at the markets, the market environment, the competitive situation, and the internal measures we are pushing forward, we expect to further improve our performance in the medium term. We aim to pass the €2.1bn mark for sales in 2008.





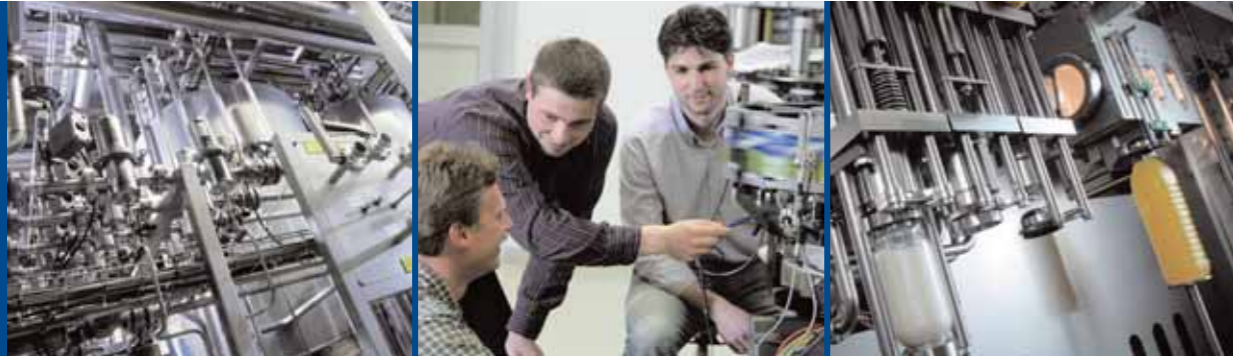
Less is more

The F1 filler is a major innovation made by KRONES in 2006 through the realisation that innovation can mean paring down, knowing that less is more, or one might even say understanding the Zen of technology development.

The modular design makes it possible to set up a variety of filling options and increases accessibility. The use of servodrives enabled us to do away with the front table. Beverage residues and cleaning agents can flow off unimpeded, making F1 the epitome of hygienic design.

Added value



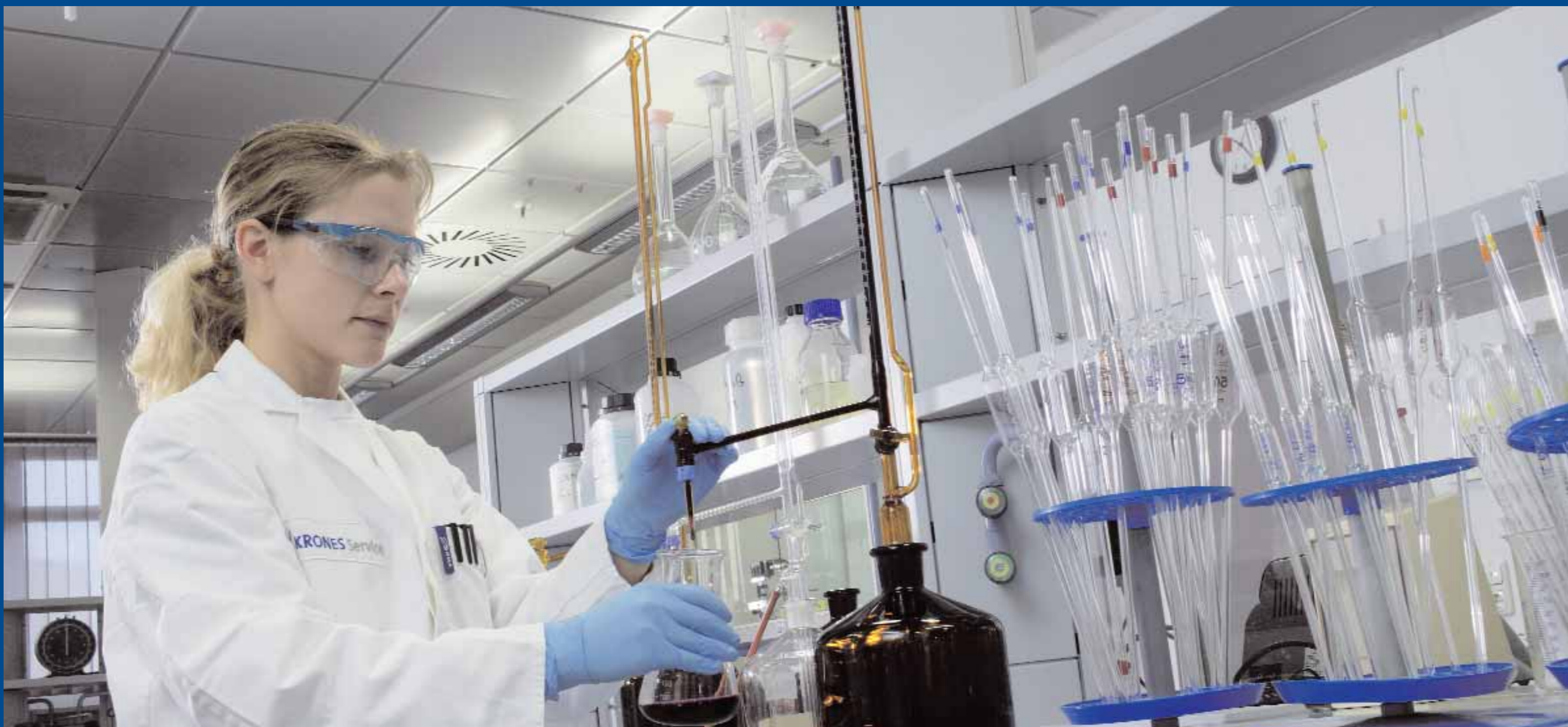


There's safety in knowledge

With our new testing laboratories for process engineering, filling technology, labelling, and plastics, KRONES has established a knowledge centre that benefits both our development and our customers.

Customers can test new products and marketing ideas here. From microbiological quality to the physical strength of a container to unusual product decorations – we give our customers security in their decision-making.

Added value



Report by the Supervisory Board



Dr. Lorenz M. Raith
Chairman of the Supervisory
Board

Dear readers and shareholders,

In 2006, the Supervisory Board of KRONES AG performed the duties assigned to it by law and the articles of association, regularly sought information about the progress of business and the situation of the Group in the form of written and oral reports from the Executive Board, and worked closely with the Executive Board in an advisory and supervisory capacity. Four regular meetings of the Supervisory Board were held in 2006, one each quarter. In these meetings, the members of the Supervisory Board and the members of the Executive Board of KRONES AG dealt intensively with ongoing operations and the business development of KRONES, discussed the quarterly financial statements and the status of risk management, and consulted about strategies and planning for the company.

At the first meeting of the Supervisory Board on 22 March 2006 in Neutraubling, the Executive Board presented the preliminary consolidated report for 2005, informed those present about the latest business developments, and provided an overview of the orders situation, production capacity utilisation, the market, and the competitive situation. Other topics included the modified planning for 2006 and the company's current investing activities.

At its second meeting, on 26 April 2006 in Neutraubling, the Supervisory Board ratified the 2005 annual financial statements and the consolidated financial statements and management report for fiscal 2005. The Executive Board and Supervisory Board then discussed the agenda of the annual shareholders' meeting and the appropriation of profit. The Executive Board then presented the management report for the first quarter of 2006 and reported on the current orders situation and production capacity utilisation as well as on the Group's globalisation strategy.

The third meeting of the Supervisory Board was held on 20 September 2006 in Siegsdorf (Upper Bavaria), Germany, and was combined with a tour of Adelholzener Alpenquellen, a KRONES customer. In the Supervisory Board meeting itself, topics such as changes in the competitive environment, earnings quality, and capacity utilisation and output were discussed. The Executive Board gave a preview of consolidated earnings for 2006 and targets for 2007.

The fourth Supervisory Board meeting was held on 22 November 2006 in Neutraubling. Apart from the third-quarter results and the expected annual financial statements for 2006, the main focus of this meeting was on planning for 2007. The Executive Board informed the Supervisory Board about the market, competition, and technology and about plans regarding sales and earnings. Personnel, production, capital expenditures, and upcoming projects and processes were also discussed.

In addition to the Supervisory Board meetings, the members of the Supervisory Board received a written report about the business situation and the earnings and financial position of the KRONES GROUP from the Executive Board each month. The members of the Supervisory Board maintained regular contact with the Executive Board in order to keep abreast of current developments and to consult on important business transactions.

The Supervisory Board concurs with the result of the audit

The annual financial statements of KRONES AG, the consolidated financial statements, the management report for KRONES AG, and the consolidated management report prepared by the Executive Board for the period ended 31 December 2006 were examined by the auditors elected by the annual shareholders' meeting, Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Regensburg branch office, and received an unqualified audit report. The audited annual financial statements and consolidated financial statements, the management report for KRONES AG, and the consolidated management report prepared for the period ended 31 December 2006 were submitted to all members of the Supervisory Board in good time for the members' own review. The audited financial statements and management reports were the subject of the meeting held to approve the financial statements on 25 April 2007. The auditors also participated in the meeting and reported to the Supervisory Board on the results of their review and the areas on which their review focused.

The Supervisory Board took approving note of the audit result. The final results of the examination by the Supervisory Board revealed no cause for objection. The Supervisory Board approves the annual financial statements for KRONES AG and the consolidated financial statements as well as the proposal for the use of unappropriated profit. The annual financial statements for KRONES AG are thereby ratified.

The Supervisory Board concurs with the Executive Board's proposal regarding the use of unappropriated profit, which provides for a dividend of €1.60 per share for the €26.9m capital stock that is entitled to dividends. The members of the Supervisory Board thank the Executive Board and all managers within the group, the members of the works council, and all employees of the group for their outstanding work.

Neutraubling, April 2007

The Supervisory Board

Dr. Lorenz M. Raith

Chairman of the Supervisory Board

The Supervisory Board and Executive Board

Supervisory Board

Dr. Lorenz M. Raith
Chairman
* LEISTRITZ AG
MOLL AG
PRÜFTECHNIK AG
HEITEC AG

Paul Jogsch**
Deputy Chairman

Ernst Baumann
Member of the Executive Board
of BMW AG

Rudolf Ederer
Attorney
(until 21 June 2006)

Herbert Gerstner**
Member of the Works Council

Dr. Klaus Heimann**
Director of the Youth, Training,
and Qualification Policy Division
of IG METALL
* MAN AG

Dr. Jochen Klein
Chairman of the advisory council
of DÖHLER HOLDING GMBH
* DÖHLER GROUP
KARLSBERG BRAUEREI GMBH
HOYER GROUP
(since 21 June 2006)

Prof. Dr. Ing. Erich Kohnhäuser
* MAX AICHER STAHL AG

Norman Kronseder
KRONSEDER FAMILY OFFICE
* BAYERISCHE FUTTERSATBAU
GMBH

Walter Meyer**
Director of
WIRTSCHAFTS-AKADEMIE-WINZER
in Regensburg
* DELPHI DEUTSCHLAND GMBH

Dr. Alexander Nerz
Attorney

Anton Schindlbeck**
Head of sales for LCS

Werner Schrödl**
Chairman of the Central Works
Council

Executive Board

Volker Kronseder
Personnel Management and
Social Affairs
* KRONES INC., USA

Hans-Jürgen Thaus
Deputy Chairman
Finance, Controlling, Informa-
tion Management, and Process
Management
* WILDEN AG
KRONES INC., USA

Rainulf Diepold
Marketing and Sales

Werner Frischholz
Materials Management
and Production

Christoph Klenk
Research and Development,
Engineering, and Product
Divisions
* WINKLER & DÜNNEBIER AG

Following fulfilment of the re-
quirements for application of
the German Codetermination
Act [Mitbestimmungsgesetz] of
1976 in 1987, the Supervisory
Board was extended from 6 to 12
members. Pursuant to § 8 (1) of
the articles of association, six
members are elected from
among the shareholders in ac-
cordance with the German Stock
Corporation Act (§§ 96 (1) and
101). Six members are elected by
the employees pursuant to §§
1(1) and 7 (1) Sentence 1 No. 1 of
the Codetermination Act.

