Value

create value together Annual Report 2011

KRONES

»Value« is our response to the changed circumstances in which KRONES does business. Our markets and our customers' demands are also changing rapidly. For this reason, the Executive Board in collaboration with our international management team has developed a strategy programme that enables KRONES to react to each challenge with agility and flexibility.

With the measures that make up »Value«, we intend to further consolidate and expand our leadership on the market, even as global economic cycles become increasingly unpredictable. »Value« is sharply focused on the individual, local needs of markets and customers.

»Value« is about actively shaping our company's future and carrying on the successes of the past. With it, we will keep KRONES on course for sustainable, profitable growth.

Dear shareholders and friends of KRONES,

The sovereign debt crisis and the euro crisis were the dominant issues occupying policymakers, economists, and the media in 2011. Some experts feared that the fall-out for the global economy could be even worse than that of the Lehman bankruptcy in 2008. The grim outlook temporarily put the financial markets in an apocalyptic mood last year and caused share prices to fluctuate dramatically. KRONES did not get caught up in the stock market frenzy or the economic pessimism. On the contrary, in 2011, we took important steps to advance our »Value« strategy programme. (Read more about »Value« on pages 14 to 17).

»KRONES is investing heavily in its production sites in Germany in order to secure the advantages that Germany offers as a business location.«

Volker Kronseder
Chairman of the Executive Board

From an outside perspective, the most visible change came in the form of new hiring. KRONES added more than 800 employees worldwide last year, bringing our international workforce up to 11,389. We permanently hired all of our graduating trainees as well as many of our highly qualified temporary workers. With our far-sighted human resources policy, which is based on long-term employment, we are avoiding the labour shortages that will affect many companies in Germany in the years ahead. Well-trained, highly motivated employees are increasingly hard to find. KRONES recognised this risk early on – as well as the many advantages that Germany offers our company as a business location. As ever, we firmly believe that Germany is the only place in the world where we can produce our highly sophisticated machines and lines in top quality. We are investing heavily in Germany to secure these locational advantages and steadily improve productivity. One example of this is the new »Centre for Logistics and Module Production for Packing and Palletising Technology« at our Rosenheim plant. We are expanding the plant there to make production even more flexible and more efficient and, in the spirit of our »Value« strategy programme, to create value.

We also continued to expand our profitable service business in 2011. Our customers have very high expectations when it comes to after-sales service. We must be able to deploy personnel to our customers' sites quickly – any time, any day, anywhere in the world. For this reason, we further expanded our KRONES LCS Centres in 2011. A portion of our investment in this area went into the LCS Centre in China, where KRONES also manufactures spare parts. The investment enables our service technicians to serve our customers in the region more quickly. By increasing the local content of our offerings, we are also able to avoid the effects of increasing protectionism in that market.

Two seats on KRONES' Executive Board changed hands at the start of the year.

Our Supervisory Board made several important decisions regarding the Executive Board in 2011. Having reached the age limit for serving on the Executive Board, Chief Financial Officer and Deputy Chairman of the Executive Board Hans-Jürgen Thaus retired at the end of 2011 after 15 extremely successful years with KRONES. The Supervisory Board tapped a suitable successor for Mr. Thaus in plenty of time to ensure a smooth transition. Christoph Klenk (48), formerly Chief Research and Development Officer, took over the financial helm as of 1 January 2012. KRONES veteran Thomas Ricker (44) joined the Executive Board as Chief Research and Development Officer. I am pleased that the Supervisory Board chose fill these Executive Board posts from within KRONES. The combination of new energy and continuity is an important factor for successful leadership.

Business went well overall in an eventful year 2011. Consolidated sales were up 14.1% year-on-year, to €2,480.3 million. New orders were up 14.6% to €2,514.0 million in 2011. Although we were able to improve our earnings from operations, earnings before taxes, at €74.6 million, nevertheless fell short of our target.

One reason for this is that the KRONES Group's US company, KRONES Inc. Franklin/Wisconsin (USA), and KRONES AG, Neutraubling (Germany), have taken a first step toward resolving the legal disputes that have been ongoing since October 2008. At issue in the disputes are claims for damages asserted by several American financial firms, a group of hedge funds, and a bankruptcy trustee.

Several plaintiffs entered into a mediation process with KRONES in January 2012 to explore options for ending the proceedings. Although KRONES deems the opposing parties' claims to be unfounded, our US attorneys have advised us to continue to try to reach a settlement through mediation, due in part to special risks inherent to the American legal system.

This legal dispute has had a negative impact on results in KRONES' consolidated financial statements for the period ended 31 December 2011.

Our people once again did outstanding work in 2011.

Finally, I would like to recognise all of our employees for their excellent work. On behalf of the Executive Board, I would like to thank the entire KRONES team for their dedication and outstanding accomplishments in 2011. I firmly believe that with our motivated and larger workforce we will indeed »create value together«.

Volker Kronseder
Chairman of the Executive Board

KRONES bids a fond farewell to Hans-Jürgen Thaus

Hans-Jürgen Thaus served as Chief Financial Officer and Deputy Chairman of the Executive Board of KRONES AG for 15 years. During his tenure, Mr. Thaus, together with his fellow Executive Board members, made important contributions to the company's success. Mr. Thaus stepped down effective 31 December 2011, having reached the prescribed age limit. On behalf of the entire KRONES staff, the Executive Board would like to thank Hans-Jürgen Thaus for his outstanding work over the past 15 years. We wish him all the best for the future.

Hans-Jürgen Thaus
*1949
Deputy Chairman of the Executive Board from 1997 through 2011.
Finance and Information Management.

The Executive Board

Rainulf Diepold
*1955
Member of the Executive Board since 1996. Sales and Marketing.

Thomas Ricker
*1968
Member of the Executive Board since 2012. Engineering, Research and Development.

Christoph Klenk
*1963
Member of the Executive Board since 2003. Finance and Information Management.

Werner Frischholz
*1951
Member of the Executive Board since 2003. Materials Management, Production, and Service.

Volker Kronseder
*1953
Member of the Executive Board since 1989. Chairman since 1996. Human Resources and Corporate Communications.

Report of the Supervisory Board

Ladies and Gentlemen,

In 2011, the Supervisory Board of KRONES AG continuously oversaw and advised the company's management as prescribed by the law and the articles of association. The Board regularly obtained information from the Executive Board about the progress of business, the company's financial position, and the company's risk management and strategy in the form of written and oral reports, both in and outside the regular Supervisory Board meetings. One focus of the Supervisory Board's activities in 2011 was on possible actions and strategies with which KRONES can respond to the changed circumstances worldwide. In this regard, the Supervisory Board provided ongoing support to the Executive Board in the development and implementation of the strategy programme »Value«.

Ernst Baumann
Chairman of the Supervisory Board

The first of five Supervisory Board meetings in the reporting year was convened on 16 March 2011. The Executive Board presented the preliminary consolidated financial statements for 2010 and provided explanations for the key consolidated financial figures. The Supervisory Board and Executive Board then discussed the business situation in the first quarter of 2011. After that, the Executive Board presented KRONES' new strategy programme »Value« in detail to the Supervisory Board. In preparation for the upcoming Supervisory Board elections, which would be held at the annual shareholders' meeting on 15 June 2011, the tenures of the individual members of the Supervisory Board were discussed. The Board unanimously agreed to pay special heed to the recommendations of the German Corporate Governance Code on the topic of diversity in the new elections and to nominate a woman with specialist expertise.

Before the second Supervisory Board meeting, which took place on 21 April, the Supervisory Board Committee prepared the Supervisory Board's review of the annual financial statements, the management report, and the auditor's report on the separate and consolidated financial statements for 2010. Representatives from KRONES' auditing firm were present for a portion of the Supervisory Board meeting. The auditors explained the annual financial statements for 2010 to the Supervisory Board and provided a detailed overview of the areas on which their review focused. Following the auditors' comprehensive remarks, the Supervisory Board approved and thus adopted the 2010 annual financial statements and the 2010 consolidated financial statements along with the management report and consolidated management report for the financial year 2010. The Supervisory Board and Executive Board then discussed the agenda for the annual shareholders' meeting of KRONES AG, which would be held on 15 June 2011. The Boards agreed to propose to the annual shareholders' meeting that a dividend of €0.40 per share be paid out for fiscal 2010.

The Supervisory Board held its constitutive meeting on 15 June 2011, following the annual shareholders' meeting. Ernst Baumann was reelected Chairman of the Supervisory Board. The annual shareholders' meeting had elected Petra Schadeberg-Herrmann as a new member of the Supervisory Board, making her the first woman to sit on the Supervisory Board of KRONES AG. The remainder of the meeting was devoted to matters relating to the Executive Board. The Supervisory Board acknowledged that, with the close collaboration of the Supervisory Board Committee, a successor had been found to replace Deputy Chairman of the Executive Board and Chief Financial

Officer Hans-Jürgen Thaus, who would be stepping down at the end of the year. Christoph Klenk, who was then serving as Chief Research and Development Officer, was chosen to succeed Mr. Thaus. The Supervisory Board welcomed this choice. At the suggestion of the Supervisory Board Committee, the Supervisory Board unanimously appointed Thomas Ricker as the company's new Chief Research and Development Officer effective 1 January 2012.

The current business situation was the focus of the fourth Supervisory Board meeting, which was held on 21 September. The Executive Board presented its outlook for the third quarter of 2011.

The fifth and final meeting of the Supervisory Board for 2011 was held on 23 November. The meeting's main focus was on the results for the third quarter of 2011 and planning for the financial year 2012. The Executive Board explained, among other things, its sales, production, and human resources planning. The Supervisory Board unanimously approved the capital expenditure planning for the financial year 2012 as put forward by the Executive Board.

The Supervisory Board concurs with the audit result

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 2011 were examined by the auditors elected by the annual shareholders' meeting, KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, and each 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 2011 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 ratify the financial statements on 23 April 2012. Representatives of the auditing firm also participated in the meeting and reported to the Supervisory Board on their findings and the areas on which their review focused.

The Supervisory Board noted and approved the audit result. The final results of the examination by the Supervisory Board prompted no objections. The Supervisory Board has approved the annual financial statements for KRONES AG and the consolidated financial statements as well as the Executive Board's proposal for the appropriation of retained earnings. The annual financial statements for KRONES AG are thereby adopted.

The members of the Supervisory Board would like to thank the Executive Board and all employees for their excellent work in 2011.

Neutraubling, April 2012

The Supervisory Board

Ernst Baumann
Chairman of the Supervisory Board

2011 in review

Q1	Q2
New orders: €628.6 million	New orders: €694.8 million
Sales: €606.7 million	Sales: €650.8 million
EBT: €35.2 million	EBT: €34.0 million
Share at 31 Mar 2011: €51.00	Share at 30 Jun 2011: €58.38

KRONES got its 60th year off to an excellent start. Demand for our products and services was so high in the period from January through March 2011 that every one of our employees had to give their all to deliver the enormous volume of machines and lines on time and in the high quality our customers have come to expect. New orders rose 14.2% to €628.6 million and sales revenue was up 13.7% to €606.7 million. At €35.2 million, earnings before taxes were up €22 million on the year-earlier period.

The KRONES share continued to climb in the first quarter of 2011 and closed the end of March at €51.00, up 8.6% on the start of the year.

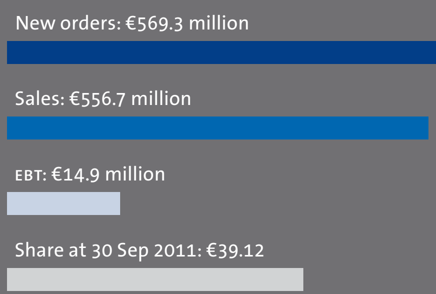
More than one hundred people took up their work in the new pipe machining centre in Neutraubling at the start of the new year. The new centre combines all production and warehousing sites, previously dispersed across several locations, in a single production hall spanning 3,825 square metres. The move has made the entire pipe machining process considerably more efficient and cost-effective.

At our Financial Press Conference and Capital Market Day on 27 April, the Executive Board presented the key points of the new strategy programme »Value«. The programme is aimed at ensuring that KRONES stays on track for success even as circumstances change.

The annual shareholders' meeting on 15 June in Neutraubling was a harmonious one. After having given shareholders no dividend the previous year due to the net loss posted for 2009, KRONES paid out €0.40 per share for 2010. One day before the annual shareholders' meeting, the company announced that Deputy Chairman of the Executive Board Hans-Jürgen Thaus would be stepping down at the end of 2011, having reached the prescribed age limit.

Growth at KRONES continued in the second quarter. New orders exceeded the year-earlier period by around one-quarter and sales were up nearly 20%. Earnings before taxes totalled €34.0 million in the period from April to June (year-earlier period: €18.8 million). Our share price rose sharply in the second quarter for an overall gain of 24.3% for the first six months of 2011.

Q3



The Contiform stretch blow-moulder is one of our top-selling machines. After more than four years of development work, KRONES put the Contiform 3, with several new features, on the market. The new design is faster, more efficient, and easier to operate and maintain than its predecessor.

Construction began on the new training centre in Neutraubling in September. The centre will be equipped with state-of-the-art machinery. The investment will further strengthen KRONES' ability to win the best and brightest people.

The sovereign debt crisis and the resulting euro crisis continued to escalate. This put heavy pressure on share prices. KRONES' share price lost around one-third of its value in the period from July to September.

The crisis on the financial markets had no perceptible impact on operating performance in the third quarter. Both sales revenue (+9.8%) and new orders (+11.0%) were up over the year-earlier period. Earnings were flat because KRONES had done considerable new hiring since the start of the year to make the company ready for future growth.

Q4

The Brau Beviale took place from 9 – 11 November in Nuremberg. At this important capital goods fair for the international beverage industry, KRONES was awarded the German packaging prize in the machine design category for our FlexWave technology. FlexWave uses innovative microwave heating technology to warm PET preforms prior to blow-moulding. The process is significantly faster, more flexible, and more energy-efficient than infrared technologies.

KRONES is expanding its Rosenheim plant to make production more flexible and more efficient. On 29 November, CEO Volker Kronseder joined local political leaders in a groundbreaking ceremony for the ultra-modern »Centre for Logistics and Module Production for Packing and Palletising Technology«.

At €621.3 million, new orders were up 7.9% year-on-year. Sales improved 12.8%. Earnings before taxes were negative due to a one-time extraordinary item.

KRONES at a glance

Plant planning

- Planning and construction of complete filling and packaging plants
- Total cost of ownership calculations
- Expansion, updating

Beverage production technology

- Brewhouse and cellar systems

Systems for filling and packaging

- Product treatment
- Cleaning technology
- Plastics technology
- Inspection technology
- Filling technology
- Conveyor technology
- Labelling technology
- Packing and palletising technology

KRONES plans, develops, manufactures, and installs machinery and complete systems for filling and packaging and for beverage production. KRONES' customers include breweries, beverage producers, and companies from the food, chemical, pharmaceutical, and cosmetic industries.

KRONES offers all of the products and services they need from a single source – from constructing new beverage plants to getting the finished product out the door. Our worldwide service network is a key component of our unique portfolio.

Innovation, rapid, flexible development of products and services, and continuous improvement of our internal process flows are the cornerstones of our success.

IT solutions

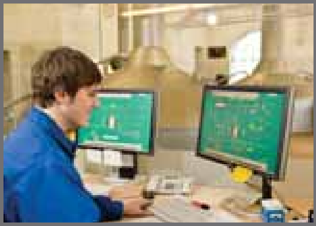
- For plant planning and beverage production
- For internal logistics
- For product filling and packaging
- For Lifecycle Service

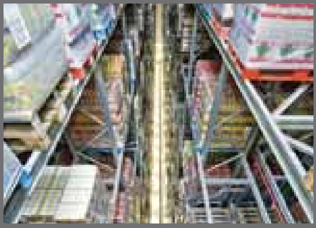
Internal logistics

- Warehousing systems
- Order-picking systems
- Conveyor systems

Lifecycle Service

- Producing
- Maintaining
- Optimising
- Training at the KRONES Academy


KRONES has whole-plant expertise

Station 5
Packing and palletising

Packaging options are almost limitless. So, packaging systems have to be extremely versatile. The various models of KRONES' fully automated Variopac Pro packer covers all the bases.

Station 4
Conveyors

On KRONES lines, containers are moved quickly and reliably from one stage of production to the next. Our conveyors are equipped with state-of-the-art control technology.

Station 3
Labeller

KRONES offers a broad range of labelling machines. The KRONES Contiroll has been setting the standards for reel-fed wrap-around labelling for many years now. Each labelling station on the machine's high-speed variant, the Contiroll HS, labels up to 66,000 containers per hour.

A KRONES filling line is composed of innovative individual machines and systems that produce, fill, label, and pack bottles. Custom IT solutions from KRONES control and document all processes within the line.

Station 1
Stretch blow-moulder

On this machine, PET preforms are blow-moulded into bottles. The new generation, the Contiform 3, is capable of producing up to 63,000 PET containers per hour.

Station 2
Filler

A variety of filling processes are available to suit different beverages and different types and shapes of containers. The Volumetic VODM series of fillers offers the ideal solution for conductive products. In this system, the correct fill quantity is precisely determined by means of an inductive flow meter.

Strategy

Past successes with »Impulse« and »Conversion«

Over the past several years, KRONES has developed the future successfully with innovative technologies, top quality, and customer-oriented services. Our people have always been elemental to our innovation and to increasing productivity. The measures through which we achieved our goals were bundled into two strategy programmes, entitled »Impulse« and »Conversion«.

These programmes gave KRONES a dependable framework for meeting the needs and expectations of our customers, employees, and shareholders. This framework proved effective both during the period of strong growth from 1999 to 2008 (»Impulse«) and after the break that came with the global financial and economic crisis in 2009 (»Conversion«). Despite some turbulent times on the financial markets, our company's share price has increased roughly fivetimes in the past 15 years.

»KRONES aims to continue to grow profitably in the future with ›Value‹.«

Christoph Klenk
Chief Financial Officer

KRONES' market is attractive

The markets in which KRONES operates have long-term stability, even in a volatile global economy. A study by Germany's Federal Statistical Office examining the revenue stability of various industries in the crisis year 2008/2009 confirms this. While some industries saw revenue drop as much as 50% during this period, the beverage industry stayed very close to pre-crisis levels, declining only about 5%.

However, the crisis hit vendors of beverage packaging machinery and lines – like KRONES – much harder than it hit their customers. That is because, dogged by uncertainty about the impact and duration of the financial crisis, beverage producers cut back on capital investment. However, we can see now that those bottlers who did invest during the crisis are the most sucessful because they have gained market share. By now, almost all market participants will have come to this realisation. As a result, we expect demand for our products and services to remain relatively stable in the future, even when the global economy does not.

One important factor driving the rise in demand for KRONES' products for the food and beverage industry is the growth of the middle class in the world's emerging economies. Combined with increasing urbanisation in these countries, it creates enormous potential for KRONES.

But even the world's mature markets offer good opportunities in the medium and long terms as beverage producers find themselves needing to diversify at all levels. They are offering a growing variety of products in a broad range of packaging options. And they need innovative solutions from KRONES to ensure that they can offer their end customers excellent quality at appealing prices.

»Value« – the foundation for future profitability

»Value« is our response to the changed circumstances in which KRONES does business. Our markets and our customers' demands are also changing rapidly. For this reason, the Executive Board in collaboration with our international management team has developed a strategy programme that enables KRONES to react to each challenge with agility and flexibility.

With the measures that make up »Value«, we intend to further consolidate and expand our leadership on the market, even as global economic cycles become increasingly unpredictable. »Value« is sharply focused on the individual, local needs of markets and customers.

»Value« is about actively shaping our company's future and carrying on the successes of the past. With it, we will keep KRONES on course for sustainable, profitable growth.

KRONES targets average sales growth of 5%–7%

We have all the conditions to use the opportunities the market has to offer. KRONES has first-class products and services that can meet all of our customers' needs and expectations. We aim to achieve sustainable growth. In the years ahead, we intend to increase sales revenue by 5%–7% on average each year.

Our strategic focus is on innovative solutions and products and on further expanding our local service operations.

We will also be expanding and streamlining our machinery portfolio for the low and medium output ranges.

Focus on profitability

The individual measures implemented in years past have laid the foundation for future profitability. They have been aimed at different aspects of our business, but the primary focus has been on reducing complexity, increasing transparency, and maximising the value we generate from our markets. Today, these measures form an integral part of KRONES' »Value« programme. They will help us attain our medium-term target of a 7% return on sales.

Our focus for 2012 will be on making cost structures in our **core segment, »bottling and packaging machinery«**, more efficient in order to achieve long-term profitability, even in price-sensitive markets. Moreover, we want to make our structures more flexible so that we can better react to future volatilities on the global markets. Our strategy for our core segment is based on modularising assemblies and machines to reduce complexity.

In our quest to reduce the cost of goods purchased, modularisation is crucial as it helps us tap new, less costly sources of supply.

Investments in logistics and paced assembly will boost productivity considerably and help us to leverage potential within working capital.

The **process technology segment** is highly important to KRONES from a strategic standpoint as customers want their beverage production and product filling technology to be linked as seamlessly as possible.

We have already taken important actions in the past to get in on the attractive components market and boost this segment's profitability. Expanding KRONES' valve technology activities is an important step here. With the development and implementation of KRONES' valves we are able to generate considerable positive effects in both new machinery and after-sales business.

Furthermore we will develop structural strategies to make our process technology segment more sustainable and more profitable.

»KOSME«, our segment for the low output range, is important for KRONES as demand for machines and lines in this output range will grow faster than the rest of the market in the future. Earnings at KOSME have developed poorly in recent years. Important steps toward improving the segment's profitability include a new sales structure that completely eliminates the use of agents, an extensively revised product portfolio, and the integration of after-sales service into KRONES structures.

The HR strategy we have taken has laid a solid foundation for future growth. With our current resources, we are in an excellent position to move easily through any medium-term bottlenecks for skilled workers. We are devoting special attention to purposefully expanding our resources abroad in order to unlock additional potential in our service business.

KRONES' global service structures are vital to securing and further growing our Lifecycle Services business. Our efforts here include further expanding our Service Centres and building local engineering resources so that we can match our local competitors' response times.

We are also working on measures aimed at further optimising our overhead costs.

»Value« – creating value together

Of course, the only way we can achieve our goals is by working together with all of our employees. They are the people putting the strategic measures into action in our day-to-day operations. All of their actions are informed by the values that KRONES stands for and that form an integral part of »Value«.

The examples on the following pages offer a brief look at the ways in which »Value« is already being implemented at KRONES.

Christoph Klenk
Chief Financial Officer

Building our local presence to enhance our responsiveness

KRONES has business partners almost everywhere around the globe. Our machines and lines can only generate value for our customers if they operate safely and reliably. If problems arise, our customers expect us to resolve them quickly. Of course, the key to ensuring that is to have service specialists and spare parts on hand worldwide.

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create value
together


KRONES

Our service business knows no limits

KRONES is investing heavily in expanding our decentralised service business. We already have more than 40 offices around the world that offer our entire range of after-sales products and services. The Service Centres that KRONES has established at key strategic locations and which serve our regional offices as decentralised support bases play a crucial role. KRONES plans to steadily expand these Centres and to establish new Service Centres in other regions.

But investing in concrete and steel is not enough. The quality of our service depends on the people providing it. Of course, our service team members have the best possible training. But we go even further to ensure that our customers receive the best possible service. Our employees on site must not only speak our customers' language, they also must understand and respect the local culture. For this reason, we are hiring more and more of our service experts locally to work in their own home countries.


KRONES

Strategic purchasing for substantial cost savings

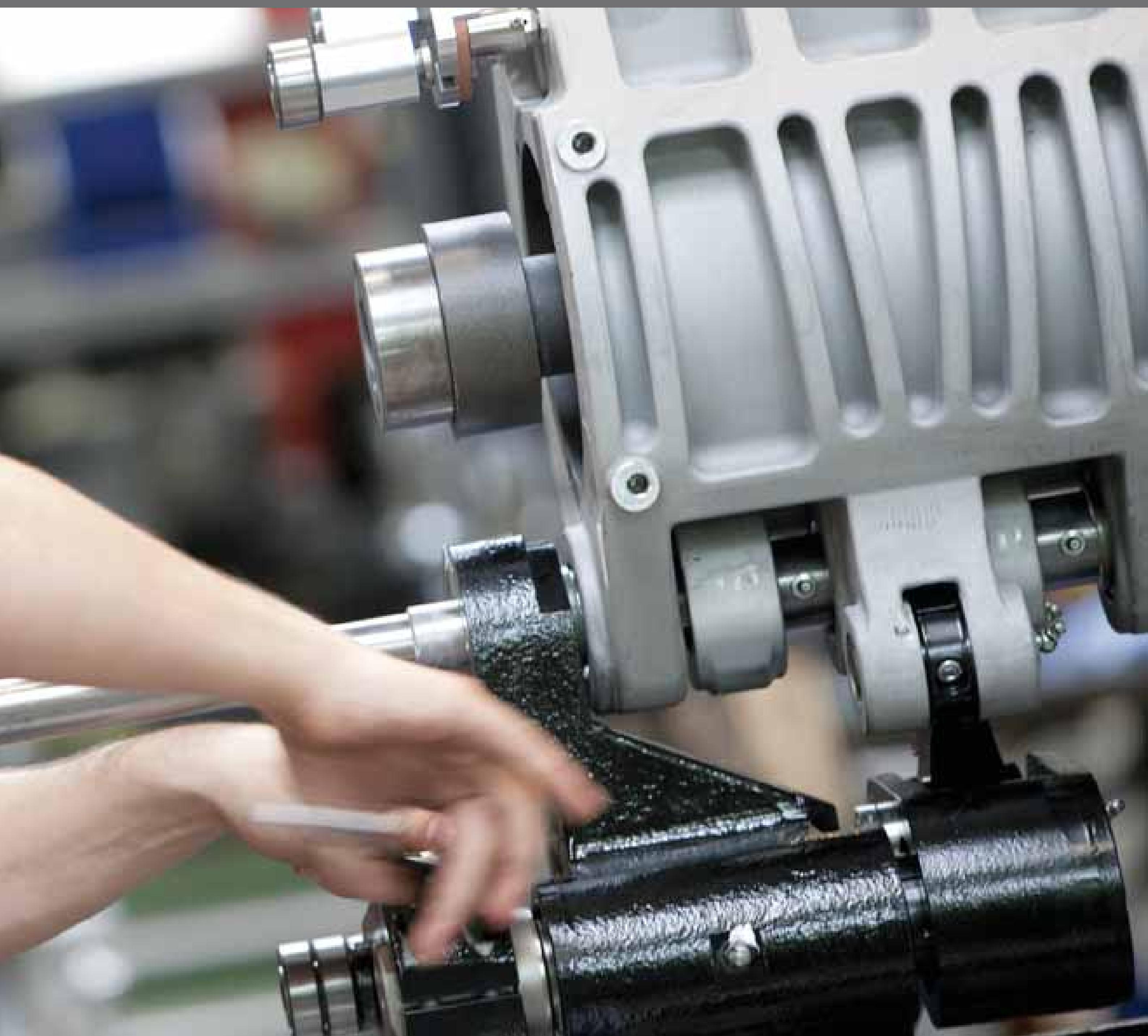
KRONES buys in many products. This fact is reflected in the line item »goods and services purchased« on our income statement. We see additional potential for savings here. We are improving costs by modularising and standardising those bought-in components.

Value create value together

Smart purchasing makes for smart profits

More and more, KRONES uses identical parts in configured assemblies and modules for our machines and lines. As a result, we are ordering larger quantities of same parts from our vendors. This produces economies of scale – that is, lower unit production costs – for our suppliers. And that makes for lower purchasing costs for KRONES. When we stabilise procurement chains and shorten reorder cycles, we can keep warehousing requirements to a minimum. That, too, saves money. KRONES orders entire modules from specialised vendors for specific projects. Because they can produce individual parts in advance, they are able to guarantee short lead times.

We will continue to expand our local purchasing network. For instance, components that our service team members need for maintenance and repair work are increasingly procured directly from our local Service Centres worldwide. That saves high tariffs and transport costs and speeds delivery.



Developing modules for more efficient production

The Contiform stretch-blow moulder is one of KRONES' top-selling machines. It shapes PET preforms into bottles. Sounds simple. But it's not. Especially when the entire process has to run efficiently, producing bottles with very little energy input.

