



AG 2012

Annual Report for KRONES AG 2012

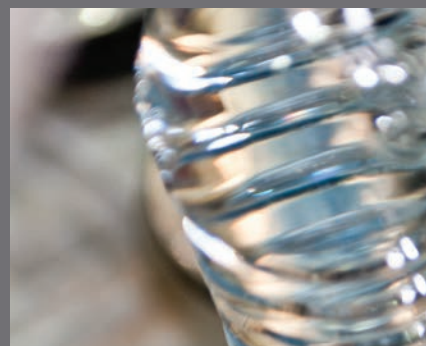
 KRONES



KRONES made significant progress with the Value strategy programme in 2012. We improved our cost structures, stepped up our use of modular design for our machines, and increased the international presence of our service business. Together with our team of nearly 12,000 employees, we will systematically implement additional measures under Value in 2013.

In all of our efforts, we seek to meet each of our customers' specific needs. Because satisfying every one of our customers is KRONES' topmost goal. We want to provide our partners around the globe with dependable, top-quality machines and lines and the best, fastest service.

That is why KRONES is getting closer to its customers, particularly in the emerging markets. In this way, we are strengthening the company's position in booming economic regions and supporting KRONES' long-term profitable growth.



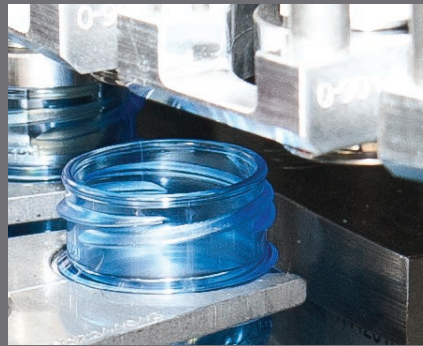
## MANAGEMENT REPORT FOR KRONES AG

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## Dear shareholders and friends of KRONES,

2012 was an exciting year. Events relating to the economy as a whole and to our company specifically ensured that there was never a dull moment. We were very concerned when the situation in the euro zone escalated temporarily. There is no telling what the fallout would have been for KRONES and the economy as a whole if the euro zone had broken apart. Happily, it looks – at least as things stand today – as though the euro is here to stay. The economic situation in Europe will likely at least stabilise.

An extremely important – albeit painful – development in 2012 was the settlement of the lawsuits against KRONES in the USA that had been ongoing since 2008. The proceedings, about which we informed you in detail last year, were triggered by claims for damages by several American financial service providers, a group of hedge funds, and a liquidation trustee. The claims related to the financial scandal involving the bankruptcy of the US company Le-Nature's. We entered into settlements with the plaintiffs to bring an end to the unpleasant matter and once again focus all of our energy forwards.

Our company's operations performed well in 2012 despite the difficult economic environment. KRONES AG grew further thanks to our strong position in the emerging markets. Sales revenue was up 8.9% over 2011, to €2,250.8 million. Earnings before taxes rose from €0.8 million in the previous year to €78.1 million. The one-time expense relating to the Le-Nature's lawsuits are described in the section »KRONES AG earnings« (page 44). Given the positive operating trend, we have decided to propose a dividend of €0.75 per share to the shareholders' meeting for the financial year 2012, which is €0.15 more than in the previous year.

KRONES intends to continue to grow profitably in the medium and long term. The basis for this growth is our Value strategy programme, with which we made excellent progress in 2012. We invite you to read more about the programme on pages 16 through 19. Megatrends offer great potential for growth. According to studies by the World Bank, 500 million people have escaped poverty in the last 30 years in China alone. That does not mean that this population's consumption is equal to Western standards. But rising prosperity is likely to drive steady growth in demand for packaged beverages and foodstuffs in the years ahead. This is true not only for China but also for other regions in Asia as well as for Africa and South America, where urbanisation is advancing. More and more people are moving to the cities and adopting urban lifestyles and consumer behaviour. To ensure that KRONES can seize all of



*»KRONES is very well positioned in the emerging markets. That is a solid basis for further growth.«*

*Volker Kronseder  
Chairman of the Executive Board*



these market opportunities, we invested heavily in our international service business once again in 2012. This investment is reflected in the size of our workforce outside Germany, which increased by 385 year-on-year in 2012. We will continue to grow our team in important markets in the years ahead – because being close to our customers is key to success in our industry.

*Prosperity is increasing worldwide. And KRONES is benefiting from this trend.*

But that does not mean KRONES is turning its back on Germany. On the contrary, we are also investing heavily in our sites here. For example, in 2012 we began construction on a production site for EVOGUARD valves in Nittenau. In Neutraubling, we are building a central logistics centre for our service business. One investment that means a great deal to me personally is the new training centre at our corporate headquarters, which is twice the size of its predecessor. The current generation of young talent began using the new facility in July 2012.

KRONES has started the year 2013 with great energy. After all, the »drinktec« trade fair takes place this year from 16 to 20 September. The world's largest trade fair for the beverage and packaging industry is held every four years in Munich and always lends our industry important momentum. We will present several highlights from our innovative product range at this year's fair.

In January, KRONES began to reposition itself in the field of material flow technology. We acquired a 26% stake in the profitable intralogistics solutions provider KLUG GMBH and also signed a cooperation agreement with the company to ensure that KRONES can continue to deliver these services to our customers. Our own material flow technology operations will be discontinued over the course of 2013. This division of KRONES has consistently generated considerable losses despite relatively low sales.

*KRONES has repositioned itself in the field of material flow technology.*

Finally, on behalf of the Executive Board, I would like to thank every one of the 11,963 employees working for the KRONES Group worldwide for their dedication in 2012. Our highly skilled and motivated people are the assurance that we will continue to »create value together« in 2013 and beyond.



Volker Kronseder  
Chairman of 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.

Technology, Research and Development.

**Werner Frischholz**

\*1951

Member of the Executive Board since 2003.

Operations and Service.

**Christoph Klenk**

\*1963

Member of the Executive Board since 2003.

Finance and Information Management.

**Volker Kronseder**

\*1953

Member of the Executive Board since 1989.

Chairman since 1996. Human Resources and Corporate Communications.







## Ladies and Gentlemen,

2012 was a challenging year for KRONES. Our operating activities developed well despite the difficult economic situation. However, a one-time expense impacted the Group's earnings for last year. The expense resulted from settlement payments KRONES made to end its legal disputes in the USA. The proceedings related to the financial scandal involving the bankruptcy of the US company Le-Nature's. The Supervisory Board devoted considerable time and energy to the legal proceedings in the USA in 2012.

Despite the burden to earnings, the Supervisory Board welcomes the fact that the company was able to settle the legal disputes, which had been ongoing since October 2008, and therefore eliminate the risk of even greater losses for KRONES.

## Advising and oversight

In 2012, the Supervisory Board of KRONES AG continuously oversaw and advised the company's Executive Board as prescribed by the law and the articles of association. Five regular and two extraordinary Supervisory Board meetings were held. The Board regularly obtained information from the Executive Board about the progress of business, the company's financial position, and the company's strategy and risk management in the form of written and oral reports, both in and outside the Supervisory Board meetings.

The Supervisory Board's first meeting of the year was convened on 21 March 2012. The Executive Board presented the preliminary consolidated financial statements for 2011 and provided explanations for the group's key financial performance indicators. The Executive Board then presented its business report, which covered the current business situation and the outlook for the KRONES Group. In addition, the Executive Board informed the Supervisory Board about the current status of the legal proceedings in the USA.