* Other Supervisory Board seats
held, pursuant to § 125 (1),
Sentence 3 of the German
Stock Corporation Act
** Elected by the employees

In addition, each of the Group
companies is the responsibility
of two members of the Execu-
tive Board.

Compensation report (part of the management report)

Supervisory Board compensation

Compensation of the members of the Supervisory Board is governed by the articles of association and resolved by the annual shareholders' meeting. For fiscal 2006, the articles of association as amended by the annual shareholders' meeting on 21 June 2006 apply.

The Supervisory Board's compensation consists of two components, an annual fixed remuneration of €10,000 and variable compensation that is dependent on consolidated net income. The Chairman of the Supervisory Board receives twice the amount of the fixed remuneration and the Deputy Chairman of the Supervisory Board receives one and one half times the fixed remuneration amount. The variable compensation amounts to €2,000 for each full euro by which total consolidated net income per share exceeds €3.00.

For fiscal 2006, net income per share comes to €7.34. Thus, the variable compensation for each member of the Supervisory Board comes to €8,000.

The total remuneration paid to members of the Supervisory Board amounted to €231k (2005: €135k) including variable portions totalling €96k (2005: €0k).

Moreover, the members of the Supervisory Board receive a flat €600 fee per meeting as reimbursement for their expenses unless they submit proof of having incurred higher expenses.

Members of the Supervisory Board who belonged to the board for only a portion of the fiscal year receive pro-rated compensation

The company has no stock option plans or similar securities-oriented incentive systems. Thus, there are also no stock-option plans or similar long-term incentive components of remuneration for members of the Supervisory Board.

Executive Board compensation

The structure of the compensation system for the Executive Board was discussed in detail and determined by the Supervisory Board on the basis of the recommendations contained in the German Corporate Governance Code.

These recommendations for members of the Executive Boards of listed stock corporations contain the following compensation elements:

- fixed elements
- variable elements that are payable annually and based on business performance
- variable elements that serve as long-term incentives containing risk factors

The criteria for determining the appropriateness of the compensation include but are not limited to the tasks of the respective member of the Executive Board, his responsibilities, his personal performance and experience, and the economic situation, performance, and outlook of the enterprise, taking into account its peer companies.

- For fiscal 2006, the direct fixed remuneration of the five active members of the Executive Board was €2,030k (2005: €1,880k). This fixed amount is the base pay stipulated in the members' contracts and is paid out in equal monthly amounts as a salary. This remuneration is generally reviewed as part of the negotiations relating to the extension of the members' contracts. In addition, the members of the Executive Board received fringe benefits in the form of non-cash benefits (company car) amounting to €78k (2005: €78k).
- The variable compensation is based on the achievement of company performance targets. The reference figures are consolidated net income (the primary point of reference) and consolidated sales. The gradation of the targets is determined by the Supervisory Board each year. The variable compensation contains risk elements and is thus not guaranteed compensation. In 2006, the variable compensation amounted to €1,460k (2005: €959k).
- In keeping with the recommendations of the Corporate Governance Code, the Supervisory Board adopted a long-term »performance incentive plan« containing risk elements in 2005. Under this provision, each member of the Executive Board receives a performance incentive that is paid out after no less than ten years of service as a member of the Executive Board of KRONES AG. Board members serving for less than ten years are not entitled to the performance incentive.

The performance incentive is calculated from the relevant Board member's fixed annual remuneration at the time of appointment to the Executive Board and the development of the enterprise value from the time of entry onto the Board to the time at which payment of the incentive comes due.

EBIT, EBITDA, and consolidated sales are used as the basis for calculating enterprise value. If the current enterprise value is less than it was at the time the member joined the Executive Board, the respective member is not entitled to the performance incentive.

In 2006, provisions of €1,008k (2005: €830k) were recognised for the performance incentive.

At KRONES AG there are and have been no stock-option plans or comparable securities-oriented long-term incentive components of remuneration for Executive Board members.

Pension provisions of €5,594k (2005: €4,746k) were recognised for active members of the Executive Board.

For former members of the Executive Board and their surviving dependents, payments amounting to €651k (2005: €637k) were made and pension provisions of €669k (2005: €541k) were recognised.

The disclosure of the total compensation made to each board member by name as recommended under Item 4.2.4 of the German Corporate Governance Code and under §§ 285 (1) No. 9a Sentences 5-9; 314 (1) No. 6a Sentences 5-9 of the German Commercial Code (HGB) is not being implemented. It is the belief of KRONES AG that such disclosure would conflict with personal privacy rights.

Thus, as resolved by the annual shareholders' meeting on 21 June 2006, detailed disclosure of each individual board member's compensation will not be made before the end of the day 20 June 2011, as provided for under § 286 (5) of the German Commercial Code.

On the other hand, details relating to the structure of the compensation are essential for assessing the appropriateness of the compensation structure and whether it results in an incentive effect for the Executive Board.

Corporate governance at KRONES

Regular reports provide open, transparent information about the development of the KRONES GROUP and the company's strategies.

An integral part of corporate management and supervision

For KRONES, the German Corporate Governance Code is an integral part of governance. The Code presents essential statutory regulations for the management and supervision (governance) of German listed companies and contains internationally and nationally recognised standards for good and responsible governance. The management of KRONES takes the principles and rules of corporate governance into account in all of the company's activities aimed at systematically increasing the company's value for the long term.

Declaration of compliance pursuant to § 161 of the German Stock Corporation Act [Aktiengesetz]

»The Executive Board and Supervisory Board of KRONES AG declare that the recommendations of the »Government Commission German Corporate Governance Code« established by the German federal government regarding the management and supervision of German listed companies, in the version dated 12 June 2006, have been and are being complied with in accordance with the German Corporate Governance Code, which is published online at the KRONES AG website, with the following deviations:

- A deductible is currently not included in the D&O policy for the Executive Board and Supervisory Board (item 3.8 of the Code).
- There are currently no stock options at KRONES AG. Further, separate disclosure about the basic features of the remuneration system or changes to the system is currently not made at the annual shareholders' meeting or on the KRONES AG website but is made in the Annual Report (item 4.2.3 of the Code).

- In keeping with the resolution of the annual shareholders' meeting, total compensation of each member of the Executive Board, subdivided according to fixed, performance-related, and long-term incentive components, is not listed individually by each member's name (item 4.2.4. of the Code).
- Compensation of the members of the Supervisory Board is currently not reported on an individualised basis. Other compensation – for services provided individually, in particular, advisory or agency services – is currently not reported (item 5.4.7 of the Code).
- Shareholdings of the members of the Executive Board and the Supervisory Board of KRONES AG are not disclosed in the corporate governance report (item 6.6 of the Code).
- We are not yet in compliance with the deadline for publication of the consolidated financial statements of KRONES AG within 90 days of the end of the financial year and publication of the interim reports within 45 days of the end of the reporting period (item 7.1.2 of the Code).

Neutraubling, 30 March 2007

For the Executive Board For the Supervisory Board



Volker Kronseder
Chairman



Dr. Lorenz Raith
Chairman



The secret's in the mix

KRONES' rainbow filler can bottle up to four different flavours of mixed dairy beverages at one time. This innovation earned KRONES a European FoodTec Award in 2006.

This technology, which KRONES developed based on a suggestion from the dairy industry, enables dairies to streamline their internal processes. The ability to deliver multiple flavours of product in this manner also gives our customers access to large grocery store chains.

Added value





A warehouse is more than shelves

Internal logistics is one of the areas that will drive growth in the years ahead. The wide variety of products and packaging on the market today requires state-of-the-art technology for controlling the flow of goods in the warehouse.

The beverage industry benefits from KRONES AG's comprehensive expertise. With KRONES, customers have just one contact for all of their needs, and the technology is precisely tailored to the conditions in their own beverage plants. KRONES always has the whole operation in mind.

Added value



Commercial glossary

Associated enterprises	See subsidiaries	Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Cash flow	Financial figure that indicates the surplus of cash and cash equivalents (net income plus depreciation)	Non-current assets	Assets not expected to be consumed, converted into cash, sold, or exchanged within the company's normal business cycle (usually 1 year).
Cash flow statement	Statement of inflows and outflows of cash that shows the sources and uses of funds within the financial year.	Percentage of completion method	Accounting method under IAS 11 that prescribes the recognition of revenue from construction contracts in the income statement.
Corporate governance	Responsible corporate management and supervision that is oriented toward long-term value creation.	Price/earnings (PE) ratio	The PE ratio is an important ratio for evaluating shares. It is calculated by dividing the share price by earnings per share. The lower the PE ratio, the better the value.
DAX	Deutscher Aktienindex (DAX). Index containing the 30 biggest German companies (based on market capitalisation and trading volume).	Retained earnings	Earnings that are not distributed to shareholders but are instead reinvested.
Deferred tax items	Temporary differences between the taxes calculated on the results reported on tax statements and those calculated on the results recognised in the financial statements under IFRSs. The purpose is to show the tax expense in relation to the result under IFRSs.	Return on equity	Ratio of net income to equity
EBITDA	Earnings before interest, taxes, depreciation and amortisation	Return on equity before taxes	Ratio of earnings before taxes to average equity.
EBIT	Earnings before interest and taxes	Return on investment	Ratio of earnings before taxes and interest relating to debt to total capital.
EBT	Earnings before taxes	ROCE	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and other provisions).
Equity	Funds made available to the company by the owners by way of contribution and/or investment plus retained earnings (or losses).	ROI	Return on investment. Ratio of earnings before taxes to total capital.
Free float	Portion of the total number of shares outstanding that is available to the public for trading.	ROS	Return on sales. Ratio of earnings before taxes to sales.
IFRSs	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.	Subsidiaries	All companies that are controlled, directly or indirectly, by a parent company due to majority interest and/or common management.
Market capitalisation	The value of a company based on the market price of issued and outstanding ordinary shares. Calculated by multiplying the share price by the number of shares.	Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
MDAX	Index that contains the 50 biggest German and non-German companies (based on market capitalisation and trading volume) in the traditional sectors after those included in the DAX.	Working capital	Current assets less current liabilities.
		XETRA trading system	Electronic stock market trading system.