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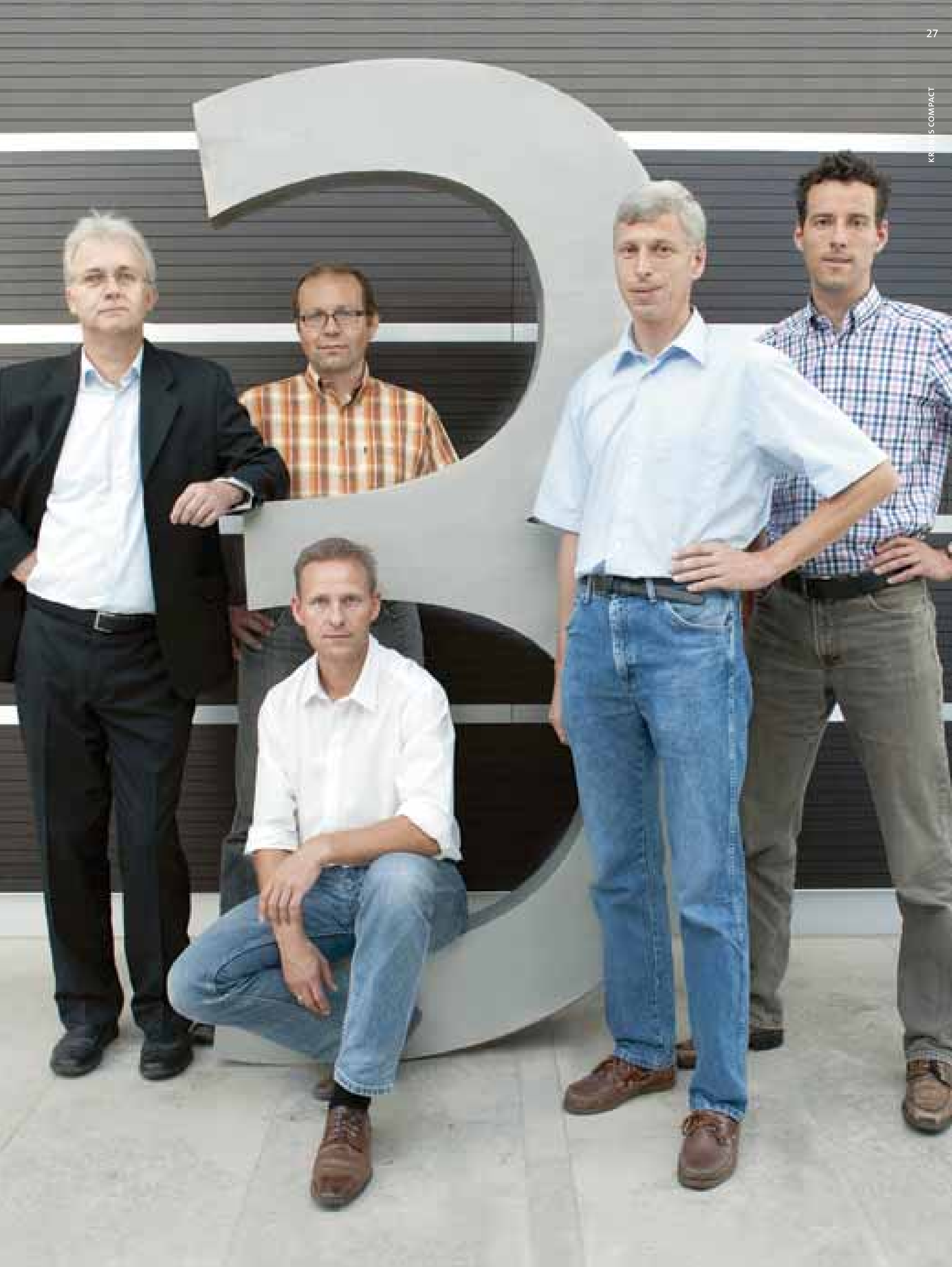

Contiform 3 is a win-win for customers and KRONES

The new third generation of our stretch blow-moulder, Contiform 3, offers many new features. Each blowing station produces 2,250 containers per hour – 250 more than the Contiform 2. The new machine also consumes far less energy than its predecessor. It uses 15% less energy to warm PET preforms prior to blow-moulding. These are advantages that pay off for our customers in their day-to-day operations. Therefore, we are confident that the Contiform 3 will make a significant contribution to our company's growth.

The Contiform 3 also gives KRONES significant cost advantages. Our developers designed the machine to be completely modular. The system's reduced complexity simplifies parts procurement and makes for more favourable procurement costs. In addition, when modularising the Contiform 3, we took into account the specific requirements of paced assembly. That has reduced production lead times and streamlined logistical processes.

Advancing innovations to drive growth

Consumer demand for healthful products is increasing worldwide. Beverage companies are answering that demand, offering a growing variety of juices and milk drinks with natural fruit content. But these healthy, premium-priced thirst quenchers are not easy to produce. The precious fruit components are extremely sensitive, placing high demands on the production process.

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KRONES twin-flow process handles fruit with care

KRONES developed a twin-flow process that addresses every aspect of preserving the quality of such sensitive premium products – from production to bottling. What makes this process special is that the base beverage (juice or milk drink) and the fruit bits are handled in two completely separate product flows. This stringent separation is extremely important for preserving the structure of the fruit bits and preventing costly waste. The two product flows meet in the bottle to create an exquisite beverage.

The twin-flow concept ensures that the fruit bits are handled with care and arrive in the bottle safe and sound. KRONES is able to offer the heat treatment process technology and filling technology as a seamless, synchronised block system. For beverage producers, that unites the utmost product safety and security with appealing overall costs – for true added value.

Winning people to secure our future

KRONES grew its international workforce by 814 people to 11,389 in 2011 despite the unsettled economy. As ever, KRONES is looking beyond the immediate horizon, standing by our HR policy of long-term employment even in times of uncertainty.

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KRONES' HR policy is based on long-term employment

Demographic change is well underway. Young, qualified workers are becoming increasingly hard to find in Germany. We expect companies' complaints about the lack of trained people to grow steadily louder in the future. We anticipated the threat of a labour shortage years ago and developed a strategic human resources policy to counter it. The year 2011 is an excellent example. Although we expected growth to be slow, we permanently hired every one of our trainees who successfully completed their final examinations in 2011. We also permanently hired many of our highly skilled temporary workers in order to secure their valuable expertise for our company for the long term.

At KRONES, we attach great value to our highly qualified, highly motivated team. Our people are the key to KRONES' future. Of course, expanding our workforce cuts into profits in the short term. But compared with the long-term repercussions of »hire-and-fire« policies, it's a price we are willing to pay. The future will prove us right.

Increasing efficiency to strengthen customer loyalty

Our comprehensive customer relationship management (CRM) strategy is aimed at further strengthening our relationships with customers and improving the performance of our sales force. Our sales staff must have immediate access to all important information wherever they are in the world. They need precise knowledge of customers' individual requirements in order to provide optimum, needs-driven advice and offer the right products and services.

Value
create value
together

KRONES puts the customer's needs front and centre

The first step we took in developing our new CRM strategy was to test, analyse, and optimise all of our sales processes. The result is a »lead-to-project« process that ensures uniform sales process flows throughout the KRONES group. The process extends from identification of potential customers (leads) to finalisation of contracts to customer satisfaction analyses. The new CRM system maps the entire process. This benefits our sales staff in many ways. For example, all members of the sales team have quick access to important customer data and other information. As a result, our sales activities are more efficient and we are able to serve our customers' needs faster and better. We are confident that the new CRM strategy will strengthen customer loyalty and improve our chances of winning new customers.

The KRONES share

The sovereign debt and euro crises hobbled the stock markets in 2011. Germany's DAX blue chip index dropped nearly 15%. Financials and cyclical stocks were hit especially hard. In this negative environment, KRONES' share price fell 21.7% to €36.76.


€60.00
€57.50
€55.00
€52.50
€50.00
€47.50
€45.00
€42.50
€40.00
€37.50
€35.00
€32.50
July
August
September
October
November
December

- Debt crisis sends stocks tumbling
- KRONES share loses 21.7%
- Dividend of €0.60 per share planned

The sovereign debt crisis and the attendant euro crisis certainly spoiled investors' appetite in 2011. Rising fears of a recession in Europe also contributed to the stock market malaise. In this negative environment, KRONES' share price fell 21.7% to €36.76.

»Transparent, prompt, and honest communications are the aim of our investor relations activities.«

Olaf Scholz
Investor Relations

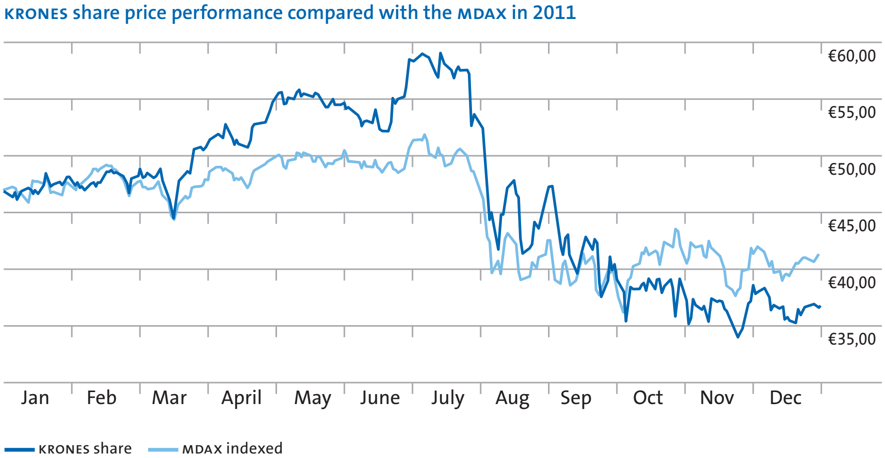
The stock markets in 2011

Several negative events came together to trouble the international equity markets in 2011. The devastation caused by the earthquake and tsunami in Japan dealt a heavy blow to stock prices in March. Share prices recovered from the shock relatively quickly as the economy developed well and central banks flooded the markets with liquidity. At the end of the first half, most major international share indices were higher than they had started the year.

The rest of 2011 did not go as well. The debt and euro crises dominated the markets. The wretched state of public budgets prompted a wave of sovereign downgrades across Europe. Even the US was not spared. In August, the rating agency Standard & Poor's stripped the US of its top AAA credit rating. As prices on bonds from countries like Greece, Italy, and Spain plummeted, bond yields rose. The euro lost considerable value against most currencies. The financial market crisis eventually began to bite the real economy. Over the course of the year more and more economists warned that Europe's economy was sliding toward a recession in 2012.

In this environment, investors balked at risk and sold off shares. Germany's DAX blue-chip index, which started 2011 at around 6,900 points, fell below the 5,000 point mark in September. The index recovered from this blow but still ended 2011 down 14.7% for the year, at 5,898 points. The EURO STOXX 50 gave up even more value – due in part to exceptionally large losses among European financial shares.

KRONES share price performance compared with the MDAX in 2011



The KRONES share came under heavy pressure in the second half and suffered a bigger loss than the MDAX in 2011.

www

More of the latest information is available at www.krones.com/en/investor-relations.htm

All told, the EURO STOXX 50 dropped 17.0% in 2011. Japan's Nikkei index suffered a similar loss, 17.3%. The Dow Jones Industrial Average closed 2011 with a gain of 5.5%. The progressive improvement of the US economy and a slight brightening on the US labour market had a positive effect on share prices there.

KRONES share price down sharply

Germany's MDAX mid-cap index, which covers 50 companies including KRONES, fared somewhat better than the DAX in 2011. At 8,898 points, the MDAX was down 12.1% at the end of December compared with the start of 2011.

At just under €37, the KRONES share was down more than 20% for the year at the end of 2011.

The KRONES share price trend resembled a roller coaster ride in 2011. After a slow start to 2011, the share price gathered strong momentum through the end of June, climbing 24.3% from the start of the year to €58.38. During this period, investors honoured KRONES' strong business performance and very sound financial structure, which became all the more important given the tight credit markets. On 13 July, our share closed at €59.06, its highest closing price for 2011. Soon after began a steep descent. Amid the general malaise on the stock markets, many investors sold off shares that had accumulated strong gains. In addition, growing concerns that major industrialised economies could slip into recession prompted a temporary sell-off of cyclical stocks, including those of automakers and machinery builders. And KRONES was no exception. Our figures for the first nine months of 2011 fell short of analysts' expectations, putting further downward pressure on our share price. On 23 November, the KRONES share hit its low for the year, €33.87. The share recovered slightly to close the year at €36.76, down 21.7% from the start of the year.

Key figures for the KRONES share

At 31 December		2011	2010	2009
Number of shares	million	31.59	31.59	31.59
Gross cash flow per share*	€	3.78	3.70	1.24
Equity per share*	€	26.04	25.16	22.65
Earnings per share*	€	1.45	1.68	–1.13
Price/earnings ratio (P/E)		25.4	27.9	–
Dividend per share	€	0.60**	0.40	0.00
High	€	59.06	47.05	38.83
Low	€	33.87	34.35	22.00
Year's closing price	€	36.76	46.95	35.50

* Based on total number of shares less treasury shares
** As per proposal for appropriation of retained earnings

Portrait of the KRONES share

KRONES shares are no par value ordinary bearer shares. Each share carries one vote at the annual shareholders' meeting. The total number of shares is 31,593,072. The stock has been listed and available for trading on all German stock exchanges since 29 October 1984. In the financial year 2011, daily trading volume on the Frankfurt stock exchange and in XETRA trading averaged just under 82,000 shares in total (previous year: around 60,000). Around 95% of trading was done on the XETRA electronic trading system. The KRONES share is included in the MDAX, Germany's mid-cap index.

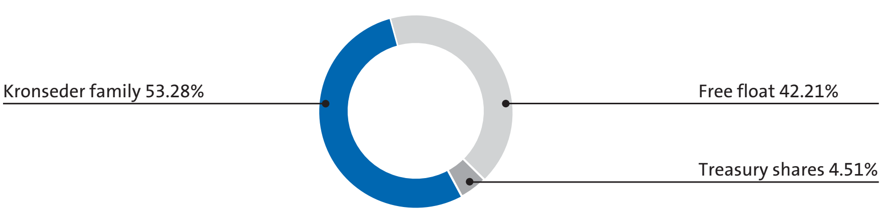
Key data for the KRONES share	
Ordinary shares	31,593,072
German securities identification number	WKN 633500
ISIN	DE 0006335003
Ticker symbol	KRN

Shareholder structure

The Kronseder family owns a majority stake in the company (53.28%). KRONES bought back a total of 1,425,421 treasury shares in 2009 and continues to hold them. They correspond to 4.51% of the share capital. The free float is 42.21%.

http://www.krones.com/en/investor_relations/shareholder-structure.htm

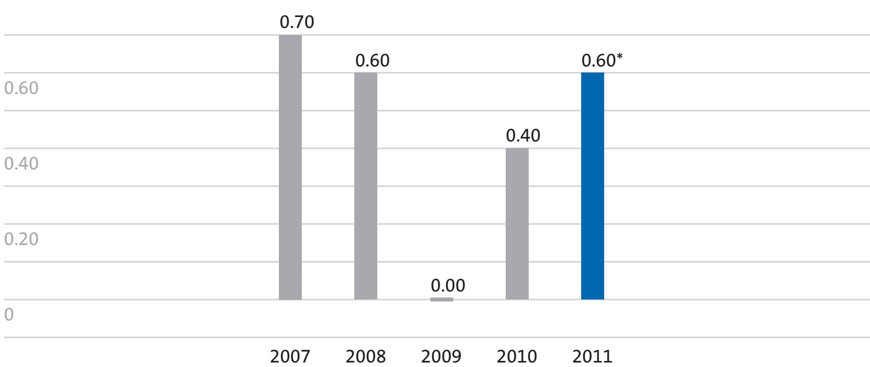
Shareholder structure (at 29 February 2012)



Dividend of €0.60 per share planned

KRONES' long-term dividend policy target is to pay out 20% to 25% of profit in dividends. Given the positive operating trend in the financial year 2011, the Supervisory Board and the Executive Board will propose to the shareholders' meeting a dividend of €0.60 per share (previous year: €0.40 per share).

Dividend per share (€)



* as per proposal for appropriation of retained earnings

KRONES steps up investor relations work

KRONES takes the interests of all of our shareholders very seriously and has an open information policy.

Transparent, prompt, and honest communications with all of our shareholders is a major aim of our investor relations activities. As a member of the MDAX share index, we are followed by international investors and analysts, who have high expectations of our financial communications. We are happy to meet these expectations – increasingly in person-to-person dialogue. We conducted more than a dozen road shows last year, visiting investors in international financial centres such as London, New York, Paris, Zurich, Frankfurt, and the Scandinavian capitals. These shows were attended by Executive Board members or the head of investor relations – or both – who fielded questions from the market professionals. KRONES also participated in numerous investor conferences in Germany and abroad in 2011.

Capital Market Day, which we hosted at our headquarters in Neutraubling, Germany, for the first time on 27 April 2011, was very well received. More than 40 analysts and investors attended. Executive Board Chairman Volker Kronseder and Deputy Chairman Hans-Jürgen Thaus explained business results released the same day and also presented the company's new strategy programme »Value« for the first time. In a tour of the production halls, participants had an opportunity to see for themselves that »Value« is more than words on paper and is, in fact, already being implemented within the company. Christoph Klenk (Chief Engineering, Research and Development Officer) explained our use of modular construction in manufacturing fillers. The new pipe machining centre was also a point of considerable interest during the tour.

Emotional shareholders' meeting

The 31st annual shareholders' meeting of KRONES AG was held in Neutraubling, Germany, on 15 June 2011. Shareholders remembered the company's founder Hermann Kronseder, who had passed away on 9 July 2010. The »farewell speech« of retiring Deputy Chairman of the Executive Board Hans-Jürgen Thaus also elicited an emotional response. Thaus would be leaving KRONES at the end of 2011 after 15 years with the company and therefore made his final presentation to KRONES shareholders at the meeting. All of the resolutions proposed were adopted with a large majority of the shareholders, including a dividend of €0.40 per share for the successful year 2010.

USA 1.8%

Economic environment

The euro zone sovereign debt crisis and fears of renewed trouble in the financial and banking sector hobbled the economy in 2011. At 3.8%, year-on-year global economic growth was weaker than expected. The biggest contribution to growth came from the emerging markets.

GDP growth in 2011

Economic environment

- Debt and euro crises stifle the global economy
- German GDP up 3.0% in 2011
- Machinery sector output picks up

Global economy grows 3.8%

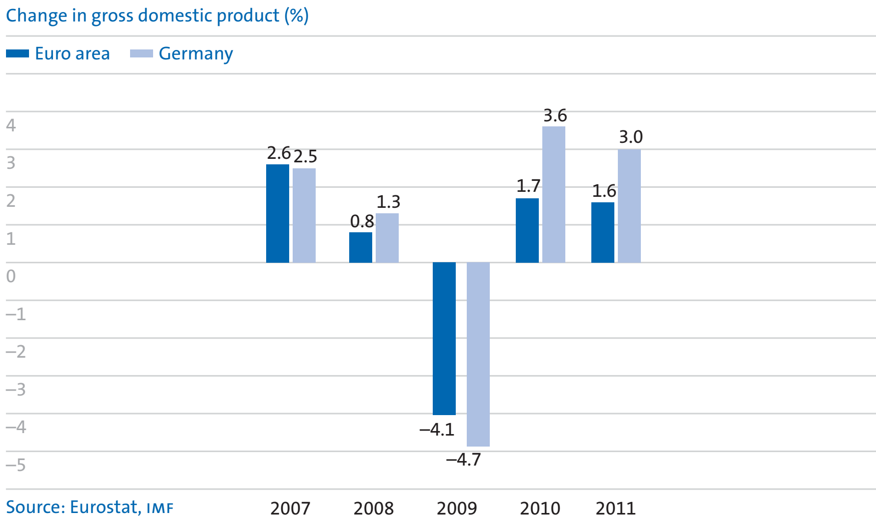
The world economy was weaker than expected in 2011.

The world economy slowed progressively over the course of 2011. The main culprit was the sovereign debt crisis in the euro area. In addition, US budget woes gained attention in August when the rating agency Standard & Poor's stripped the USA of its AAA credit rating. Fears of a new crisis in the global finance and banking sector put increasing strain on the real economy. Losses on the international financial markets and the associated risks prompted experts at the International Monetary Fund (IMF) to lower their growth forecasts for 2011 twice. Initially, the IMF had predicted that the world economy would grow 4.4% in 2011 over the previous year. In the end, global economic growth amounted to just 3.8% (previous year: 5.2%). In the USA, Japan, and the euro area in particular, economic growth was weaker than had been expected at the start of the year.

The biggest gains in 2011 came from the burgeoning markets of Asia and Latin America. But China's GDP growth was no longer in the double digits in 2011. With exports to the faltering euro zone hampered and because the Chinese government used higher interest rates to fight inflation, the nation's GDP grew »only« 9.2%. India's GDP grew 7.4% year-on-year. Japan was the exception in Asia in 2011. The earthquake and tsunami in March and the devastation they caused crippled Japan's economy. GDP contracted by 0.9% in 2011 compared to the previous year.

In the USA, high unemployment made for weak private consumption – the most important component of the world's largest economy. When the situation on the US labour market improved in the second half of 2011, the economy also picked up somewhat. In all, US GDP grew 1.8% in the reporting period.

The euro crisis is reflected in euro area growth figures. Greece and Portugal slid into a deep recession and GDP growth was weak in Italy, Spain, and France. In all, economic growth in the euro area amounted to 1.6% in 2011.



German economy strong

To the surprise of many experts, the German economy largely resisted the negative influence of the European debt crisis in 2011. Only in the final quarter of the year did it falter slightly, with GDP contracting by 0.2% on the third quarter. But for the year 2011 as a whole, German GDP was up 3.0% year-on-year. That is only slightly less than the previous year's gain of 3.6%.

Germany's economy was not hit as hard by the debt and euro crises as the rest of Europe.

German machinery sector grows less than expected

German machinery manufacturers saw new orders increase by more than one-third in the first months of 2011. Growth slowed perceptibly over the remainder of the year. From October to December 2011, new orders were even down compared with the year-earlier period. The sector did not reach the 14% target for output growth set by the German Engineering Federation (VDMA) for 2011. German machinery manufacturers produced goods with a total value of around €187 billion last year. That is up 12.1% from the previous year. At the end of 2011, Germany's machinery sector employed 948,000 people, 35,000 more than at the start of the year.

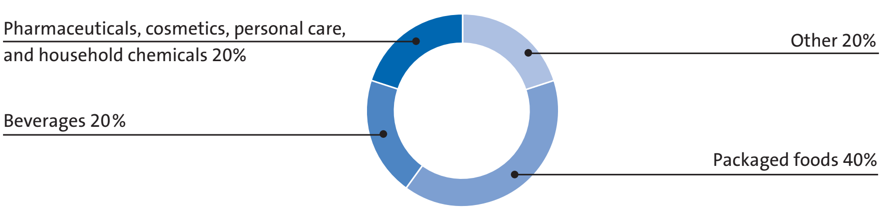
Megatrends benefit packaging machinery market

The market for packaging machinery is growing faster than the economy as a whole in the medium and long term. The entire industry is benefiting from steady global population growth and increasing prosperity in the emerging markets. Demand from the beverage industry in particular is expected to increase even faster than the packaging market as a whole as the rise in demand for clean, bottled water continues undiminished and the variety of beverages and beverage packaging continues to grow.

Global demand for packaging machinery is growing faster than the economy as a whole.

The greatest demand for packaging machinery comes from the food industry (40% of sales). The pharmaceutical, cosmetics, personal care, and household chemical industries combined account for 20%, as do other industries such as tobacco and building materials. The beverage industry also accounts for 20% of demand for packaging machinery. KRONES generates the lion's share of its sales revenue with customers in the beverage industry. In 2011, around 91.9% of our revenue came from business with breweries, soft drink producers, and mineral springs. The other 8.1% came from the sale of lines and services to companies in the food, chemical, pharmaceutical, and cosmetics industries.

The global market for packaging machinery by application



Source: VDMA

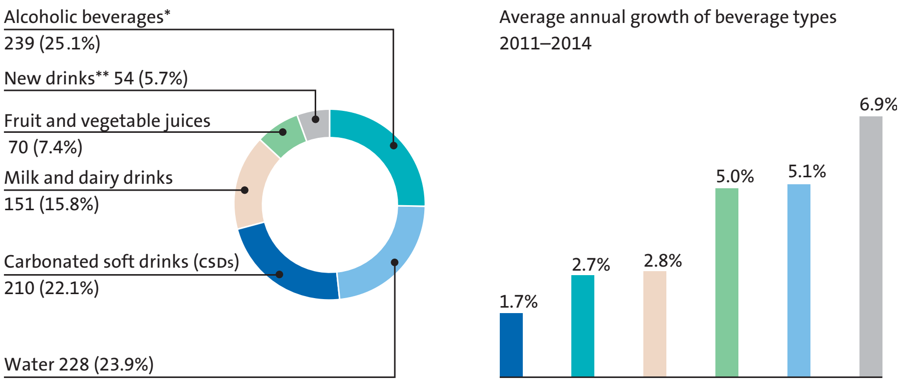
Consumption of packaged beverages is growing steadily

Food and drink are basic human needs that must be met virtually independent of economic cycles. As the world population continues to grow, so too does consumption of industrially packaged beverages. This growth trend continued in 2011. Market researchers from Euromonitor estimate that global consumption of packaged beverages increased 3.1% year-on-year to 951.8 billion litres in 2011. The same researchers expect that figure to grow by around 4% annually, on average, through 2014.

Demand for packaged water, the world's most popular beverage, increased more than any other beverage. In 2011 people consumed around 228 billion litres of packaged water, a good 6% more than in 2010. That corresponds to 23.9% of total beverage consumption worldwide. Demand for flavoured water and functional water – that is, water that has been fortified with vitamins and minerals – is growing. No end to this growth is in sight. Water consumption is expected to increase by 5.1% on average each year from 2011 through 2014.

Demand for industrially packaged water is expanding by more than 5% each year.

Global consumption of packaged beverages in 2011 (billion litres)



2011: 952 billion litres
Sources: Euromonitor, own estimates

* Beer, beer mixed drinks, wine, sparkling wine, spirits ** Energy drinks, sports drinks, tea and coffee

Consumption of carbonated soft drinks (CSDs) is growing more slowly. With 210.3 billion litres, this segment accounted for 22.1% of total beverage consumption in 2011. The volume of CSDs consumed is up 1.1% over 2010. Market researchers expect consumption of CSDs to increase by 1.7% on average each year through 2014.

People around the world consumed 239 billion litres of packaged alcoholic beverages in 2011. Of that, some 190 billion litres were beer. Because the biggest markets in Europe and North America are saturated, demand for beer has been growing more slowly than the beverage market as a whole for several years. All told, consumption of alcoholic beverages is expected to increase by 2.7% per year on average over the next three years. Market researchers expect only slightly faster growth (2.8%) in the fourth-largest segment, milk and dairy drinks (15.8% of total beverage consumption in 2011).

Beverage consumption by region

Growth in demand for packaged beverages varies widely from region to region. Growth rates are low in Western Europe (average annual growth 2011 to 2014: 0.9%) and North and Central America (average annual growth 2011 to 2014: 0.5%). By contrast, consumption of packaged beverages in China is expected to increase by 8.2% on average each year over the same period. Demand in our Asia-Pacific and Africa/Middle East sales regions is also expected to increase far more than the market as a whole (average annual growth: 5.6% and 5.7%, respectively).

Full circle

KRONES' expertise and technology accompanies bottles made of PET plastic through their entire life cycle. It begins with container design. To save costs, beverage producers want their bottles to be as light as possible. KRONES' »lightweighting« design process keeps material consumption to a minimum.

The KRONES Contiform stretch blowmoulder uses very little energy to transform PET preforms into ready-to-fill bottles.

KRONES' PET recycling system helps conserve resources by converting used PET bottles into food grade recycled material – that is, raw material for new bottles.

Packaged beverages Share of global consumption	2011 billion litres	%	2014 billion litres	%	Average annual growth 2011–2014 %
North America/Central America	183.4	19.3	186.3	17.6	0.5
South America	147.9	15.5	165.4	15.7	3.8
China	143.6	15.1	181.8	17.2	8.2
Asia-Pacific (incl. Japan)	142.0	14.9	167.1	15.8	5.6
Western Europe	138.1	14.5	141.8	13.4	0.9
Russia/CIS/Eastern Europe	83.2	8.7	89.2	8.4	2.4
Africa/Middle East	60.5	6.4	71.4	6.8	5.7
Central Europe	53.1	5.6	53.6	5.1	0.3
Worldwide	**951.8**	**100.0**	**1,056.6**	**100.0**	**3.5**

Sources: Euromonitor, own estimates

Demand for packaged beverages is booming in China and the Asia-Pacific region. Other major markets such as North and Central America and Western Europe are growing more slowly than the industry as a whole.

In 2011, around 331 billion litres of beverages were consumed in the Americas, accounting for one-third of total global consumption. People in China consumed around 144 billion litres in 2011, surpassing the residents of Western Europe (138 billion litres) for the first time. China accounted for 15.1% of global consumption last year. The beverage market in the Asia-Pacific region made up a similar share of global consumption. There, people drank 142 billion litres or 14.9% of the world's packaged beverages.

Beverage packaging materials

Most beverages are packaged in containers made of PET plastic (polyethylene terephthalate), glass, metal (cans), or cartons. Around 85% of the global volume of packaged beverages went into one of these packaging types in 2011. The remaining 15% largely went into containers made of other plastics such as HDPE. KRONES produces machines and lines for handling plastic and glass bottles and metal cans. Machines for producing, filling, and packaging PET bottles account for the largest share of our sales revenue.

PET packaging offers many advantages

The different packaging materials' shares of the market have shifted dramatically over the past several years. Glass was the long-time leader among packaging materials. But PET took over the lead many years ago and has retained it ever since. The strong trend toward PET bottles is driven primarily by economic factors. In beverage production, packaging is responsible for the lion's share of costs. For beverage producers, the lighter the container, the higher the return. Innovative production processes have made it possible to continually reduce the amount of granulate needed to produce plastic bottles. KRONES has designed a 0.33-litre PET bottle that weighs only 4.4 grams.

PET bottles are

- *Inexpensive to produce*
- *Lightweight*
- *Recyclable*
- *Versatile in design*

There are also good environmental reasons for choosing PET. Transporting PET bottles uses considerably less fuel than transporting the same volume of heavy glass bottles. That also makes economic sense. PET bottles are recyclable. The food grade material produced by KRONES' PET recycling system serves as the raw material for new bottles. That is good for the environment and conserves valuable resources.

Because PET bottles can be produced in an almost infinite variety of shapes and sizes, they give beverage producers an excellent means with which to differentiate their products from the competition in a fiercely contested market. KRONES also provides comprehensive support when it comes to bottle design.

The packaging market by material

In 2011, almost 40% of the total volume of beverages packaged worldwide went into PET containers. PET bottles are an especially popular packaging choice for water and carbonated soft drinks. Because almost three-quarters of all packaged water worldwide are bottled in PET, the steady rise in water consumption is an important factor driving this packaging material's growth. Market researchers expect the volume of beverages packaged in PET containers to grow by 4% on average each year from 2011 through 2014.