Representatives from KRONES' auditing firm were present for a portion of the Supervisory Board meeting on 23 April 2012. The auditors explained the annual financial statements for 2011 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 2011 annual financial statements and the 2011 consolidated financial statements along with the management report and consolidated management report for the financial year 2011. The Supervisory Board and Executive Board then discussed the agenda for the annual shareholders' meeting of KRONES AG, which would be held on 13 June 2012. The Boards agreed to propose to the annual shareholders' meeting that a dividend of €0.60 per share be paid out for the financial year 2011. Another topic of this Supervisory Board meeting was KRONES' strategy as based on the mission statement and the Value programme and the strategic positioning of the company's segments.



*Ernst Baumann*  
*Chairman of the Supervisory Board*

The Supervisory Board held its constitutive meeting on 13 June 2012, following the annual shareholders' meeting. The Board re-elected Ernst Baumann Chairman of the Supervisory Board and Werner Schrödl Deputy Chairman. Mr. Baumann welcomed to the Supervisory Board Klaus Gerlach, whom employees had elected as an employee representative. Mr. Gerlach replaced Anton Schindlbeck, whom Ernst Baumann thanked for his many years of service.

In the fourth regular meeting of the Supervisory Board, on 19 September 2012, the Executive Board explained current business development and presented its outlook for the year 2012 as a whole. The Supervisory Board was also informed about the current status of the legal proceedings in the USA.

An extraordinary meeting of the Supervisory Board was held on 15 October 2012. The legal proceedings in the USA were the sole agenda item. The Executive Board informed the Supervisory Board in detail about the current situation. It became clear that the company could bring an end to the proceedings through settlements. The Supervisory Board and the Executive Board resolved to increase the provision for settlement payments.

The Supervisory Board convened a work session on 20 November 2012. In this meeting, the Board discussed topics including the compensation system for the Executive Board and the efficiency of the Supervisory Board's work. The Supervisory Board Committee presented the company's risk management report.

The Supervisory Board convened its fifth regular meeting for 2012 on 21 November. This meeting's main focus was on the results for the third quarter of 2012 and on planning for the financial year 2013. The Executive Board presented, among other things, its sales, production, and human resources planning. In addition, the Executive Board informed the Supervisory Board about its plans for increasing KRONES' flexibility and explained how it is managing the company's liquidity.

### **Duties and activities of the Supervisory Board Committee**

The Supervisory Board Committee consists of Supervisory Board Chairman 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 single-entity 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.

Before the Supervisory Board meeting held to ratify the financial statements on 23 April 2012, 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 single-entity and consolidated financial statements for 2011.

At its constitutive meeting on 13 June 2012, the Supervisory Board appointed Graf Philipp von und zu Lerchenfeld chairman of the Supervisory Board Committee.

### **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 2012 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 2012 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 Supervisory Board meeting held to ratify the financial statements on 19 April 2013. 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 2012.

Neutraubling, April 2013

The Supervisory Board



Ernst Baumann  
Chairman of the Supervisory 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.

**Ernst Baumann**  
Chairman of the Supervisory Board  
\* since 3 April 2012  
ZF FRIEDRICHSHAFEN AG

**Werner Schrödl\*\***  
Chairman of the Central Works  
Council  
Deputy Chairman of the  
Supervisory Board  
\* since 1 January 2012  
VERWALTUNGSRAT DER BAYERISCHEN  
BETRIEBSKRANKENKASSEN

**Klaus Gerlach\*\***  
Senior Vice President  
Material Management  
since 13 June 2012

**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  
\* since 1 October 2012  
CONSORTIUM GASTRONOMIE GMBH

**Norman Kronseder**  
Farmer and forester  
\* BAYERISCHE FUTTERSATBAU  
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\*\***  
Senior Vice President  
Sales LCS  
until 13 June 2012

**Petra Schadeberg-Herrmann**  
Managing partner at KROMBACHER  
FINANCE GMBH, SCHAWEL GMBH,  
DIVERSUM HOLDING GMBH & CO. KG

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

**Josef Weitzer\*\***  
Deputy Chairman of the  
Works Council  
\* SPARKASSE REGENSBURG

\* 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.



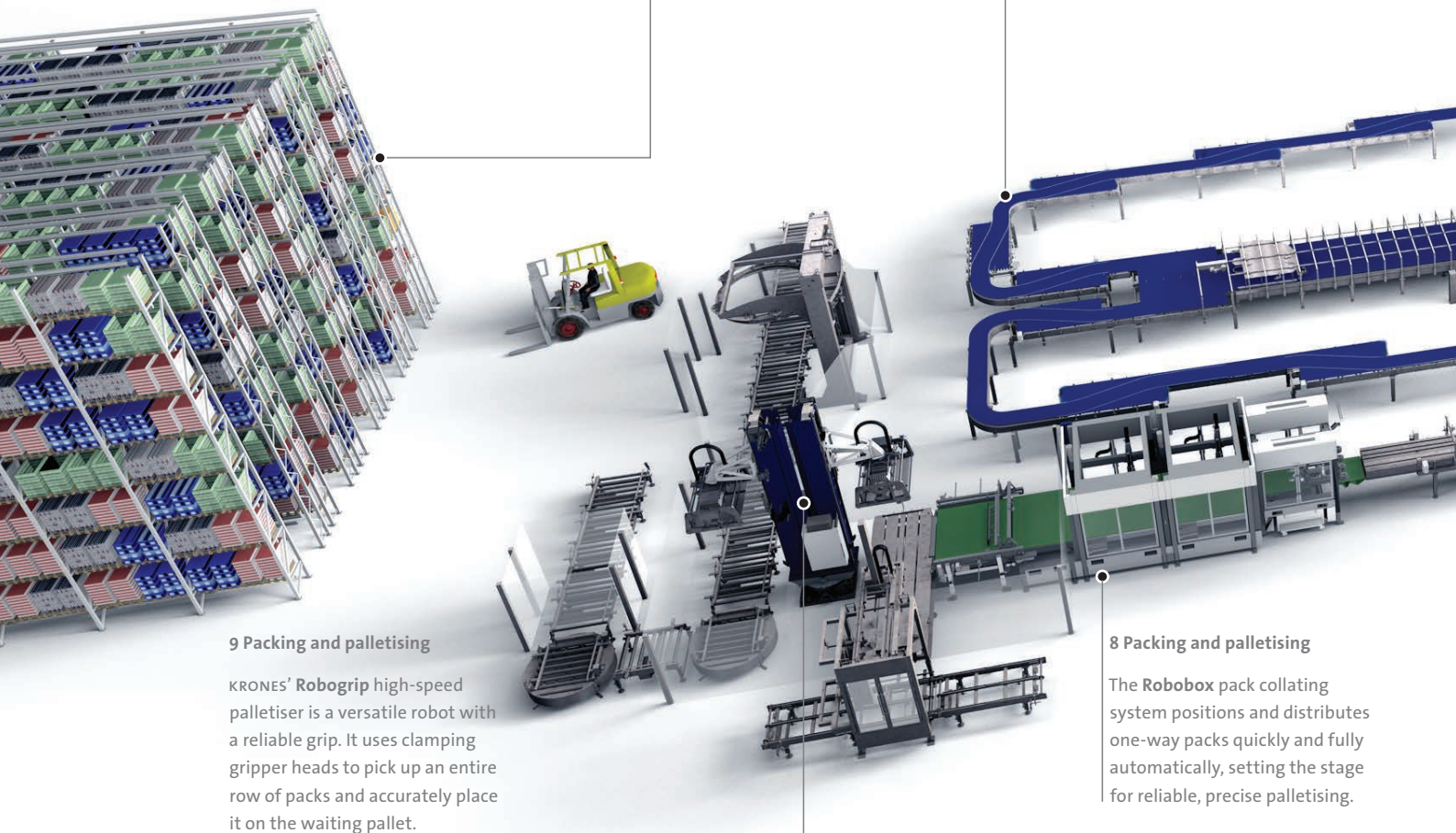
A KRONES filling line is composed of innovative individual machines and systems that produce, fill, label, and pack bottles. Custom IT solutions from KRONES control and document all processes within the line.