Technical glossary

Aseptic (or cold aseptic) beverage filling	Germ-free filling of beverages at ambient temperatures.	Pasteuriser	System in which the shelf life of beverages or food products is extended by way of heating.
Cavity	Blowing mould for a stretch blow-moulding machine.	PET aseptic process	Process for cold aseptic filling of beverages into PET bottles.
CIP system	Cleaning in Place. System for cleaning the inside of machines, supply lines, and tanks.	Rinser	Machine in which empty bottles are flushed with water or blown out with air prior to filling in order to remove any dust particles and foreign objects.
CSD	Carbonated soft drink	Small cavity	Blowing mould for producing PET bottles with a volume of 0.6 litres or less.
Dry sterilisation	Sterilisation of containers using gaseous hydrogen peroxide.	Sterile water UHT	System for generating sterile water by heating the water to a very high temperature (Ultra High Temperature).
Flash pasteurisation	Brief heating of products in order to extend shelf life.	Teleservice	Remote maintenance of machines and lines via modem or Internet.
Hygienic design	Design of machines and line components that is optimised for hygiene and easy cleaning	UHT system	Heating of products at ultra high temperature (UHT) in order to extend shelf life.
In-house overhaul	Machine overhaul done at our main plant.	Wet sterilisation	Sterilisation of containers using peracetic acid.
Inspector	Machine that examines bottles or other containers for damage and contaminants.	Whirlpool	Liquids and solids are separated in the whirlpool.
Internal logistics	Organisation, execution, and optimisation of internal material flows in companies by way of technical systems and services.	Wort boiling	The boiling of wort with the addition of hops.
Large cavity	Blowing mould for producing PET bottles with a volume of up to 5 litres.	Wrap-around labelling	Application of labels that are glued around the entire girth of a container and overlapped at the ends.
Lautering system	System for separating the wort from the spent grain.		
Mash	Mixture of ground malt and water.		
Non-beverage sector	The most important non-beverage sectors for KRONES are the food, chemicals, pharmaceuticals, and cosmetics industries.		

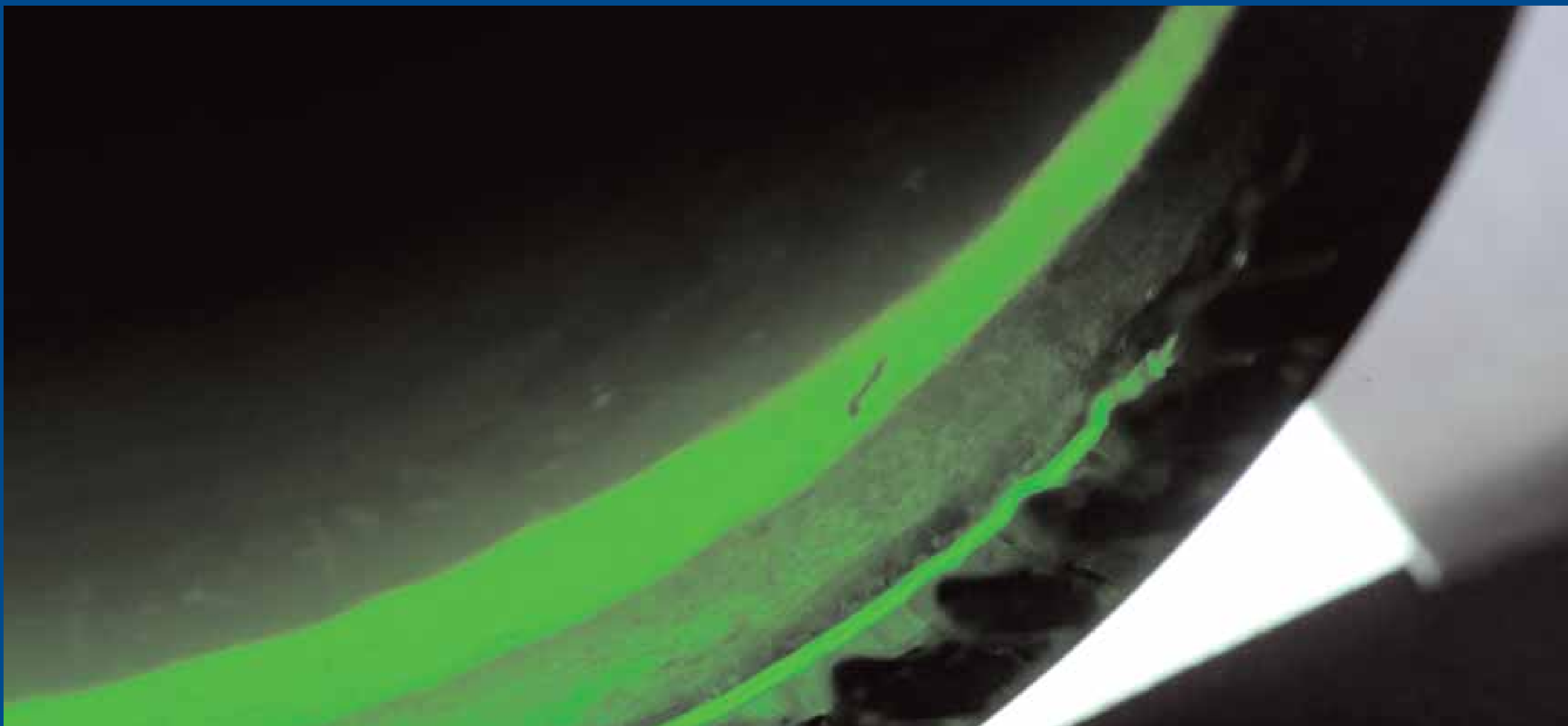


It's nice to know someone's paying attention

Glass fragments in beer or other beverage bottles can cause a company serious image problems. Particles as tiny as 0.5 mm can pose a threat. The KRONES Rotocheck uses an extremely sophisticated process to inspect filled containers, processing up to 130 million pixels per second.

This inspector offers our customers security and product safety and thus prevents complaints and safeguards brand value.

Added value



CONSOLIDATED FINANCIAL STATEMENTS FOR 2006



Balance sheet	4
Income statement	6
Cash flow statement	7
Statement of changes in non-current assets	8
Segment reporting	12
Statement of changes in equity	14
Notes to the consolidated financial statements	
General disclosures	16
Notes to the consolidated balance sheet	24
Notes to the income statement	37
Other disclosures	39
The Supervisory Board and Executive Board	47
Proposal for the use of unappropriated profit	49
Auditor's report	50

Consolidated balance sheet

Assets	Notes	2006		2005	
		in € k	in € k	in € k	in € k
Intangible assets	2	53,619		54,466	
Property, plant and equipment	3	305,513		287,067	
Financial assets	4	15,025		15,186	
Property, plant and equipment, intangible assets, and financial assets	1	374,157		356,719	
Deferred tax assets	8	5,813		9,370	
Trade receivables	6	33,958		35,993	
Non-current tax receivables	8	14,876		0	
Other assets	6	884		502	
Non-current assets		429,688		402,584	
Inventories	5	387,094		326,864	
Trade receivables	6	540,914		422,925	
Current tax receivables	8	1,981		6,983	
Other assets	6	54,915		66,650	
Cash and cash equivalents	7	57,727		56,501	
Current assets		1,042,631		879,923	
Total assets		1,472,319		1,282,507	

Equity and liabilities	Notes	2006		2005	
		in € k	in € k	in € k	in € k
Capital stock	9	26,922		26,922	
Capital reserves	10	103,703		103,703	
Retained earnings	11	361,953		334,223	
Other reserves	12	826		-1,250	
Group profit		132,732		105,027	
Minority interests	13	2,578		3,308	
Equity	9		628,714		571,933
Provisions for pensions	14	70,772		64,608	
Deferred tax liabilities	8	8,661		6,529	
Other provisions	15	45,168		39,186	
Liabilities to banks	16	810		0	
Trade payables	16	399		367	
Other financial liabilities	16	12,758		13,987	
Other liabilities	16	9,014		29,987	
Non-current liabilities			147,582		154,664
Other provisions	15	92,330		66,270	
Provisions for taxes	15	30,708		7,907	
Liabilities to banks	16	77		4,803	
Advance payments received	16	190,223		156,725	
Trade payables	16	154,201		112,160	
Current tax liabilities	8	2,661		685	
Other financial liabilities	16	25,938		22,889	
Other liabilities and accruals	16	199,885		184,471	
Current liabilities			696,023		555,910
Total equity and liabilities			1,472,319		1,282,507

Consolidated income statement

	Notes	2006		2005	
		in € k	in € k	in € k	in € k
Sales revenues	20	1,910,814		1,694,984	
Increase of inventory of finished goods and work in progress		45,577		1,203	
Other own work capitalised	21	14,046		26,270	
Other operating income	22	54,665	2,025,102	58,159	1,780,616
Goods and services purchased	23				
Expenses for materials, supplies, and purchased goods		-847,389		-720,718	
Expenses for services purchased		-155,917	-1,003,306	-106,354	-827,072
Personnel expenses	24				
Wages and salaries		-467,042		-429,142	
Social security contributions and expenses for pension plans and benefits		-96,290	-563,332	-92,495	-521,637
Depreciation and amortisation of intangible assets and property, plant and equipment			-49,846		-46,575
Other operating expenses	25		-300,617		-295,139
EBIT			108,001		90,193
Investment income	26	1,125		0	
Income from other securities and loans classified as financial assets	26	20		17	
Other interest and similar income	26	6,446		6,348	
Write-downs on financial assets	26	-4		0	
Interest and similar expenses	26	-5,952		-5,395	
			1,635		970
Earnings before taxes			109,636		91,163
Taxes on income	27		-32,099		-27,749
Net income			77,537		63,414
Profit (loss) share of minority interests		226		168	
Profit (loss) share of shareholders of KRONES GROUP			77,311		63,246
Earnings per share (diluted/basic) in €	28		7.34		6.01

Consolidated cash flow statement

	2006		2005	
	in € k	in € k	in € k	in € k
Earning before taxes		109,636		91,163
Depreciation and amortisation (reversals)		49,846		46,468
Increase (decrease) in provisions		59,033		-6,715
Deferred tax item changes recognised in income		3,448		934
Interest expenses and interest income		-494		-953
Proceeds and losses from the disposal of non-current assets		-1,734		-1,022
Other non-cash income and expenses		3,271		9,888
Increase in trade receivables and other assets not attributable to investing or financing activities		-122,528		-52,851
Increase in inventories		-63,327		-22,974
Increase in trade payables and other liabilities not attributable to investing or financing activities		68,209		24,108
Cash generated from operating activities		105,360		88,046
Interest paid		-4,466		-3,599
Income taxes paid and refunds received		-14,002		-22,041
Cash flow from operating activities		86,892		62,406
Cash payments to acquire intangible assets		-17,319		-26,149
Proceeds from the disposal of intangible assets		88		58
Cash payments to acquire property, plant and equipment		-60,423		-52,115
Proceeds from the disposal of property, plant and equipment		10,865		4,085
Cash payments to acquire financial assets		-4		-24
Proceeds from the disposal of financial assets		165		9,022
Cash payments to acquire shares in associated enterprises		-3,511		-12,387
Interest received		4,860		3,156
Dividends received		1,125		0
Cash flow from investing activities		-64,154		-74,354
Cash payments to company owners		-14,743		-13,690
Proceeds from new borrowing		0		3,489
Cash payments to service debt		-3,916		0
Cash payments to pay lease liabilities		-436		-436
Proceeds from issuing of minority interest shares		146		0
Cash flow from financing activities		-18,949		-10,637
Net change in cash and cash equivalents		3,789		-22,585
Changes in cash and cash equivalents arising from exchange rates		-2,563		3,710
Cash and cash equivalents at the beginning of the period		56,501		75,376
Cash and cash equivalents at end of the period		57,727		56,501