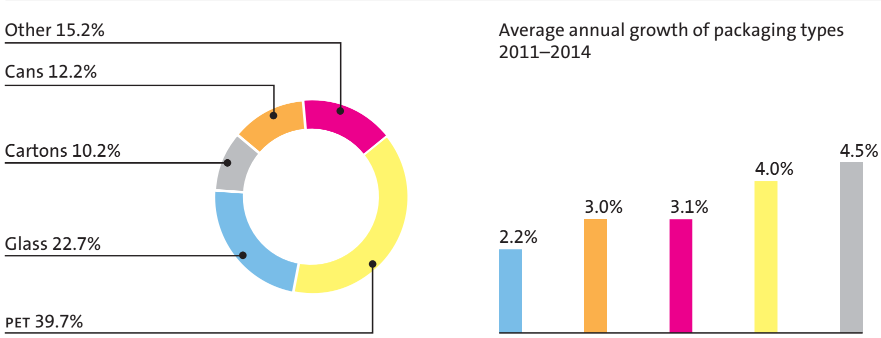
With a 22.7% share of the packaged beverage volume worldwide, glass was the second most common packaging choice in 2011. Alcoholic beverages, beer in particular, are often bottled in glass. Beer consumption is growing slower than the market as a whole worldwide. This is one reason why glass packaging is expected to grow only 2.2% on average each year.

Cans, which took third place among packaging materials in 2011 (12.2% of the market), are primarily used for beer and carbonated soft drinks. Cans are expected to gain favour among beer producers, at the expense of glass bottles. That is the main reason why the volume of beverages packaged in cans is expected to grow by 3.0% per year on average through 2014.

Milk and dairy drinks and fruit and vegetable juices are often packaged in cartons. Last year, 10.2% of the total beverage volume was packaged in cartons.

The most popular choice for beverage packaging is PET.

Global beverage market by packaging material in 2011 (Based on beverage volume)



Sources: Euromonitor, own estimates

Naturally refreshing, without additives

Non-alcoholic beverages such as juices, sparkling juice drinks, and dairy drinks are sensitive from a microbiological standpoint. If no preservatives are to be used, the beverages must be bottled in an aseptic (germ-free) system. KRONES is the only company in our industry to offer both of the established processes for sterilising PET bottles: wet sterilisation of bottles and caps using peracetic acid (KRONES PET-Asept L) and dry sterilisation using gaseous hydrogen peroxide (KRONES PET-Asept D).

Microbreweries – good things come in small packages

»Microbreweries« have taken the US by storm. As a result, demand for technology that is specifically designed to suit the needs of the small brewery is increasing rapidly. KRONES is well positioned to meet this demand. For example, our CombiCube B offers a compact brewhouse for breweries with annual output of between 50,000 and 150,000 hectolitres. CombiCube B is designed for 50 to 100 hectolitre batches. That makes it possible to brew a variety of specialty beers cost-effectively and in top quality.

KRONES' markets

The following is an overview of the popularity of beverages in each of our most important sales regions as well as a breakdown of each regional beverage market by packaging material. The information is based on packaged beverage volume in litres.

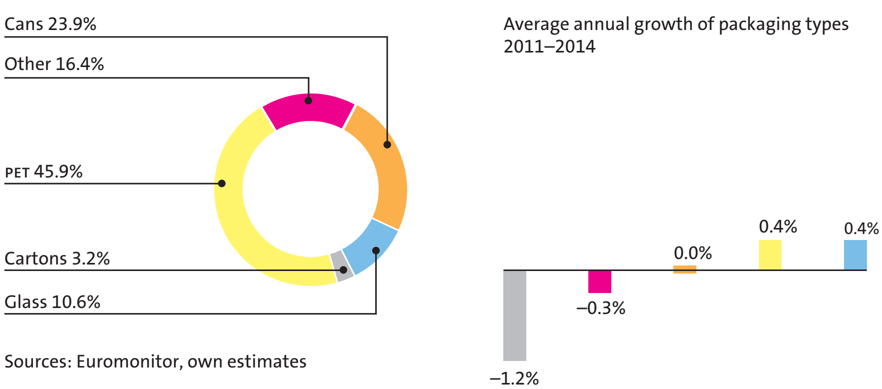
The Americas

North and Central America

People in North and Central America love carbonated soft drinks (CSDs). They drank some 60 billion litres of them last year. That is around one-third of total regional consumption of packaged beverages. Water is the second most popular thirst quencher (share: 20.2%). Water and CSDs are primarily packaged in PET bottles in North and Central America. For this reason, PET holds a very large share of the packaging market there, around 46%. Cans (23.9% market share) benefit from the high consumption of CSDs since cans are the second most common choice for these beverages after PET. Cartons do not play a significant role in the region, accounting for only 3.2 % of the market.

Carbonated soft drinks like cola and sodas are the favourite thirst quencher in North and Central America.

Shares of the beverage packaging market in North and Central America in 2011



Sources: Euromonitor, own estimates

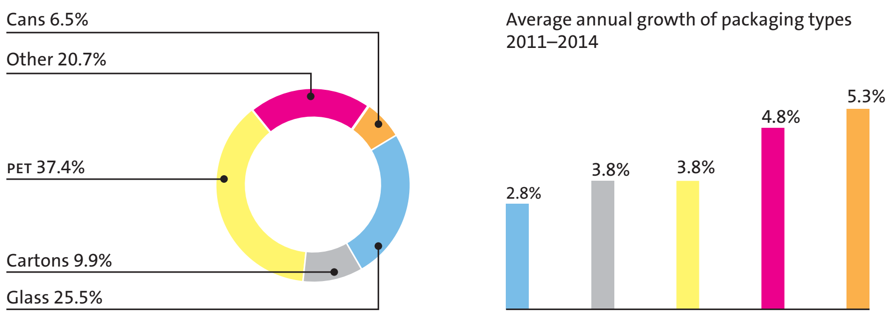
South America

Carbonated soft drinks (share of total consumption in 2011: 33.7%) are also very popular in South America. Unlike in North America, however, they are rarely packaged in cans. With a share of 37%, PET is the leading packaging material in South America. At around 25%, glass bottles held a much larger market share in South America in 2011 than they did in North America. That is because beer is primarily packaged in glass in South America.

Juice is gaining popularity in China

According to Euromonitor statistics, the Chinese consumed around 16 billion litres of packaged fruit and vegetable juices in 2011. That gives this beverage type a strong 11% share of total consumption in China. This figure is likely to increase considerably in the years ahead. That is because rising prosperity in China is reflected in consumer preferences and benefits premium products such as fruit juices. Market researchers expect consumption of packaged fruit and vegetable juices to grow by around 12% per year on average over the next five years.

Shares of the beverage packaging market in South America in 2011



Sources: Euromonitor, own estimates

China

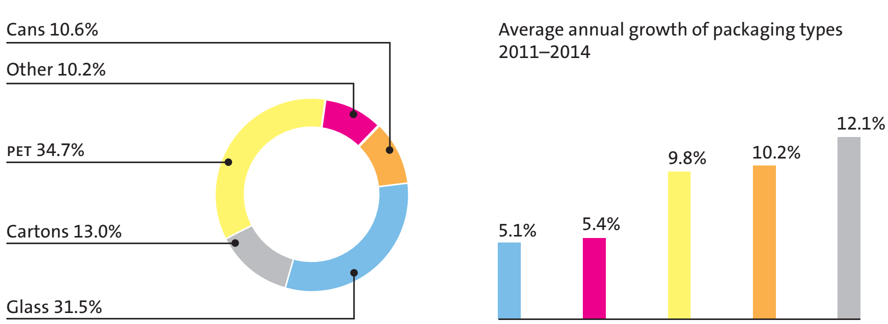
Because beer is very popular in China, glass holds a large share of the Chinese packaging market.

Consumption of packaged beverages is increasing rapidly in China. Beer is very popular there. During the reporting year, the Chinese population consumed some 48 billion litres of beer. That is around one-third of total packaged beverage consumption in China. No end to beer's popularity in China is in sight. Market researchers expect annual growth rates of more than 5%. The »juice of the barley« is packaged primarily in glass bottles in China. That is why, at 31.5%, the market share of glass packaging was considerably higher in China than in other regions in 2011.

PET accounted for an even larger share of the market. In 2011, 34.7% of the total volume of packaged beverages in China went into PET containers. Water, the second most popular thirst quencher in China after beer, is primarily bottled in PET. The same is true for teas and fruit and vegetable juices, all of which are gaining popularity in China. From 2011 through 2014, average annual growth in demand for PET packaging in China is expected to be nearly 10%.

Cartons and cans, which assume third and fourth place among packaging materials in China, are experiencing similarly strong growth. While cartons are benefiting from the surging popularity of milk and dairy drinks, cans are coming into increasing use for beer.

Shares of the beverage packaging market in China in 2011



Sources: Euromonitor, own estimates

Water boom continues

Demand for bottled water has increased dramatically in recent years. And the trend will continue into the foreseeable future. According to Euromonitor statistics, nearly 230 billion litres of bottled water were consumed in 2011. Market researchers expect average annual growth rates of around 5% for the years ahead. It's no wonder since water is the perfect thirst quencher. It is healthful and available in many different varieties. A recent trend has gourmet restaurants offering select, premium-priced mineral water in elegant bottles.

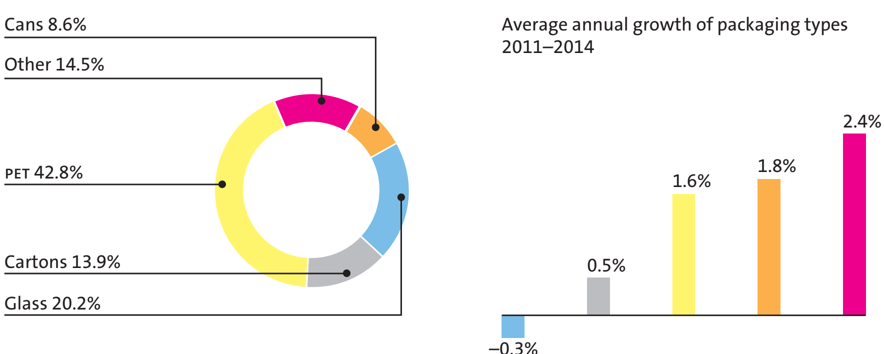
Europe

Western Europe

Water is the favourite packaged beverage in Western Europe. Last year, bottled water accounted for one-third of total packaged beverage consumption in the region. Around 80% of this volume was bottled in PET. The lightweight packaging material is the leader in Western Europe, with a share of 42.8%. Water consumption in Western Europe – and therefore demand for PET bottles is likely to grow more rapidly than the market as a whole in the years ahead. Western Europeans also like to drink milk (share of total consumption in 2011: 19.5%), which is primarily packaged in cartons. Last year Western Europeans consumed more milk than carbonated soft drinks (market share: 17.1%). Alcohol consumption is down slightly among Western Europeans. Because beer, wine, and spirits are primarily bottled in glass here, this packaging material's market share is shrinking. Last year, glass accounted for around 20% of the market, followed by cartons with almost 14%.

Most water is bottled in PET in Western Europe.

Shares of the beverage packaging market in Western Europe in 2011



Sources: Euromonitor, own estimates

Central Europe (Germany, Austria, the Netherlands, Switzerland)

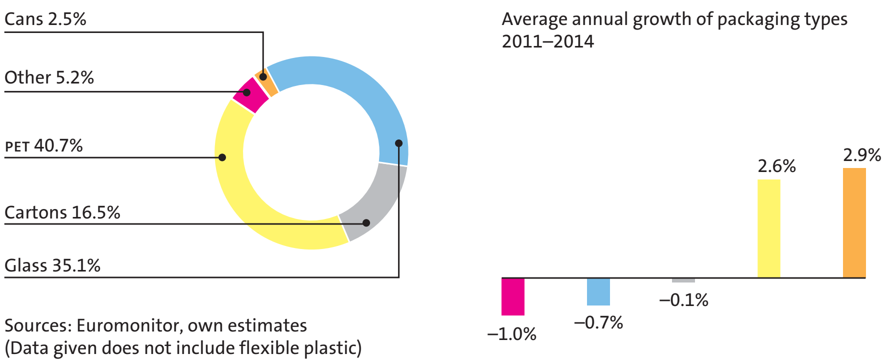
The packaging market breaks down quite differently in Central Europe. The share of glass packaging is strikingly large (2011: 35.1%). That is because beer (2011 share: 20.9%) is the second most popular beverage in the region after water (25.2%) and 90% of all beer in the region is bottled in glass. Unlike in Western Europe, beer is rarely packaged in cans in Central Europe. Cans occupied only 2.5% of the beverage packaging market in 2011. PET is the leading packaging material in the region (40.7% share). Besides water, carbonated soft drinks are also primarily bottled in PET in Central Europe. Consumption of both of these beverage types is expected to grow faster than the overall market in the years ahead, further benefiting PET. Cartons, used primarily for fruit and vegetable juices and milk, accounted for 16.5% of the beverage packaging market in Central Europe last year.

Italy’s pioneering spirit

Unlike in the rest of Europe, most fresh milk is sold in PET bottles in Italy. Italian dairies are the first to make extensive use of the benefits PET has to offer over other packaging types such as cartons. For instance, a PET bottling line from KRONES can fill more volume of milk than a carton packaging machine in the same amount of time.

The growth trend in PET packaging continues unabated in Central Europe.

Shares of the beverage packaging market in Central Europe in 2011



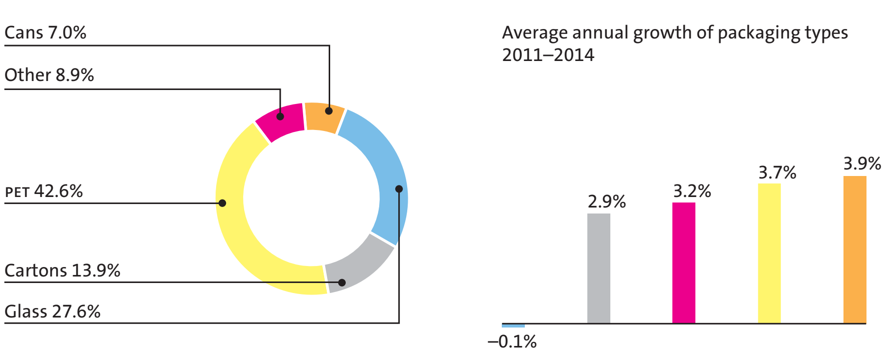
Sources: Euromonitor, own estimates
(Data given does not include flexible plastic)

Eastern Europe (including Russia and CIS)

Beer is the thirst quencher of choice in this region, accounting for 30% of total packaged beverage consumption. However, beer consumption is growing only slowly. Around one-quarter of the beer volume in Russia and the countries of the former Soviet Union (CIS) is bottled in PET. In the rest of the world, plastic is rarely used for beer. Last year 42.6% of the total volume of packaged beverages consumed went into PET containers. A significant portion of that volume was water. Bottled water accounted for one-fifth of total beverage consumption in 2011. Bottled water is increasingly popular in Eastern Europe, with consumption rising by an average of 4.5% each year. Water's gains are reflected in the growth rate for PET packaging, which is expected to average 3.7% each year from 2011 through 2014.

Demand for glass, which is used primarily for alcoholic beverages, is expected to shrink slightly in the years ahead (2011 share: 27.6%). Glass is gradually losing some of its share of the beer market to PET bottles and metal cans. Cartons (2011 share: 13.9%) are benefiting from the fact that Easter Europeans are drinking more fruit and vegetable juices and milk. Cans are used almost exclusively for beer in the region. Therefore, their share of the market in 2011 was only 7%.

Shares of the beverage packaging market in Eastern Europe/Russia/CIS 2011



Sources: Euromonitor, own estimates
(Data given does not include flexible plastic)

Vietnam's burgeoning beverage market

Consumption of packaged, non-alcoholic beverages is still a relatively new phenomenon in Vietnam. But in the years ahead, it is expected to increase dramatically. Market researchers at Euromonitor expect demand for ready-to-drink teas to grow by an average of 19% each year from 2011 through 2015. Consumption of packaged water, which came to around 550 million litres in Vietnam in 2011, is expected to grow to almost one billion litres by 2015. That corresponds to an average annual increase of around 16%.

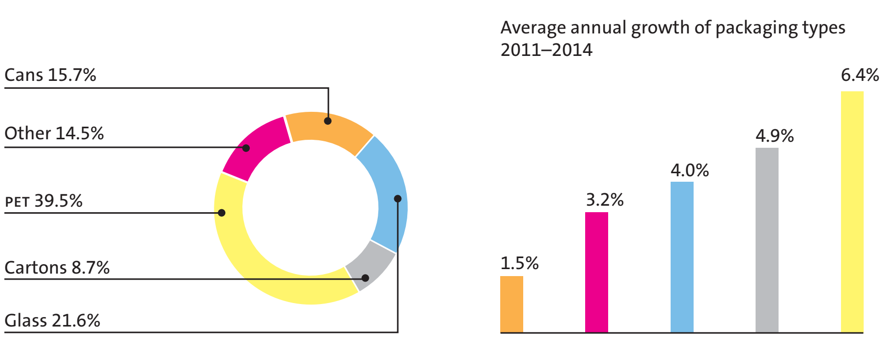
Asia-Pacific

Water and milk benefit from Asians' health consciousness.

People in the Asia-Pacific region are very health conscious, a fact that is reflected in their beverage choices. Water accounted for 28.3% of total beverage consumption in 2011 and milk for 17.1%. Demand for packaged water is expected to grow by more than 10% annually on average. Beer and carbonated soft drinks are also popular – each held a 14.2% share of the market in 2011 – but are expected to grow far more slowly, just 3%.

PET dominates the packaging market with a share of 39.5%. With average annual rates of 6.4%, PET bottles are also ahead of the rest in terms of expected growth. The booming water market is the main force driving this growth. The second most popular packaging choice in 2011 was glass (21.6% share), followed by cans (15.7%).

Shares of the beverage packaging market in Asia-Pacific in 2011



Sources: Euromonitor, own estimates
(Data given does not include flexible plastic)

KRONES in figures

KRONES continued its growth trend despite the difficult economic environment overall. Consolidated sales revenue improved 14.1% to €2,480.3 million. Due to a substantial extraordinary item, consolidated earnings before taxes increased only 5.4% to €74.6 million (previous year: €70.8 million). KRONES intends to pay its shareholders a dividend of €0.60 per share (previous year: €0.40).

Regionale Umsatzverteilung
KRONES Konzern 2011

- Sales outpace pre-crisis level in 2011
- Earnings before taxes grow to €74.6 million
- KRONES plans dividend of €0.60 per share

Sales up 14.1% to €2,480.3 million

KRONES continued to grow in 2011.

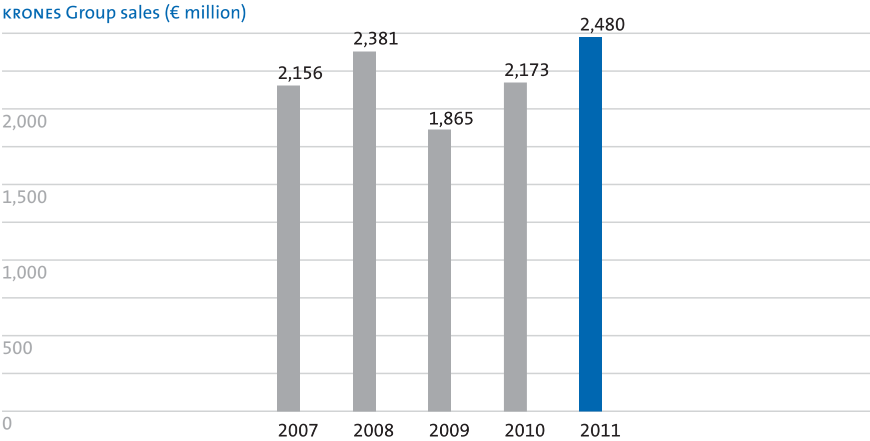
KRONES grew more than the market it serves in 2011. Consolidated sales rose 14.1% year-on-year from €2,173.3 million to €2,480.3 million. With that, the company has not only continued the strong growth trend from 2010 but also surpassed its 2008 sales figure (€2,381.4 million).

The emerging markets of Asia and Latin America – regions in which KRONES is well positioned – are booming. International food and beverage companies continue to invest heavily in filling and packaging technology there. KRONES won a number of orders because we are able to offer customers not »only« machines and lines but complete solutions to meet all of their needs. In addition, the fact that our lines offer a lower total cost of ownership has established a competitive advantage for KRONES. In essence, total cost of ownership includes all of the ongoing costs associated with operating a line.

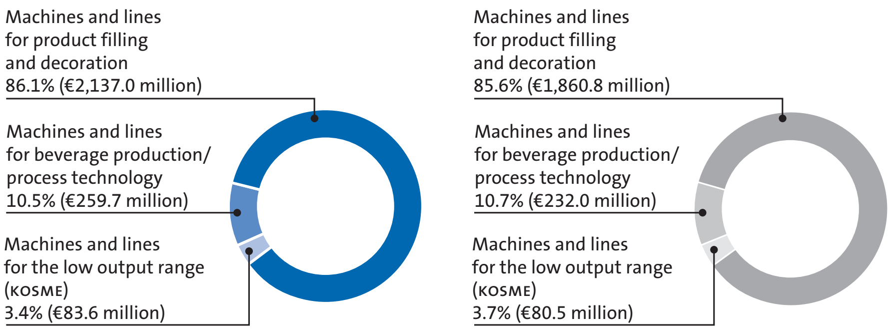
Demand remained high for our machines and lines for producing, filling, and packing bottles made of PET plastic. KRONES further consolidated its lead in this growth-driven market segment with new, innovative products. Our service business, which we are systematically expanding, made a significant contribution to our company's growth in 2011.

Sales outperformed their 2008 level in 2011.

KRONES Group sales (€ million)



KRONES Group sales by segment



Sales in 2011: €2,480.3 million

Sales in 2010: €2,173.3 million

Sales by segment

Sales in our core segment made the strongest improvement in 2011.

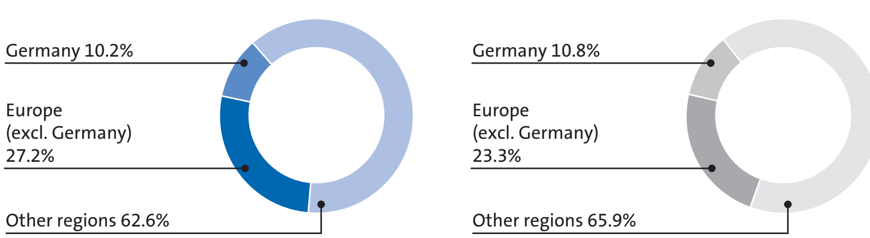
Sales in KRONES' largest segment, »machines and lines for product filling and decoration«, increased 14.8% to €2,137.0 million (previous year: €1,860.8 million). The segment contributed 86.1% of consolidated sales. Sales in the »machines and lines for beverage production/process technology« segment grew 11.9% to €232.0 million (previous year: €259.7 million) and accounted for 10.5% of consolidated sales. In our smallest segment, »machines and lines for the lower output range (KOSME)«, sales improved 3.8% to €83.6 million (previous year: €80.5 million) and accounted for 3.4% of consolidated sales in 2011.

Further information can be found in the section »Reports from the segments« beginning on page 80 and under »Segment reporting« in the notes to the consolidated financial statements on pages 128 and 129.

Sales by region

KRONES benefited from the positive economic situation in Germany in 2011. Sales revenue in Germany, the company's home market, was up 8.2% to €253.2 million during the reporting period (previous year: €234.1 million). Sales in Germany accounted for 10.2% of total consolidated sales in 2011 (2010: 10.8%).

KRONES Group sales by region



Sales in 2011: €2,480.3 million

Sales in 2010: €2,173.3 million

Within Europe, KRONES made the biggest improvement in sales in Russia and Eastern and Central Europe in 2011. Nevertheless, sales in these regions are still below their pre-2009 levels. All told, revenue in Europe (excluding Germany) increased 33.1% year-on-year from €507.3 million in 2010 to €675.2 million in 2011. This sales region accounted for 27.2% of consolidated sales (2010: 23.3%).

Sales outside Europe improved 8.4% year-on-year to €1,551.9 million (previous year: €1,431.9 million). The share of consolidated sales generated outside Europe decreased overall, from 65.9% in 2010 to 62.6% in 2011.

Sales by industry

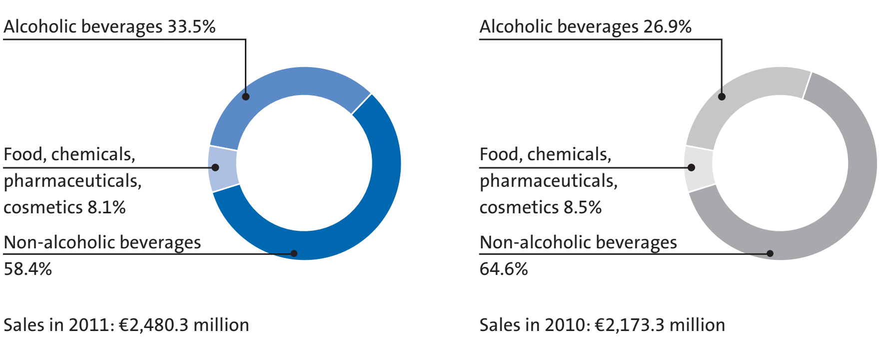
KRONES generated the main part of sales in 2011 with companies that produce and process non-alcoholic beverages such as water, soft drinks, and juices. Sales revenue from business with this customer group rose 3.1% year-on-year from €1,403.7 million in 2010 to €1,447.4 million in 2011. That amounts to 58.4% of consolidated sales (previous year: 64.6%).

WWW
More information is available at www.krones.com/en/branches.htm

Sales from business with producers of alcoholic beverages grew 42.2% from €585.3 million to €832.4 million in 2011. This strong growth reflects the recovery last year of the markets in Eastern Europe, home to many breweries. The »alcoholic beverages« sector contributed 33.5% of consolidated sales at KRONES in 2011 (previous year: 26.9%).

Sales to customers in the non-beverage sector (food, chemicals, pharmaceuticals, cosmetics) were up 8.8% year-on-year from €184.3 million in 2010 to €200.5 million in 2011. This sector's contribution to consolidated sales was down slightly to 8.1% (previous year: 8.5%).

KRONES Group sales by industry



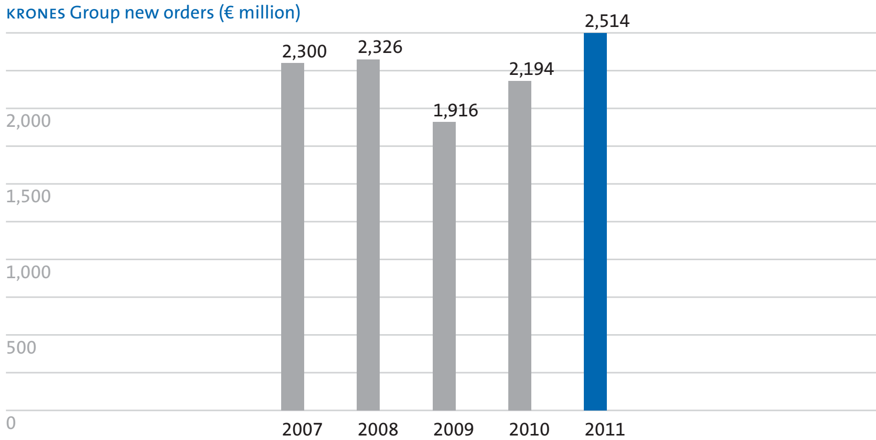
New orders up 14.6%

Orders were up in most regions in 2011.

Demand for our products and services was exceptionally high in the first two quarters of the financial year 2011. As expected, the rate of orders growth decreased over the remaining year. All told, new orders were up 14.6% year-on-year from €2,193.5 million to €2,514.0 million in 2011. Demand picked up across wide parts of KRONES' product range. Complete filling lines were in high demand but orders for individual machines also exceeded the previous year. Service orders made up a larger share of total new orders in 2011.

New orders were up year-on-year in most of KRONES' sales regions in 2011. The highest rates of growth were achieved in our Africa/Middle East and North and Central America sales regions. Nevertheless, orders in those regions are still below their pre-2009 levels. Orders did not develop as well in those areas of Europe that were heavily affected by the sovereign debt and euro crises. In absolute terms, new orders from China had the highest total value of all of our sales regions in 2011.

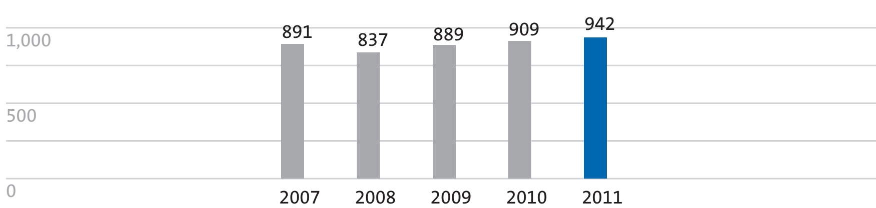
KRONES Group new orders (€ million)



KRONES' order books are full

KRONES went into the financial year 2011 with an orders backlog of €908.7 million. Given the high volume of new orders, this backlog had expanded to €942.4 million at 31 December 2011 despite the considerable increase in revenue. Our solid orders backlog gives us good planning security for the financial year 2012.