#### 10 Internal logistics

Products are stored in a state-of-the-art high-bay warehouse until it's time for them to be delivered. Sophisticated software manages all inventories and fills customer orders fully automatically and just in time.

#### 5 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.



#### 9 Packing and palletising

KRONES' **Robogrip** high-speed palletiser is a versatile robot with a reliable grip. It uses clamping gripper heads to pick up an entire row of packs and accurately place it on the waiting pallet.

#### 8 Packing and palletising

The **Robobox** pack collating system positions and distributes one-way packs quickly and fully automatically, setting the stage for reliable, precise palletising.

### 3 Process technology

Beverage production systems combine various components to produce ready-to-fill beverages like sodas and sparkling juices.

### 4 Filling

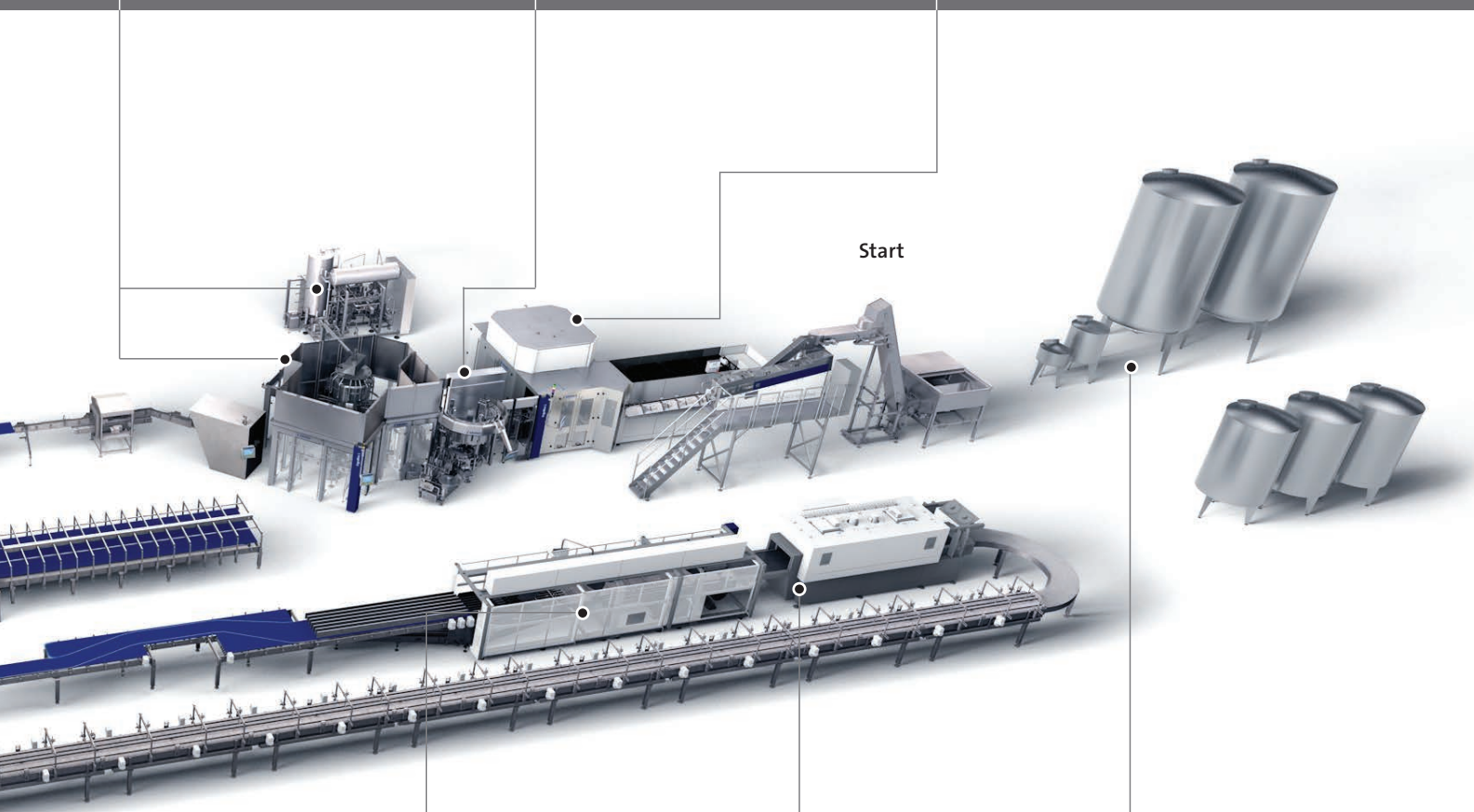
A variety of filling processes are available for each type of beverage and each type or shape of container. In KRONES' **Volumetric VODM** filler, an inductive flow meter precisely determines the correct fill quantity.

### 2 Labelling

Bottles have to look appealing for consumers to buy them. Labels play a crucial role here. KRONES offers a broad range of high-performance labelling machines.

### 1 Plastics technology

On this machine, PET preforms are blow-moulded into bottles. With the new generation, **Contiform 3**, up to 2,250 PET containers can be produced per cavity per hour.



Start

### 6 Packing and palletising

The options for packaging are myriad. For this reason, packaging lines need to be highly versatile. The various models of KRONES' **Variopac Pro** fully automated packer cover all types of packaging.

### 7 Packing and palletising

In the **shrink tunnel**, the plastic film that encases a pack of containers is heated, causing the film to shrink and hold the containers firmly in place.

### 3 Process technology

Tanks play a key role in beverage production. KRONES delivers the highest quality storage and production tanks to suit customers' individual needs.

### Value – creating value together

The global economy is becoming increasingly volatile. Our markets and our customers' demands are also changing fast. The Value strategy programme is KRONES' response to these challenges. The measures that make up Value will enable us to consolidate our leadership on the market for the long term and reach our ambitious growth and earnings targets by 2015.

KRONES made excellent progress already last year. But we know that we are only at the beginning of a long »Value« road and will continue to systematically implement the programme in 2013.

### Settlement of lawsuits in the USA

Carefully weighing opportunities and risks has always been an important part of KRONES' corporate strategy. That is why we settled the legal disputes that have been ongoing in the USA since October 2008. The proceedings related to the financial scandal involving the bankruptcy of the US company Le-Nature's.

The settlement is not an admission of guilt. However, the potential risks could have cost the company many times the amount of the settlements reached in November 2012. We did not want to expose our company to these risks. After factoring in the contribution from the relevant insurances, the total net impact on KRONES' pre-tax earnings amounts to €74.5 million (approximately USD100 million), of which €36.7 million (USD47 million) had already been charged against income in the preceding year. The effects on earnings are presented on page 44.

Although the settlement payments are painful for KRONES, we are relieved to have closed this chapter and to be able to once again focus all of our energies on implementing the Value strategy.