Consolidated statement of changes in non-current assets in 2006

	Cost						Depreciation, amortization, and write-downs						Carrying amounts	
	1 Jan 2006	Additions	Disposals	Reclassifications	Currency	31 Dec 2006	1 Jan 2006	Additions	Disposals	Reversals	Currency	31 Dec 2006	31 Dec 2006	31 Dec 2005
					differences						differences			
	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k
Intangible assets														
1. Intellectual property rights and similar rights and licenses to such rights and assets	57,692	7,857	1,627	0	-65	63,857	45,016	6,782	1,539	0	-39	50,220	13,637	12,676
2. Capitalised development costs	60,340	9,462	668	0	0	69,134	18,550	11,270	668	0	0	29,152	39,982	41,790
	118,032	17,319	2,295	0	-65	132,991	63,566	18,052	2,207	0	-39	79,372	53,619	54,466
Property, plant and equipment														
1. Land and buildings, including buildings on third-party land	274,025	18,196	10,077	11,207	-1,449	291,902	77,926	6,987	2,297	0	-716	81,900	210,002	196,099
2. Technical equipment and machines	170,253	14,474	9,172	3,382	-1,531	177,406	131,069	10,150	8,705	0	-1,334	131,180	46,226	39,184
3. Other equipment, furniture and fixtures, and office equipment	148,779	18,310	22,326	1,599	-1,037	145,325	113,816	14,657	21,442	0	-916	106,115	39,210	34,963
4. Construction in progress	16,821	9,443	0	-16,188	-1	10,075	0	0	0	0	0	0	10,075	16,821
	609,878	60,423	41,575	0	-4,018	624,708	322,811	31,794	32,444	0	-2,966	319,195	305,513	287,067
Financial assets														
1. Shares in associated enterprises	17,514	0	0	0	0	17,514	2,949	0	0	0	0	2,949	14,565	14,565
2. Investments	729	0	0	0	0	729	578	0	0	0	0	578	151	151
3. Non-current securities	271	0	118	0	0	153	-6	4	-6	4	0	0	153	277
4. Other long-term loans	193	4	41	0	0	156	0	0	0	0	0	0	156	193
	18,707	4	159	0	0	18,552	3,521	4	-6	4	0	3,527	15,025	15,186
Non-current assets	746,617	77,746	44,029	0	-4,083	776,251	389,898	49,850	34,645	4	-3,005	402,094	374,157	356,719

Consolidated statement of changes in non-current assets in 2005

	Cost						Depreciation, amortization, and write-downs						Carrying amounts	
	1 Jan 2005	Additions	Disposals	Reclassifications	Currency	31 Dec 2005	1 Jan 2005	Additions	Disposals	Reversals	Currency	31 Dec 2005	31 Dec 2005	31 Dec 2004
					differences						differences			
	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k
Intangible assets														
1. Intellectual property rights and similar rights and licenses to such rights and assets	55,185	4,458	2,145	49	145	57,692	41,034	5,980	2,090	0	92	45,016	12,676	14,151
2. Capitalised development costs	39,539	21,691	888	0	-2	60,340	9,966	9,470	885	0	-1	18,550	41,790	29,573
	94,724	26,149	3,033	49	143	118,032	51,000	15,450	2,975	0	91	63,566	54,466	43,724
Property, plant and equipment														
1. Land and buildings, including buildings on third-party land	268,154	5,173	1,326	36	1,988	274,025	71,171	6,561	579	102	875	77,926	196,099	196,983
2. Technical equipment and machines	155,287	12,898	1,563	1,788	1,843	170,253	121,192	9,473	1,265	0	1,669	131,069	39,184	34,095
3. Other equipment, furniture and fixtures, and office equipment	153,864	18,213	25,039	45	1,696	148,779	120,592	15,091	23,230	0	1,363	113,816	34,963	33,272
4. Construction in progress	3,032	15,831	209	-1,918	85	16,821	0	0	0	0	0	0	16,821	3,032
	580,337	52,115	28,137	-49	5,612	609,878	312,955	31,125	25,074	102	3,907	322,811	287,067	267,382
Financial assets														
1. Shares in associated enterprises	17,514	0	0	0	0	17,514	2,949	0	0	0	0	2,949	14,565	14,565
2. Investments	730	1	0	0	-2	729	579	0	0	0	-1	578	151	151
3. Non-current securities	315	0	51	0	7	271	-1	0	0	5	0	-6	277	316
4. Other long-term loans	9,141	23	8,971	0	0	193	0	0	0	0	0	0	193	9,141
	27,700	24	9,022	0	5	18,707	3,527	0	0	5	-1	3,521	15,186	24,173
Non-current assets	702,761	78,288	40,192	0	5,760	746,617	367,482	46,575	28,049	107	3,997	389,898	356,719	335,279

KRONES GROUP segment reporting

	Machines and lines for product filling and decoration		Machines and lines for beverage production/process technology		Machines and lines for the low output range (KOSME)		Consolidation		KRONES GROUP	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k	in € k
Sales revenues	1,641,331	1,445,616	197,249	182,726	72,234	66,642			1,910,814	1,694,984
Germany	269,028	204,823	16,350	23,087	3,302	1,015			288,680	228,925
Rest of Europe	580,240	450,817	79,129	49,653	45,527	44,057			704,896	544,527
Other areas	792,063	789,976	101,770	109,986	23,405	21,570			917,238	921,532
Segment EBIT	107,089	101,745	-3,380	-13,689	4,292	2,137			108,001	90,193
Depreciation, amortisation, and write-downs	46,708	42,430	1,053	2,041	2,085	2,104			49,846	46,575
EBT	109,979	103,548	-3,637	-13,689	3,294	1,304			109,636	91,163
Other material non-cash income and expenses	-5,408	-9,888	2,346	0	-209	0			-3,271	-9,888
Assets	1,294,383	1,119,686	132,107	121,101	45,444	59,220	-36,850	-48,418	1,435,084	1,251,589
Germany	1,005,811	856,492	124,372	106,203	0	0	-22,609	-37,768	1,107,574	924,927
Rest of Europe	122,220	84,266	7,735	14,898	45,444	59,220	-13,835	-10,278	161,564	148,106
Other areas	166,352	178,928	0	0	0	0	-406	-372	165,946	178,556
Liabilities	718,054	596,413	91,164	96,281	28,320	54,281	-36,850	-48,418	800,688	698,557
Capital expenditures for intangible assets and property, plant and equipment	73,870	73,971	804	1,299	3,068	2,994			77,742	78,264
Germany	68,341	69,988	800	1,002	0	0			69,141	70,990
Rest of Europe	3,175	1,159	4	297	3,068	2,994			6,247	4,450
Other areas	2,354	2,824	0	0	0	0			2,354	2,824
Return on sales (EBT to sales)	6.7%	7.2%	-1.9%	-7.5%	4.6%	2.0%			5.7%	5.4%

Consolidated statement of changes in equity

	Parent company							Minority interests	Group equity
	Capital stock	Capital reserves	Retained earnings	Currency differences in equity	Other reserves	Group profit	Equity		
	in € k	in € k	in € k	in € k	in € k	in € k	in € k		
At 1 January 2005	26,922	103,703	309,954	-2,540	5,235	80,546	523,820	1,902	525,722
Dividend payment (€1.30 per share)						-13,690	-13,690		-13,690
Consolidated net income 2005						63,246	63,246	168	63,414
Allocation to retained earnings			25,075			-25,075	0		0
Currency differences				6,622			6,622		6,622
Changes in the consolidated group			-4,888				-4,888	1,238	-3,650
Hedge accounting					-6,485		-6,485	0	-6,485
At 31 December 2005	26,922	103,703	330,141	4,082	-1,250	105,027	568,625	3,308	571,933
Dividend payment (€1.40 per share)						-14,743	-14,743		-14,743
Consolidated net income 2006						77,311	77,311	226	77,537
Allocation to retained earnings			34,863			-34,863	0		0
Currency differences				-4,724			-4,724		-4,724
Changes in the consolidated group			-2,409				-2,409	-956	-3,365
Hedge accounting					2,076		2,076	0	2,076
At 31 December 2006	26,922	103,703	362,595	-642	826	132,732	626,136	2,578	628,714

Notes to the consolidated financial statements of KRONES GROUP

General disclosures

■ Legal basis

The consolidated financial statements of KRONES AG («KRONES GROUP») for the period ended 31 December 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, applicable on the reporting date, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of IFRSs that had not yet entered into force or their interpretations. A list of these standards and interpretations can be found on p. 43.

Minority interests in group equity are stated on the balance sheet as a special item within equity. Profit or loss shares attributable to minority interests are recognised on the income statement as part of consolidated earnings. The shares of consolidated earnings allocated to equity holders of the parent company and to minority interests are presented separately.

Minority interests have been added to the statement of changes in equity.

The following explanatory notes comprise disclosures and remarks that, under IFRS, must be included as notes to the consolidated financial statements in addition to the balance sheet, income statement, statement of changes in equity, and cash flow statement.

The »nature of expense« method has been used for the income statement. The group's reporting currency is the euro.

■ Consolidated group

Besides KRONES AG, the consolidated financial statements for the period ended 31 December 2006 include all material domestic and foreign subsidiaries in which KRONES AG holds more than 50% of the voting rights.

KRONES AG acquired another 15% of the shares in KOSME S.R.L., Roverbella, Italy, in fiscal 2006 and now holds 70% of the shares of this company.

Moreover, KRONES Trading (Taicang) Co. Ltd., Taicang, China, in which KRONES AG holds a 100% stake, and MAINTEC Service GmbH, Collenberg/Main, Germany, in which KRONES AG holds a 51% stake were established.

The first-time consolidation of the new shares was effected at the time of acquisition or establishment.

A complete presentation of investment holdings will be filed in the electronic Federal Gazette (*elektronischer Bundesanzeiger*).

■ Consolidation principles

The separate financial statements of the companies included in the consolidated financial statements are prepared in accordance with uniform accounting policies and were all prepared as of the reporting date of the consolidated financial statements.

For companies that were acquired after 1 January 2004, acquisition accounting is performed in accordance with IFRS 3 («Business combinations»), under which all business combinations must be accounted for using the »purchase method« of accounting, whereby the acquired assets and liabilities are to be recognised at fair value.

Any amount by which the cost of acquisition exceeds the interest in the fair values of assets, liabilities, and contingent liabilities is recognised as goodwill and subjected to regular impairment tests. Negative goodwill is immediately recognised in profit and loss. Goodwill arising before 1 January 2004 is still recognised in reserves.

Shares in the equity of subsidiaries that are not held by the parent company are reported as »minority interests«.

Inter-company receivables, liabilities, provisions, revenues, and expenses between consolidated companies are eliminated in the consolidation process.

Inter-company profits from deliveries effected or services rendered between Group companies are not eliminated because the amounts arising from these transactions are not material for the presentation of the group's assets, financial position, and results of operations.

■ Currency translation

The functional currency for KRONES AG is the euro.

The financial statements of the consolidated companies that are denominated in a foreign currency are translated on the basis of the functional currency concept [IAS 21] using a modified closing rate method. Because the subsidiaries operate primarily independently in the economic environment of their respective countries, the functional currency is always the relevant local currency for each subsidiary. Thus, in the consolidated financial statements, assets and liabilities are translated at the closing rate as on the reporting date, while income and expenses from the financial statements of subsidiaries are translated at average annual rates.