KRONES Group orders on hand at 31 December (€ million)

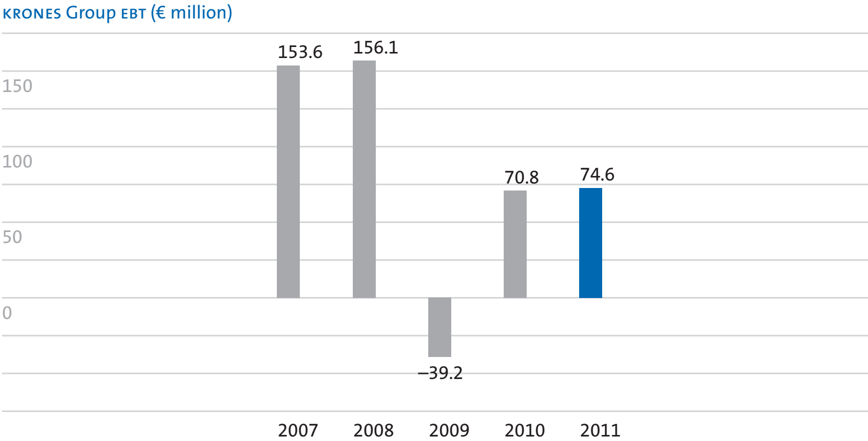


KRONES improves earnings before taxes

Earnings before taxes (EBT) were up year-on-year from €70.8 million to €74.6 million in 2011. This figure is affected by a provision that KRONES has recognised in its 2011 financial statements to cover a possible settlement arising from the Le-Nature's lawsuits in the US. The pre-tax return on sales (ROS) – the ratio of EBT to sales – was 3.0% (previous year: 3.3%). KRONES was able to strengthen earnings from operations – that is, earnings before accounting for the one time effect – last year as planned despite the challenging economic environment.

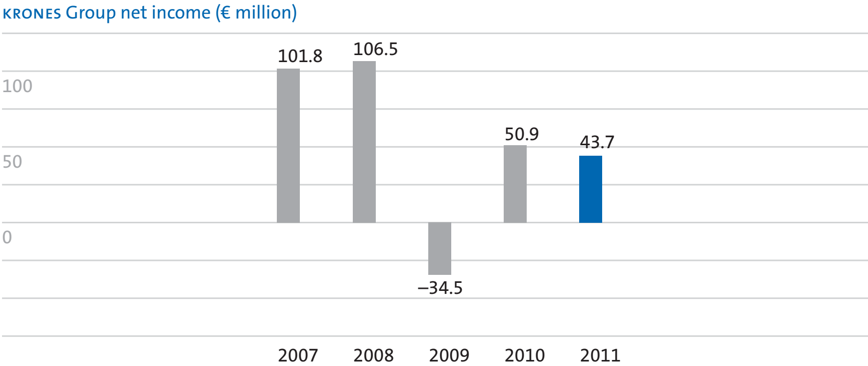
Due to an extraordinary item, earnings before taxes improved by only €3.8 million.

KRONES Group EBT (€ million)



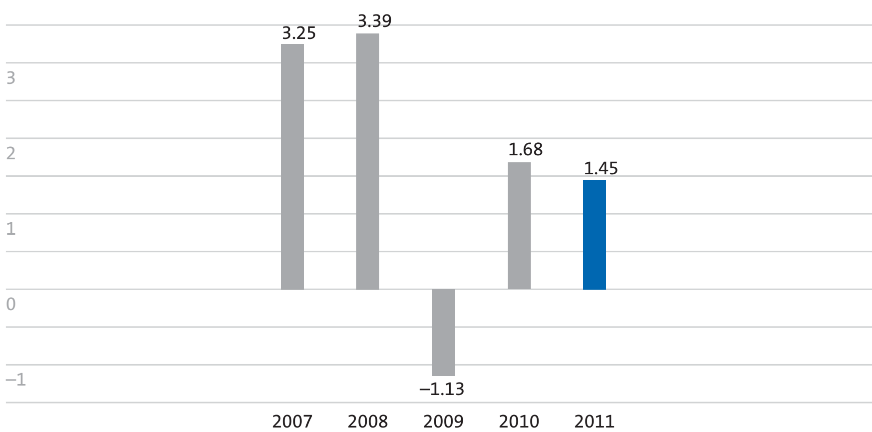
Net income (earnings after taxes) was down year-on-year from €50.9 million to €43.7 million in 2011. Due to the one time effect cited above and to expenses arising from a tax audit, the company's tax rate rose year-on-year from 28.1% to 41.5%.

KRONES Group net income (€ million)



KRONES' capital stock is divided into roughly 31.59 million shares. Treasury shares (of which there are around 1.43 million) are not included in the calculation of earnings per share. Thus, earnings per share for the financial year 2011 amount to €1.45 (previous year: €1.68). Given the positive development of operations in 2011, the Supervisory Board and the Executive Board will propose to the shareholders' meeting a dividend of €0.60 per share (previous year: €0.40 per share).

KRONES Group earnings per share (€)



KRONES Group earnings structure

€ million	2011	2010	Change
Sales revenue	2,480.3	2,173.3	+14.1%
Changes in inventories of finished goods and work in progress	2.8	25.9	
Total operating performance	2,483.1	2,199.2	+12.9%
Goods and services purchased	–1,271.8	–1,118.9	+13.7%
Personnel expenses	–738.4	–685.5	+7.7%
Other operating income (expenses) and own work capitalised	–332.0	–266.0	+24.8%
EBITDA	140.9	128.8	+9.4%
Depreciation and amortisation on non-current assets	–70.3	–60.7	+15.8%
EBIT	70.6	68.1	+3.7%
Financial income	4.0	2.7	+48.2%
EBT	74.6	70.8	+5.4%
Income tax	–30.9	–19.9	+55.3%
Net income	43.7	50.9	–14.1%

Earnings before taxes were up only 5.4% in 2011 over 2010.

KRONES' total operating performance increased 12.9% year-on-year from €2,199.2 million to €2,483.1 million in 2011. The value of goods and services purchased from third parties also increased in keeping with the increase in business volume. Expenses for temporary workers are reported under »goods and services purchased«. In all, this line item increased slightly more than proportionately to total operating performance in 2011.

At €1,271.8 million, it was up 13.7% from the year-earlier figure of €1,118.9 million. The ratio of expenses for goods and services purchased to total operating performance grew to 50.9% (previous year: 51.2%). As we continued to optimise our production structures under our »Value« strategy programme, we were able to limit the increase in expenses for goods and services purchased. Generally high demand in an increasing pricing environment for important input materials that KRONES buys prevented us from achieving an even better figure. Electronic components are one example of such input materials.

At €1,271.8 million, expenses for goods and services purchased were up about 14% on the previous year (€1,118.9 million).

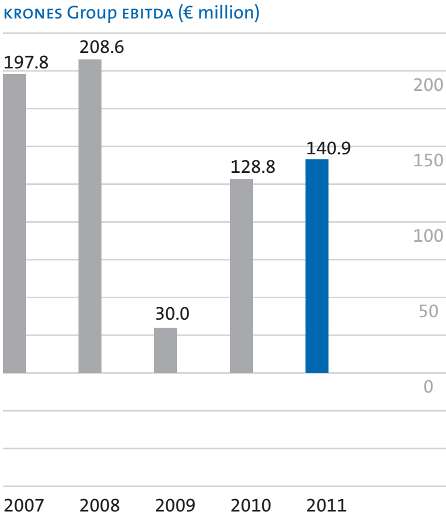
Personnel expenses were up 7.7% year-on-year from €685.5 million to €738.4 million in 2011. The fact that personnel expenses increased less than proportionately to total operating performance in 2011 despite our hiring 814 new employees is due primarily to our exceptionally high operating performance in the fourth quarter. Moreover, because our larger workforce reduced the amount of overtime necessary, we were able to reduce production-related provisions for overtime/extra work in the second half. In all, the ratio of personnel expenses to total operating performance decreased from 31.2% to 29.7% in 2011.

The net of other operating income and expenses and own work capitalised increased from –€266.0 million in 2010 to –€332.0 million in 2011.

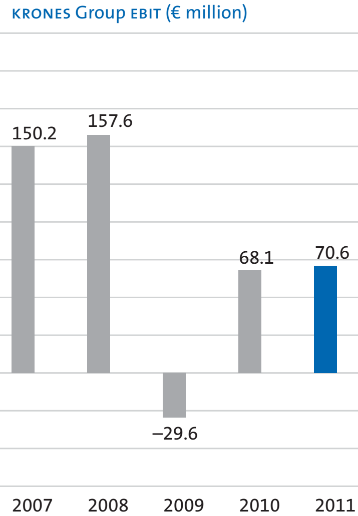
Depreciation and amortisation of intangible assets, property, plant and equipment, and non-current financial assets increased 15.8% year-on-year to €70.3 million (previous year: €60.7 million) due primarily to increased capital expenditures in recent years. The ratio of depreciation and amortisation to sales revenue remained unchanged at 2.8%.

Thanks to our very solid financial base, we were able to generate interest income of €4.0 million in 2011 (previous year: €2.7 million). After income taxes of €30.9 million (previous year: €19.9 million), KRONES' net income for the year 2011 came to €43.7 million (previous year: €50.9 million).

KRONES Group EBITDA (€ million)



KRONES Group EBIT (€ million)



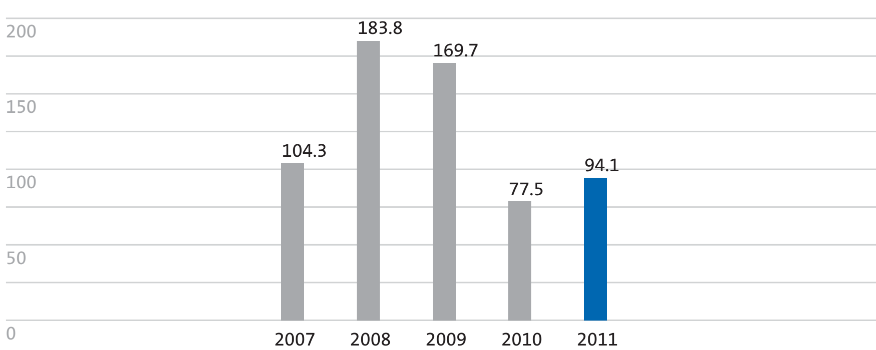
€ million	2011	2010	Change
EBT	74.6	70.8	+3.8
Cash flow from operating activities	94.1	77.5	+16.6
Cash flow from investing activities	–101.5	–74.8	–26.7
Free cash flow	–7.4	2.7	–10.1
Cash flow from financing activities	–14.1	–2.3	–11.8
Net change in cash and cash equivalents	–21.5	0.4	–21.9
Other changes in cash and cash equivalents	–0.4	11.5	–11.9
Cash and cash equivalents at the beginning of the period	147.4	135.5	+11.9
Cash and cash equivalents at the end of the period	125.5	147.4	–21.9

For more information, please refer to the complete statement of cash flows on page 126.

Although earnings before taxes were up by only €3.8 million year-on-year to €74.6 million in 2011, KRONES generated €94.1 million in cash flow from operating activities. That is €16.6 million more than in 2010. The fact that earnings adjusted for non-cash expenses and income improved from €111.0 million in 2010 to €164.4 million helped to increase this figure. The €48.3 million increase in working capital due to the growth in business volume had a negative impact on cash flow from operating activities in 2011. Despite the increase in working capital, the ratio of working capital to sales decreased to 22.8% in 2011 (previous year: 23.6%).

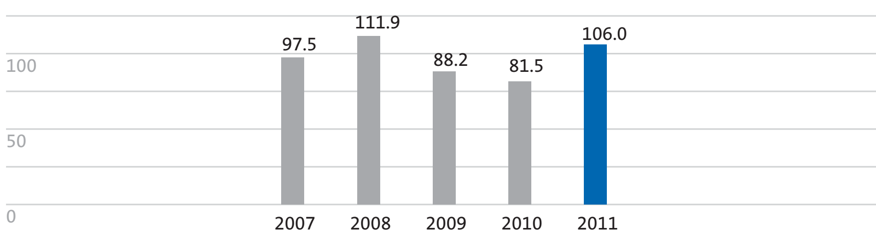
At 22.8%, the ratio of »working capital to sales« was improved over the previous year.

KRONES Group cash flow from operating activities (€ million)



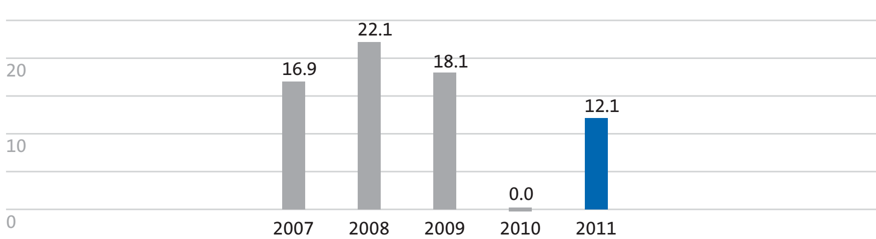
KRONES invested around €106.0 million (previous year: €81.5 million) in property, plant and equipment and intangible assets during the reporting period. This expenditures went toward new production machinery, the expansion of the international LCS Centres, the construction of training centres in Rosenheim and Neutraubling, and construction of the Centre for Logistics and Module Production in Rosenheim. The high cash flow from operating activities offset a large portion of the capital expenditure, resulted in a free cash flow of –€7.4 million (previous year: +€2.7 million).

KRONES Group capital expenditure for PP&E and intangible assets (€ million)



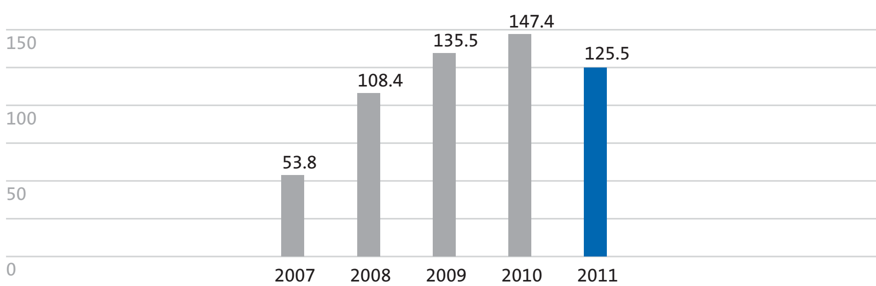
Cash flow from financing activities resulted from the dividend payout of €12.1 million (previous year: €0.0 million) and the payment of lease liabilities totalling €2.1 million (previous year: €2.3 million) in 2011.

KRONES Group dividend payout (€ million)



Unlike in 2010, changes due to exchange rates and consolidation had little impact on cash and cash equivalents in 2011 (2011: –€0.4 million; 2010: + €11.5 million). All told, cash and cash equivalents decreased in 2011 from €147.4 million to €125.5 million.

KRONES Group cash and cash equivalents at 31 December (€ million)



€ million at 31 December	2011	2010	2009	2008	2007
Non-current assets	597	569	542	534	475
of which fixed assets	555	519	496	482	422
Current assets	1,443	1,317	1,248	1,291	1,209
of which cash and equivalents	125	147	136	108	54
Equity	785	759	696	790	708
Total debt	1,255	1,127	1,094	1,035	976
Non-current liabilities	134	125	125	144	155
Current liabilities	1,121	1,002	969	891	821
Total assets	**2,040**	**1,886**	**1,790**	**1,825**	**1,684**

For more information, please refer to the complete statement of financial position on pages 124 and 125.

At €2,039.8 million, KRONES' total assets were up 8.1% at 31 December 2011 compared to the previous year (€1,886.1 million). This increase is far smaller than the increase in total operating performance (+12.9%). At the end of the financial year 2011, KRONES had intangible assets, property, plant and equipment, and non-current financial assets totalling €554.6 million, which is 6.9% more than at the end of 2010 (€519.0 million). The carrying amount of property, plant and equipment was €441.3 million at the reporting date for 2011, up 6.0% from the previous year (€416.3 million). Intangible assets, which consist primarily of development costs that must be capitalised, were up at 31 December 2011 to €110.7 million (31 December 2010: €100.6 million). In all, KRONES had non-current assets totalling €597.2 million at the end of 2011, which is 4.9% more than the previous year (31 December 2010: €569.5 million).

With net cash and cash equivalents of €125.5 million and an equity ratio of 38.5%, KRONES has an extremely robust financial and capital structure.

Current assets amounted to €1,442.6 million at the reporting date for 2011 (31 December 2010: €1,316.6 million). Inventories were up 10.1% from €583.6 million to €642.8 million. Trade receivables were up 12.4% from €505.3 million to €567.8 million. The ratio of working capital to sales was down year-on-year from 23.6% to 22.8%. Other assets, which consisted largely of advances paid and tax receivables, rose year-on-year from €76.3 million to €102.0 million. At 31 December 2011, KRONES had cash and cash equivalents totalling €125.5 million (31 December 2010: €147.4 million). The positive net income figure for 2011 increased equity from €758.9 million at the reporting date for 2011 to €785.5 million, bringing our equity ratio to 38.5% (previous year: 40.2%). Non-current liabilities, consisting primarily of provisions for pensions, totalled €133.6 million at the reporting date for 2011 (31 December 2010: €124.8 million). KRONES had no non-current bank debt at the end of 2011.

At €1,120.7 million, current liabilities were 11.8% higher at the end of 2011 than a year earlier (€1,002.4 million). The biggest single item within current liabilities, advances received, increased slightly to €443.5 million (31 December 2010: €434.9 million). Trade payables were up €27.4 million compared to the 2010 reporting date to €201.3 million. KRONES had no current bank debt at the end of 2011. Thus, KRONES had net cash and cash equivalents (that is, cash and highly liquid securities under current assets less liabilities to banks) totalling €125.5 million at the reporting date for 2011.

Report from the segments

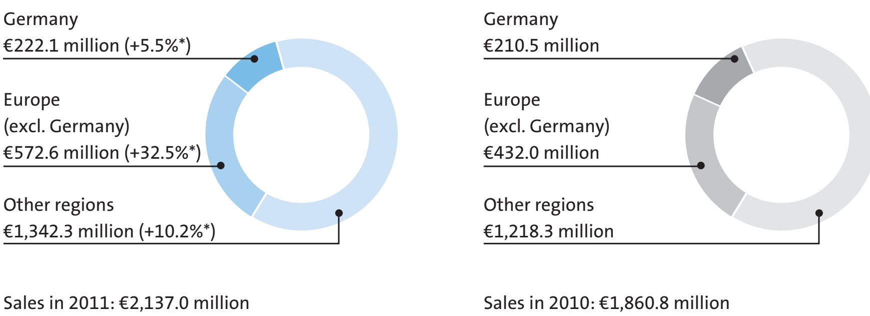
Product filling and decoration

Segment revenue

Sales in our core segment, »machines and lines for product filling and decoration«, increased 14.8% to €2,137.0 million in 2011 (previous year: €1,860.8 million). Continuing high demand for machines and lines for bottling and packing beverages and liquid foods into PET containers supported the growth of KRONES' biggest segment. Segment sales in Europe (excluding Germany) achieved the biggest increase, 32.5% year-on-year. The segment contributed 86.1% of consolidated sales in 2011 (previous year: 85.6%).

KRONES' core business area – by far the company's largest segment – offers machines and complete lines for filling, packaging, labelling, and conveying products.

Sales in product filling and decoration

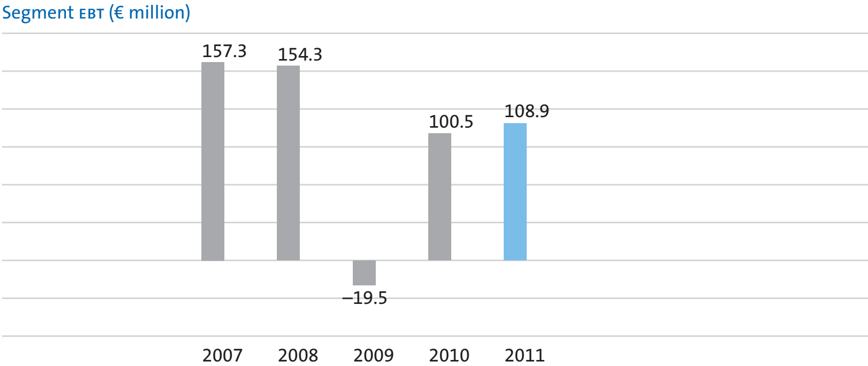


* Percentage change on previous year

Segment earnings

The one time effect described on page 102 had a negative impact on earnings performance in our core segment, »machines and lines for product filling and decoration«. Nevertheless, earnings before taxes (EBT) for the financial year 2011 improved 8.4% year-on-year, from €100.5 million to €108.9 million. The pre-tax return on sales (ROS) – the ratio of EBT to segment sales – was 5.1% (previous year: 5.4%).

Segment EBT (€ million)

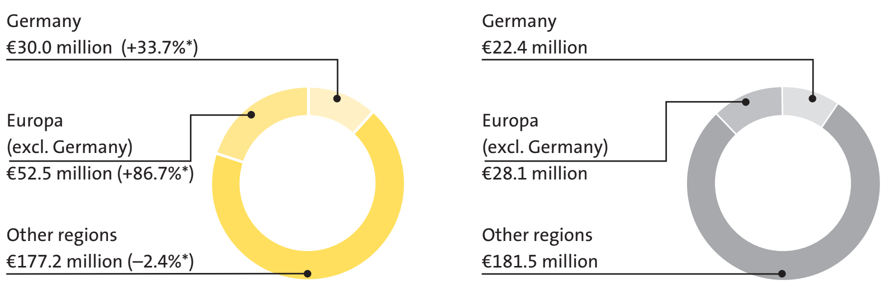


Segment revenue

In our »machines and lines for beverage production/process technology« segment, sales were up 11.9% in 2011, to €259.7 million (previous year: €232.0 million). At the end of the first nine months of 2011, sales had been lagging the year-earlier period by more than 10%. Because the process engineering business is heavily project-based, sales revenue tends to fluctuate quite sharply due to invoice timing. The segment contributed 10.5% of consolidated sales at KRONES in 2011 (previous year: 10.7%).

This segment covers brewing technology, which includes brewhouse and filtration technology. Equipment used for treating sensitive beverages such as milk and for producing dairy drinks and fruit juices as well as our materials flow technology/internal logistics offerings are also part of the »beverage production/process technology« segment.

Sales in beverage production/process technology



Sales in 2011: €259.7 million

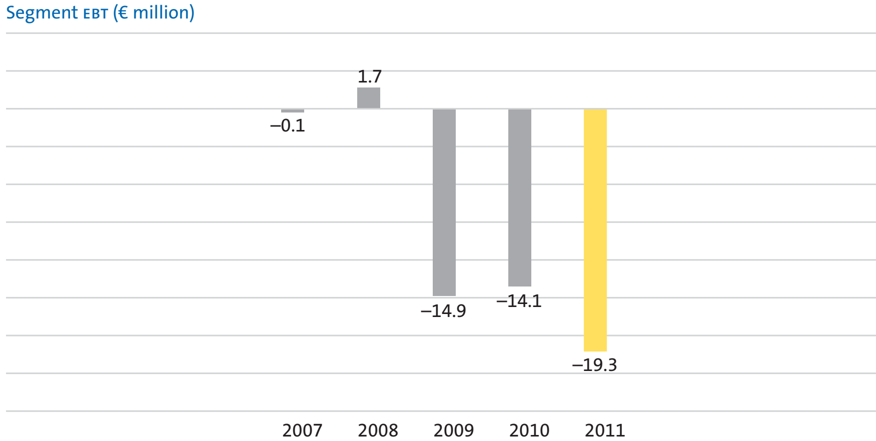
Sales in 2010: €232.0 million

* Percentage change on previous year

Segment earnings

The earnings situation in the »machines and lines for beverage production/process technology« segment was completely unsatisfactory in 2011. We did not achieve our target of improving on the loss posted in 2010. Earnings before taxes (EBT) worsen from –€14.1 million in the previous year to –€19.3 million. We will force our efforts to improve the segment's earnings performance as quickly as possible. This includes fundamental strategic considerations as process engineering is important to KRONES as a full-service supplier. The segment's return on sales (ROS) was –7.4% in 2011 (previous year: –6.1%).

Segment EBT (€ million)

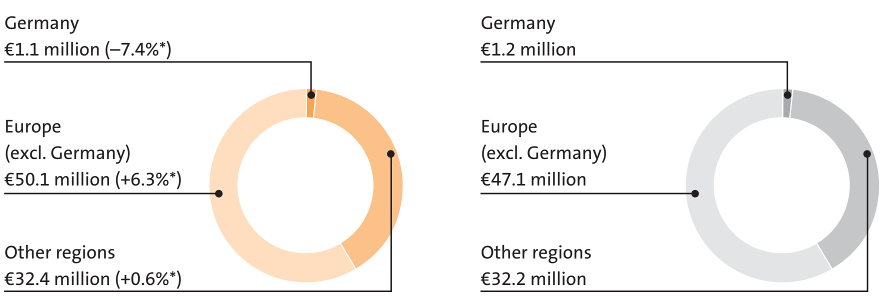


Segment revenue

Sales in our smallest segment, »machines and lines for the lower output range (KOSME)«, improved 3.8% to €83.6 million (previous year: €80.5 million). After a very strong first half, segment sales in the second half fell far short of the year-earlier period. KOSME grew more in Eastern Europe than elsewhere. In the financial year 2011, KOSME contributed 3.4% to consolidated sales (previous year: 3.7%).

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 mid-sized operations, perfectly complementing KRONES' high-end core business.

Sales at KOSME



Sales in 2011: €83.6 million

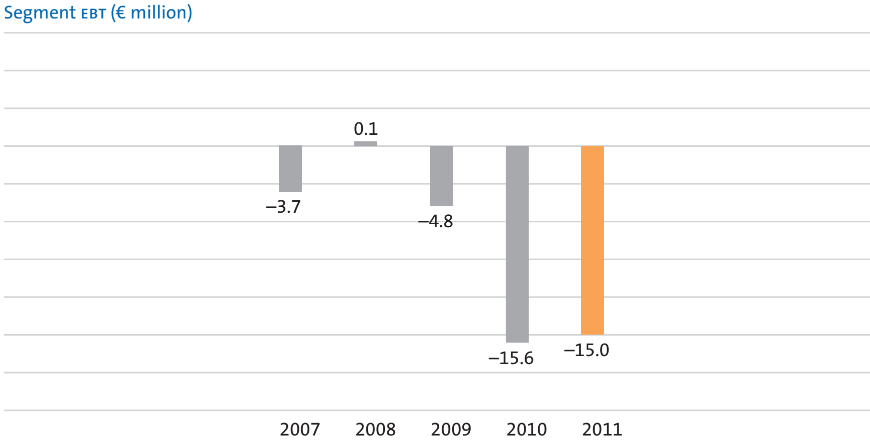
Sales in 2010: €80.5 million

* Percentage change on previous year

Segment earnings

With a pre-tax loss of €15.0 million, KOSME improved slightly on the previous year (loss of €15.6 million) but once again fell far short of expectations. Because sales were low in the second half of 2011, earnings decreased sharply from July through December as compared with the first two quarters of 2011. With measures that are taking effect in 2012 we expect to yield a significant improvement in earnings.

Segment EBT (€ million)



Research and development (R&D)

- Innovations focus on creating added value for customers
- KRONES launches new ideas management system
- Contiform 3 features higher performance, lower energy consumption

KRONES develops innovative, dependable, resource-friendly machines and lines.

Intensive dialogue with our customers, new technological possibilities, and megatrends inspire innovation at KRONES. In our product development processes, we also draw upon the expertise of our very capable suppliers and partners.

We are systematically expanding our research and development (R&D) resources. Our R&D team currently consists of more than 1,750 people conducting fundamental research, developing production-ready technologies, and continually improving existing products. Figures can be found in the notes to the consolidated financial statements.

We only pursue R&D projects that promise to generate added value for our customers. There is a direct benefit to customers when machine uptime increases and energy and media consumption decrease. For this reason, KRONES has numerous development projects underway aimed at reducing make-ready times, automating troubleshooting, and minimising cleaning and maintenance times. The resulting products must be innovative and dependable and conserve resources. In addition, all new developments are aligned with the criteria of our »enviro« sustainability programme, which forms an integral part of our corporate strategy. With »enviro«, KRONES has established a standard of energy and media efficiency for machines and lines in the packaging industry.

Another gain for customers and KRONES alike comes from our efforts to reduce commissioning times. These include thorough testing of complete systems like the ErgoBloc L at our plant. Streamlined machine designs also help to speed the commissioning process.

New ideas management system and many new patents for KRONES

A new and professional ideas management system enables us to better track and process the many valuable suggestions that our employees have to offer. The state-of-the-art platform makes it possible to integrate new ideas from employees and customers into the development of innovative solutions.

Securing our innovations with patents is extremely important. In 2011, the number of patents and utility models held by KRONES grew to more than 2,200. The number of patent applications was up by around 30%. Patents in KRONES' core technology areas – such as filling, labelling, plastics, packing, and palletising – increased sharply. We were also able to protect many system-related developments with patents last year.

Selected innovations

Contiform 3

With the third generation of the Contiform stretch blow-moulder, KRONES is setting new standards for the production of plastic (PET) containers. One highlight of the Contiform 3 is a redesigned blowing module, which boosts the machine's output from 2,000 containers per hour per blowing station to 2,250. We also cut compressed air consumption by around one-third. Innovative technologies like an electromagnetically controlled stretch system and a compressed-air recycling system play an important role here. More big benefits for KRONES Contiform 3 customers include a 15% reduction in the energy consumed during preform heating, increased user-friendliness, improved hygienic design, and faster moulding cavity changeovers.

The Contiform 3 is faster, more efficient, and easier to operate and maintain than its predecessor.

Modulfill

KRONES' latest generation of fillers, dubbed Modulfill, features a comprehensive modular design. Modulfill is highly versatile, handling a wide variety of products, while using a minimal variety of parts. Modulfill also offers low total cost of ownership. With Modulfill, KRONES is setting new standards for energy and media efficiency in the area of filling technology. Modulfill effectively balances economic and ecological considerations. Its versatility and low operating costs make it a secure investment in the future.

The filler's modular design makes it easy to synchronise into a bloc arrangement with other machines.