### Our target: 7/7/20

We have set ambitious goals for the group through 2015 to keep KRONES on course for sustainable, profitable growth. 7/7/20 stands for:

- 5 to 7 percent more sales revenue per year
- 7 percent EBT margin (pre-tax return on sales)
- 20 percent ROCE (return on capital employed)



*»Growth and profitability remain the key pillars of our Value strategy programme.«*

*Christoph Klenk  
Chief Financial Officer*

The market for packaging machinery will continue to grow faster and more consistently than the global economy. The steady growth of the middle class in the emerging economies and increasing urbanisation remain the biggest growth drivers. These trends are resulting in increased demand for industrially packaged food and beverages and, thus, rising demand for KRONES products, which will remain relatively stable even when the global economy does not.

In mature markets like Europe and North America, food and beverage producers increasingly need to use a variety of packaging options in order to stand out from the competition. As a result, many beverage producers plan to significantly increase the variety of their end products in the years ahead. And for that, they will also need innovative solutions from KRONES.

For these reasons, we are confident that we will achieve our growth target of 5 to 7 percent per year on average – under normal economic conditions – and consolidate our position as market leader.

We also want to generate an EBT margin (pre-tax return on sales) of 7 percent. In 2012, this ratio was 5.1 percent when adjusted to exclude the expense relating to the legal disputes in the USA.

Return on capital employed (ROCE) is an important target and performance indicator within the Value programme. We want to achieve an ROCE of 20 percent (ROCE for the KRONES Group in 2012: 13.6% adjusted to exclude the expense relating to the US legal disputes). To improve our ROCE, we need to not only improve earnings (EBIT) but also optimise our employed capital. To this end, KRONES will focus on further reducing working capital in relation to sales revenue.

### Our strategy: Value

»Value« is sharply focused on the individual, local needs of markets and customers. Customer satisfaction is of central importance to us. We deliver high-quality, high-availability machines, lines, and services. We want to offer our customers the best, fastest service at every stage – from the initial contact to production and installation to maintenance and spare parts delivery. To achieve this, KRONES invested heavily in expanding our local service teams worldwide in 2012. Our innovations (see page 48) are also guided by our customers' needs, to ensure that they can produce high quality at competitive prices.

Our people are a key factor for successfully implementing the measures that are bundled into Value. Their skill and commitment is crucial to KRONES' ability to seize the opportunities presented by the food and beverage packaging market. With the workforce expansion we undertook in 2012, particularly abroad, we are in an excellent position to meet our growth targets – and create value together.





### Continued focus on profitability

To improve our profitability and ROCE, we have to improve our cost structures. Reducing costs in all three segments remains an important topic within Value. We made good progress in this respect in the reporting period.

In our core segment, machines and lines for product filling and decoration, we achieved this by making processes faster and simpler. The main thrust here is modularising assemblies and machines. The more modular our lines are, the shorter our lead times and the better our purchasing conditions will be. Our investments in logistics and paced assembly helped boost productivity considerably and reduce working capital in 2012.

In 2013, KRONES will further optimise cost structures in its core segment. We will expand our local purchasing – that is, we will procure more and more of our materials locally for our international sites – in order to reduce our cost of goods purchased. In addition, by having more people on the ground in our customers' regions, we are also improving the cost associated with installing and commissioning our lines. Another important measure for 2013 is the expansion of our global value chain. Certain parts will now only be manufactured at the optimal location.

In our process technology segment, we made great strides in improving risk management in the reporting period by significantly expanding project management, from order acceptance to delivery. In 2012, we also began developing structural strategies for our process technology segment. Our restructuring in the field of material flow technology at the start of 2013 is a big first step toward increasing the segment's long-term profitability. Our equity investment in and consequent cooperation with KLUG GMBH (see page 72) will enable us to continue to provide our customers with a complete range of intralogistics solutions. Since KRONES will be discontinuing its own activities in this field in 2013, we will no longer be posting losses for the material flow technology division from 2013 onward.

We intend to further optimise structures in our process technology segment this year. Our aim is also to increase capacity utilisation and thereby make better use of resources and improve price quality. We are also further expanding our process technology services business to include components and software upgrades.

We made good progress with KOSME, our segment for the low output range, in 2012. We changed the sales structure and revised the product portfolio. Overall, we achieved our 2012 goal for KOSME, halving the segment's losses over 2011, and are confident that the segment will be out of the red in 2013. To achieve this, we will further reduce costs and restructure the segment's after-sales service.



### Growth through internationalisation

The emerging economies in Asia, South America, and Africa offer the biggest potential for growth in our market. Apart from new machinery sales, KRONES intends to further consolidate the already-strong position of our services business in these markets. In 2012, the KRONES Group generated 62 percent of sales revenue in the emerging markets.

Expanding our global service structures is one of the most important actions we are taking to achieve our high growth targets and to better prepare for the volatilities of each market. KRONES needs more people on the ground in the regions to continue to provide the best service in the industry – to be closer and more responsive to our customers. That is why KRONES is hiring additional qualified staff from within the respective regions, particularly in our LCS (Lifecycle Service) Centres and local service offices. We believe it is very important that our employees speak our customers' language and understand their culture.

### Case in point: China

We have steadily expanded our LCS Centre in Taicang, China, over the past several years and have plans for further significant growth in 2013. We plan to bring the workforce in China up to nearly 500 by the end of 2013, from about 200 in 2010. We intend to use the same model to expand our other international LCS sites and, thus, increase our share of the after-sales segment, particularly in the emerging markets.

### Growing our components business

Expanding our components business is a main focus for our process technology segment. Our EVOGUARD valve technology is one example of this effort. The EVOGUARD series covers all of the valves needed in beverage operations. And with EVOGUARD aseptic valves, KRONES can also supply other industries such as chemicals, pharmaceuticals, and biotech. For this reason, we have decided to establish EVOGUARD as an independent company. Our goal for 2013 is to quickly establish the valve series in other industries and expand the EVOGUARD product range to include additional components.

*Further growth is planned for KRONES' profitable components business in the years ahead.*