Any exchange differences resulting from these different rates in the balance sheet and income statement are recognised directly in equity. Exchange differences resulting from the translation of equity using historical exchange rates are also recognised directly in equity.

In the separate financial statements of KRONES AG and its subsidiaries, receivables and liabilities in foreign currencies are translated using the exchange rate at the time of the transaction and exchange differences are recognised as income or expense at the closing rate. Non-monetary items in foreign currencies are stated at historical cost.

Exchange rate differences compared with the previous year arising from acquisition accounting are recognised directly in equity in other retained earnings.

The exchange rates of those currencies that have a material impact on the group's financial statements have moved against the euro as follows:

		Closing rate		Average rate	
		31 Dec 2006	31 Dec 2005	2006	2005
us dollar	USD	1.318	1.183	1.256	1.244
British pound	GBP	0.672	0.687	0.682	0.684
Swiss franc	CHF	1.608	1.556	1.573	1.548
Danish krone	DKK	7.456	7.461	7.459	7.452
Canadian dollar	CAD	1.529	1.375	1.424	1.509
Japanese yen	JPY	156.700	139.100	146.020	136.850
Brazilian real	BRL	2.814	2.750	2.736	3.037
Chinese renminbi (yuan)	CNY	10.292	9.547	10.010	10.196
Mexican peso	MXN	14.304	12.602	13.679	13.499

■ Accounting policies

The separate financial statements of KRONES AG and its domestic and foreign subsidiaries have been prepared using uniform accounting policies, in accordance with IAS 27.

Some discretion has been used in preparing the consolidated financial statements, particularly in terms of measurement of inventories and provisions, because their preparation requires some critical estimates and forecasts.

■ Intangible assets

Purchased and internally generated intangible assets, excluding goodwill, are recognised pursuant to IAS 38 if it is sufficiently probable that the use of the asset will result in a future economic benefit and the cost of the asset can be reliably determined. They are stated at cost and amortised systematically on a straight-line basis over their estimated useful lives. The amortisation of intangible assets is carried out over a useful life of between three and five years and recognised under »Depreciation and amortisation of intangible assets and property, plant and equipment.«

■ Research and development costs

Development costs of the KRONES GROUP are capitalised at cost to the extent that costs can be allocated reliably and the technical feasibility and a future economic benefit as a result of their use are probable. According to IAS 38, research costs cannot be recognised as intangible assets and are, therefore, recognised as an expense in the income statement when they are incurred.

■ Goodwill

Goodwill resulting from acquisition accounting is capitalised and an impairment loss recognised in accordance with IAS 36 if impairment is found to exist.

■ Property, plant and equipment

Property, plant and equipment are accounted for at cost less scheduled depreciation on a straight-line basis over their estimated useful lives. The cost of internally generated plant and equipment comprises all costs that are directly attributable to the production process and an appropriate portion of overheads. Borrowing costs are not recognised as acquisition or production costs (»cost«). A revaluation of property, plant and equipment pursuant to IAS 16 was not carried out.

Scheduled depreciation is based on the following useful lives, which are applied uniformly throughout the group:

Useful life	in years
Buildings	14 – 50
Technical equipment and machines	5 – 16
Furniture and fixtures and office equipment	3 – 15

In figuring the useful lives, the different components of an asset with significantly different costs were taken into account.

Government grants are only recognised if there is reasonable assurance that the conditions attaching to them will be complied with and the grants will be received.

Apart from grants related to income, which are recognized in their full amount as income, grants related to assets are deducted in arriving at the carrying amount of the asset on the balance sheet and recognised in profit and loss by way of a reduced depreciation charge in the subsequent periods.

■ Leases

Leases in which the KRONES GROUP, as the lessee, bears substantially all the risks and rewards incident to ownership of the leased asset are treated as finance leases pursuant to IAS 17 upon inception of the lease. The leased asset is recognised as a non-current asset at fair value or, if lower, at the present value of the minimum lease payments. The leased asset is depreciated systematically using the straight-line method over the shorter of its »estimated useful life« or the »lease term«. Obligations for future lease instalments are recognised as »other liabilities«.

In the case of operating leases, the leased assets are treated as assets belonging to the lessor since the lessor bears the risks and rewards.

■ Financial assets

Financial assets are recognised at cost, less impairment losses.

■ Derivative financial instruments

The derivative financial instruments used within the KRONES GROUP are used to hedge against currency risks from operating activities.

The primary category of currency risk at KRONES is transaction risks arising from exchange rates and cash flows in foreign currencies. These currencies are, primarily, the us dollar, Canadian dollar, British pound, and Swiss franc.

Within the hedging strategy, 100% of items denominated in foreign currencies are generally hedged. The primary hedging instruments used for this are forward exchange contracts and, occasionally, currency swaps.

The strategy objective is to minimise currency risk by using hedging instruments that are viewed as highly effective and thus both hedging the exchange rate and achieving planning security.

The derivative financial instruments are measured at fair value at the balance sheet date. Gains and losses from the measurement are recognised as income or expense in the income statement unless the conditions for hedge accounting are met.

The derivative financial instruments for which hedge accounting is applied comprise forward currency contracts and currency swaps whose changes in fair value are recognised either in income (»fair value hedge«) or in equity (»cash flow hedge«). In the case of cash flow hedges, to mitigate currency risks from existing underlying transactions, changes in fair value are initially recognised directly in equity and subsequently recognised in the income statement when the hedged item is recognised in the income statement. The derivative financial instruments are measured on the basis of the relevant commercial bank's forward rates.

They are derecognised only when substantially all risks and rewards of ownership are transferred.

■ Inventories

Inventories are stated at the lower of cost or net realisable value. Cost of production includes costs directly related to the units of production and an appropriate portion of fixed and variable production overheads. The portion of overheads is determined on the basis of normal operating capacity. Selling costs, general administrative costs, and borrowing costs are not included in the costs of inventories. For inventory risks arising from increased storage periods or reduced usability, write-downs are made on the inventories.

For the sake of convenience in measuring materials and supplies, the FiFo and weighted average cost formulas are applied.

■ Receivables and other assets

Receivables and other assets, with the exception of derivative financial instruments, are assets that are not held for trading. They are reported at amortised cost. Receivables with maturities of over one year that bear no or lower-than-market interest are discounted. Impairments are recognised to take account for all identifiable risks.

- **Construction contracts for specific customers**

Construction contracts for specific customers that are in progress are recognised according to the degree of completion pursuant to IAS 11 («percentage-of-completion method»). Under this method, contract revenue is recognised in accordance with the percentage of physical completion of the lines and machines at the balance sheet date. The percentage of completion corresponds to the ratio of contract costs incurred up to the balance sheet date to the total costs calculated for the contract. The construction contracts are recognised under trade receivables.

- **Deferred tax items**

Deferred tax assets and liabilities are recognised using the balance-sheet oriented «liability method». This involves creating deferred tax items for all temporary differences between the tax and IFRS balance sheet carrying amounts and for consolidation procedures affecting income.

The deferred tax items are computed on the basis of the national income tax rates that apply in the individual countries at the time of realisation. Changes in the tax rates are taken into account if there is sufficient certainty that they will occur. Where permissible under law, deferred tax assets and liabilities have been offset.

- **Provisions for pensions**

Provisions for pensions are calculated using the «projected unit credit method» pursuant to IAS 19. Under this method, known vested benefits at the reporting date as well as expected future increases in pensions and salaries are taken into account with due consideration to relevant factors that will affect the benefit amount, which are estimated on a prudent basis. The provision is calculated on the basis of actuarial valuations that take into account biometric factors.

Actuarial gains and losses are only recognised as income or expenses if they exceed 10% of the obligations. These are recognised over the expected average remaining working lives of the employees.

- **Other provisions**

Other provisions are recognised when the group has an obligation to a third party as a result of a past event, an outflow is probable, and a reliable estimate of the amount of the obligation can be made. Measurement of these provisions is computed at fully attributable costs or on the basis of the most probable expenditures needed to settle the obligation.

Provisions with a residual term of more than one year are recognised at the present value of the probable expenditures needed to settle the obligation at the reporting date.

- **Financial liabilities**

Pursuant to IAS 39, financial liabilities are measured at cost on first-time recognition. Cost is equivalent to the fair value of the consideration given. Transaction costs are included in this initial measurement of financial liabilities. After the initial recognition, all financial liabilities and derivative financial instruments that represent liabilities are measured at amortised cost.

- **Sales revenues**

With the exception of those contracts that are measured according to IAS 11, sales revenues are recognised, in accordance with the criteria laid out under IAS 18, when the significant risks and rewards of ownership are transferred, when a price is agreed or can be determined, and economic benefit from the sale of goods is sufficiently probable.

Sales revenues are reported less reductions.

- **Segment reporting**

Intersegment transfers are conducted under the same conditions as transfers among third parties.

Notes to the consolidated balance sheet

1 Property, plant and equipment, intangible assets, and financial assets

With respect to changes in the items presented under property, plant and equipment, intangible assets, and financial assets, please refer to the consolidated statement of changes in non-current assets (pp. 8–11).

2 Intangible assets

The addition under intellectual property rights and licenses primarily relates to computer software licenses

The capitalised development costs relate to new machinery projects of KRONES AG and SANDER HANSEN A/S and of the KOSME GROUP. The development costs capitalised in 2006 amount to €9,462k (2005: €21,691k). In 2006, a total of €89,497k was spent on research and development (2005: €73,123k).

3 Property, plant and equipment

As in the previous year, no impairments or impairment reversals pursuant to IAS 36 were necessary in 2006.

In 2006, the carrying amounts for property, plant and equipment included grants of €551k (2005: €560k). Of the grants, €49k (2005: €50k) were recognised in profit and loss by way of a reduced depreciation charge in 2006.

For the property, plant and equipment reported, there were no restrictions on title or right of disposal.

Property, plant and equipment includes leased assets amounting to €16,680k (2005: €17,114k), which are to be attributed as the economic property of the relevant group company due to the provisions of the underlying lease (finance lease).

The carrying amounts of the capitalised leased assets are as follows:

in € k	31 Dec 2006	31 Dec 2005
Land and buildings, including buildings on third-party land	15,245	15,721
Technical equipment and machines	830	850
Other equipment, furniture and fixtures, and office equipment	605	543
Total	16,680	17,114

4 Financial assets

Financial assets, which amount to €15,025k (2005: €15,186k), relate substantially to shares in associated enterprises and other lendings. An impairment reversal of €4k (2005: €5k) was recognised on the securities under non-current financial assets. Impairment losses of €10k were recognised in 2006. The carrying amounts on the balance sheet correspond to the fair values.

5 Inventories

The inventories of the KRONES GROUP are composed as follows:

in € k	31 Dec 2006	31 Dec 2005
Materials and supplies	136,123	100,858
Work in progress	121,833	117,110
Finished goods	112,254	72,110
Goods purchased for sale	13,866	36,299
Miscellaneous	3,018	487
Total	387,094	326,864

Inventories are recognised at the lower of cost or fair value less selling expenses.

Construction contracts in progress at the balance sheet date do not have gross amounts due to customers (liability) or gross amounts due from customers (asset) since recognition is done using the percentage of completion method.

Impairments of €10,042k on inventories were recognised as expenses in 2006 (2005: €7,126k) and are based substantially on customary net realisable values and obsolescence allowances. The amount of impairment reversals recognised in profit and loss due to improved market conditions was insignificant.