Sleevematic ES

Stretch sleeves – which are made of highly elastic material that is pulled over containers – allow for extraordinary flexibility in bottle design. The new Sleevematic ES labeller handles stretch sleeves made of LDPE plastic, which has an exceptionally high stretch rate of 55%. The smaller, lower-density Triple S sleeves make for a 50% reduction in material consumption. Moreover, stretch sleeves eliminate the need for a shrink tunnel, significantly reducing the amount of energy consumed. That can mean a 75% reduction in CO_2 emissions (g/sleeve) compared to conventional PET shrinkable film sleeves and cost savings of as much as 40%. Because the LDPE sleeves can be removed from used bottles with no residue, they are also fully compatible with recycling industry requirements.

The new Sleevematic ES labeller handles highly elastic film sleeves.

Variostick

The new Variostick handle applicator is a modular machine concept for applying carry handles to shrink packs at a rate of up to 80 cycles per minute. Variostick's optimised interfaces make for efficient, flexible dry-end solutions within complete lines. The criteria of our enviro sustainability programme guided Variostick's development from the very beginning.

In addition to the stand-alone handle applicator, we have developed a solution that can be integrated into the Variopac Pro packer for non-returnable containers and used in systems like the dry-end ErgoBloc D. This simplifies line layout and improves accessibility. Because it uses less conveyor track, it also lowers acquisition costs for our customers.

Both of these innovations round out KRONES' dry-end portfolio and offer integrated packing and palletising solutions.

KRONES Variostick applies carry handles to shrink packs.

EvoLite + LitePac

In LitePac, KRONES launched a new type of secondary packaging that uses a minimal amount of material and energy and serves as an alternative to shrink-wrapped packs. LitePac consists of two straps: one that encircles the pack horizontally and a second, vertical, one that serves as the handle. The easy-open concept allows consumers to open a LitePac without tools.

The associated EvoLite machine was developed in parallel with the LitePac. The EvoLite + LitePac concept reduces packaging costs by more than 65% compared with shrink packs. Since no shrink tunnel is needed, energy consumption is cut by more than 90%. EvoLite and LitePac are yet another example of how consistent application of our enviro concept produces direct benefits for our customers.

The packaging concept of the future – LitePac and the EvoLite machine.

- Decentralised LCS strategy undergoes further expansion
- New products and services offer customers added value
- KRONES Academy offers excellent range of training courses

Lifecycle Service (LCS) bundles all aspects of KRONES' service business and employs more than 1,800 highly qualified people. LCS covers all maintenance and repair services, spare parts and change parts, individual services, software tools, and training in each of our segments.

WWW
More information is available at www.krones.com/en/lcs.htm

The LCS portfolio at a glance

LCS Services

The LCS portfolio is a modular concept. Customers can pick and choose individual elements to create their own customised service programme.

- *OnSite:* Traditional maintenance and repair at the customer's plant.
- *Productivity:* We use state-of-the-art analysis methods to optimise lines and make them more cost-effective.
- *Support:* Rapid response in emergencies with 24/7 hotline and remote maintenance.
- *Training:* Customer-oriented training for line operating and maintenance personnel.
- *Design:* All-around service for designing new PET containers.

LCS Parts + Software

- *OriginalSpares*: We deliver original KRONES spare parts and spare parts refurbished by KRONES quickly and reliably and in the highest quality.
- *Retrofitting*: Fast, efficient retrofitting of lines. We also boost machine productivity by incorporating newly developed components or control programmes.
- *Consumables*: High-quality materials that ensure optimum machine performance plus labelling adhesives, lubricants, and cleaning agents from KIC KRONES.
- *SoftTools*: Software that records and analyses a variety of machine data to ensure early detection of maintenance needs.

With this comprehensive range of products and services, KRONES supports its customers throughout the entire lifecycle of their machines and lines. It begins in the planning and investment phase, in which we work with our customers to precisely define their requirements and then put the line into operation safely and securely. Once production begins, we do more than ensure that the line keeps running reliably, minimise service-related down times, and preserve the value of the production line. We also strive to continually improve the quality and cost-effectiveness of our customers' lines.

For instance, we retrofit older stretch blow-moulders, which produce PET bottles, with optimised heaters to significantly reduce their energy consumption. Other updates enable customers to handle even lighter PET bottles with shorter screw caps on their existing machinery. This is true added value as it saves on packaging materials, a significant cost factor.

In our effort to further optimise our range of services and products, we are stepping up the dialogue with our customers. In joint project teams, we define and pursue goals and measures that further improve the service we provide. Last year, we developed a new method that enabled us to give our customers valuable assistance in improving their spare parts inventories. It involves systematically examining various aspects of machine parts, such as the likelihood that they could suddenly require replacement. We now can use a cost-benefit analysis to define special, customer-specific spare parts packages that line operators should keep on hand.

KRONES invests heavily in decentralised service business

KRONES offers customers the best service – around the world and around the clock.

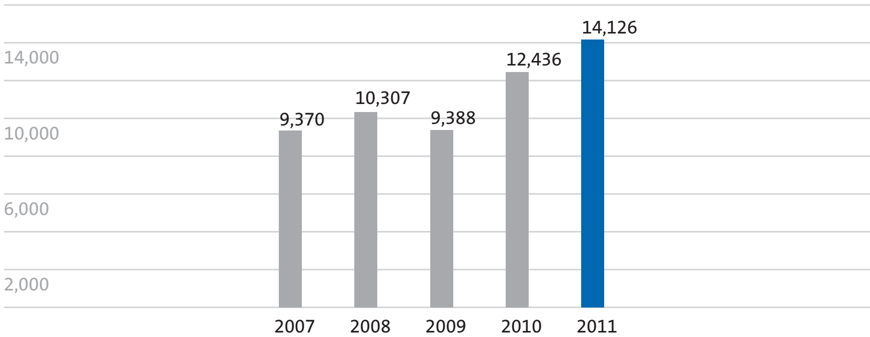
Our customers around the globe need their machines and lines to run without interruption and produce consistently high quality products. We offer continuous support to ensure smooth production at our customers' plants. To do so, we must have service specialists and spare parts available locally worldwide. KRONES maintains more than 40 subsidiaries and offices around the world. In addition, we have in recent years established Service Centres at strategic locations to serve as decentralised support bases.

We further expanded these Service Centres in 2011. As in years past, a large portion of our investment here went into our Chinese service base in Taicang. Last year KRONES hired around 300 new employees in our various service offices. We attach great importance to ensuring that our employees speak our customers' language and understand their culture. By improving the availability of parts in our decentralised warehouses, we were able to further enhance the level of service offered by our international Service Centres in 2011.

KRONES Academy

The KRONES Academy is an important component of KRONES Lifecycle Service. It offers a broad range of practical training courses that we are constantly improving. More than 50 qualified trainers instruct operating personnel on the fundamentals of our machines and lines, conduct special courses for individual jobs, and train management personnel. All of our course offerings are aimed at ensuring that our customers have a perfect mastery of their KRONES machines and lines so that they can operate them safely and efficiently. Last year, the number of participants increased considerably. In 2011, a total of 14,126 people (previous year: 12,436) attended KRONES Academy events in Neutraubling and at our international training centres, which are located within KRONES' Service Centres.

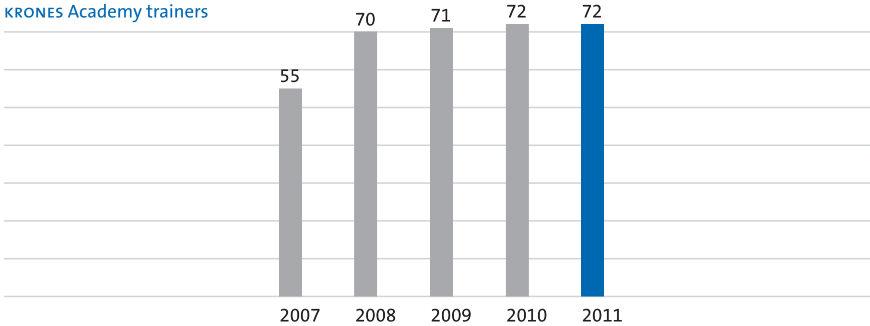
KRONES Academy participants



The number of participants in KRONES Academy courses increased dramatically in 2011.

An important Academy course offering is our »Train the Trainer« programme, which provides continuing education for KRONES' own coaches. The knowledge gained in these Academy courses enables our trainers to support line operators on site. The number of trainers employed by the Academy remained unchanged at 72. However, their services were called upon more frequently in 2011 than in 2010.

KRONES Academy trainers



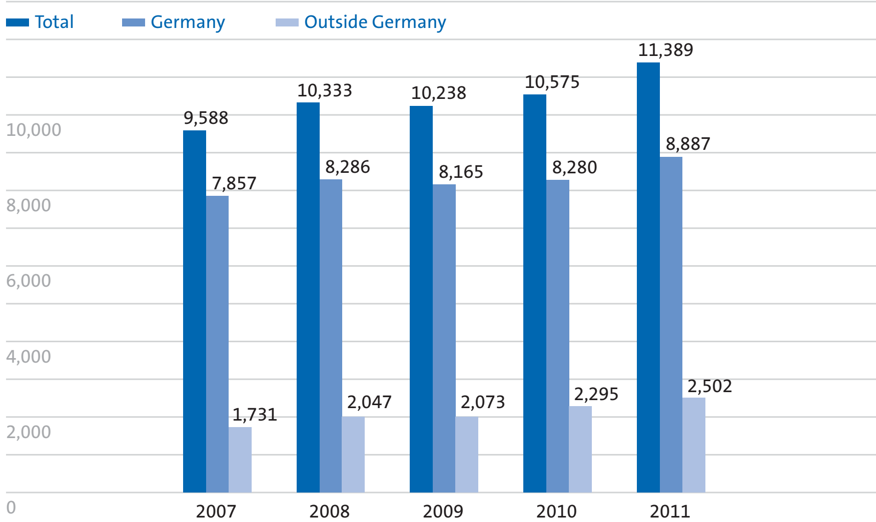
Employees

More than 800 new employees at KRONES

KRONES invests heavily in recruiting and in training and continuing education for employees.

We invested heavily in expanding our core workforce in 2011. KRONES' team worldwide grew to 11,389-strong, the biggest it has ever been, during the reporting period (previous year: 10,575). This investment in highly skilled employees is necessary in the medium term in order to support the growth planned under the »Value« strategy programme. We have expanded our capacities in Germany and abroad, adding slightly more workers abroad and bringing the percentage of workers outside Germany up from 21.7% to 22.0%. This share will continue to grow in the years ahead since making our workforce more international is one of the strategic aims of our human resources policy. KRONES also will continue to invest heavily in recruitment as well as in training and continuing education for motivated employees.

Employees by region



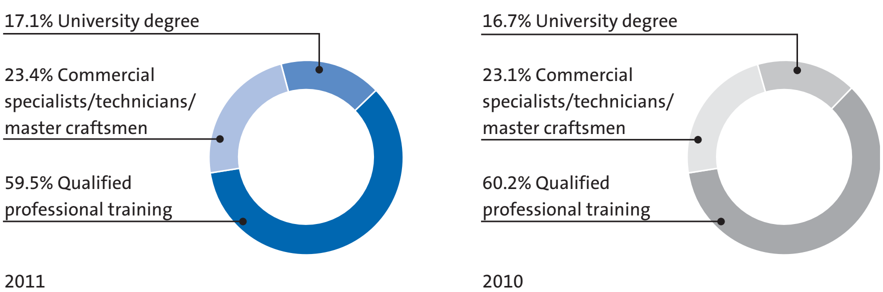
KRONES holds employees to high standards

Demographic change in the industrialised countries of the West presents one of KRONES' greatest challenges with respect to human resources policy. For this reason, one of our most important tasks is to ensure a lasting supply of qualified young recruits and to further improve our existing employees' qualifications – even our older employees'. With more than 10,000 job applications received in 2011 alone, KRONES remains a popular, reputable employer. Our goal is to further build and enhance KRONES' international employer branding in the years ahead.

A look at our employees' qualifications shows that our people are optimally prepared to handle the challenging tasks their work involves. Almost all of our employees in Germany possess recognised professional or vocational qualifications. The portion of university graduates in our workforce is now 17.1%. Commercial specialists, technicians, and master craftsmen make up 23.4% of our workforce.

We have a highly skilled workforce.

Employee qualifications in Germany



KRONES grows its own talent

Our employees' outstanding professional training is the foundation for KRONES' long-term commercial success. KRONES offers attractive, challenging training opportunities to a large number of young people in 20 different fields every year. After a long and rigorous selection process, 147 young people began their training with KRONES in the fall of 2011.

In all, KRONES was training 491 young people in Germany at the end of 2011. Of these, 432 were in industrial and technical fields and 59 were in commercial fields.

We permanently hired all trainees who successfully completed their training in 2011 (52 in the winter and 98 in the summer).

KRONES is building a bigger training centre

The new training centre makes training at KRONES even more appealing.

In September 2011, KRONES began construction on a larger training centre. The company is investing around €2.2 million to add around one-third more training space.

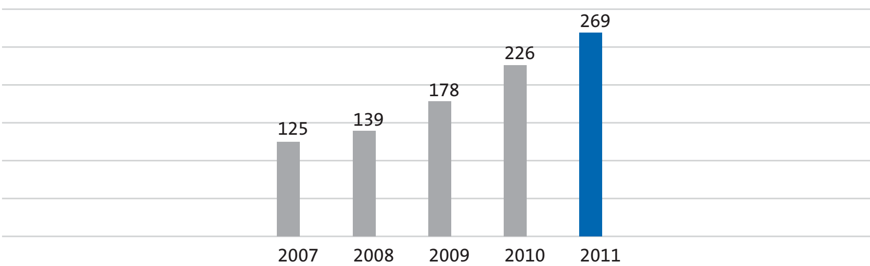
The 1,400 square metre centre provides a bright, friendly atmosphere for our trainees to work in. Since the new building also includes our service technician training centre and the KRONES Academy, the end result is a sort of training campus that benefits all of our young recruits.

Close collaboration with colleges and universities

For years, KRONES has been working closely with universities to ensure early contact with university graduates. KRONES organises a range of events at which budding engineers and scholars can learn about the careers and opportunities we offer. In addition to participating in job fairs at universities and colleges, KRONES uses plant tours, collaborative projects with academic departments, presentations, and visits to customer plants to expose students to the company and the diverse range of careers we offer. Because KRONES has an excellent reputation among university students, these events are very well attended.

»KRONES has interesting products and is a well-known employer. And Regensburg is actually a more attractive location for many students than Munich.«
Martina Heim, Career Service at Deggendorf University of Applied Sciences

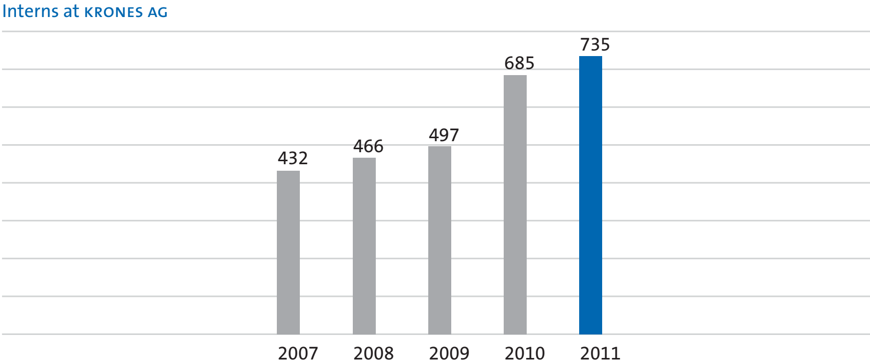
Theses written at KRONES



Our close, long-standing collaboration with the University of Applied Sciences in Regensburg and the University of Regensburg is another example of our cooperation with educational institutions. Through this programme, KRONES gives numerous young scientists a chance to gain valuable hands-on experience through practical semesters and thesis-writing opportunities.

In 2011, we advised 269 students writing theses and 735 interns on a variety of projects with practical relevance. KRONES gains a large number of highly qualified employees from this pool each year.

Interns at KRONES AG



More information on the topic of employees is in our 2010 Sustainability Report, which can be found online at www.krones.com.

Doing business in a sustainable, socially responsible manner is an integral part of KRONES' corporate philosophy. The overarching goal of our corporate social responsibility (CSR) strategy is to be guided by fundamental values such as honesty, transparency, fairness, and authenticity. With our CSR strategy, we are integrating social and environmental considerations into our business processes and therefore helping to ensure our long-term success.

Fundamental principles that guide our employees in thinking and acting sustainably are integrated into our corporate values, rules of conduct, and codes.

Dialogue with all stakeholders

As the circumstances under which companies do business are changing more and more rapidly, we have to identify new challenges quickly. In ongoing dialogue with our stakeholders (customers, suppliers, shareholders, employees, policymakers, trade associations, academia, and others), we systematically analyse and assess opportunities and risks relating to CSR topics. That helps us to identify potential weak points and new challenges early. And with that, we are minimising risks for the company and strengthening our partners' trust in us.

But KRONES also wants to take advantage of the opportunities that come with change and use them to acquire new business and employees. For example, we are developing particularly resource-saving products and services under our »enviro« label. And by investing heavily in Germany as a business location and maintaining an employee-friendly corporate culture, we are attracting qualified personnel – one of the key factors for KRONES' future success.

KRONES' CSR strategy

The CSR strategy we communicated last year has now been embedded in the overarching corporate strategy programme »Value«. Along with our CSR targets, we also want to strengthen our brand values

Our CSR strategy is an integral part of »Value«.

- Securing value for a strong future
- Creating value with powerful solutions
- Respecting values in effective dialogue

and create »added value« for our company, our employees, our customers, our suppliers, our investors, and society as a whole.

Further interesting information on the topic of sustainability can be found in our 2010 Sustainability Report, which has been certified by TÜV SÜD. It is available online at www.krones.com.

Risk and opportunity report

- Risks identified on an ongoing basis
- Efficient control and management tools

Risk management system is being implemented and is always evolving

KRONES is exposed to a large number of risks that are inextricably linked with doing business globally. We continuously monitor all significant business processes to identify risks early and to actively manage and limit them. An internal control system with which we record, analyse, and assess all relevant risks is an integral part of KRONES' risk management system. We monitor all material risks and any countermeasures already taken in a detailed, ongoing process that entails planning, information, and control. We are continually improving our risk management system on the basis of practical experience. The system consists of the following modules: risk analysis, risk monitoring, and risk planning and control.

KRONES takes a proactive approach to managing risks. We use an internal system to continuously monitor and control all significant business processes.

Risk analysis

In order to identify risks early, we continuously monitor all business activities. We conduct a profitability analysis on all of our quotes before accepting any order. For orders that exceed a specified volume, we also conduct a multi-dimensional risk analysis. Apart from profitability, we also individually record and evaluate financing risks, technological risks, and scheduling and other contractual risks before accepting an order. Thus, risk management at KRONES begins *before* risks arise.

To manage risks that arise from changes in the market and competitive situation, we create detailed market and competition analyses for all segments and business areas on a regular basis. In addition, we conduct a comprehensive risk inventory every year for KRONES AG and all group companies. This risk inventory leads to corresponding measures and actions to reduce risk. The basic principles and process are documented in our risk policy. The risk management system serves not only the purpose mandated by law, of detecting early those risks that could jeopardize the company's survival, but also covers all risks that can have a significant negative impact on earnings.

Risk monitoring

We use a variety of interlinked controlling processes to monitor risks within the KRONES Group. Regular comprehensive reports from the individual business units keep the Executive Board and other decision-makers apprised of all possible risks and deviations from company planning in a timely manner. For high-volume projects, potential risks are examined and evaluated in regular meetings. Employees who identify risks pass their information on promptly through the company's internal reporting system.

Risk planning and control

We use the following tools to plan our business activities and control risk within our internal control system:

- Annual planning
- Medium-term planning
- Strategic planning
- Rolling forecasts
- Monthly and quarterly reports
- Capital expenditure planning
- Production planning
- Capacity planning
- Project controlling
- Accounts receivable management
- Exchange rate hedges
- Insurance policies

Risk management organisation

At KRONES, risk management is formally part of Controlling. It is here that all relevant information comes together to be processed and converted into a management tool for the Executive Board. In addition, the various segments and business units also have risk management officers who are responsible for risk management. This includes identifying and reporting risks as well as introducing and implementing measures to actively control risks.

Risk controlling

We continually assess, discuss, and document operational and financial risks. The effectiveness of countermeasures that have been implemented is also monitored in controlling processes throughout the year. Apart from new orders, orders on hand, and sales, we also look at all types of expenditures in cash flow and material components of our current assets and the statement of financial position. We use the figures to assess risks related to ongoing operations and options with respect to future projects.

Key features of the internal control system and the risk management system as relates to accounting and financial reporting

KRONES has an internal control and risk management system for accounting and financial reporting processes to ensure that all business transactions are always correctly recorded, processed, accounted for, and recognised in the financial statements. KRONES' internal control and risk management system comprises all principles, methods, and measures to ensure that the company's accounting and financial reporting are effective, efficient, and proper and in compliance with all relevant regulations and standards.

The key features of KRONES' internal control and risk management system relating to (group) accounting and financial reporting can be described as follows:

- The KRONES Group has a clear management and corporate structure. Key duties that reach across various units are centrally managed.
- The duties of the units that are materially involved in accounting and financial reporting processes are explicitly segregated and responsibilities are clearly assigned.
- Regular reviews and audits are conducted within the various units, primarily by Controlling.
- Standard software is used for accounting and financial reporting as far as possible.
- Special security precautions protect the software and IT systems used for accounting and financial reporting against unauthorised access.
- Sufficient binding policies (e.g. for payments and travel expenses) are in place and updated on an ongoing basis.
- All of the departments involved in the accounting and financial reporting process have suitably qualified staff.
- Regular spot checks are used to continuously verify the completeness and accuracy of our accounting data. The software used also performs programmed plausibility checks.
- We use dual verification for all accounting-related processes.

Financial risks

Information relating to IFRS 7 Financial Instruments: Disclosures.

Because of regional and customer-related diversification, there is no material concentration of risk relating to the following risk categories.

1. Default risk

Default risk is the maximum risk potential arising from each individual position among the financial instruments at the reporting date. Any existing hedges are not taken into account.

1.1 Trade receivables

Credit risk is the threat of economic loss arising from a customer's failure to fulfil its contractual payment obligations.

KRONES bases its management of credit risks from trade receivables on internal policies. A large portion of trade receivables is secured by various, sometimes country-specific hedges. The hedges include for instance retention of title, guarantees and sureties, and documentary credits. In order to prevent credit risk, we also run external credit checks on customers. In addition, there are processes in place for continually monitoring receivables that may be at risk of default.

Due to the complexity of our machines and lines, there are sometimes lags in payment receipts. The very low volume of actual defaults, as measured against the total volume of receivables, attests to the effectiveness of the measures taken.

The theoretical maximum credit risk from trade receivables corresponds to the carrying amount.

€ thousand	Carrying amount	Of which not overdue at the reporting date	Of which overdue by the following number of days at the reporting date			
			up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2011						
Trade receivables	585,116	402,476	97,421	26,581	30,879	27,759
31 Dec 2010						
Trade receivables	528,209	351,127	93,447	26,827	28,845	27,963

RISKS/OPPRTUNITIES

1.2 Derivative financial instruments

KRONES uses derivative financial instruments solely for risk management purposes. Not using derivative financial instruments would subject the company to greater financial risks. These instruments essentially cover the risks arising from changes in exchange rates between the euro and the US dollar, Australian dollar, Canadian dollar, and British pound. The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. More on this topic is in the notes to the consolidated financial statements.

1.3 Other financial assets

The maximum credit risk position arising from other financial assets corresponds to the carrying amount of these instruments. KRONES is not subject to any material default risk arising from its other assets, all of which are current assets. The loan is to a corporation under public law and the risk of default is immaterial.

2. Liquidity risk

Liquidity risk is the threat of a company being unable to sufficiently fulfil its financial obligations.

KRONES generates most of its cash and cash equivalents through operating activities. These funds primarily serve to finance working capital and capital expenditures. KRONES manages its liquidity by reserving sufficient cash and cash equivalents and credit lines with banks in addition to the regular inflow of payments from operating activities. The company's liquidity management for operations consists of a cash management system, which is based in part on rolling monthly liquidity planning with a planning horizon of one year. This allows KRONES to be proactive about any possible liquidity bottlenecks. Apart from cash on hand, KRONES' cash and cash equivalents consist primarily of demand deposits. The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2011 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2011	Cash flow for 2012		Cash flow for 2013–2016		Cash flow for 2017 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	12,251	0	11,405	0	846	0	0
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from leases	1,794	403	501	117	1,293	0	0
Discounted trade bills	41,757	0	34,723	0	7,034	0	0
Other financial liabilities	13,280	20	12,644	127	636	0	0
	69,082	**423**	**59,273**	**244**	**9,809**	**0**	**0**

€ thousand	Carrying amount at 31 Dec 2010	Cash flow for 2011		Cash flow for 2012–2015		Cash flow for 2016 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Derivative financial instruments	2,203	0	2,203	0	0	0	0
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from leases	3,070	546	509	483	2,561	0	0
Discounted trade bills	15,420	0	12,389	0	3,031	0	0
Other financial liabilities	7,658	11	7,050	122	608	0	0
	28,351	**557**	**22,151**	**605**	**6,200**	**0**	**0**

3. Market risks

Market risk is the risk of fluctuation in the fair value or future cash flows of a financial instrument due to changes in market prices.

3.1 Interest rate change risks

KRONES is not exposed to any material risks arising from possible fluctuations in market interest rates.

3.2 Currency risks

Because exports to countries outside the European monetary union make up a significant portion of total sales, we are exposed to currency risks. We use currency hedging tools to counter these risks as far as possible. We are also increasingly making purchasing and sales transactions in euros or the relevant functional currency.

Material items denominated in foreign currencies in accordance with IFRS 7 classes:

€ thousand	Currency USD	Currency CAD
Cash and cash equivalents	214	185
Trade receivables	176	1,205
Other financial receivables	0	0
Derivatives at positive market values	0	0
Loans	0	0
Total assets	**390**	**1,390**
Liabilities		
Trade payables	–73	179
Due to banks	0	0
From finance leases	0	0
Derivatives at negative market values	0	0
Financial liabilities at amortised cost	0	0
Total liabilities	**–73**	**179**
Balance of assets and liabilities	**317**	**1,569**
Items hedged through derivatives	**0**	**0**
Net exposure at 31 Dec 2011	**317**	**1,569**

A 10% change in the closing rate at the reporting date would have the following effects on income:

(+) Currency translation gains/(–) losses totalling (€ thousand)	–29	–143

3.3 Share price risks

KRONES is not exposed to any material risks arising from possible fluctuations in share prices.

3.4 Commodity price risks

KRONES is exposed to market price risk relating to its procurement of parts and raw materials for operations. The company mitigates these possible risks through targeted procurement management and long-term supply contracts to reduce material commodity price risks.

4. Legal risks

Legal risks exist as a part of doing business. For a discussion of the legal risk arising from the Le-Nature's lawsuit, see page 102.

Operational risks and opportunities

1. 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. KRONES has introduced a multi-dimensional order analysis process to minimise this risk. Any inquiry or order that reaches or exceeds a predefined size is assessed on the basis of financial, technical/technological, tax, legal, and regional risks.

2. **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 management helps minimise these risks.

3. **Cost risks**
   In order to continually improve our earnings situation, we must optimise our cost structures for the long term. Our primary focus is on making our traditional fixed costs as variable as possible by way of intelligent working time and value chain models in order to cope with sharp upward and downward changes in the markets.

4. **Personnel risks**
   KRONES depends on highly qualified employees. We 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 2012.

   Because the KRONES Group's segments share the same strategic orientation on the sales and procurement markets, we do not see any deviation in the opportunities and risks among the segments.

Summary

Viewed from today's perspective, KRONES is not exposed to any risks that threaten the company's continued existence. We are adapting to the changed risk situation by having introduced comprehensive measures for preventing, reducing, and hedging risks.

We expect our markets to deliver growth opportunities again in the long term. Our products and services for the »food and drink« sector put us very close to consumers and enable us to benefit indirectly from global population growth and rising prosperity worldwide.

Our innovative power, our unique business model, and the quality of our products and services as well as ongoing process improvements will enable us to maintain and further expand our competitive advantage.

Events after the end of the reporting period

The US company of the KRONES Group, KRONES Inc., Franklin/Wisconsin (USA), and KRONES AG, Neutraubling (Germany) have taken a first step towards resolving the legal disputes that have been ongoing since October 2008, triggered by claims for damages by several American financial service providers, a group of hedge funds and a liquidation trustee.

The lawsuits are related to the financial scandal involving the bankruptcy of the US company Le-Nature's, whose former directors have meanwhile been convicted of fraud. In 2005/2006, KRONES produced, delivered and successfully commissioned filling lines representing a contract volume of approximately 100 million US dollars for the Le-Nature's facility in Phoenix/Arizona (USA).

Several plaintiffs have entered into a mediation process with KRONES in January 2012 to explore options for ending the proceedings. Although in KRONES' view the opposing parties' demands are unfounded, KRONES' US attorneys have advised to continue to try to reach a settlement through mediation, also with regard to the special risks entailed by the American legal system.

These legal disputes have had a negative impact on results in KRONES' consolidated financial statements for the year ended 31 December 2011. In accordance with IAS 37.92 we do not provide further information on these disputes and the associated risk for the Group, especially with regard to the measures taken in this context, in order not to impair the outcome of the proceedings.

Apart from this issue, business development in the first two months of 2012 has confirmed the statements made in our outlook.