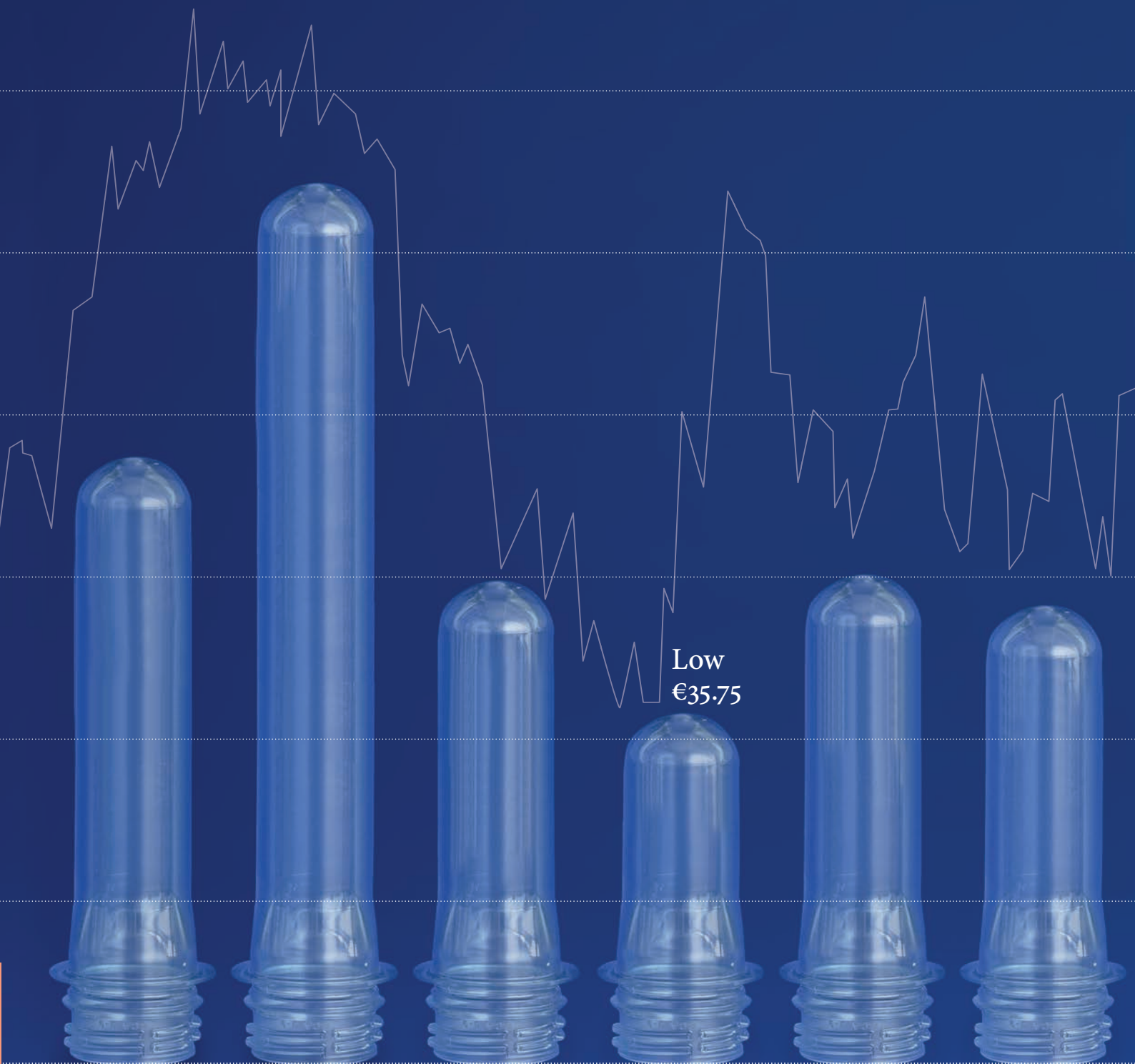
Our team knows how important the Value programme is for KRONES' future. Therefore, we are confident that we will make great progress on the road to Value in 2013.



Christoph Klenk  
Chief Financial Officer

## The KRONES share

2012 was a good year overall for stocks. The central banks' loose monetary policy drove share prices upward. KRONES' share price climbed 27.9% in 2012.



High  
€47.25



- Stock markets benefitted from monetary easing
- KRONES share price up 27.9%
- Dividend raised €0.15 to €0.75 per share

The stock markets were quite volatile last year due to the sovereign debt and euro crises. A sustained upswing did not begin until the European Central Bank (ECB) took an uncompromising stance to preserve the euro. The price of the KRONES share advanced by 27.9% in 2012 to €47.00

### The stock markets in 2012

The euro and sovereign debt crises kept a tight grip on the world's major stock markets in 2012. The situation in Europe threatened to escalate in the second quarter, and stock prices plummeted. Fearing the euro zone would fall apart, investors sold equities and put their money primarily in German federal government bonds (Bunds). Germany's blue chip stock index, the DAX, declined from around 7,200 points in March to below 6,000 points in the beginning of June 2012. The European Central Bank (ECB) is the main reason why 2012 was still a very good year on the stock market. Its president, Mario Draghi, vowed at the end of July that the ECB would do whatever was necessary to preserve the euro, including unlimited purchasing of government bonds from financially distressed euro member states.

That statement ignited a powerful, sustained rally on the stock markets. Because the US Federal Reserve continued its expansionary monetary policy, international investors had plenty of cheap liquidity available for stock purchases. Consequently, share prices advanced despite worsening economic and corporate headlines. The DAX climbed 29.1% to 7,612 points in 2012. The last time the leading German index rose so strongly was seven years ago. Stocks in the rest of Europe also benefited from investors' growing appetite for risk. Investors did not shy away even from shares of crisis-afflicted European financial enterprises. Altogether, the EURO STOXX 50 index gained 13.8% last year.

In the USA, the presidential election and budget consolidation drew the most interest from stock market participants. Gaining 7.3%, the leading US index, the Dow Jones, did not keep pace with the performance of German and European stocks in 2012. However, it should be noted that the Dow had advanced slightly in 2011 while the DAX had slumped more than 20%. The Tokyo stock exchange can look back on a very good year. The Nikkei Index was up 23.0% in 2012, boosted by a weak yen benefiting Japanese exporters and by economic stimulus programmes.

### KRONES share price up sharply

Demand was very high in 2012 for stocks in the MDAX, the index for mid-cap companies including KRONES. Many of the stocks listed in the MDAX are of companies with very good market positions and solid finances. Because investors increasingly focused on such stocks, the MDAX reached a new all-time high in 2012. At the end of the year, the index stood at 11,914 points, which was 33.9% higher than in the previous year.



*»A lot happened at KRONES in 2012. We kept the capital markets informed of all developments in a timely and transparent manner.«*

*Olaf Scholz*

*Senior Vice President  
of Investor Relations*

KRONES share price performance compared with the MDAX in 2012



*KRONES' share price rose almost as much as the MDAX in 2012. The mid-cap index hit a record high.*



*More of the latest information is available at [www.krones.com/en/investors.php](http://www.krones.com/en/investors.php)*

After good start to the year 2012, the KRONES share price came under heavy pressure later in the first quarter. Investors were clearly uneasy about the legal disputes involving KRONES in the USA following our comprehensive report to investors on that subject at the end of January. The share hit its low for the year at €35.75 on 10 April. The price recovered from that bottom and rose to just under €40 by the end of June 2012. The KRONES share significantly outperformed the overall market in the second quarter. Our earnings in the first quarter of 2012 and the outlook for the full year bolstered investor confidence.

Stock market sentiment was generally good in the second half of 2012, and the KRONES share benefited from that. The settlement of our US litigation in the fourth quarter was another positive influence. The KRONES share hit its highest closing price in 2012 at €47.25 on 13 December. It stood at €47.00 at the end of the year, 27.9% higher than at the beginning.

#### Key figures for the KRONES share

At 31 December		2012	2011	2010
Number of shares	(million)	31.59	31.59	31.59
Equity per share*	€	27.72	26.04	25.16
Earnings per share*	€	2.22	1.45	1.68
Price/earnings (P/E) ratio	€	21.2	25.4	27.9
Dividend per share	€	0.75**	0.60	0.40
High 2012	€	47.25	59.06	47.05
Low 2012	€	35.75	33.87	34.35
Year's closing price	€	47.00	36.76	46.95

\* Based on total number of shares less 1.43 million treasury shares Reference: KRONES Group financials according to IFRS

\*\* Figures 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 2012, daily trading volume on the Frankfurt stock exchange and in Xetra trading averaged around 46,000 shares in total. More than 98% of trading was done on the XETRA electronic trading system. KRONES is included in the MDAX share index, the German stock exchange's mid-cap index.