6 Receivables and other assets

Receivables and other assets break down as follows:

in € k	31 Dec 2006	31 Dec 2005
Trade receivables	574,872	458,918
(of which amounts are due in 12 months or later)	33,958	35,993
Other assets	55,799	67,152
(of which amounts are due in 12 months or later)	884	502

Existing individual risks were accounted for through direct deductions amounting to €3,271k. For receivables from customers, the amounts recognised on the balance sheet correspond to the fair values.

The other assets include primarily advance payments made (€25,971k; 2005: €35,365k), tax receivables (€17,627k; 2005: €13,957k), prepaid expenses (€4,004k; 2005: €9,077k), and creditors with debit balances (€1,192k; 2005: €1,419k).

The derivative financial instruments measured at fair value, which were entered into for future payment receipts and meet the conditions for hedge accounting, amounted to €1,992k in 2006 (2005: €352k).

7 Cash and cash equivalents

Apart from cash on hand amounting to €238k (2005: €306k), cash and cash equivalents, which amount to €57,727k (2005: €56,501k), consist primarily of bank balances. Changes in cash and cash equivalents under IAS 7 »Cash flow statements« are presented in the cash flow statement on p. 7.

8 Deferred tax items

Taxes on income can be broken down as follows:

in € k	31 Dec 2006	31 Dec 2005
Deferred taxes	3,448	934
Current taxes	28,651	26,815
Total	32,099	27,749

The deferred tax items are computed on the basis of the national income tax rates that apply or are expected due to the current legal situation in the individual countries at the time of realisation. In Germany, a corporate income tax rate of 25.0% plus a solidarity surcharge of 5.5% and a local business tax rate (*Gewerbesteuerhebesatz*) for KRONES AG that averages 327% apply. Thus, the total tax income rate for the companies in Germany is 36.7%. Abroad, the tax rates are in the 22.5% to 42.0% range.

The deferred tax assets and liabilities at 31 December 2006 break down by balance sheet items as follows:

in € k	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Intangible assets	266	0	14,725	15,355
Property, plant and equipment	33	606	14,999	14,344
Financial assets	0	8	9	12
Other non-current assets	0	739	0	0
Inventories	4,928	4,229	110	0
Other current assets	20,505	22,163	47	39
Tax loss carryforwards	19	316	0	0
Non-current provisions	14,040	14,114	0	0
Other non-current liabilities	4,686	3,847	986	390
Current provisions	4,148	4,660	16,354	17,836
Other current liabilities	995	3,098	890	16
Cash flow hedging	0	389	1,198	0
Consolidation	0	0	3,150	3,336
Subtotal	49,620	54,169	52,468	51,328
Offsetting	-43,807	-44,799	-43,807	-44,799
Total	5,813	9,370	8,661	6,529

The deferred tax assets and liabilities recognised directly in equity amounted to €1,053k at the reporting date (2005: €2,874k). The deferred tax items recognised on loss carryforwards relate to MAINTEC GmbH. These loss carryforwards can be carried forward indefinitely. Deferred tax items were not recognised on tax loss carryforwards of €9,342k, which expire in six years on average.

Deferred tax assets of €289k were recognised for group companies outside Germany that incurred losses in this or the previous period. According to our earnings plan, positive tax results are to be expected in the relevant tax jurisdictions in the future.

The income tax expense of €32,099k reported in 2006 is €8,137k lower than the expected income tax expense that would theoretically result from application of the domestic tax rate of 36.7% at the group level. The difference can be attributed to the following:

in € k	31 Dec 2006	31 Dec 2005
Tax rate for the parent company KRONES AG	36.7%	36.7%
Expected (theoretical) income tax expense	40,236	33,457
Adjustments due to different tax rates	-1,631	-617
Adjustments due to tax rate changes	758	8
Reduction of corporate income tax due to profit distribution	-1,516	0
Reductions in tax due to tax-free earnings	-1,314	-10,257
Tax loss carryforwards	-90	982
Increases in tax expense due to non-deductible expenses	2,464	2,204
Tax income (-) / tax expense (+) for previous years	-7,786	506
Tax income (-) / tax expense (+) arising from audits	-271	2,268
Other	1,249	-802
Taxes on income	32,099	27,749

The balance of reductions in taxes and increases in taxes for 2006 yields reductions in taxes, which are primarily attributable to tax refunds for prior years.

The tax refunds for prior years include the right to a refund of corporate income tax credit amounting to €14,876k. This claim is the result of an amendment to Germany's corporate income tax law. Under the existing law, corporate income tax credits could be used to reduce income tax expenses by way of dividend payments. Under the amended tax provisions, the entire credit is realised regardless of dividend distributions. The resulting income is a non-recurring item. Current and non-current tax receivables and liabilities include income tax receivables and liabilities, respectively.

9 Equity

As in 2005, KRONES AG's capital stock amounts to €26,922,135.36. It is divided into 10,531,024 ordinary bearer shares with a par value of €2.56

The annual shareholders' meeting on 19 June 2002 and the special meeting of preference shareholders on the same day passed a resolution establishing a stock of authorised capital. With this authorised capital, the Executive Board may, with approval of the Supervisory Board, increase the share capital by a total of up to €10,000,000.00 through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 31 May 2007. Shareholders must be granted subscription rights to these shares.

The annual shareholders' meeting on 21 June 2006 passed a resolution authorising the company to buy and sell treasury shares totalling up to 10% of the current share capital on its behalf up to and including 20 December 2007. The holdings of shares acquired for this purpose, combined with other treasury shares previously acquired and still held by the company, shall not exceed 10% of the share capital of KRONES AG. The lowest transaction value at which each treasury share can be acquired shall be the mean of the single price quotations for the share on the Frankfurt Stock Exchange over the last five trading days prior to the Executive Board's decision to purchase, minus 10%. The highest transaction value shall be this mean value plus 10%.

The annual shareholders' meeting on 21 June 2006 passed a resolution authorising the Executive Board, with the approval of the Supervisory Board, to call in treasury shares of KRONES AG acquired on the basis of the above authorisation without a further resolution by the annual shareholders' meeting. This authorisation can be exercised either in whole or in part.

10 Capital reserves

The capital reserves are unchanged at €103,703k and do not include any additional capital contributions under § 272 (2) No. 4 of the German Commercial Code (HGB).

11 Retained earnings

The legal reserve remains unchanged from 2005 at €51k.

The other retained earnings include the recognition of negative goodwill from acquisition accounting for subsidiaries consolidated before 1 January 2004 and adjustments made, without impact on income, at 1 January 2004 as part of the first-time application of IFRSS.

Apart from the currency translations of financial statements of foreign subsidiaries that are recognised directly in equity, currency differences recognised under retained earnings also include exchange differences resulting from the translation of equity using historical exchange rates.

12 Other reserves

The other reserves include the effects from the recognition in equity of financial instruments measured after taxes.

Changes in the reserve for cash flow hedges presented under other reserves and the reserve for the fair value of securities were as follows:

in € k	Reserve for cash flow hedges	Reserve for the fair value of securities	Total
At 1 January 2005	5,229	6	5,235
Measurement change recognised in equity	-7,554		-7,554
Result from settled hedges	62		62
Tax on items taken directly to or transferred from equity	371	0	371
Currency difference	636		636
At 31 December 2005	-1,256	6	-1,250
Measurement change recognised in equity	2,238	-4	2,234
Result from settled hedges	996		996
Tax on items taken directly to or transferred from equity	-1,332	0	-1,332
Currency difference	178		178
At 31 December 2006	824	2	826

13 Minority interests

The item in the consolidated balance sheet for minority interests includes third-party shares in the capital and earnings of KOSME S.R.L., Roverbella, Italy, and MAINTEC GmbH, Collenberg/Main, Germany.

A detailed overview of the composition of and changes to the individual equity components for the KRONES GROUP in 2006 and 2005 is presented in the statement of changes in equity on pages 14–15.

14 Provisions for pensions

The provisions for pensions have been recognised for obligations relating to vested benefits and current benefit payments to eligible active and former employees of the companies of the KRONES GROUP and their surviving dependents. Various forms of provisioning for retirement exist depending on the legal, economic, and tax circumstances of the relevant country and are generally based on the employees' remuneration and years of service.

Company pension plans are generally either defined contribution plans or defined benefit plans.

In defined contribution plans, the company does not assume any obligations beyond establishing contribution payments to special purpose funds. Contributions are recognised as personnel expense in the year in which they are paid.

In defined benefit plans, the company undertakes an obligation to render the benefits promised to active and former employees, whereby a distinction is made between systems that are financed by provisions and those financed through pension funds. The amount of the pension obligations (»defined benefit obligation«) has been computed in accordance with actuarial methods. Apart from the assumptions regarding life expectancy, the following factors were also taken into account in the actuarial calculation:

in %	Germany		Other countries	
	2006	2005	2006	2005
Discount rate	4.30	4.15	4.50–6.00	4.50
Projected increase in wages and salaries	0.00	0.00	2.00	2.00
Projected increase in pensions	2.00	2.00	0.00	0.00

The projected increase in wages and salaries comprises expected future pay increases, which are estimated each year on the basis of inflation and employees' years of service with the company. Since the pension commitments at our subsidiaries in Germany are independent of future pay increases, the projected increase in wages and salaries was not taken into account for determining the corresponding pension provisions.

Increases or decreases in either the net present value of obligations under defined benefit plans or the fair value of the fund assets can result in actuarial gains or losses due to such factors as changes in the parameters, changes in estimates relating to the risks associated with the pension commitments, and differences between the actual and expected return on plan assets. The net value of the pension provisions breaks down as follows:

in € k	31 Dec 2006	31 Dec 2005
Present value of benefit commitments financed by provisions	86,645	83,406
Present value of benefit commitments financed through pension funds	26,601	27,703
Present value of benefit commitments (gross)	113,246	111,109
Fair value of plan assets	-19,137	-19,810
Present value of benefit commitments (net)	94,109	91,299
Actuarial gains/losses not recognised on the balance sheet	-23,337	-26,691
Carrying amount at 31 December	70,772	64,608

The pension provisions, which amounted to €67,398k at the reporting date (2005: €61,434k), are primarily attributable to KRONES AG.

The composition of expenses arising from pension obligations, which amounted to €8,938k (2005: €6,657k), the reconciliation of the present value of defined benefit obligations, which amounted to €113,246k (2005: €111,109k), and the plan assets of €19,137k (2005: €19,810k) breaks down as follows:

in € k	31 Dec 2006	31 Dec 2005
Service cost for the period	4,061	3,282
Interest expense	4,460	4,129
Expected return on plan assets	-388	-817
Actuarial gains/losses	797	63
Recognised past service cost	8	0
Plan curtailments	0	0
Expenses arising from pension obligations	8,938	6,657

in € k	31 Dec 2006	31 Dec 2005
Present value of benefit commitments at 1 January	111,109	89,952
Service cost for the period	4,061	3,282
Interest expense	4,460	4,129
Actuarial losses not recognised on the balance sheet	-2,641	17,185
Benefits paid	-3,655	-3,471
Currency differences	-88	32
Present value of benefit commitments at 31 December	113,246	111,109

in € k	31 Dec 2006	31 Dec 2005
Plan assets at 1 January	19,810	20,146
Expected return	388	817
Employer contributions	1,253	619
Benefits paid	-2,185	-2,179
Unrecognised gains on assets	-86	405
Currency differences	-43	2
Plan assets at 31 December	19,137	19,810

in € k	31 Dec 2006	31 Dec 2005	31 Dec 2004
Present value of benefit commitments	113,246	111,109	89,952
Fair value of plan assets	19,137	19,810	20,146
Undercollateralisation of plan assets	-7,464	-7,893	-6,336

Expenses arising from pension commitments are recognised under personnel expenses.