- Flat global economy
- Flat machinery output in Germany
- KRONES aims to boost earnings performance

Slow global economic growth expected

The outlook for the world economy in 2012 is mixed. Europe remains the biggest source of worry. Experts from the International Monetary Fund (IMF) expect the euro area to slide into recession as a result of the continuing sovereign debt and euro crises. They are forecasting a 0.5% year-on-year contraction of the euro area economy. The Japanese economy is still suffering the aftershocks of last year's catastrophic earthquake and tsunami and by the strong yen. As a result, Japan's gross domestic product (GDP) is expected to grow only 1.7% in 2012 over a very weak 2011. Thus, two major economic regions will be encumbering the global economy. The IMF is forecasting global economic growth of only 3.3% for 2012 (2011: 3.8%).

IMF experts are predicting a euro area recession in 2012.

The US, the world's largest economy, has improved progressively in recent months. The feared US recession never materialised. Nevertheless, at 1.8%, predictions for US GDP growth for 2012 are far below their long-term level. The IMF is forecasting German GDP growth of 0.3% for this year. This is considerably more pessimistic than the German government's prediction of 0.7% growth.

The IMF expects the world's emerging and developing economies to contribute the largest part of the global economy once again in 2012. But growth rates are declining there, too. In China, where GDP growth amounted to 9.2% in 2011, the IMF is expecting only 8.2% growth this year. India's GDP growth is expected to slow from 7.4% to 7.0%.

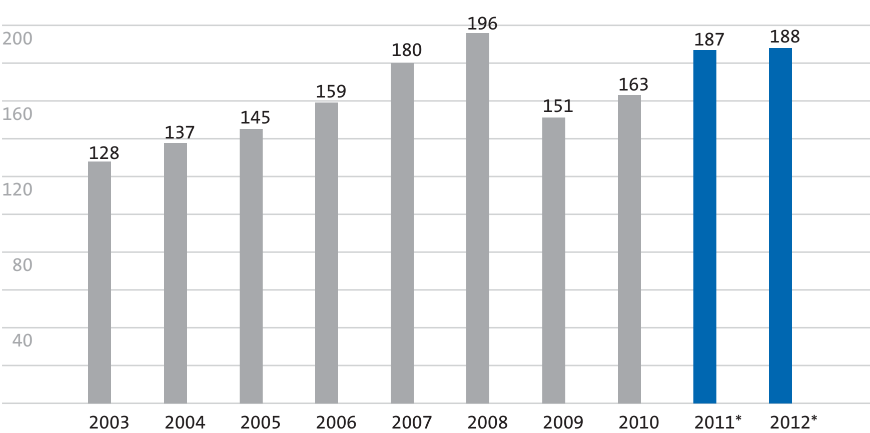
Experience has shown that the ordering behaviour of KRONES' customers is affected not only by economic growth but also by unemployment rates and inflation. The lower these latter two figures are, the stronger private consumption is. That in turn results in increased demand at our customers' plants and makes them more willing to invest in new technology. We expect unemployment and inflation rates in our key sales markets to have no negative impact on business at KRONES.

German machinery sector expects output to stagnate

After a long period of growth, German machinery and industrial equipment manufacturers saw business slow at the end of 2011. Orders intake were decreasing in the fourth quarter. While orders intake from within Germany held steady, orders from abroad are below the previous year. Continuing uncertainties, particularly in Europe, and a flattening Chinese economy have prompted the German Engineering Federation (VDMA) to revise its output forecast for 2012 downward. The VDMA now predicts that output in the sector will stagnate at the previous year's level instead of growing by four percent as originally forecast.

The VDMA expects the »food processing and packaging machinery« segment to fare better than the machinery sector as a whole.

Output in the German machinery sector (€ billion)



* Forecast

Source: Germany's Federal Statistical Office

KRONES targets continued earnings growth in 2012

The long-term economic environment for KRONES is good. Our market will continue to grow. With our global presence, our innovative products, the know how of our people, and our healthy financial structure, KRONES stands on a rock solid foundation.

We are cautiously optimistic about the economic outlook for 2012. The markets in Asia, South America, Africa, and the Middle East continue to offer good prospects for growth. KRONES has a strong market position in those regions and will participate in this growth. The North American market, which recovered moderately in 2011, is expected to contribute a similar part to KRONES' business in 2012 as it did in 2011.

By contrast, the euro area markets are showing considerable capital expenditures restraint due to the euro and sovereign debt crises.

Looking at the development of KRONES' markets and the continuing uncertain economic outlook, we expect sales growth in 2012 to be a moderate 2% to 4%. Earnings performance will increase significantly. The pre-tax return on sales, the ratio of earnings before taxes to sales, will exceed 5% in 2012. This is still below our medium-term target of 7%, which we are standing by.

KRONES expects earnings to rise in 2012.

Therefore, our focus for 2012 will be on making the cost structures in our core segment, bottling and packaging machinery, more efficient in order to achieve long-term profitability, even in price-sensitive markets. We also intend to make our structures more flexible so that we can better react to future volatilities on the global markets.

The process technology segment is highly important to KRONES from a strategic standpoint as customers demand beverage production and product filling to be linked as seamlessly as possible. Furthermore we will develop structural strategies to make this segment more sustainable and more profitable.

Earnings will improve markedly in 2012 at KOSME, our segment for the low output range. In 2011 we implemented important changes that will help KOSME break even in the medium term.

We expect to further expand our profitable after-sales service business in all of our markets in 2012. Our particular investment focus will be on replacement items and on KRONES' global supply chain.

According to forecasts by leading economic research institutions, the overall economic picture should improve in 2013. With this in mind and from today's perspective, we expect to return to our target sales growth corridor of 5% to 7% on average. Given these positive conditions, we plan to further increase our return on sales in 2013.

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

Pursuant to §4 (1) of the articles of association, KRONES AG's share capital amounts to €40,000,000.00 and is divided into 31,593,072 ordinary bearer shares.

Under § 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 (1) 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 twenty-first day prior to the annual shareholders' meeting.

Pursuant to § 18 (2) of the articles of association, voting rights can be exercised by proxy. Granting, revocation, and evidence of proxy authorisation must be submitted to the company in text form. The notice convening the shareholders' meeting may specify a relaxation of this requirement. § 135 of the German Stock Corporation Act (AktG) remains unaffected.

In the annual shareholders' meeting, the chairman of the meeting 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 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 (%)
Beteiligungsgesellschaft Kronseder mbH	15.00
Volker Kronseder	12.02
Harald Kronseder	10.09

As at March 2012

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the date given above (29 February 2012). 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 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, the appointment of regular and deputy members of the Executive Board, the execution of their employment contracts, and revocation of appointments are the responsibility of 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 authorised 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 the approval of the Supervisory Board, increase the share capital by a total of up to €10 million (authorised capital) through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 15 June 2016.

Shareholders must be granted subscription rights to these shares. The Executive Board may exclude the subscription rights of shareholders for any fractional amounts that may arise.

The annual shareholders' meeting on 16 June 2010 passed a resolution authorising the company to buy treasury shares totalling up to 10% of the current share capital in compliance with statutory regulations and the provisions of the resolution by the annual shareholders' meeting up to and including 15 June 2015.

The annual shareholders' meeting on 16 June 2010 passed a resolution authorising the Executive Board to cancel treasury shares of KRONES AG acquired on the basis of the above authorisation without the cancellation or its execution requiring 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.

Compensation of the Supervisory Board and the Executive Board

The compensation report summarises the principles used to determine the compensation of the Executive Board of KRONES AG and explains the amount and the structure of Executive Board remuneration.

The principles and the amount of Supervisory Board compensation are also set out in the report. The compensation report is an integral part of the consolidated management report for the financial year 2011 and can be found in the corporate governance report on pages 119 to 121.

Responsibility statement

Statement required by § 37y No. 1 of the German Securities Trading Act (WpHG) in conjunction with §§ 297 (2) Sentence 3 and 315 (1) Sentence 6 of the German Commercial Code (HGB)

»To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the consolidated management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.«

Neutraubling, 30 March 2012
KRONES AG
The Executive Board

Volker Kronseder
Chairman

Christoph Klenk

Rainulf Diepold

Werner Frischholz

Thomas Ricker

RESPONSIBILITY STATEMENT

Statement on corporate governance

The statement on corporate governance is also available online at www.krones.com.

KRONES recognises its responsibilities

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 corporate governance. The management of KRONES takes the principles and rules of corporate governance into account in all business activities which are aimed at systematically increasing the company's value for the long term.

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

»The Executive Board and the 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 as amended on 26 May 2010 have been and are being complied with in accordance with the German Corporate Governance Code, which is published on the website of KRONES AG, with the following exceptions:

- A deductible is not included in the D&O policy for the Supervisory Board. (Item 3.8 of the Code)
  No specific deductible has been set for this policy because the Supervisory Board always performs its duties properly regardless of the existence of a deductible.

- The Executive Board shall be comprised of several persons and have a Chairman or Spokesman. By-laws shall govern the work of the Executive Board, in particular, the allocation of duties among individual Executive Board members, matters reserved for the Executive Board as a whole, and the required majority for Executive Board resolutions (unanimity or resolution by majority vote). (Item 4.2.1 of the Code)
  The rules of procedure governing the Executive Board are set forth in the articles of association for KRONES AG, which already contain detailed rules for the work of the Executive Board. That is why there are no separate written by-laws.

- 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)
  KRONES discloses the structure of Executive Board compensation. Details relating to fixed and variable, performance-related components of compensation are essential for assessing the appropriateness of the compensation structure and whether it results in an incentive effect for the Executive Board.

We believe that disclosing each individual's remuneration would conflict with personal privacy rights. Thus, as resolved by the annual shareholders' meeting on 16 June 2010, detailed disclosure of each individual Executive Board member's compensation will not be made up to and including publication of the annual and consolidated financial statements for the financial year 2014, as provided for under § 286 (5) of the German Commercial Code.

- The Supervisory Board shall establish its own by-laws. (Item 5.1.3 of the Code)
  The rules of procedure governing the Supervisory Board are set forth in the articles of association for KRONES AG, which already contain detailed rules for the work of the Supervisory Board. That is why there are no separate written by-laws.

- There is currently no nominating committee at KRONES AG. (Item 5.3.3 of the Code)
  Committees are primarily useful for larger bodies if they make that body's work more efficient. There are six shareholder representatives on the Supervisory Board of KRONES AG who suggest nominees. Therefore, we do not feel it is necessary to create a separate nominating committee.

- The compensation of members of the Supervisory Board is currently not itemised. Other compensation for services provided individually, in particular advisory or agency services, is not currently reported. (Item 5.4.6 of the Code)
  The total of compensation paid out to members of the Supervisory Board is given in the compensation report, broken down into its fixed and variable portions. We do not believe an individual listing of compensation would provide any additional information of relevance for the capital markets. The same applies to services provided by individual members of the Supervisory Board.

- The shareholdings of 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)
  In order to safeguard the protection-worthy interests and privacy of the board members, we have opted not to make this disclosure in the corporate governance report. However, we do disclose the shareholdings of the Kronseder families holding seats on the Executive Board and the Supervisory Board in the annual report for KRONES AG.

- We are not yet in compliance with the deadline for publication of the consolidated financial statements of KRONES AG within 90 days of the close of the the financial year. (Item 7.1.2 of the Code)
  The annual financial statements of KRONES AG are published within the statutory time period. Important figures for the past financial year that are relevant to the capital markets are published within the 90-day limit.«

Neutraubling, 30 March 2012

For the Executive Board	For the Supervisory Board
Volker Kronseder Chairman	Ernst Baumann Chairman

Composition of the Supervisory Board

Pursuant to item 5.4.1 of the German Corporate Governance Code, the Supervisory Board must specify concrete objectives relating to its composition that, while considering the company's specific situation, take into account the company's international activities, potential conflicts of interest, an age limit to be specified for Supervisory Board members, and diversity. These concrete objectives are to stipulate an appropriate degree of female representation.

In keeping with item 5.4.1, the Supervisory Board of KRONES has specified the following objectives:

a) Composition based on suitable knowledge, skills, and experience

The Supervisory Board of KRONES AG shall be composed in such a way that its members possess the knowledge, skills, and professional experience required to properly complete the tasks of a member of the Supervisory Board of an international corporation and to preserve the public reputation of KRONES AG.

Consideration of candidates should also take into account motivation, integrity, character, professionalism, and independence.

b) Potential conflicts of interest (independence of the members)

The independence of the members of the Supervisory Board shall be ensured in order to prevent conflicts of interest. Potential candidates shall not serve as advisors to major competitors of KRONES AG and shall not hold management positions at companies that are customers, suppliers, or affiliates of KRONES AG. Moreover, the Supervisory Board shall contain no more than two former members of the Executive Board.

Each member of the Supervisory Board shall agree to submit a declaration to the Supervisory Board Chairman if any conflict of interest exists. If the conflict of interest persists over an extended period or is material, the Supervisory Board member in question must resign.

c) Age limit

The age limit for members of the Supervisory Board is 70 years. A member's term in office shall end at the conclusion of the annual shareholders' meeting that follows his or her 70^{th} birthday. Reasons must be given for any deviation from this rule.

d) International experience

KRONES AG operates internationally and has subsidiaries and offices in many countries around the globe. Therefore, international experience must be taken into consideration when selecting members of the Supervisory Board.

International experience relates not only to knowledge of the English language but also to work experience in other international companies.

e) Diversity

The Supervisory Board of KRONES AG shall take diversity into account and strive to achieve an appropriate degree of female representation when selecting its members. Female candidates are welcomed and shall be fairly considered in the selection of both shareholder and employee representatives.

Objectives a) through d) were already being implemented by the Supervisory Board in years past. On 15 June 2011, the annual shareholders' meeting of KRONES elected Ms. Petra Schadeberg-Herrmann to the Supervisory Board of KRONES AG. With that, the Supervisory Board of KRONES AG is now in compliance with all of the objectives listed under a) through e).

Information on corporate governance practices

Corporate governance at KRONES is based on fairness and transparency. This principle applies both to the cooperation between the Executive Board and the Supervisory Board and to the way we deal with our employees, customers, suppliers, and the general public.

We review all strategic decisions for their long-term probability of success. Our aim is to optimise profits and cash flow in a sustainable manner.

To secure the company's long-term survival, we review all of our activities with respect to sustainability, factoring in not only our social and economic responsibilities but also the ecological conditions and consequences involved in the manufacture and use of our products. Our production operations are eco-friendly and we not only comply with statutory regulations but make every effort to remain as far below the prescribed limits as possible.

Our governance principles ensure that the welfare of the very people who contribute to our success is never subordinated to economic interests. In order to prevent accidents at the workplace and work-related illness, we create a safe environment that is conducive to the good health of our employees. All of our workflows are designed with the safety and health of our employees in mind, and we ensure that the workplace is ergonomic and free of hazards.

When choosing our suppliers, we look at their performance with respect to sustainable, socially responsible management. KRONES has developed a suppliers' code for this purpose. The code covers safety, health, the environment, quality, human rights, employee standards, and corruption prevention.

Duties and activities of the Executive Board and the Supervisory Board

The Executive Board of KRONES AG consists of five members, each of whom is responsible for specific areas of the company (see pages 5 and 159). In addition, each of the group companies is the responsibility of two members of the Executive Board. The Executive Board manages the company and its affairs. The members of the Executive Board meet daily. At these meetings, the Executive Board discusses current and strategic topics and makes decisions. For strategically important decisions, the Executive Board involves the Supervisory Board in the decision-making process in a timely manner.

The Supervisory Board oversees the Executive Board. In accordance with the articles of association, the Supervisory Board has twelve members. The Executive Board and the Supervisory Board communicate on a regular basis. The Executive Board informs the Supervisory Board in a timely manner about business development, the company's financial situation, risk management, company planning, and strategy. In addition to regular oral reports, the members of the Supervisory Board receive written reports on the company's earnings and financial position from the Executive Board each month. KRONES' Supervisory Board can establish committees besides the Supervisory Board Committee but has not done so as yet.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board (see page 159 for a listing of the members). The Chairman or Deputy Chairman presides over the Supervisory Board's meetings. The Supervisory Board makes decisions either in its meetings or, in exceptional cases, in a procedure in which the relevant documents are circulated to each member. Members of the Executive Board participate in meetings of the Supervisory Board at the invitation of the Chairman or Deputy Chairman of the Supervisory Board. The Executive Board members give oral or written reports on the agenda items and respond to questions from the Supervisory Board.

Each year, the Chairman of the Supervisory Board describes the Board's activities in his report to shareholders in the annual report and at the annual shareholders' meeting.

Composition, duties, and activities of the Supervisory Board Committee

In order to perform its work in the most efficient manner possible, the Supervisory Board has formed a Supervisory Board Committee that meets regularly.

The Committee consists of the Chairman of the Supervisory Board, Ernst Baumann, and Deputy Chairman Werner Schrödl as well as the following members of the Supervisory Board: Norman Kronseder, Graf Philipp von und zu Lerchenfeld, Josef Weitzer, and Johann Robold. The Supervisory Board Committee oversees the accounting and financial reporting process and the audit of the financial statements and prepares corresponding proposals for resolutions for the Supervisory Board. The Committee also prepares the Supervisory Board's review of the annual financial statements, the management report, and the auditor's report for the separate and consolidated financial statements and makes recommendations. In addition, the Supervisory Board Committee monitors the effectiveness of the internal control system, the risk management system, and the internal audit system.

Corporate guidelines

KRONES' corporate guidelines reflect our values

To be successful in the long term, you have to know your strengths and use them to your best advantage. For this reason, we have analysed our core strengths and formulated the following corporate values. KRONES is

- Securing value for a strong future
- Creating value with powerful solutions
- Respecting values in effective dialogue

Our employees live and breathe our corporate values.

All of our efforts, our daily endeavours serve one core goal: To create »added value«. For KRONES, our employees, our customers, and our shareholders.

KRONES' values are reflected in our corporate guidelines, in which we have committed to acting sustainably and responsibly. At KRONES, we don't merely put these corporate values to paper. Every one of our employees lives by them – every day.

We go about our business in a sustainable, socially responsible manner

To secure the company's long-term survival, we review all of our activities with respect to sustainability, factoring in not only our social and economic responsibilities but also the ecological conditions and consequences involved in the manufacture and use of our products.

Securing value for a strong future

We stand for excellent quality and technological leadership in our market

Our technology leadership, which is based on our intensive research and development work, is the reason why many customers choose us – and the reason why so many have maintained a long-standing relationship with KRONES. This, combined with the consistently high quality of our machines, lines, and services, underpins KRONES' global market lead.

Creating value with powerful solutions

We owe our success to our workforce

Highly qualified people form the backbone of KRONES' success. As an employer, we have a very special responsibility for our more than 11,000 employees worldwide. We foster not only their technical and professional development but also their personal development. We are fully aware that our employees are the key to the company's future.

Respecting values in effective dialogue

We are committed to using resources economically while always providing the highest quality

Conserving resources doesn't mean compromising on quality. Leaner production processes, technological innovations, and highly motivated, superbly trained employees enable KRONES to produce top quality goods with high value added.

Creating value with powerful solutions

We safeguard the health and safety of our employees

Our corporate culture ensures that the welfare of the very people who contribute to our success is never subordinated to economic interests. In order to prevent accidents at the workplace and work-related illness, we create a safe environment that is conducive to the good health of our employees. All of our workflows are designed with the safety and health of our employees in mind, and we ensure that the workplace is ergonomic and free of hazards.

A PDF version of our corporate guidelines is available online at http://www.krones.com/en/company/mission-statement.htm

Respecting values in effective dialogue

Our production operations are eco-friendly

As far as is economically reasonable, we use all of the options available to make our production operations environmentally compatible. We not only comply with statutory regulations, we make every effort to remain as far below the prescribed limits as possible.

Securing value for a strong future

We do business for the long term and we do it transparently

All strategic decisions within the KRONES Group are reviewed for their long-term probability of success. Short-term optimisation of profits or cash flow has no place in our business model. It is our intention to be a reliable partner for all of our stakeholders, and this includes a policy of maintaining open communications.

Respecting values in effective dialogue

Suppliers' code

When choosing our business associates, we look at their performance with respect to sustainable, socially responsible management. KRONES has developed a suppliers' code for this purpose, which is available online at http://www.krones.com/en/purchasing.htm

The code covers safety, health, the environment, quality, human rights, employee standards, and corruption prevention. In order to ensure compliance, our quality assurance team performs audits on site at the suppliers' facilities and then prescribes improvements where necessary.

In addition, KRONES seeks to use vendors that are independently certified.

KRONES Code of Conduct

We rigorously ensure that all KRONES employees abide by all laws, standards, and policies.

As the market leader, KRONES intends to be, and ultimately has to be, the standard-setter – and this includes our ethical behaviour. Sustainability has always been an important part of KRONES' corporate strategy. This places high demands on each and every one of us. We want to ensure that our actions are always irreproachable, correct, and exemplary.

For this reason, we have drafted a code of conduct on the basis of the shared values that are our corporate guidelines. The aim of this code of conduct is to ensure company-wide compliance with laws, standards, and guidelines in order to create a working environment of integrity, respect, fairness, and accountability. It is binding for all KRONES employees – including the Executive Board, management, and every member of our staff worldwide.

All employees are urged to not only comply with the guidelines in the code of conduct in a formal sense but to live and breathe their meaning and purpose. Only in this way can they serve as the basis of an open and vibrant culture of compliance. In the interest of all employees, violations of the code of conduct are systematically investigated and disciplinary action taken.

Of course, we want KRONES to be recognised as the market and technology leader. But we also want our customers, employees, suppliers, and shareholders as well as government agencies, institutions, and the general public to perceive us as a reputable, trustworthy, and dependable partner. That is key to retaining and expanding our position as the market leader.

The complete KRONES code of conduct is available online at http://www.krones.com/en/company/sustainability.htm

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 and
- 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 the financial year 2011, the direct fixed remuneration of the five active members of the Executive Board was €2,912 thousand (previous year: €2,520 thousand). 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 €91 thousand (previous year: €89 thousand).

- The variable compensation is based on the achievement of company performance targets. The reference figures are consolidated net income (the primary point of reference), consolidated sales, and consolidated new orders. 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 2011, the variable compensation amounted to €2,167 thousand (previous year: €2,503 thousand).

- 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. Board members serving for less than ten years are not entitled to the performance incentive. In 2011, no such compensation came due for payment as scheduled following the 10-year waiting period (previous year: €2,275 thousand).

- 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. .
- Provisions for the performance incentive amounted to €1,022 thousand at the end of the year (previous year: €689 thousand).
- 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 €3,389 thousand (previous year: €7,446 thousand) were recognised for active members of the Executive Board.
- 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 and § 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 16 June 2010, detailed disclosure of each individual board member's compensation will not be made before the end of the financial year 2014, 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.
- For former members of the Executive Board and their surviving dependents, payments amounting to €510 thousand (previous year: €697 thousand) were made and pension provisions of €693 thousand (previous year: €726 thousand) 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 the financial year 2011, the articles of association as amended by the annual shareholders' meeting on 15 June 2011 apply.

The Supervisory Board's compensation consists of two components, an annual fixed remuneration of €20,000 and a variable compensation. The Chairman of the Supervisory Board receives three times 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 is based on consolidated net income per share. Each member of the Supervisory Board receives €2,000 for each €0.30 by which total consolidated net income per share exceeds €1.00. The variable compensation of each member of the Supervisory Board is limited to a maximum of €14,000 per financial year.

On this basis, the variable compensation for each member of the Supervisory Board is €2,000 for the financial year 2011.

Members of the Supervisory Board who belong to special committees within the Supervisory Board receive additional compensation of €7,000 annually as well as a €1,000 flat-rate reimbursement for expenses.

The total remuneration paid to members of the Supervisory Board amounted to €356 thousand (previous year: €243 thousand) including variable portions totalling €24 thousand (previous year: €48 thousand).

Moreover, the members of the Supervisory Board receive a flat €1,000 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 financial 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.

Separate income statement and Statement of comprehensive income

Separate income statement		2011		2010	
€ thousand, except per share amounts	Notes				
Sales revenue	19	2,480,308		2,173,304	
Increase in inventories of finished goods and work in progress		2,803		25,918	
Other own work capitalised	20	33,377		33,269	
Other operating income	21	98,743	2,615,231	86,831	2,319,322
Goods and services purchased	22				
Expenses for materials and supplies and for goods purchased		–1,035,675		–904,543	
Expenses for services purchased		–236,101	–1,271,776	–214,396	–1,118,939
Personnel expenses	23				
Wages and salaries		–613,470		–565,189	
Social security contributions and expenses for pension plans and for benefits		–124,973	–738,443	–120,320	–685,509
Depreciation and amortisation of intangible assets and property, plant and equipment			–70,270		–60,684
Other operating expenses	24		–464,196		–386,126
EBIT			**70,546**		**68,064**
Investment income	25	1,422		1,752	
Income from other securities and loans classified as non-current financial assets	25	10		5	
Other interest and similar income	25	11,035		5,599	
Write-downs on non-current financial assets	25	0		–104	
Interest and similar expenses	25	–8,423		–4,553	
			4,044		**2,699**
Earnings before taxes			**74,590**		**70,763**
Income tax	7/26		–30,936		–19,850
Consolidated net income			**43,654**		**50,913**
Profit share of non-controlling interests		0		100	
Profit share of KRONES Group shareholders			43,654		50,813
Earnings per share (diluted/basic) in €	27		1.45		1.68

Statement of comprehensive income		2011	2010
€ thousand	Notes		
Consolidated net income		43,654	50,913
Exchange differences on translation		841	12,756
Available-for-sale financial instruments			
Derivative financial instruments	11	–5,014	–392
Other comprehensive income	8	–4,173	12,364
Total comprehensive income	8	**39,481**	**63,277**
of which attributable to non-controlling interests		0	100
of which attributable to KRONES Group shareholders		39,481	63,177

Statement of financial position

Assets		31 Dec 2011		31 Dec 2010	
€ thousand	Notes				
Intangible assets	1	110,718		100,582	
Property, plant and equipment	2	441,295		416,300	
Non-current financial assets	3	2,564		2,139	
Property, plant and equipment, intangible assets, and non-current financial assets		554,577		519,021	
Deferred tax assets	7	13,523		15,861	
Trade receivables	5	17,366		22,893	
Income tax receivables	7	8,071		9,494	
Other assets	5	3,708		2,229	
Non-current assets			**597,245**		**569,498**
Inventories	4	642,826		583,613	
Trade receivables	5	567,750		505,316	
Current income tax receivables	7	4,521		3,902	
Other assets	5	101,990		76,315	
Cash and cash equivalents	6	125,496		147,447	
Current assets			**1,442,583**		**1,316,593**
Total			**2,039,828**		**1,886,091**

Equity and liabilities		31 Dec 2011		31 Dec 2010	
€ thousand	Notes				
Share capital	8	40,000		40,000	
Capital reserves	9	66,750		66,645	
Profit reserves	10	373,383		397,121	
Other reserves	11	–5,639		–625	
Group retained earnings		311,000		254,939	
Group equity of the parent company			**785,494**		**758,080**
Non-controlling interests	12		0		853
Equity	8		**785,494**		**758,933**
Provisions for pensions	13	82,278		80,229	
Deferred tax liabilities	7	3,869		3,757	
Other provisions	14	32,250		33,941	
Liabilities to banks	15	0		0	
Other financial liabilities	15	7,034		3,031	
Other liabilities	15	8,189		3,797	
Non-current liabilities			**133,620**		**124,755**
Other provisions	14	176,065		148,887	
Provisions for taxes	14	10,682		5,449	
Liabilities to banks	15	0		0	
Advances received	15	443,452		434,911	
Trade payables	15	201,326		173,936	
Current income tax liabilities	7	201		346	
Other financial liabilities	15	34,723		12,389	
Other liabilities and accruals		254,265		226,485	
Current liabilities			**1,120,714**		**1,002,403**
Total			**2,039,828**		**1,886,091**

Statement of cash flows

€ thousand	Notes	2011	2010
Earnings before taxes		74,590	70,763
Depreciation and amortisation (reversals)	1/2	70,270	60,788
Increase (previous year: decrease) in provisions and accruals	14/15	31,218	–18,487
Deferred tax item changes recognised in profit or loss	7	–4,516	–721
Interest expenses and interest income	25	–2,612	–1,046
Gains and losses from the disposal of non-current assets	21/24	–1,338	–247
Other non-cash expenses and income		–3,252	–86
Increase (previous year: decrease) in trade receivables and other assets not attributable to investing or financing activities		–55,795	7,535
Increase in inventories	4	–59,894	–54,900
Increase in trade payables and other liabilities not attributable to investing or financing activities		67,368	34,677
Cash generated from operating activities		**116,039**	**98,276**
Interest paid		–2,992	–3,280
Income tax paid and refunds received		–18,976	–17,498
Cash flow from operating activities		**94,071**	**77,498**
Cash payments to acquire intangible assets	1	–34,555	–33,024
Proceeds from the disposal of intangible assets		64	7
Cash payments to acquire property, plant and equipment	2	–71,477	–48,500
Proceeds from the disposal of property, plant and equipment		2,381	1,375
Cash payments to acquire non-current financial assets		–652	–212
Proceeds from the disposal of non-current financial assets		225	22
Cash payments to acquire shares in affiliated companies		–853	0
Interest received		1,956	3,807
Dividends received		1,422	1,752
Cash flow from investing activities		**–101,489**	**–74,773**
Cash payments to company owners		–12,067	0
Cash payments to pay lease liabilities	15	–2,061	–2,303
Cash flow from financing activities		**–14,128**	**–2,303**
Net change in cash and cash equivalents		–21,546	422
Changes in cash and cash equivalents arising from exchange rates		–675	5,641
Changes in cash and cash equivalents arising from the consolidated group		270	5,865
Cash and cash equivalents at the beginning of the period		147,447	135,519
Cash and cash equivalents at the end of the period	6	**125,496**	**147,447**

Statement of changes in equity

	Parent company							Non-controlling interests	Group equity
€ thousand	Share capital	Capital reserves	Profit reserves	Currency differences in equity	Other reserves	Group retained earnings	Equity	Equity	
Notes	8	9	10		11			12	
At 1 January 2010	**40,000**	**66,645**	**488,597**	**–4,786**	**–233**	**104,680**	**694,903**	**753**	**695,656**
Consolidated net income 2010						50,813	**50,813**	100	**50,913**
Deduction from profit reserves			–100,000			100,000	**0**		**0**
Allocation to profit reserves			481			–481	**0**		**0**
Currency differences				12,829		–73	**12,756**		**12,756**
Hedge accounting					–392		**–392**		**–392**
At 31 December 2010	**40,000**	**66,645**	**389,078**	**8,043**	**–625**	**254,939**	**758,080**	**853**	**758,933**
Dividend payment (€0,40 per share)						–12,067	**–12,067**		**–12,067**
Consolidated net income 2011						43,654	**43,654**		**43,654**
Deduction from profit reserves			–25,000			25,000	**0**		**0**
Allocation to profit reserves			421			–421	**0**		**0**
Allocation to capital reserves		105				–105	**0**		**0**
Changes in the consolidated group							**0**	–853	**–853**
Currency differences				841			**841**		**841**
Hedge accounting					–5,014		**–5,014**		**–5,014**
At 31 December 2011	**40,000**	**66,750**	**364,499**	**8,884**	**–5,639**	**311,000**	**785,494**	**0**	**785,494**

Segment reporting

€ thousand	Machines and lines for product filling and decoration 2011	2010	Machines and lines for beverage production/ process technology 2011	2010	Machines and lines for the low output range (KOSME) 2011	2010
Sales revenue	**2,137,023**	**1,860,751**	**259,735**	**232,045**	**83,550**	**80,508**
Germany	222,121	210,504	30,011	22,447	1,115	1,205
Rest of Europe	572,585	432,035	52,532	28,134	50,049	47,100
Other regions	1,342,317	1,218,212	177,193	181,464	32,386	32,203
Depreciation and amortisation	**63,532**	**55,580**	**4,673**	**3,061**	**2,065**	**2,043**
Interest income					43	19
Interest expense					598	549
EBT	**108,909**	**100,519**	**–19,334**	**–14,117**	**–14,985**	**–15,639**
Other material non-cash income and expenses	3,525	725	129	–535	–402	–104
Assets	**1,764,922**	**1,636,816**	**206,562**	**185,918**	**71,868**	**73,555**
Germany	1,369,671	1,355,605	206,562	185,918	0	0
Rest of Europe	87,863	96,561	0	0	71,868	73,555
Other regions	307,388	184,650	0	0	0	0
Liabilities	**964,566**	**849,252**	**249,860**	**243,739**	**55,481**	**62,159**
Capital expenditure for intangible assets and property, plant and equipment	**94,426**	**72,798**	**10,343**	**6,495**	**1,261**	**2,231**
Germany	82,050	66,269	10,343	6,495	0	0
Rest of Europe	795	758	0	0	1,261	2,231
Other regions	11,582	5,771	0	0	0	0
Return on sales (EBT to sales)	**5.1%**	**5.4%**	**–7.4%**	**–6.1%**	**–17.9%**	**–19.4%**

	Total for the segments		Consolidation		Other		KRONES Group	
	2011	2010	2011	2010	2011	2010	2011	2010
							2,480,308	**2,173,304**
							253,247	234,156
							675,165	507,269
							1,551,896	1,431,879
							70,270	**60,684**
					10,992	5,580	11,035	5,599
					7,825	4,004	8,423	4,553
							74,590	**70,763**
							3,252	86
	2,043,352	**1,896,289**	**−30,325**	**−40,141**	**26,801**	**29,943**	**2,039,828**	**1,886,091**
	1,576,233	1,541,523	−21,560	−30,794	26,801	29,943	1,581,474	1,540,672
	159,731	170,116	−7,878	−7,403	0	0	151,853	162,713
	307,388	184,650	−887	−1,944	0	0	306,501	182,706
	1,269,907	**1,155,150**	**−30,325**	**−40,141**	**14,752**	**12,149**	**1,254,334**	**1,127,158**
							106,031	**81,524**
							92,393	72,764
							2,056	2,989
							11,582	5,771
							3.0%	**3.3%**

General disclosures

Legal basis

The consolidated financial statements of KRONES AG (»KRONES Group«) for the period ended 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of IFRS that had not yet entered into force or their interpretations. A list of these standards and interpretations and of standards being applied for the first time is on page 157.