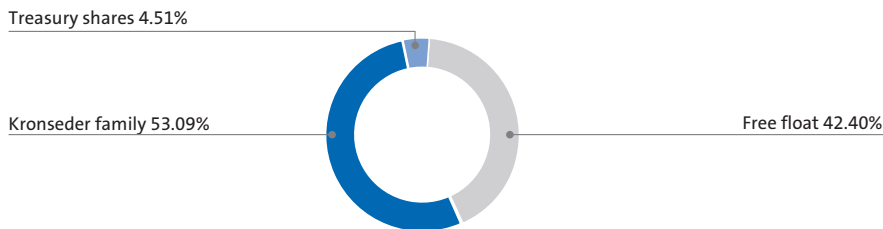
### Key data for the KRONES share

Number of shares	31,593,072
German securities identification number	633500
ISIN	DE0006335003
Ticker symbol	KRN

## Shareholder structure

The Kronseder family owns a 53.09% majority of the company's share capital. KRONES bought back 1,425,421 of its own shares in 2009 and continues to hold them as treasury shares. They represent 4.51% of the share capital. The free float is 42.40%.

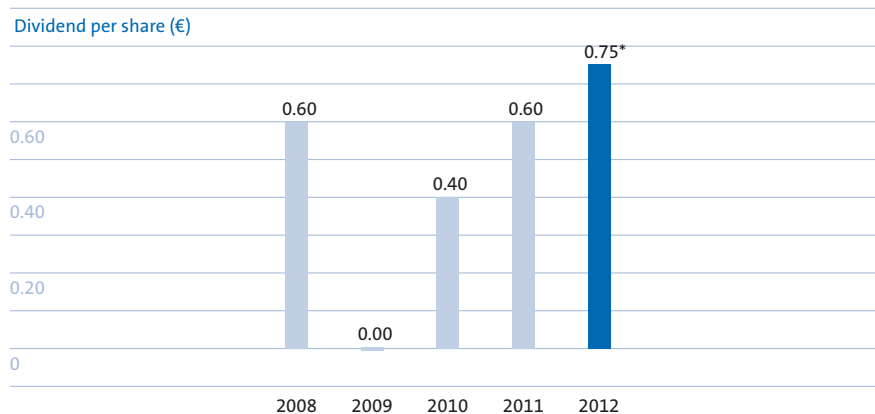
### Shareholder structure (March 2013)



[www.krones.com/en/investor\\_relations/shareholder-structure.php](http://www.krones.com/en/investor_relations/shareholder-structure.php)

## Dividend to rise from €0.60 to €0.75 per share

KRONES' long-term dividend policy aim is to distribute 20% to 25% of profit. In the reporting period, the company increased provisions for settlement payments, which it used to end the US litigation, thus burdening earnings. The Executive Board and the Supervisory Board have decided to take operating earnings as the basis for the dividend. They will propose to the annual shareholders' meeting on 19 June 2013 to pay a dividend of €0.75 per share for 2012 (previous year: €0.60).



\* as per proposal for appropriation of retained earnings

### KRONES relies on open investor relations

We will continue to make every effort to meet the growing demands of international investors and analysts. That includes transparent, timely, and candid communication. That KRONES fully informed the capital market of its legal disputes in the USA several times last year and clearly stated their impact on earnings is an example of that.

*KRONES will improve its investor relations even further.*

Chief Financial Officer Christoph Klenk and KRONES' Senior Vice President of Investor Relations, Olaf Scholz, went on several roadshows in 2012 to international financial centres like New York, London, Paris, Zurich, Stockholm, and Frankfurt, where they visited investors and analysts. The focus was on providing the market experts with up-to-date information about our Value programme. We furthermore participated in numerous investor conferences at home and abroad again in 2012.

The »drinktec« trade fair will take place in Munich from 16 to 20 September 2013. The most important trade fair for the international beverage and packaging industry is held every four years. We held a meeting with investors and analysts at the 2009 drinktec at which the Executive Board gave market experts a tour of KRONES' booth. Because of the positive response to that event, we plan to hold a similar one this year.

### Annual shareholders' meeting in 2012 approves dividend increase

KRONES AG held its 32nd annual shareholders' meeting in Neutraubling on 13 June 2012. By a large majority, the shareholders approved the dividend payout of €0.60 per share proposed by the Executive Board and the Supervisory Board for 2011, which was €0.20 higher compared to the previous year. The other agenda items submitted for a vote were similarly approved.

## Economic environment

The economic environment was challenging in 2012. The euro area slid into recession due to the debt crisis and growth in the emerging markets slowed considerably. In all, the world economy grew only 3.2% in 2012 (previous year: 3.8%).

Germany  
0.7%

Euro area  
-0.4%

USA  
2.3%

China  
7.8%



# GDP growth in 2012

Middle East  
5.2%

Russia  
3.6%

India  
4.5%

Japan  
2.0%



- Global economic growth of 3.2% in 2012
- Recession in the euro area
- German machinery sector robust

### Momentum of world economic growth diminishing

The sovereign debt and euro crises put a damper on the global economy last year. Businesses reduced their capital spending because of general uncertainty and fear of a protracted crisis. The politically unstable situation in the USA likewise weighed on economic activity. Debates about the tax increases and austerity measures that the USA intends to use to solve its debt problem spoiled consumers' appetite for spending. Consumption is the most important component of US gross domestic product (GDP). In view of the mounting uncertainties, the International Monetary Fund (IMF) lowered its forecast of world economic growth in the course of the year. In the end, the global economy grew 3.2% in 2012 (previous year: 3.8%).

*The global economy grew 3.2% year-on-year in 2012.*

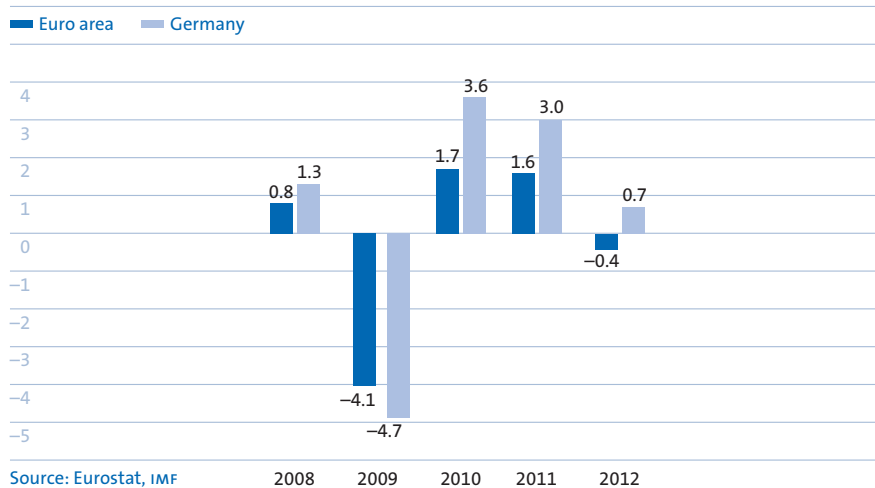
Because the debt and euro crises also affected the emerging markets and developing countries, economic momentum diminished in those regions. China's economy expanded by 7.8% in 2012. A year before, its growth still amounted to 9.3%. In India, GDP increased by 4.5% last year compared with 2011 (previous year: +7.4%). The Middle East/North Africa region registered a sharp rise of GDP in 2012 (+5.2%).

Japan, a major industrialised nation, is far from achieving such rates of increase. Its GDP grew by 2.0% year-on-year in 2012. Japan had slid into recession in 2011 in the wake of the earthquake and tsunami disaster. The US economy expanded last year by 2.3%. The number of unemployed in the USA was too high and consumer spending propensity too low to drive more significant growth.