The actual return on plan assets was €817k. The plan assets consist of securities. No payments are expected to be made into the plan in 2007. The expected return is estimated on the basis of the fund administrator's future interest rate developments. In 2006, a total of €33,119k was spent on defined contribution plans.

15 Provisions for tax liabilities and other provisions

Of the other provisions, which amounted to €137,498k in 2006 (2005: €105,456k), €92,330k (2005: €66,270k) are due within one year. These other provisions apply to the following items:

in € k	1 Jan 2006	Use/ reversal	Addition	Currency differences	31 Dec 2006	due within 1 year
Tax liabilities	7,907	559	23,377	-17	30,708	30,708
Personnel obligations	37,247	946	9,810	-7	46,104	1,398
Administrative expenses	66	65	92	-3	90	90
Other remaining provisions	68,143	14,984	39,333	-1,188	91,304	90,842
Total	113,363	16,554	72,612	-1,215	168,206	123,038

The provisions for personnel obligations are primarily for non-current obligations relating to early retirement (€39,303k). The other remaining provisions primarily consist of warranties, anticipated losses, and legal risks. Estimates are based on customary empirical values. The non-current provisions have been discounted using rates between 4.0% and 5.5%.

16 Liabilities

The liabilities to banks are primarily a long-term loan taken out at customary market interest rates. Therefore, the book value is the same as the fair value.

in € k	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2006
Liabilities to banks	77	336	474	887
Advance payments received	190,223	0	0	190,223
Trade payables	154,201	399	0	154,600
Other financial liabilities	25,938	12,758	0	38,696
Other liabilities	199,885	3,035	5,979	208,899
Total	570,324	16,528	6,453	593,305

in € k	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2005
Liabilities to banks	4,803	0	0	4,803
Advance payments received	156,725	0	0	156,725
Trade payables	112,160	367	0	112,527
Other financial liabilities	22,889	13,987	0	36,876
Other liabilities	184,471	18,732	11,255	214,458
Total	481,048	33,086	11,255	525,389

The other financial liabilities include liabilities on bills. Under IAS 39, these represent possible liabilities from bills sold and are recognised as trade receivables amounting to €31,253k (2005: €31,919k).

The other liabilities consist of deferred income (€1,235k; 2005: €2,176k) and other remaining liabilities (€207,664k; 2005: €206,081k).

The other remaining liabilities break down as follows:

in € k	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2006
Tax liabilities	7,690			7,690
Social security liabilities	3,460			3,460
Payroll liabilities	8,104			8,104
Debtors with credit balances	7,190			7,190
Finance leases	1,087	1,710	5,979	8,776
Accruals	148,742			148,742
Other	22,377	1,325		23,702
Total	198,650	3,035	5,979	207,664

in € k	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2005
Tax liabilities	7,363			7,363
Social security liabilities	13,040			13,040
Payroll liabilities	7,678			7,678
Debtors with credit balances	5,688			5,688
Finance leases	1,026	2,162	11,255	14,443
Accruals	136,929			136,929
Other	4,936	16,004		20,940
Total	176,660	18,166	11,255	206,081

Accruals, which amounted to €148,742k (2005: €136,929k), have greater certainty with respect to their amount and timing than provisions have. The primary items they include are outstanding supplier invoices, obligations relating to flexible working hours, accrued vacation, and performance bonuses.

The liabilities from finance leases are recognised under other liabilities without consideration of future interest expense. The residual terms of the individual leases are between 2 and 6 years. Some of the leases contain options for extension or purchase.

The present values of minimum lease payments for finance leases recognised under the other remaining liabilities are as follows, broken down by residual term:

in € k	31 Dec 2006	31 Dec 2005
Future minimum lease payments		
Up to 1 year	1,802	1,764
1 to 5 years	4,104	4,597
Over 5 years	6,547	12,394
	12,453	18,755
Interest portion of future minimum lease payments		
Up to 1 year	715	738
1 to 5 years	2,394	2,435
Over 5 years	568	1,139
	3,677	4,312
Present value of future minimum lease payments		
Up to 1 year	1,087	1,026
1 to 5 years	1,710	2,162
Over 5 years	5,979	11,255
	8,776	14,443

17 Contingent liabilities

No provisions have been recognised for the contingent liabilities, which are recognised at nominal values, because the risk of their use is deemed to be low.

These consist of guarantee and warranty risks amounting to €10,908k (2005: €13,459k) and are guarantees on prepayments and the balance of purchase money and loan collateral agreements.

18 Other liabilities

The other liabilities consist primarily of operating leases and long-term rental agreements for land and buildings, vehicles, computers, and telecommunication equipment.

in € k	31 Dec 2006	31 Dec 2005
Future minimum lease payments		
Up to 1 year	6,584	3,717
1 to 5 years	8,533	4,476
	15,117	8,193
Future maintenance		
Up to 1 year	4,240	4,430
1 to 5 years	454	831
Over 5 years	3	0
	4,697	5,261
Other		
Up to 1 year	3,078	1,843
1 to 5 years	661	29
	3,739	1,872

Payments amounting to €11,106k (2005: €8,720k) were made in 2006 under these rental and lease agreements.

In the case of operating leases, the leased assets are treated as assets belonging to the lessor since the lessor bears the risks and rewards.

19 Derivative financial instruments

The derivative financial instruments of the KRONES GROUP, with a fair value of +€1,992k (2005: -€5,849k) of which +€1,991k are short-term (2005: -€5,283k), substantially cover the currency risks relating to the US dollar, British pound, Swiss franc, and euro. The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the reporting date as well as appropriate premiums or discounts for the expected price development through maturity. The financial instruments are essentially composed of forward exchange contracts at a secured volume of €189.4m (2005: €242.8m), of which €189.3m are short-term (2005: €239.1m). This volume includes a nominal volume of €142.3m for short-term cash flow hedges, which is measured at a fair value of €142.7m. The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of the default of a contracting party.

Notes to the income statement**20 Sales revenues**

The sales revenues of the KRONES GROUP, which amount to €1,910,814k (2005: €1,694,984k), consist of deliveries and services billed to customers less reductions. In the segment reporting, sales revenues are presented in detail, divided by business area and geographic market. In 2006, revenues of €217,281k arose from open and completed construction contracts. Costs of €127,536k were incurred for open projects. No prepayments were received for construction contracts.

21 Other own work capitalised

Other own work capitalised includes capitalised development costs and capitalised cost of self-constructed property, plant and equipment.

With respect to the development costs capitalised in accordance with IAS 38, please refer to the notes regarding intangible assets.

22 Other operating income

Apart from the income from the reversal of provisions (€9,699k; 2005: €18,342k) and the reversal of impairments (€12,536k; 2005: €9,756k), which are not related to the period, the other operating income, which amounts to €54,665k (2005: €58,159k), consists substantially of currency translation gains of €17,427k (2005: €14,099k). This is compared with the recognition of impairment losses of €15,807k and currency translation losses of €9,194k under other operating expenses. No profits were realised on open projects.

23 Goods and services purchased

Expenses for goods and services purchased comprise expenses for materials and supplies and for goods purchased amounting to €847,389k (2005: €720,718k) and expenses for services purchased amounting to €155,917k (2005: €106,354k).

24 Personnel expenses

Within the KRONES GROUP, 8,865 people (2005: 8,777) including trainees were employed on average for the year.

The workforce of the KRONES GROUP is composed as follows (on average for the year):

	31 Dec 2006	31 Dec 2005
Salaried employees	4,963	4,789
Wage-earning employees	3,902	3,988
Total	8,865	8,777

25 Other operating expenses

Apart from the €1,007k in losses from disposals of non-current assets (2005: €179k), which are not related to the period, other operating expenses include additions to impairments on receivables (€15,807; 2005: €19,644k) and other taxes (€3,367k; 2005: €1,872k).

26 Net financial income (expense)

Financial income of €1,635k (2005: €970k) breaks down as follows:

in € k	31 Dec 2006	31 Dec 2005
Income from other securities and loans classified as financial assets	20	17
Other interest and similar income	6,446	6,348
Interest and similar expenses	-5,952	-5,395
Interest income (expense)	514	970
Investment income	1,125	0
Write-downs on financial assets	-4	0
Financial income (expense)	1,635	970

27 Taxes on income

Taxes on income amounted to €32,099k in 2006 (2005: €27,749k). More information is presented under »Deferred tax items.«

28 Earnings per share

Under IAS 33 »Earnings per share,« basic earnings per share are calculated by dividing group earnings – less profit or loss shares of minority interests – by the weighted average number of ordinary shares outstanding, as follows:

	2006	2005
Group earnings less profit or loss shares of minority interests (in € k)	77,311	63,246
Weighted average number of ordinary shares outstanding	10,531,024	10,531,024
Earnings per share (in €)	7.34	6.01

Earnings per share were not diluted in 2006 or 2005.

Other disclosures

- **Group audit fees**

The expenses for the group audit and the audit of the parent company and the German subsidiaries totalled €393k in 2006 (2005: €325k). This figure includes €58k for tax consultancy services. The expense for the audit of the German subsidiaries was €15k.

- **Events after the balance sheet date**

Material events after the balance sheet date either did not occur or are presented in the consolidated management report.

- **Related party disclosures**

Within the meaning of IAS 24 »Related Party Disclosures,« the members of the Supervisory Board and of the Executive Board of KRONES AG and the companies of the KRONES GROUP, including unconsolidated subsidiaries, are deemed related parties.

Purchases and sales between the related companies are transacted at prices customary on the market (»at arm's length«). Sales to related companies amounted to €32,472k in 2006 (2005: €22,619). Trade and other payment transactions resulted in an asset balance of €764k (2005: liability of €12,942k).

■ Executive Board compensation

The structure of the compensation system for the Executive Board was discussed in detail and determined by the Supervisory Board on the basis of the recommendations contained in the German Corporate Governance Code.

These recommendations for members of the Executive Boards of listed stock corporations contain the following compensation elements:

- fixed elements
- variable elements that are payable annually and based on business performance
- variable elements that serve as long-term incentives containing risk factors

The criteria for determining the appropriateness of the compensation include but are not limited to the tasks of the respective member of the Executive Board, his responsibilities, his personal performance and experience, and the economic situation, performance, and outlook of the enterprise, taking into account its peer companies.

- For fiscal 2006, the direct fixed remuneration of the five active members of the Executive Board was €2,030k (2005: €1,880k). This fixed amount is the base pay stipulated in the members' contracts and is paid out in equal monthly amounts as a salary. This remuneration is generally reviewed as part of the negotiations relating to the extension of the members' contracts. In addition, the members of the Executive Board received fringe benefits in the form of non-cash benefits (company car) amounting to €78k (2005: €78k).
- The variable compensation is based on the achievement of company performance targets. The reference figures are consolidated net income (the primary point of reference) and consolidated sales. The gradation of the targets is determined by the Supervisory Board each year. The variable compensation contains risk elements and is thus not guaranteed compensation. In 2006, the variable compensation amounted to €1,460k (2005: €959k).
- In keeping with the recommendations of the Corporate Governance Code, the Supervisory Board adopted a long-term »performance incentive plan« containing risk elements at its meeting on 17 March 2005. Under this provision, each member of the Executive Board receives a performance incentive that is paid out after no less than ten years of service as a member of the Executive Board of KRONES AG at the earliest. Board members serving for less than ten years are not entitled to the performance incentive.