Non-controlling interests in group equity, if applicable, are presented on the statement of financial position as a special item within equity. Profit or loss shares attributable to non-controlling interests, if applicable, are recognised on the separate income statement and the statement of comprehensive income as part of consolidated net income. If applicable, the shares of consolidated net income attributed to the owners of the parent company and to non-controlling interests are presented separately.

If applicable, non-controlling 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 statement of financial position, the separate income statement and statement of comprehensive income, the statement of changes in equity, and the statement of cash flows.

The »nature of expense« method has been used for the separate 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 2011 include all material domestic and foreign subsidiaries in which KRONES AG holds more than 50% of the voting rights.

KRONES acquired another 49% share in MAINTEC Service GmbH, Collenberg/Main, Germany in the financial year 2011. As a result, KRONES AG now holds a direct 100% stake in this company and an indirect stake in its subsidiaries.

In addition, KRONES Angola – Representacoes, Comercio e Industria, Lda., Luanda, Angola, was acquired and acquisition accounting done to include it in the consolidated group.

The first-time consolidation of the new shares was effected at the time of acquisition, with no material effects.

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 end of the reporting period of the consolidated financial statements.

Capital consolidation 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.

Goodwill that arose before 1 January 2004 is still recognised in reserves.

If applicable, shares in the equity of subsidiaries that are not held by the parent company are reported as »non-controlling interests«.

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

This also applies for inter-company profits from deliveries effected or services rendered between group companies provided the amounts from these transactions are still held by the group at the end of the reporting period.

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 under IAS 21 using a modified closing rate method. Because the subsidiaries primarily operate independently in the economic environment of their respective countries, the functional currency is always the relevant local currency for each subsidiary. In the consolidated financial statements, assets and liabilities are therefore translated at the closing rate as at the end of the reporting period, while income and expenses from the financial statements of subsidiaries are translated at average annual rates.

Any exchange differences resulting from translation using these different rates in the statement of financial position and the separate income statement and statement of comprehensive income are recognised directly in other comprehensive income. Exchange differences resulting from the translation of equity using historical exchange rates are also recognised in other comprehensive income.

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 in profit or loss 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 capital consolidation are recognised outside profit or loss (in equity) in other profit reserves.

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 2011	31 Dec 2010	2011	2010
US dollar	USD	1.293	1.338	1.393	1.326
British pound	GBP	0.837	0.863	0.868	0.858
Swiss franc	CHF	1.217	1.253	1.233	1.380
Danish krone	DKK	7.434	7.454	7.451	7.447
Canadian dollar	CAD	1.319	1.337	1.377	1.365
Japanese yen	JPY	100.070	108.800	111.040	116.240
Brazilian real	BRL	2.414	2.221	2.326	2.331
Chinese renminbi (yuan)	CNY	8.144	8.821	9.002	8.971
Mexican peso	MXN	18.073	16.593	17.287	16.737
Ukrainian hryvnia	UAH	10.363	10.663	11.120	10.690
South African rand	ZAR	10.476	8.885	10.083	9.698
Kenyan shilling	KES	110.223	108.139	123.642	109.148
Nigerian naira	NGN	209.840	203.630	216.949	202.891
Russian ruble	RUB	41.687	40.924	40.872	40.263
Thai baht	THB	40.829	40.211	42.433	42.014
Indonesian rupiah	IDR	11,730.600	12,058.500	12,201.906	12,068.546
Angolan kwanza	AOA	122.920	122.460	130.571	122.351

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 non-current assets, inventories, receivables, pension provisions, and provisions, because their preparation requires some critical estimates and forecasts.

Intangible assets

Acquired and internally generated intangible assets, excluding goodwill, are capitalised 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 is recognised under »Depreciation and amortisation of intangible assets and property, plant and equipment«.

Research and development expenditure

Development expenditure of the KRONES Group is capitalised at cost to the extent that costs can be allocated clearly and the technical feasibility and a future economic benefit as a result of their use are probable. According to IAS 38, research expenditure cannot be capitalised and is, therefore, recognised as an expense directly in profit or loss. Borrowing costs are capitalised as cost at a capitalisation rate of 1.25%.

Goodwill

There is no goodwill in these consolidated accounts.

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.

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 machinery	5–18
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.

Government grants related to assets are deducted from the cost of the asset and recognised in profit and loss in the subsequent periods in the proportions in which depreciation expense on those assets is recognised.

Leases

Leases in which the KRONES Group, as the lessee, bears substantially all the risks and rewards incidental 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 the »lease term« and its »useful life«. Payment obligations for future lease instalments are recognised under »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 instruments

Financial instruments under IAS 39 used by KRONES consist of the following:

- Non-current financial assets
- Financial instruments held for trading (derivative financial instruments)
- Available-for-sale financial instruments
- Financial receivables and liabilities

For the measurement categories, the carrying amounts correspond to the fair values.

The non-current financial assets are not traded on the market and are therefore recognised at amortised cost.

The fair values and carrying amounts are based on customary market rates and observable ongoing market transactions (Level 2 under IFRS 7.27A).

Transactions against cash settlement are accounted for using the settlement date. Derivative financial instruments are accounted for using the trade date.

Net gains and losses include impairments and measurement changes for derivative financial instruments and are explained in the notes to the relevant measurement categories.

Pursuant to IAS 39, the classes under IFRS 7 also include cash proceeds and liabilities from finance leases in addition to the categories listed above.

Disclosures about risk reporting as specified under IFRS 7 are included in the risk report within the consolidated management report.

Non-current financial assets

Non-current financial assets other than securities are recognised at cost, less impairment losses. Non-current securities are classified as »available for sale« and recognised at fair value in other comprehensive income. No assets are classified as »held to maturity«.

Moreover, the »fair value option« provided for under IAS 39 is not applied to any items on the consolidated statement of financial position for the KRONES Group.

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 risk arising from exchange rates and cash flows in foreign currencies. The currencies materially affected by this are the US dollar, Australian dollar, Canadian dollar, and British pound.

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, swaps, including currency swaps.

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

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair values are determined using Level 2 inputs under IFRS 7.27A. Gains and losses from the measurement are recognised as profit or loss on the separate income statement and the statement of comprehensive income 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 as a »fair value hedge« in profit or loss or a »cash flow hedge« as part of equity. 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 reclassified to profit and loss when the hedged item affects profit or loss. These 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.

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 recognised 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. The indicators used for this are the ageing of the receivables and the customer's business situation.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost includes those costs that are 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 capacity of the production facilities. Selling costs and general administrative 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.

Construction contracts for specific customers

Construction contracts for specific customers are recognised by reference to the stage of completion pursuant to IAS 11 (»percentage of completion method«). Under this method, contract revenue for the line and machinery portion is recognised in accordance with the percentage of physical completion of the lines and machines at the end of the reporting period. The percentage of completion for the assembly and installation portion corresponds to the ratio of contract costs incurred up to the end of the reporting period to the total costs calculated for the assembly and installation portion. Construction contracts that are ongoing at the end of the reporting period are recognised under trade receivables.

Deferred tax items

Deferred tax assets and liabilities are recognised using the statement of financial position-oriented »liability method«, which involves recognising deferred tax items for all temporary differences between the tax base of an asset or liability and its carrying amount on the statement of financial position under IFRS and for consolidation procedures recognised in profit or loss.

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 end of the reporting period 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 the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

b) 10% of the fair value of any plan assets at that date.

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 end of the reporting period.

Financial liabilities

For initial recognition, in accordance with IAS 39, financial liabilities are measured at the cost that is equal to the fair value of the consideration received. Transaction costs are included in this initial measurement of financial liabilities. After initial recognition, all financial liabilities are measured at amortised cost.

Sales revenue

With the exception of those contracts that are measured according to IAS 11, sales revenue is 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 revenue is reported less reductions.

Segment reporting

KRONES reports on three operating segments, which are the strategic business units. They are organised by product divisions and services and managed separately due to the different technologies they cover. The Executive Board, as the chief operating decision maker, manages the company as a whole on the basis of monthly reports from the segments.

Segment 1 comprises machines and lines for product filling and decoration. Segment 2 comprises machines and lines for beverage production and process technology. Segment 3 comprises machines and lines for the low output range.

The accounting policies used are the same as those described under »General disclosures« above.

Segment performance is measured on the basis of internal reports made to the Executive Board, in particular, segment revenues and segment EBT.

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

1 Intangible assets

The carrying amount of the intangible assets has changed as follows:

€ thousand	Industrial property rights and similar rights and assets as well as licenses	Capitalised development expenditure	Total
1 January 2010			
Cost	80,920	137,213	218,133
Accumulated amortisation	67,684	64,331	132,015
Net carrying amount	**13,236**	**72,882**	**86,118**
Changes in 2010			
Cost			
Consolidated additions	40	0	40
Additions	7,675	25,349	33,024
Disposals	15	0	15
Currency differences	195	0	195
Amortisation			
Consolidated additions	11	0	11
Additions	6,401	12,237	18,638
Disposals	8	0	8
Currency differences	139	0	139
Net carrying amount at 31 December 2010	**14,588**	**85,994**	**100,582**
1 January 2011			
Cost	88,815	162,562	251,377
Accumulated amortisation	74,227	76,568	150,795
Net carrying amount	**14,588**	**85,994**	**100,582**
Changes in 2011			
Cost			
Consolidated additions	83	0	83
Additions	10,567	23,988	34,555
Disposals	3,876	0	3,876
Currency differences	–75	0	–75
Amortisation			
Consolidated additions	22	0	22
Additions	8,116	16,287	24,403
Disposals	3,812	0	3,812
Currency differences	–62	0	–62
Net carrying amount at 31 December 2011	**17,023**	**93,695**	**110,718**
31 December 2011			
Cost	95,514	186,550	282,064
Accumulated amortisation	78,491	92,855	171,346
Net carrying amount	**17,023**	**93,695**	**110,718**

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

The capitalised development expenditure relates to new machinery projects of KRONES AG and the KOSME Group. The development expenditure capitalised in 2011 amounts to €23,988 thousand (previous year: €25,349 thousand). This figure includes borrowing costs totalling €302 thousand (previous year: €0 thousand). Including capitalised development expenditure, a total of €123,064 thousand was spent on research and development in 2011 (previous year: €114,287 thousand). In the reporting period, as in the previous year, no impairment was recognised on the intangible assets.

2 Property, plant and equipment

For property, plant and equipment, there were no impairment losses and no reversals under depreciation pursuant to IAS 36 in 2011 or the previous year.

In 2011, the carrying amounts for property, plant and equipment included grants of €261 thousand (previous year: €311 thousand). Of the grants, €50 thousand (previous year: €50 thousand) were recognised in profit and loss by way of a reduced depreciation charge in 2011. Reversals of €272 thousand (previous year: €0 thousand) are included in the depreciation figure.

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 €13,203 thousand (previous year: €18,715 thousand), 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:

€ thousand	31 Dec 2011	31 Dec 2010
Land, land rights and buildings, including buildings on third-party land	12,353	17,546
Technical equipment and machinery	231	396
Other equipment, furniture and fixtures, and office equipment	619	773
Total	**13,203**	**18,715**

There were no additions under IFRS 3 or IFRS 5 during the reporting period.

Property, plant and equipment have changed as follows:

in T€	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures, and office equipment	Construction in progress	Total
1 January 2010					
Cost	383,062	223,955	189,265	3,458	799,740
Accumulated depreciation	107,959	147,437	136,928	0	392,324
Net carrying amount	**275,103**	**76,518**	**52,337**	**3,458**	**407,416**
Changes in 2010					
Cost					
Consolidated additions	706	145	1,576	10	2,437
Additions	8,525	13,570	20,400	6,005	48,500
Disposals	28	3,536	6,085	40	9,689
Transfers	119	1,035	3,063	–4,217	0
Currency differences	1,795	1,543	1,539	–1	4,876
Depreciation					
Consolidated additions	280	87	614	0	981
Additions	10,988	13,388	17,669	0	42,045
Disposals	8	2,971	5,587	0	8,566
Currency differences	676	1,034	1,070	0	2,780
Net carrying amount at 31 December 2010	**274,284**	**77,737**	**59,064**	**5,215**	**416,300**
1 January 2011					
Cost	394,179	236,712	209,758	5,215	845,864
Accumulated depreciation	119,895	158,975	150,694	0	429,564
Net carrying amount	**274,284**	**77,737**	**59,064**	**5,215**	**416,300**
Changes in 2011					
Cost					
Consolidated additions	0	0	293	0	293
Additions	12,565	20,605	29,865	8,442	71,477
Disposals	352	8,628	36,295	46	45,321
Transfers	3,605	2,530	352	–6,487	0
Currency differences	663	531	205	97	1,496
Depreciation					
Consolidated additions	0	0	79	0	79
Additions	11,378	13,427	21,334	0	46,139
Disposals	329	8,442	35,507	0	44,278
Reversals	272	0	0	0	272
Currency differences	409	543	330	0	1,282
Net carrying amount at 31 December 2011	**279,035**	**87,247**	**67,248**	**7,221**	**440,751**
31 December 2011					
Cost	410,660	251,750	204,178	7,221	873,809
Accumulated depreciation	131,081	164,503	136,930	0	432,514
Net carrying amount	**279,579**	**87,247**	**67,248**	**7,221**	**441,295**

3 Non-current financial assets

The non-current financial assets consist primarily of lendings.

4 Inventories

The inventories of the KRONES Group are composed as follows:

€ thousand	31 Dec 2011	31 Dec 2010
Materials and supplies	189,473	149,133
Work in progress	207,036	176,588
Finished goods	169,192	182,451
Goods purchased for sale	69,253	65,915
Other inventories	7,872	9,526
Total	**642,826**	**583,613**

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

Write-downs of €14,832 thousand on inventories were recognised as expense in 2011 (previous year: €26,405 thousand) and are based substantially on customary net realisable values and obsolescence allowances. The amount of reversals of write-downs recognised in profit and loss due to improved market conditions was insignificant. The carrying amount of the inventories recognised at fair value less selling expenses totalled €61,641 thousand in 2011 (previous year: €81,416 thousand).

5 Receivables and other assets

€ thousand	31 Dec 2011	31 Dec 2010
Trade receivables	585,116	528,209
(of which amounts are due in 12 months or later)	17,366	22,893
Other assets	105,698	78,544
(of which amounts are due in 12 months or later)	3,708	2,229

For receivables from customers, the amounts recognised correspond to the fair values.

The allowance account developed as follows:

At 1 January 2011	24,219
Change in the consolidated group and effects of currency translation	–478
Additions	9,874
Reversals	10,310
At 31 December 2011	23,305

The trade receivables at 31 December 2011 include gross amounts due from customers for contract work totalling €27,712 (previous year: €0 thousand). These amounts relate to construction contracts in which costs incurred plus recognised profits less the sum of recognised losses exceeds progress billings and advances received. There are no gross amounts due to customers for contract work.

The other assets include primarily advances paid (€23,605 thousand; previous year: €24,625 thousand), current tax assets (€39,730 thousand; previous year: €33,058 thousand), prepaid expenses (€4,772 thousand; previous year: €3,738 thousand), and creditors with debit balances (€2,013 thousand; previous year: €3,071 thousand).

The derivative financial instruments measured at fair value, which were entered into for future payment receipts and meet the conditions for hedge accounting or which were entered into as freestanding hedge transactions, amounted to €21 thousand in 2011 (previous year: €310 thousand).

6 Cash and cash equivalents

Apart from cash on hand amounting to €209 thousand (previous year: €242 thousand), the cash and cash equivalents of €125,496 thousand (previous year: €147,447 thousand) consist primarily of demand deposits. Changes in cash and cash equivalents under IAS 7 »Statement of cash flows« are presented in the statement of cash flows on page 126.

7 Income tax

Income tax receivables and liabilities consist exclusively of income tax pursuant to IAS 12.

The income tax breaks down as follows:

€ thousand	31 Dec 2011	31 Dec 2010
Deferred tax expense/income (–)	4,516	–721
Current tax	26,420	20,571
Total	**30,936**	**19,850**

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 15.0% plus a solidarity surcharge of 5.5% and a local business tax rate (Gewerbesteuerhebesatz) for KRONES AG that averages 328% apply.

Thus, the total income tax rate for the companies in Germany is 27.3%. Abroad, the tax rates are in the 20% to 42% range. The 27.3% rate was used to calculate deferred taxes.

The deferred tax assets and liabilities at 31 December 2011 break down by items on the statement of financial position as follows:

€ thousand	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Intangible assets	219	136	25,954	23,617
Property, plant and equipment	60	139	15,200	15,384
Non-current financial assets	6	6	0	0
Other non-current assets	0	0	2,927	6,427
Inventories	2,477	4,767	480	1,694
Other current assets	5,496	12,165	3,442	55
Tax loss carryforwards	25,633	17,652	0	0
Provisions, non-current	8,543	7,712	0	0
Other non-current liabilities	3,173	3,297	840	574
Provisions, current	11,489	15,962	1,902	1,872
Other current liabilities	416	130	604	261
Cash flow hedging	2,796	511	6	85
Consolidation	701	0	0	404
Subtotal	**61,009**	**62,477**	**51,355**	**50,373**
Offsetting (–)	**–47,486**	**–46,616**	**–47,486**	**–46,616**
Total	**13,523**	**15,861**	**3,869**	**3,757**

The deferred tax assets and liabilities recognised in other comprehensive income amounted to €4,341 thousand at the end of the reporting period (previous year: –€1,648 thousand) and resulted from hedging activities. The deferred tax items recognised on loss carryforwards relate to KRONES AG. According to our earnings planning, positive tax results can be expected in the future. Deferred tax items were not recognised on tax loss carryforwards of €38,026 thousand.

The tax expense of €30,936 thousand reported in 2011 is €10,573 thousand higher than the expected tax expense that would theoretically result from application of the domestic tax rate of 27.3% at the group level. The difference can be attributed to the following:

€ thousand	31 Dec 2011	31 Dec 2010
Earnings before taxes	74,590	70,763
Tax rate for the parent company KRONES AG	27.30 %	27.30 %
Expected (theoretical) tax expense	20,363	19,318
Adjustments due to different tax rates	1,158	777
Reductions in tax due to tax-free earnings	–13,232	–12,123
Tax loss carryforwards	3,557	5,575
Increases in tax expense due to non-deductible expenses	15,087	7,510
Tax income (–)/tax expense (+) for previous years	2,930	–1,266
Other	1,073	59
Income tax	**30,936**	**19,850**

The difference between reductions in taxes and increases in taxes for 2011 yields a net increase in taxes. This is primarily attributable to non-deductible operating expenses and tax audits. Penalty interest is recognised under tax expense.

8 Equity

KRONES AG's share capital amounted to €40,000,000.00 at 31 December 2011, unchanged on the previous year. It is divided into 31,593,072 ordinary bearer shares, each with a theoretical par value of €1.27 per share.

The company is authorised pursuant to § 71 (1) No. 8 of the German Stock Corporation Act (AktG) to buy treasury shares totalling up to 10% of the current share capital in compliance with the provisions of the law and of the resolution.

The authorisation can be exercised by the company, by its consolidated companies, or by a third party acting on its or their behalf, either in whole or in part, once or multiple times, in pursuit of one or multiple purposes.

The authorisation becomes effective upon resolution by the annual shareholders' meeting and applies until the end of the day 15 June 2015. The authorisation resolved by the annual shareholders' meeting on 17 June 2009 (agenda item 6) expires when this new authorisation takes effect.

The amount of treasury shares purchased under this authorisation, together with other treasury shares that the company has already acquired or still holds or shares that the company is deemed to hold pursuant to §§ 71 a et seq. of the German Stock Corporation Act, shall at no time exceed 10% of the company's share capital. The authorisation shall not be used for the purpose of trading in the company's shares.

The acquisition may be carried out, at the discretion of the Executive Board, (1) through a stock exchange, (2) through a public tender offer, or (3) through a public call for tenders.

If the shares are purchased directly through a stock exchange, the consideration paid per share (excluding incidental costs) shall not exceed by more than 10% and not fall short of by more than 10% the opening price in the XETRA trading system (or any comparable successor system) on the Frankfurt Stock Exchange on the trading day.

If the shares are purchased through a public tender offer or a public call for tenders, the tender price per share or the high and low ends of the price range per share (excluding incidental costs) shall not exceed by more than 20% and not fall short of by more than 20% the opening price in the XETRA trading system (or any comparable successor system) on the Frankfurt Stock Exchange on the third trading day prior to the public announcement of the public tender offer or public call for tenders (the »relevant price«). If significant deviations from the relevant price occur after the publication of an announcement of a public tender offer or a public call for tenders, the offer or invitation to tender can be adjusted. In such a case, the basis of any adjustment shall be the corresponding price on the last trading day prior to the public announcement of any adjustment. The tender offer or call for tenders can stipulate additional conditions. If the tender offer is oversubscribed – or, in the case of a call for tenders, if there are several tenders of equal value and the total amount exceeds the total amount accepted – acceptance must be granted on a pro-rated basis. Provision may be made for preferential acceptance of small lots of up to 100 tendered shares per shareholder.

The Executive Board is authorised to use shares of the company that are purchased under this authorisation for any lawful purpose, including any of the following:

The shares can be sold in return for contributions in kind, particularly as part of business combinations or the acquisition of companies, parts of companies, or interests in companies.

The shares can be sold by means other than a stock exchange if they are sold at a price not substantially below the stock exchange price of the company's shares at the time of the sale.

The shares can be cancelled without the cancellation or its execution requiring a further resolution by the annual shareholders' meeting.

These authorisations relating to the use of treasury shares can be exercised once or multiple times, individually or jointly, in whole or in part.

The shareholders' subscription rights on these treasury shares are excluded insofar as these shares are sold in return for contributions in kind or sold by means other than the stock exchange in accordance with the above authorisation.

The authorisations relating to the use of treasury shares and to the subscription rights of shareholders apply to treasury shares already purchased by the company under authorisations resolved by previous annual shareholders' meetings.

By resolution of the annual shareholders' meeting on 15 June 2011, the Executive Board is authorised to increase the company's share capital, with the approval of the Supervisory Board, by up to €10 million (authorised capital) through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 15 June 2016. Shareholders must be granted subscription rights to these shares. However, the Executive Board may exclude the subscription rights of shareholders for any fractional amounts that may arise. Moreover, the Executive Board is authorised to determine the further details of the capital increase and its implementation, both with the approval of the Supervisory Board. The Supervisory Board is authorised to amend the articles of association in accordance with any utilisation of the authorised capital and upon expiration of the term of the authorisation.

The changes in equity that are not recognised in profit or loss (excluding dividends) totalled –€4,173 thousand in 2011 (previous year: €12,364 thousand) and consist of changes in currency differences and hedge accounting under other reserves. The sum of changes in equity that are not recognised in profit or loss and those that are recognised in profit or loss, was €39,481 thousand (previous year: €63,277 thousand).

Disclosures about capital management

A strong equity position is an important prerequisite for ensuring KRONES' long-term survival. To achieve this, KRONES regularly monitors and manages its capital on the basis of the equity ratio, return on capital employed (ROCE), and return on equity (ROE).

9 Capital reserves

The capital reserves total €66,750 thousand (previous year: €66,645 thousand). The capital reserves do not include any additional capital contributions under § 272 (2) No. 4 of the German Commercial Code (HGB).

10 Profit reserves

The legal reserve remains unchanged from the previous year at €51 thousand.

The other profit reserves include the recognition of negative goodwill from capital consolidation for subsidiaries consolidated before 1 January 2004 and adjustments made directly in equity at 1 January 2004 as part of the first-time application of IFRS.

Apart from the currency translations of financial statements of foreign subsidiaries that are recognised in other comprehensive income, currency differences recognised under profit reserves also include exchange differences resulting from the translation of equity using historical exchange rates.

In order to pay out a dividend for the financial year 2011, the Executive Board resolved to deduct €25,000 thousand from profit reserves and allocate it to retained earnings of KRONES AG.

11 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:

€ thousand	Reserve for cash flow hedges	Reserve for the fair value of securities	Total
At 1 January 2010	**–224**	**–9**	**–233**
Measurement change recognised in equity	–1,018	4	–1,014
Tax on items taken directly to or transferred from equity	420	–1	419
Currency difference	203		203
At 31 December 2010	**–619**	**–6**	**–625**
Measurement change recognised in equity	–7,157	–3	–7,160
Tax on items taken directly to or transferred from equity	2,280	1	2,281
Currency difference	–135		–135
At 31 December 2011	**–5,631**	**–8**	**–5,639**

12 Non-controlling interests

In 2011 KRONES acquired another 49% stake in MAINTEC Service GmbH, Collenberg/Main, Germany. As a result, the item on the consolidated statement of financial position for non-controlling interests does not apply for 2011 (previous year: €853 thousand).

A detailed overview of the composition of and changes to the individual equity components for the KRONES Group in 2011 and the previous year is presented in the statement of changes in equity on page 127.

13 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 based on the 2005 Heubeck actuarial tables, the following factors were also taken into account in the actuarial calculation:

%	Germany		Average of other countries	
	2011	2010	2011	2010
Discount rate	4.40	4.25	6.90	7.50
Projected increases in wages and salaries	0.00	0.00	6.60	5.90
Projected increases in state pensions	2.00	2.00	0.00	0.00

The projected increases 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 companies 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:

€ thousand	31 Dec 2011	31 Dec 2010
Present value of benefit commitments financed by provisions	101,820	97,871
Present value of benefit commitments financed through pension funds	39,917	38,805
Present value of benefit commitments (gross)	141,737	136,676
Fair value of plan assets	–27,020	–21,589
Present value of benefit commitments (net)	114,717	115,087
Actuarial gains (losses) not recognised in the statement of financial position	–32,439	–34,858
Carrying amount at 31 December	**82,278**	**80,229**

The pension provisions, which amounted to €80,927 thousand at the end of the reporting period (previous year: €79,032 thousand), are primarily attributable to KRONES AG.