In the euro area, GDP dipped by 0.4% in 2012. The countries mainly responsible for the recession in the European Monetary Union were Italy, with a GDP decline of 2.1%, and Spain, where GDP shrank by 1.4% year-on-year. France registered slight economic growth of 0.2% in 2012.



Change in gross domestic product (%)



### German GDP up 0.7% in 2012

Economic activity did not suffer as much in Germany from the debt and euro crisis as in the rest of the euro zone. One reason is that German industrial companies are well-positioned on the emerging markets. Altogether, German exports rose 3.4% year-on-year in 2012. Consumption also made a positive contribution, thanks in particular to the robust labour market in Germany. Capital expenditures were down, reflecting the uncertainty about future development of the world economy. Overall, German GDP improved by 0.7% in 2012 (previous year: +3.0%) according to preliminary calculations.

*The German economy benefited from strong exports and German consumer spending in 2012.*

### Difficult year for the German machinery sector

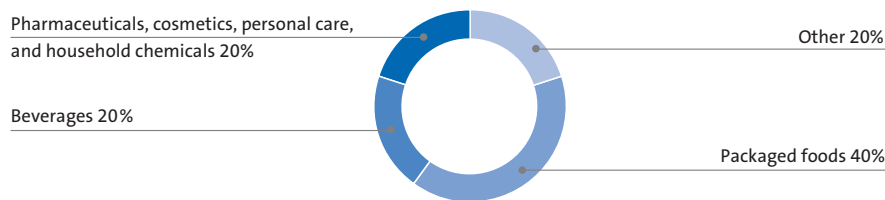
Rapidly declining orders intake from euro zone countries and weak domestic orders made things difficult for German machinery manufacturers in 2012. Nevertheless, the year generally went a little better than expected for the industry. In September, the German Engineering Federation (VDMA) raised its output forecast for 2012 from 0% to plus 2%. Preliminary data show that the industry achieved that target. The value of the goods produced by German machinery manufacturers accordingly totalled around €196 billion in 2012.

## The packaging machinery market is growing for the long term

The packaging machinery market worldwide amounted to around €26.5 billion in 2011 and likely grew further in 2012. Measured in terms of packaged products, the food industry is the largest single market for packaging machinery, with a share of 40%. The beverage industry accounts for roughly 20% of sales. Because end-consumer demand for food and beverages is hardly influenced by business cycles, the packaging machinery market is less cyclical than other segments of the machinery industry.

*Global demand for packaging machinery is growing by 5% to 7% per year on average.*

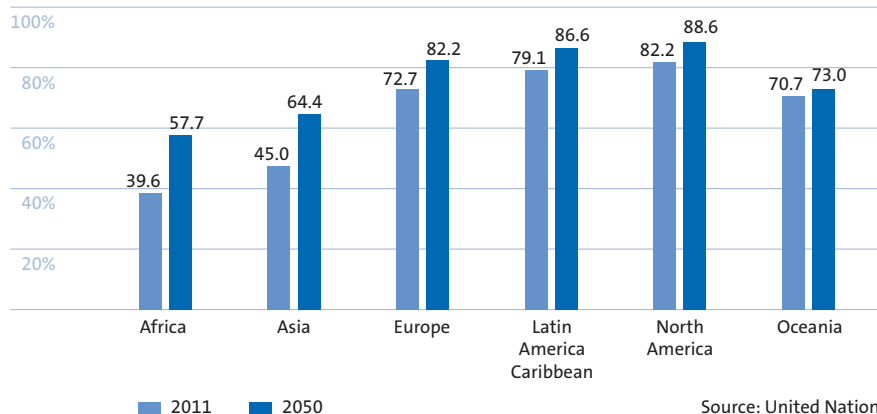
### The global market for packaging machinery by application



Source: VDMA, 2011

Of the past years, the only year in which the industry registered a significant decline of demand was 2009, the year of the global financial and economic crisis. We believe the market for packaging machinery will grow in the long term by 5% to 7% per year on average. This growth will be driven by megatrends. For one thing, the world's population will steadily increase in the coming decades. All those people will have to eat and drink. For another, the standard of living and consumption will rise more quickly than average in the fast-growing developing countries and emerging markets. That will stimulate demand for packaged food and beverages, as will increasing urbanisation in those regions. In Asia and Africa, more and more people are migrating from the countryside to the large cities and adapting to the lifestyle and consumption patterns of the population there.

### Urban population (% of total)



Source: United Nations

# Beer Africa Water

The African beverage market is trending steeply upward. Demand for packaged beverages increased by about 7% annually on average in the period from 2009 to 2012. An end of the boom is not in sight. Consumption of water and beer is likely to continue rising more than proportionately.



Annual average growth rate from 2011 to 2016

Source: Euromonitor

# Vietnam Water Beer



Demand for bottled beverages in Vietnam is likely to increase dramatically in the coming years. For this reason, national and international beverage companies are expanding their production capacities. Large amounts of

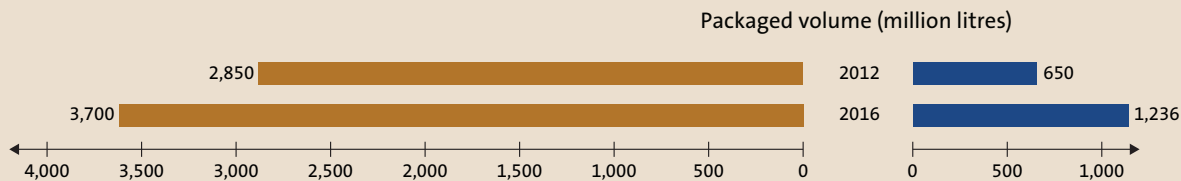
money are being invested in breweries in particular. The beer market is several times larger than the market for bottled water. But demand for bottled water is growing much faster.



\*Annual average growth rate from 2012 to 2016

+7%\*

+17%\*

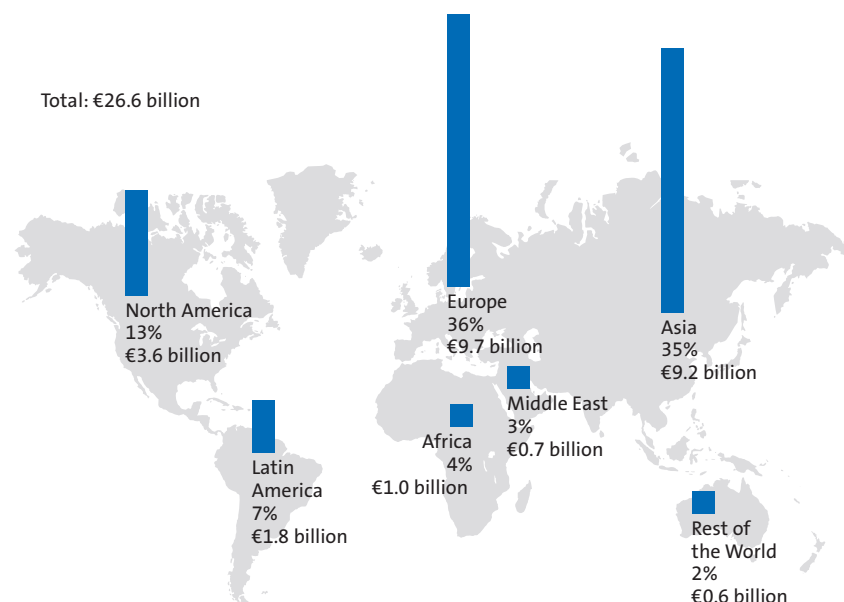


Source: Euromonitor



The Asia-Pacific region's share of global demand for packaging machinery should continue to grow in the future. Its importance has already risen greatly in the past years. KRONES is strongly represented in the region, where it occupies a good market position.