- The performance incentive is calculated from the relevant Board member's fixed annual remuneration at the time of appointment to the Executive Board and the development of the enterprise value from the time of entry onto the Board to the time at which payment of the incentive comes due.
- EBIT, EBITDA, and consolidated sales are used as the basis for calculating enterprise value. If the current enterprise value is less than it was at the time the member joined the Executive Board, the respective member is not entitled to the performance incentive.
- In 2006, provisions of €1,008k (2005: €830k) were recognised for the performance incentive.
- At KRONES AG there are and have been no stock-option plans or comparable securities-oriented long-term incentive components of remuneration for Executive Board members.

The disclosure of the total compensation made to each board member by name as recommended under Item 4.2.4 of the German Corporate Governance Code and under §§ 285 (1) No. 9a Sentences 5–9; 314 (1) No. 6a Sentences 5–9 of the German Commercial Code (HGB) is not being implemented. It is the belief of KRONES AG that such disclosure would conflict with personal privacy rights.

Thus, as resolved by the annual shareholders' meeting on 21 June 2006, detailed disclosure of each individual board member's compensation will not be made before the end of the day 20 June 2011, as provided for under § 286 (5) of the German Commercial Code.

On the other hand, details relating to the structure of the compensation are essential for assessing the appropriateness of the compensation structure and whether it results in an incentive effect for the Executive Board.

Pension provisions of €5,594k (2005: €4,746k) were recognised for active members of the Executive Board.

For former members of the Executive Board and their surviving dependents, payments amounting to €651k (2005: €637k) were made and pension provisions of €669k (2005: €541k) were recognised.

■ Supervisory Board compensation

Compensation of the members of the Supervisory Board is governed by the articles of association and resolved by the annual shareholders' meeting. For fiscal 2006, the articles of association as amended by the annual shareholders' meeting on 21 June 2006 apply.

The Supervisory Board's compensation consists of two components, an annual fixed remuneration of €10,000 and variable compensation that is dependent on consolidated net income. The Chairman of the Supervisory Board receives twice the amount of the fixed remuneration and the Deputy Chairman of the Supervisory Board receives one and one half times the fixed remuneration amount. The variable compensation amounts to €2,000 for each full euro by which total consolidated net income per share exceeds €3.00.

For fiscal 2006, net income per share comes to €7.34. Thus, the variable compensation for each member of the Supervisory Board comes to €8,000.

The total remuneration paid to members of the Supervisory Board amounted to €231k (2005: €135k) including variable portions totalling €96k (2005: €0k).

Moreover, the members of the Supervisory Board receive a flat €600 fee per meeting as reimbursement for their expenses unless they submit proof of having incurred higher expenses.

Members of the Supervisory Board who belonged to the board for only a portion of the fiscal year receive pro-rated compensation.

The company has no stock option plans or similar securities-oriented incentive systems. Thus, there are also no stock-option plans or similar long-term incentive components of remuneration for members of the Supervisory Board.

■ Corporate Governance

Shareholders can access the declaration of the Executive Board and the Supervisory Board pursuant to § 161 of the German Stock Corporation Act [*AktG*] with respect to the Corporate Governance Code in the version dated 12 June 2006 at the KRONES AG website. Any deviations from the Code are also specified there.

Standards and interpretations not applied early

The IASB has issued the following standards, interpretations, and amendments to existing standards, the application of which is not yet mandatory and which KRONES AG did not apply early:

- IFRS 7 »Financial instruments: Disclosures«
- Amendment to IAS 1 »Presentation of financial statements« – disclosures about capital

These new standards and interpretations are not expected to result in material changes for the consolidated financial statements of KRONES AG in the period in which they are first applied.

The following standards and interpretations, the application of which is not yet mandatory, do not apply to the consolidated financial statements of KRONES AG:

- IFRIC 7 »Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies«
- IFRIC 8 »Scope of IFRS«
- IFRIC 9 »Reassessment of embedded derivatives«
- IFRIC 10 »Interim financial reporting and impairment«

Shareholdings

Name and location of the company	Share in capital held by KRONES AG, in %
■ neusped Neutraublinger Speditions-GmbH, Neutraubling, Germany	100.00
■ KIC KRONES Internationale Cooperations-Gesellschaft mbH, Neutraubling, Germany	100.00
■ ecomac Gebrauchtmachines GmbH, Neutraubling, Germany	100.00
■ MAINTEC Service GmbH, Collenberg/Main, Germany	51.00
■ S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
■ KRONES Nordic ApS, Holte, Denmark	100.00
■ SANDER HANSEN A/S, Holte, Denmark	100.00
■ KRONES S.A.R.L., Lyon, France	100.00
■ KRONES UK LTD., Bolton, UK	100.00
■ KOSME UK LTD., Burton on Trent Staffordshire, UK	100.00
■ KRONES S.R.L., Garda (VR), Italy	100.00
■ KRONES Nederland B.V., Boskoop, Netherlands	100.00
■ KRONES Maschinenfabrik GES.M.B.H., Vienna, Austria	100.00
■ KOSME Gesellschaft MBH, Sollenau, Austria	100.00
■ KRONES Spółka z.o.o., Warsaw, Poland	100.00
■ KRONES Portugal Equipamentos Industriais Lda., Barcarena, Portugal	100.00
■ KRONES o.o.o., Moscow, Russian Federation	100.00
■ KRONES Romania Prod. s.r.l., Bucharest, Romania	100.00
■ KRONES AG, Buttwil, Switzerland	100.00
■ KRONES Iberica, s. A., Barcelona, Spain	100.00
■ KRONES s.r.o., Prague, Czech Republic	100.00
■ KOSME s.r.l., Roverbella, Italy	70.00
■ KRONES Surlatina s. A., Buenos Aires, Argentina	100.00
■ KRONES DO BRAZIL LTDA., São Paulo, Brazil	100.00
■ KRONES S. A., São Paulo, Brazil	100.00
■ KRONES Machinery (Taicang) Co. Ltd., Taicang, China	100.00
■ KRONES Trading (Taicang) Co. Ltd., Taicang, China	100.00
■ KRONES (Beijing) Machinery Co. Ltd., Beijing, China	100.00
■ KRONES Asia Ltd., Hongkong, China	100.00
■ KRONES India Pvt. Ltd., Bangalore, India	100.00
■ KRONES Japan Co. Ltd., Tokyo, Japan	100.00
■ KRONES Machinery Co. Ltd., Brampton, Ontario, Canada	100.00
■ KRONES Andina Ltda., Bogotá, Colombia	100.00
■ KRONES Korea Ltd., Seoul, Korea	100.00
■ KRONES Mex s. A. de c. v., Mexico City, Mexico	100.00
■ KRONES Southern Africa (Prop.) Ltd., Johannesburg, South Africa	100.00
■ KRONES, Inc., Franklin, Wisconsin, USA	100.00
■ Maquinarias KRONES de Venezuela s. A., Caracas, Venezuela	100.00
■ KRONES (Thailand) Co. Ltd., Bangkok, Thailand	51.00
■ Beverage Consulting and Engineering. Co. Ltd., Bangkok, Thailand	49.00





The Supervisory Board and Executive Board

Following fulfilment of the requirements for application of the German Codetermination Act [*Mitbestimmungsgesetz*] of 1976 in 1987, the Supervisory Board was extended from 6 to 12 members. Pursuant to § 8 (1) of the articles of association, six members are elected from among the shareholders in accordance with the German Stock Corporation Act (§§ 96 (1) and 101). Six members are elected by the employees pursuant to §§ 1(1) and 7 (1) Sentence 1 No. 1 of the Codetermination Act.

Supervisory Board

Dr. Lorenz M. Raith
Chairman

* LEISTRITZ AG
MOLL AG
PRÜFTECHNIK AG
HEITEC AG

Paul Jogsch**
Deputy Chairman

Ernst Baumann
Member of the Executive
Board of BMW AG

Rudolf Ederer
Attorney
(until 21 June 2006)

Herbert Gerstner**
Member of the Works
Council

Dr. Klaus Heimann**
Director of the Youth,
Training, and Qualification
Policy Division of IG METALL
* MAN AG

Dr. Jochen Klein
Chairman of the advisory council
of DÖHLER HOLDING GMBH
* DÖHLER GROUP
KARLSBERG BRAUEREI GMBH
HOYER GROUP
(since 21 June 2006)

Prof. Dr. Ing. Erich Kohnhäuser
* MAX AICHER STAHL AG

Norman Kronseder
KRONSEDER FAMILY OFFICE
* BAYERISCHE FUTTERSATBAU
GMBH

Walter Meyer**
Director of
WIRTSCHAFTS-AKADEMIE-WINZER
in Regensburg
* DELPHI DEUTSCHLAND GMBH

Dr. Alexander Nerz
Attorney

Anton Schindlbeck**
Head of sales for LCS

Werner Schrödl**
Chairman of the Central Works
Council

Executive Board

Volker Kronseder
Chairman
Personnel Management and
Social Affairs
* KRONES INC., USA

Hans-Jürgen Thaus
Deputy Chairman
Finance, Controlling,
Information Management,
and Process Management
* WILDEN AG
KRONES INC., USA

Rainulf Diepold
Marketing and Sales

Werner Frischholz
Materials Management
and Production

Christoph Klenk
Research and Development,
Engineering, and Product
Divisions

* WINKLER & DÜNNEBIER AG

* Other Supervisory Board seats
held, pursuant to § 125 (1),
Sentence 3 of the German
Stock Corporation Act
** Elected by the employees

In addition, each of the Group
companies is the responsibility
of two members of the Execu-
tive Board.



Proposal for the use of unappropriated profit of KRONES AG

After the allocation of €25,000,000 to other retained earnings, unappropriated profit of €46,969,800.67 remains.

We propose to the annual shareholders' meeting on 20 June 2007 that this amount be used as follows:

Proposal for the use of unappropriated profit	€
Dividend of €1.60 for 10,531,024 ordinary shares	16,849,638.40
Allocation to other retained earnings	30,000,000.00
Amount carried forward to new account	120,162.27

Neutraubling, March 2007

KRONES AG

The Executive Board

Volker Kronseder
(Chairman)

Hans-Jürgen Thaus
(Deputy Chairman)

Rainulf Diepold

Werner Frischholz

Christoph Klenk

Auditor's Report

We have audited the consolidated financial statements prepared by the KRONES Aktiengesellschaft, Neutraubling, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. 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. [paragraph] 1 HGB 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 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 the 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 and 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.

Regensburg 30 March 2007

Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft



Rupprecht
Wirtschaftsprüfer
(German Public Auditor)



Medick
Wirtschaftsprüfer
(German Public Auditor)

KRONES GROUP product divisions and segments

Machines and lines for product filling and decoration	Machines and lines for beverage production/ process technology	Machines and lines for the low output range (KOSME)
Systems engineering Labelling technology Inspection technology Filling technology Cleaning technology Plastics technology Packing and palletising technology Conveyor technology	Brewhouse and filtration technology Information technology Internal logistics Product treatment technology	Labelling technology Filling technology Plastics technology Packing and palletising technology Conveyor technology



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