The composition of costs arising from pension obligations, which amounted to €10,301 thousand (previous year: €8,397 thousand), the reconciliation of the present value of defined benefit obligations, which amounted to €141,737 thousand (previous year: €136,676 thousand), and the plan assets of €27,020 thousand (previous year: €21,589 thousand) breaks down as follows:

€ thousand	31 Dec 2011	31 Dec 2010
Current service cost	3,828	3,274
Interest expense	5,691	5,479
Expected return on plan assets	–671	–649
Recognised gains and losses	1,453	293
Costs arising from pension obligations	**10,301**	**8,397**

€ thousand	31 Dec 2011	31 Dec 2010
Present value of benefit commitments at 1 January	136,676	111,843
Consolidated addition	0	113
Current service cost	3,828	3,274
Interest expense	5,691	5,479
Actuarial losses (+)/gains (–) not recognised in the statement of financial position	–691	19,601
Benefits paid	–3,864	–3,871
Currency differences	97	237
Present value of benefit commitments at 31 December	**141,737**	**136,676**

Costs arising from pension commitments are recognised under personnel expenses.

The actual return on plan assets was 3.67%. The plan assets consist of securities. No payments are expected to be made into the plan in 2012. The expected return of 2.5% is estimated on the basis of the fund administrator's future interest rate developments. In 2011, a total of €43,326 thousand (previous year: €41,615 thousand) was spent on the employer contribution to defined contribution plans (contributions to pensions insurance).

Reconciliation of the assets (€ thousand)	31 Dec 2011	31 Dec 2010
Plan assets at start of year	21,589	19,170
Expected return	671	649
Employer contributions	6,388	3,576
Benefits paid	–2,005	–2,211
Net unrecognised gains on assets	338	318
Currency differences	39	87
Plan assets at end of year	**27,020**	**21,589**

€ thousand	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
Present value of benefit commitments	141,737	136,676	111,843	98,936	96,477
Fair value of plan assets	27,020	21,589	19,170	18,007	18,918
Deficit of plan assets	–12,897	–17,216	–13,580	–14,470	–12,509

14 Provisions for taxes and other provisions

Of the other provisions amounting to €218,997 thousand (previous year: €188,277 thousand), €186,747 thousand (previous year: €154,336 thousand) are due within one year. These other provisions apply to the following items:

€ thousand	1 Jan 2011	Use	Reversal	Addition	Currency differences	31 Dec 2011	Due within 1 year
Provisions for taxes	5,724	1,616	2,114	9,112	14	11,120	10,682
Personnel obligations	27,321	8,646	0	1,307	–6	19,976	418
Administrative obligations	1,397	271	0	1,243	–152	2,217	973
Other remaining provisions	153,835	24,671	29,384	87,097	–1,193	185,684	174,674
Total	**188,277**	**35,204**	**31,498**	**98,759**	**–1,337**	**218,997**	**186,747**

The provisions for personnel obligations are primarily for non-current obligations relating to early retirement (€13,286 thousand; previous year: €21,102 thousand). The other remaining provisions primarily consist of warranties, anticipated losses, and provisions relating to the legal dispute in the USA. For more on the latter, please refer to pages 155 and 156. Estimates are based on customary empirical values. The non-current provisions have been discounted using rates between 3.9% und 4.9%.

15 Liabilities

€ thousand	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2011
Liabilities to banks	0	0	0	0
Advances received	443,452	0	0	443,452
Trade payables	201,326	0	0	201,326
Other financial liabilities	34,723	7,034	0	41,757
Other liabilities	254,265	8,189	0	262,454
Total	**943,766**	**15,223**	**0**	**958,989**

€ thousand	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2010
Liabilities to banks	0	0	0	0
Advances received	434,911	0	0	434,911
Trade payables	173,936	0	0	173,936
Other financial liabilities	12,389	3,031	0	15,420
Other liabilities	226,485	3,797	0	230,282
Total	**847,721**	**6,828**	**0**	**854,549**

The other financial liabilities are obligations on bills. Under IAS 39, these represent possible liabilities from bills sold and are recognised as trade receivables amounting to €40,712 thousand (previous year: €13,904 thousand).

The other liabilities consist of deferred income (€2,439 thousand; previous year: €14,892 thousand) and other remaining liabilities (€260,015 thousand; previous year: €215,390 thousand).

The other remaining liabilities break down as follows:

€ thousand	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2011
Tax liabilities	19,904	4,816		24,720
Social security liabilities	7,989			7,989
Payroll liabilities	18,720			18,720
Debtors with credit balances	12,203			12,203
Finance leases	501	1,293		1,794
Accruals	169,029			169,029
Other	23,480	2,080		25,560
Total	**251,826**	**8,189**		**260,015**

Accruals, which amounted to €169,029 thousand (previous year: €147,425 thousand), 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.

€ thousand	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2010
Tax liabilities	15,377	360		15,737
Social security liabilities	8,375			8,375
Payroll liabilities	19,292			19,292
Debtors with credit balances	6,503			6,503
Finance leases	638	2,859		3,497
Accruals	147,425			147,425
Other	13,983	578		14,561
Total	**211,593**	**3,797**		**215,390**

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 4 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:

€ thousand	31 Dec 2011	31 Dec 2010
Future minimum lease payments		
Up to 1 year	904	1,055
1 to 5 years	1,410	3,044
	2,314	**4,099**
Interest portion of future minimum lease payments		
Up to 1 year	403	546
1 to 5 years	117	483
	520	**1,029**
Present value of future minimum lease payments		
Up to 1 year	501	509
1 to 5 years	1,293	2,561
	1,794	**3,070**

16 Contingent liabilities

No provisions have been recognised for the contingent liabilities because the risk of their use is deemed to be low.

There were no contingent liabilities in the reporting period or in the previous year.

17 Other financial liabilities

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

€ thousand	31 Dec 2011	31 Dec 2010
Future minimum lease payments		
Up to 1 year	14,253	13,188
1 to 5 years	14,364	16,386
	28,617	**29,574**
Future maintenance		
Up to 1 year	10,338	8,351
1 to 5 years	9,417	7,378
	19,755	**15,729**

Payments amounting to €18,211 thousand (previous year: €16,156 thousand) were made under these rental and lease agreements in 2011.

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.

18 Derivative financial instruments

The derivative financial instruments of the KRONES Group, with a fair value of –€12,230 thousand (previous year: –€1,893 thousand) of which –€11,396 thousand are short-term (previous year: –€1,893 thousand), substantially cover the currency risks relating to the US dollar, the Australian dollar, the Canadian dollar, the British pound, and the euro. The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the end of the reporting period as well as appropriate premiums or discounts for the expected price development through maturity. These financial instruments are accounted for using the settlement date.

The derivative financial instruments are essentially composed of forward exchange contracts at a secured volume of €256.9 million (previous year: €131.6 million), of which €241.7 million are short-term (previous year: €130.8 million). This volume includes a nominal volume of €66.2 million (previous year: €30.0 million) for short-term cash flow hedges that is measured at a fair value of €64.5 million (previous year: €29.4 million). The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. The cash flow hedges presented are effective.

The net loss from these financial instruments was €442 thousand in the reporting period (previous year: net loss of €149 thousand).

Notes to the separate income statement

19 Sales revenue

The sales revenue of the KRONES Group, which amount to €2,480,308 thousand (previous year: €2,173,304 thousand), consists of deliveries and services billed to customers less reductions. In the segment reporting, sales revenue is presented in detail, divided by business area and geographic market. In the financial year 2011, revenue of €1,225,769 thousand resulted from construction contracts (previous year: €1,122,365 thousand). Costs plus profits (less any recognised losses) on contracts in progress amounted to €789,922 thousand (previous year: €577,121 thousand). Advances received amounted to €65,196 thousand (previous year: €59,265 thousand).

20 Other own work capitalised

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

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

21 Other operating income

Apart from the income from the reversal of provisions (€25,195 thousand; previous year: €23,368 thousand), gains from disposals of non-current assets (€1,560 thousand; previous year: €387 thousand), and the reversal of impairments (€8,889 thousand; previous year: €6,522 thousand), which are not related to the period, the other operating income, which amounts to €98,743 thousand (previous year: €86,831 thousand), consists substantially of currency translation gains of €31,315 thousand (previous year: €31,214 thousand). This is compared with the recognition of impairment losses of €5,637 thousand (previous year: €6,436 thousand) and currency translation losses of €33,412 thousand (previous year: €41,418 thousand) under other operating expenses.

22 Goods and services purchased

The expenditure for goods and services purchased comprises expenses for materials and supplies and for goods purchased amounting to €1,035,675 thousand (previous year: €904,543 thousand) and expenses for services purchased amounting to €236,101 thousand (previous year: €214,396 thousand).

23 Personnel expenses

Within the KRONES Group, 10,799 people (previous year: 10,221) including trainees (466; previous year: 467) were employed on average for the year. The workforce of the KRONES Group is composed as follows (on average for the year):

	2011	2010
White-collar employees exempt from collective agreements	2,525	2,328
Employees covered by collective agreements	8,274	7,893
Total	**10,799**	**10,221**

24 Other operating expenses

Apart from the €222 thousand in losses from disposals of non-current assets (previous year: €140 thousand), which are not related to the period, the other operating expenses include additions to impairments on receivables (€5,637 thousand; previous year: €6,436 thousand), other taxes (€3,793 thousand; previous year: €3,207 thousand), freight costs (€84,559 thousand; previous year: €66,266 thousand), and rent and cleaning costs (€27,690 thousand; previous year: €23,587 thousand).

25 Financial income

The financial income of €4,044 thousand (previous year: €2,699 thousand) breaks down as follows:

€ thousand	31 Dec 2011	31 Dec 2010
Income from other securities and loans classified as non-current financial assets	10	5
Other interest and similar income	11,035	5,599
Interest and similar expenses	–8,423	–4,553
Interest income (expense)	2,612	1,046
Write-downs on non-current financial assets	0	–104
Investment income	1,422	1,752
Financial income	**4,044**	**2,699**

26 Income tax

Income tax amounted to –€30,936 thousand in 2011 (previous year: €19,850 thousand). More information is presented under Note 7, »Income tax« (pages 142–144).

27 Earnings per share

Under IAS 33 »Earnings per share«, basic earnings per share are calculated by dividing consolidated net income – less profit or loss shares of non-controlling interests – by the weighted average number of ordinary shares in circulation, as follows:

		31 Dec 2011	31 Dec 2010
Consolidated net income less profit or loss shares of non-controlling interests	€ thousand	43,654	50,813
Weighted average number of ordinary shares in circulation	Shares	30,167,651	30,167,651
Earnings per share	€	1.45	1.68

As in the previous year, diluted earnings per share are equal to undiluted earnings per share.

Group audit fees

Expenses of €465 thousand were incurred in the financial year 2011 for the KRONES Group audit and the audit of the parent company. In addition, for the parent company, expenses totalling €153 thousand were incurred for tax consultancy services. No expenses for other services were incurred. The expense for the audit of the subsidiaries was €35 thousand.

Events after the end of the reporting period

No events of material importance occurred after the end of the reporting period.

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 €19,130 thousand in 2011 (previous year: €18,329 thousand). Trade and other payment transactions resulted in liabilities of €10,530 thousand (previous year: liabilities of €16,266 thousand).

Compensation of the Executive Board and the Supervisory Board

The compensation report summarises the principles used to determine the compensation of the Executive Board of KRONES AG and explains the amount and the structure of such income. The principles and the amount of Supervisory Board compensation are also set out in the report.

The compensation report is part of the corporate governance report and is on pages 119 to 121 of the 2011 Annual Report.

Other

The US company of the KRONES Group, KRONES Inc., Franklin/Wisconsin (USA), and KRONES AG, Neutraubling (Germany) have taken a first step towards resolving the legal disputes that have been ongoing since October 2008, triggered by claims for damages by several American financial service providers, a group of hedge funds and a liquidation trustee.

The lawsuits are related to the financial scandal involving the bankruptcy of the US company Le-Nature's, whose former directors have meanwhile been convicted of fraud. In 2005/2006, KRONES produced, delivered and successfully commissioned filling lines representing a contract volume of approximately 100 million US dollars for the Le-Nature's facility in Phoenix/Arizona (USA).

Several plaintiffs have entered into a mediation process with KRONES in January 2012 to explore options for ending the proceedings. Although in KRONES' view the opposing parties' demands are unfounded, KRONES' US attorneys have advised to continue to try to reach a settlement through mediation, also with regard to the special risks entailed by the American legal system.

These legal disputes have had a negative impact on results in KRONES' consolidated financial statements for the year ended 31 December 2011. In accordance with IAS 37.92 we do not provide further information on these disputes and the associated risk for the Group, especially with regard to the measures taken in this context, in order not to impair the outcome of the proceedings.

Corporate Governance

Shareholders can view the declaration of the Executive Board and the Supervisory Board pursuant to § 161 of the German Stock Corporation Act [AktG] concerning the Corporate Governance Code as amended on 26 May 2010 at KRONES AG's website. The exceptions are also listed there.

Risk report

The risk report is part of the management report and is on pages 94 to 101.

Standards and interpretations not applied early

The IASB has issued the following standards, interpretations, and amendments to existing standards and interpretations, the application of which is not yet mandatory (applicable for the financial years beginning on or after 31 July 2011) and which KRONES AG did not apply early:

IAS 1	»Presentation of other comprehensive income«
IAS 19	»Employee benefits«
IAS 32	»Offsetting financial assets and financial liabilities«
IFRS 7	»Disclosures about transfers of financial assets«
IFRS 9	»Financial instruments«
IFRS 10	»Consolidated financial statements«
IFRS 12	»Disclosure of interests in other entities«
IFRS 13	»Fair value measurement«

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, are not expected to be relevant for the consolidated financial statements of KRONES AG:

IAS 28	»Investments in associates and joint ventures«
IFRS 1	»Severe hyperinflation and replacement of the fixed transition date for first-time application of IFRS«
IFRS 11	»Joint arrangements«
IFRIC 20	»Stripping costs in the production phase of a surface mine«

Amendments due to a new standard or a new interpretation and amendments to existing standards and interpretations (applicable for the first time for the financial years beginning on or after 1 February 2010):

Improvements to IFRS 2010	
IAS 24	»Related party disclosures«
IAS 32	»Classification of rights issues«
IFRS 1	»Limited scope exemption from comparative IFRS 7 disclosures for first-time adopters«
IFRIC 14	»Prepayments of minimum funding requirements«
IFRIC 19	»Extinguishing financial liabilities with equity instruments«

These changes are not applicable to KRONES or resulted in no substantial effects in the reporting period.

Shareholdings

Name and location of the company	Share in capital held by KRONES AG %*
neusped Neutraublinger Speditions-GmbH, Neutraubling, Germany	100.00
KIC KRONES Internationale Cooperations-Gesellschaft mbH, Neutraubling, Germany	100.00
ecomac Gebrauchtmaschinen GmbH, Neutraubling, Germany	100.00
MAINTEC Service GmbH, Collenberg/Main, Germany	100.00
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
KRONES Nordic ApS, Holte, Denmark	100.00
KRONES S.A.R.L., Lyon, France	100.00
KRONES UK Ltd., Bolton, UK	100.00
KRONES S.R.L., Garda (VR), Italy	100.00
KOSME S.R.L., Roverbella, Italy	100.00
KRONES Nederland B.V., Bodegraven, Netherlands	100.00
KOSME Gesellschaft mbH, Sollenau, Austria	100.00
KRONES Spólka 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
KRONES Ukraine LLC, Kiev, Ukraine	100.00
MAINTEC Service eood, Sofia, Bulgaria	100.00
MAINTEC Service Ges.m.b.H., Dorf an der Pram, Austria	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	50.00
KRONES Angola – Representacoes, Comercio e Industria, Lda., Luanda, Angola	100.00
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 Asia Ltd., Hong Kong, China	100.00
KRONES India Pvt. Ltd., Bangalore, India	100.00
PT. KRONES Machinery Indonesia, Jakarta, Indonesia	100.00
KRONES Japan Co. Ltd., Tokyo, Japan	100.00
KRONES Machinery Co. Ltd., Brampton, Ontario, Canada	100.00
KRONES LCS Center East Africa Limited, Nairobi, Kenya	100.00
KRONES Andina Ltda., Bogotá, Colombia	100.00
KRONES Korea Ltd., Seoul, Korea	100.00
KRONES Mex S.A. DE C.V., Mexico D.F., Mexico	100.00
KRONES LCS Center West Africa Limited, Lagos, Nigeria	100.00
KRONES Southern Africa (Prop.) Ltd., Johannesburg, South Africa	100.00
KRONES (Thailand) Co. Ltd., Bangkok, Thailand	100.00
KRONES, Inc., Franklin, Wisconsin, USA	100.00
Maquinarias KRONES de Venezuela S.A., Caracas, Venezuela	100.00

* Direct and indirect shareholdings.

Members of the Supervisory Board and the 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 six to twelve members. Pursuant to § 8 (1) of the articles of association, six members are elected by 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

Ernst Baumann
Chairman of the Supervisory Board

Werner Schrödl**
Chairman of the Central Works Council
Deputy Chairman of the Supervisory Board

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

Dr. Jochen Klein
Managing director of I-Invest GmbH
* DÖHLER GMBH
HOYER GMBH

Prof. Dr. Ing. Erich Kohnhäuser
(until 15 June 2011)

Norman Kronseder
Farmer and forester
* BAYERISCHE FUTTERSAATBAU GMBH

Philipp Graf von und zu Lerchenfeld
Member of the Bavarian Landtag, Dipl.-Ing. agr., auditor and tax consultant

Dr. Alexander Nerz
Attorney

Johann Robold**
Member of the Works Council

Anton Schindlbeck**
Head of sales for LCS

Petra Schadeberg-Herrmann
Managing partner at KROMBACHER FINANCE GMBH, SCHAWEI GMBH, DIVERSUM HOLDING GMBH & CO. KG
(since 15 June 2011)

Jürgen Scholz**
1st authorised representative and treasurer of the IG METALL administrative office in Regensburg
* INFINEON TECHNOLOGIES AG

Josef Weitzer**
Chairman of the Works Council
* Sparkasse Regensburg

Executive Board

Volker Kronseder
Chairman
Human Resources and Corporate Communications

Hans-Jürgen Thaus
Deputy Chairman
Finance and Information Management
(until 31 December 2011)
* KURTZ GMBH
MASCHINENFABRIK REINHAUSEN GMBH

Rainulf Diepold
Sales and Marketing

Werner Frischholz
Materials Management, Production, and Service

Christoph Klenk
Finance and Information Management

Thomas Ricker
Engineering, Research and Development
(since 1 January 2012)

* 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 Executive Board.

Proposal for the appropriation of retained earnings of KRONES AG

Retained earnings of KRONES AG amounted to €23,204,187.63 at 31 December 2011.

We propose to the annual shareholders' meeting on 15 June 2011 that this amount be used as follows:

Proposal for the appropriation of retained earnings	€
Dividend of €0.60 per share	18,100,590.60
Amount carried forward to new account	5,103,597.03

Neutraubling, 30 March 2012

KRONES AG

The Executive Board

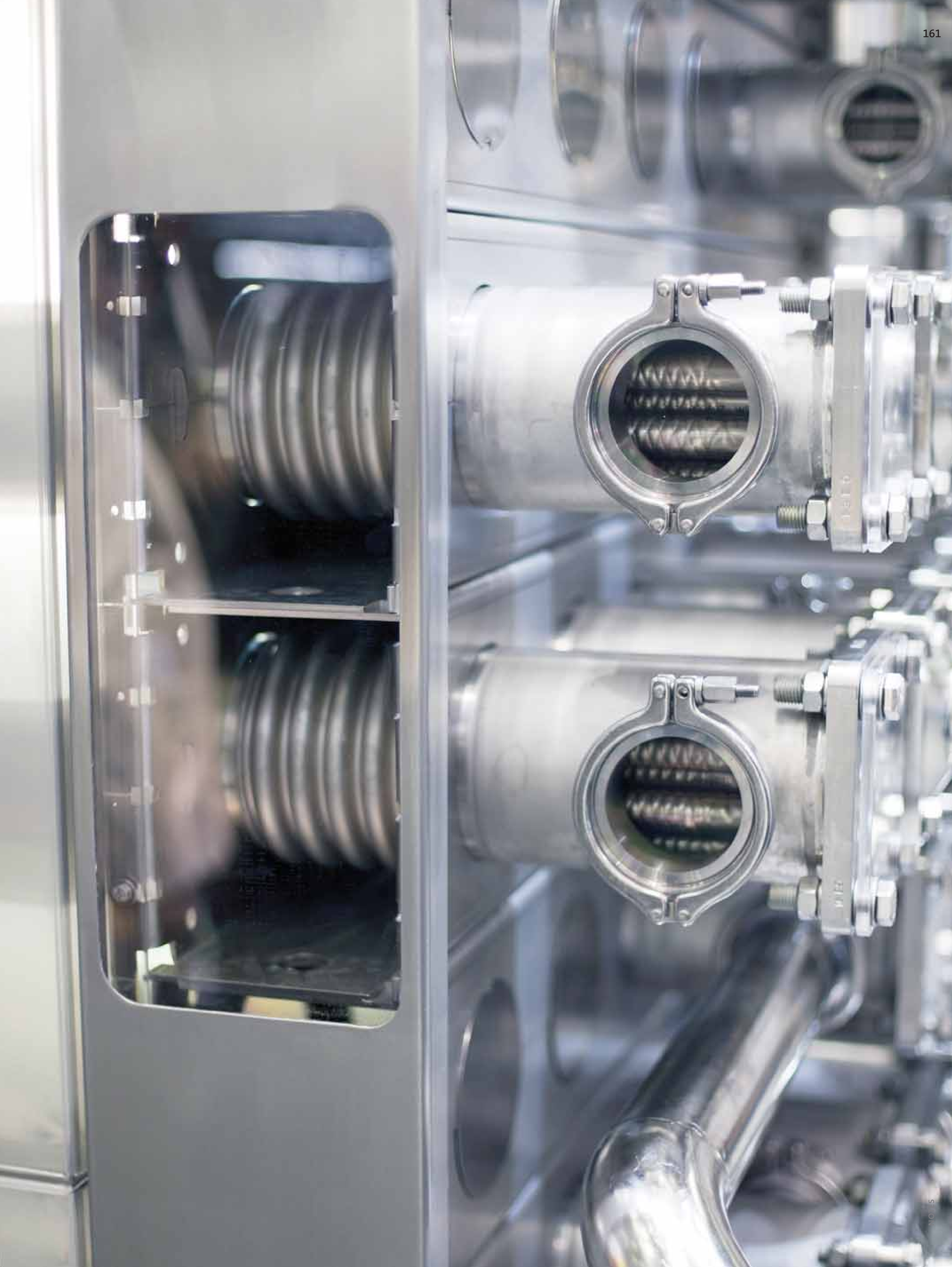
Volker Kronseder
(Chairman)

Christoph Klenk

Rainulf Diepold

Werner Frischholz

Thomas Ricker



Auditor's report

We have audited the consolidated financial statements prepared by KRONES Aktiengesellschaft, Neutraubling, comprising the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS 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 the basis of samples 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 IFRS 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 2012

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Herr	Medick
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Glossary

Affiliated companies	See subsidiaries
Cash flow	All inflows and outflows of cash and cash equivalents during a period.
Corporate governance	Responsible corporate management and supervision that is oriented toward long-term value creation.
DAX	Deutscher Aktienindex (DAX). Index containing the 30 biggest German companies (based on market capitalisation and trading volume).
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 IFRS. The purpose is to show the tax expense in relation to the result under IFRS.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBIT	Earnings before interest and taxes.
EBT	Earnings before taxes.
Equity	Funds made available to the company by the owners by way of contribution and/or investment plus retained earnings (or losses).
Free float	Portion of the total number of shares outstanding that is available to the public for trading.
IFRS	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.
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.
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.
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Non-current assets	Assets which are intended to permanently serve the business operations.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and other provisions).
ROS	Return on sales. Ratio of earnings before taxes to sales.
Statement of cash flows	Statement of inflows and outflows of cash that shows the sources and uses of funds within the financial year.
Subsidiaries	All companies that are controlled, directly or indirectly, by a parent company due to majority interest and/or common management.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the statement of financial position.
Working capital to sales	Working capital (trade receivables plus inventories and prepayments less corresponding liabilities) in relation to sales revenue.
XETRA trading system	Electronic stock market trading system.

Key figures for the KRONES Group 2007 – 2011

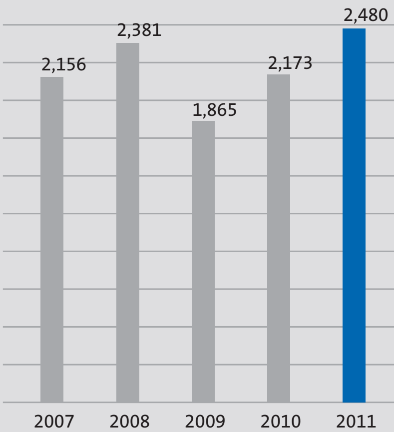
		2011	2010	2009	2008	2007
Sales						
Sales revenue	€ million	2,480	2,173	1,865	2,381	2,156
Germany	€ million	253	234	191	300	347
Outside Germany	€ million	2,227	1,939	1,674	2,081	1,809
Export share	%	90	89	90	87	84
Earnings						
Earnings before taxes	€ million	75	71	–39	156	154
Net income	€ million	44	51	–34	107	102
Earnings per share	€	1.45	1.68	–1.13	3.39	3.25
Assets and capital structure						
Non-current assets	€ million	597	569	542	534	475
of which fixed assets	€ million	555	519	496	482	422
Current assets	€ million	1,443	1,317	1,248	1,291	1,209
of which cash and equivalents	€ million	125	147	136	108	54
Equity	€ million	785	759	696	790	708
Total debt	€ million	1,255	1,127	1,094	1,035	976
Non-current liabilities	€ million	134	125	125	144	155
Current liabilities	€ million	1,121	1,002	970	891	821
Total assets	€ million	2,040	1,886	1,790	1,825	1,684
Cash flow/capital expenditure						
Gross cash flow*	€ million	114	112	25	158	149
Capital expenditure	€ million	106	82	88	112	98
Depreciation and amortisation	€ million	70	61	60	51	48
Net cash position						
(cash and cash equivalents less debt)	€ million	125	147	136	108	53
Profitability ratios						
ROS	%	3.0	3.3	–2.1	6.6	7.1
Return on equity before taxes	%	9.7	9.7	–5.3	20.8	23.0
ROCE	%	7.9	8.1	–3.5	19.1	20.2
Employees (at 31 December)		11,389	10,575	10,238	10,333	9,588
Germany		8,887	8,280	8,165	8,286	7,857
Outside Germany		2,502	2,295	2,073	2,047	1,731
Dividend						
Dividend per share	€	0.60**	0.40	0.00	0.60	0.70

* Net income (loss) plus depreciation, amortisation, and write-downs

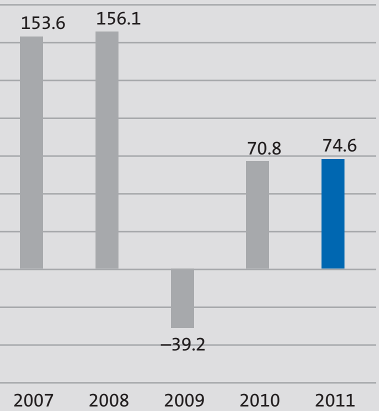
** As per proposal for the appropriation of retained earnings

At a glance: sales, earnings, employees, dividends

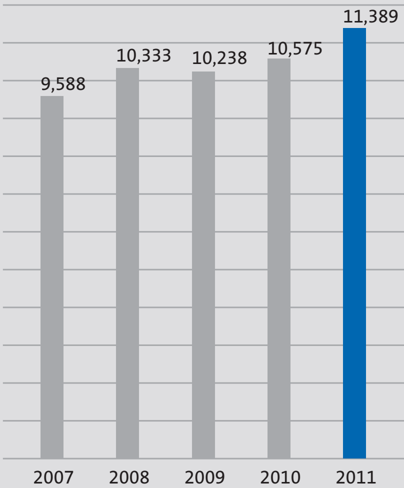
KRONES Group sales (€ million)



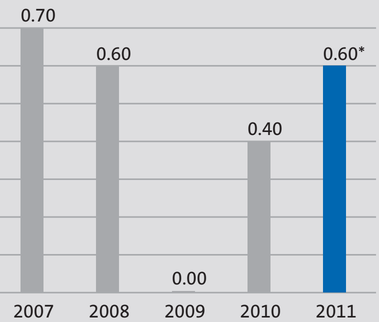
KRONES Group EBT (€ million)



KRONES workforce



Dividend per share (€)



* As per proposal for the appropriation of retained earnings

KRONES Group segments and product divisions

Machines and lines for product filling and decoration

- Product treatment technology
- Systems engineering
- Labelling technology
- Inspection technology
- Filling technology
- Cleaning technology
- Plastics technology
- Packing and palletising technology
- Conveyor technology

Machines and lines for beverage production/ process technology

- Brewhouse and filtration technology
- Information technology
- Internal logistics
- Materials flow technology

Machines and lines for the low output range (KOSME)

- Labelling technology
- Filling technology
- Plastics technology
- Packing and palletising technology
- Conveyor technology

This English language report is a translation of the original German KRONES Konzern Geschäftsbericht 2011. In case of discrepancies the German text shall prevail.

This Annual Report is also available in German. We would be happy to mail you a copy on request. You can also find it in the Investor Relations section at krones.com.

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Financial calendar

25 April 2012	Annual report for 2011 Interim report for the period ended 31 March Financial press conference
13 June 2012	Annual shareholders' meeting
25 July 2012	Interim report for the period ended 30 June
24 October 2012	Interim report for the period ended 30 September

KRONES