#### The global market for packaging machinery in 2011 by region



Source: VDMA estimate, February 2013

*Demand for packaging machinery in Asia has grown rapidly in recent years. The Asian market is now nearly as large as the European market.*

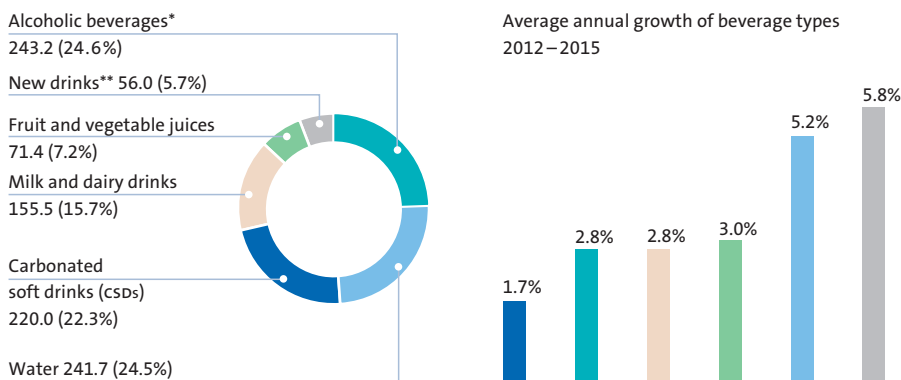
As the world's leading supplier of beverage packaging equipment, KRONES mainly benefits from the steady rise of demand for packaged beverages. In 2012, the company generated about 94% of revenue in business with breweries, soft drink producers, and mineral springs. The food industry accounted for most of the rest. KRONES supplies customers from that segment with machinery and equipment used to fill and package food products like milk and dairy drinks, oil, jam, and ketchup. KRONES also provides products and services to customers in the cosmetic, pharmaceutical, and chemical industries.



## Demand for packaged beverages increasing steadily

People worldwide are consuming more and more packaged beverages. This years-long growth trend continued unabated in 2012. According to preliminary data compiled by Euromonitor, a market research institute, global consumption of packaged beverages rose by around 3.7% year-on-year in 2012 to almost 988 billion litres. Euro-monitor estimates that total packaged beverage consumption will grow on average by 3.4% annually to around 1,100 billion litres in 2015.

Global consumption of packaged beverages in 2012 (billion litres)



*Global consumption of bottled water is growing more than proportionately.*

2012: 987.8 billion litres

Sources: Euromonitor, own estimates

\* Beer, wine, spirits \*\* Energy drinks, sports drinks, tea and coffee

An analysis of demand for different types of beverages reveals especially strong growth in bottled water. Almost 242 billion litres of bottled water were consumed worldwide last year, which is around 6% more than in 2011. Accounting for 24.5% of total beverage consumption worldwide, bottled water ranked nearly as high as alcoholic beverages (24.6%) in 2012.

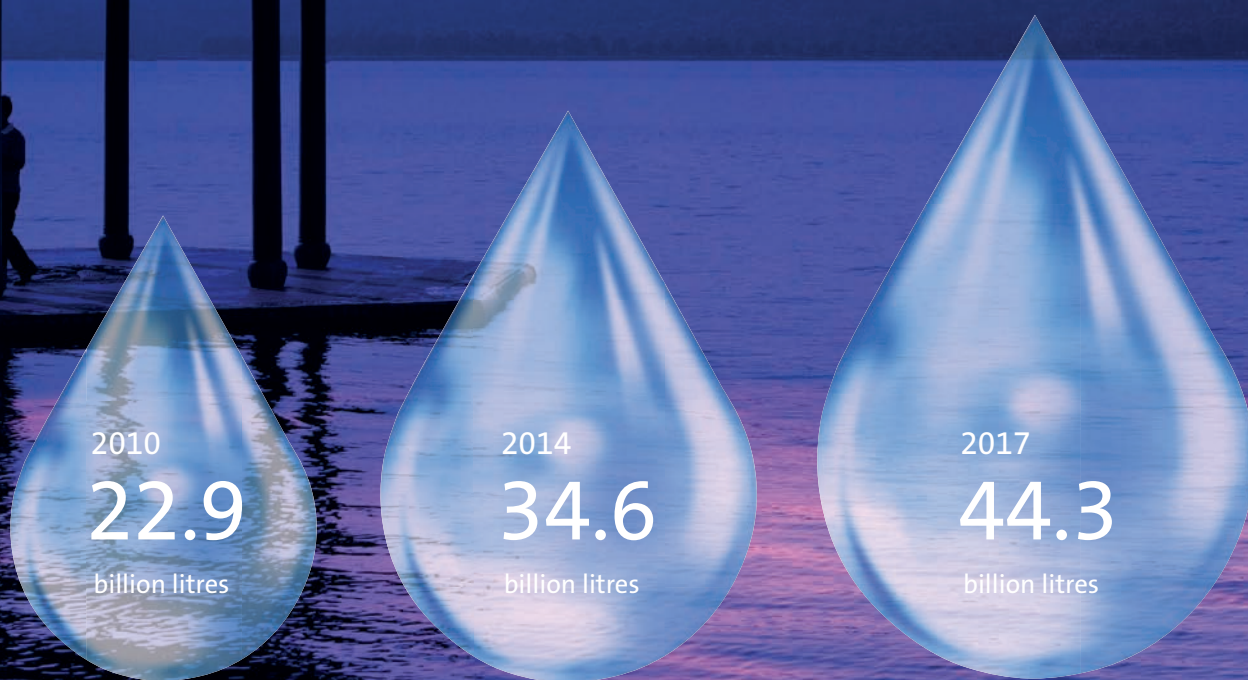
Water now comes in many different forms, with flavoured water and functional water becoming more and more popular. Rising health consciousness in industrialised countries is also driving the increase in water consumption, as is the growing need for bottled water in the emerging markets. Global consumption of bottled water is likely to grow at an annual rate of 5.2% on average in the period from 2012 to 2015.

That means that, at the end of 2013, water consumption will already be higher than consumption of packaged alcoholic beverages, which amounted to 243.2 billion litres last year. Of that, some 194 billion litres were beer. In China, beer is quite popular and demand is rising sharply. On the other hand, the markets in North America and Europe are saturated. Global beer consumption and hence demand for alcoholic beverages is therefore likely to grow more slowly than overall beverage consumption in the period to 2015.

# China

# Water

China is the third-largest beverage market after North and South America. The Chinese love beer. No other packaged beverage is more popular. Water, the country's second most popular thirst-quencher, has the highest growth rates. Consumption of bottled water is expected to increase by around 9% annually on average in the period to 2017.



Consumption of bottled water in China in the years 2010/2014/2017

Source: Euromonitor



# Latin America

# Soft drinks Beer

Beer/soft drink consumption  
(million hectolitres)

Colombia	2012	2016
Beer	18.1	22.5
Soft drinks	32.3	34.8

Brazil	2012	2016
Beer	136.9	169.4
Soft drinks	163.9	196.1

Mexico	2012	2016
Beer	68.7	77.1
Soft drinks	162.5	175.2

Venezuela	2012	2016
Beer	19.9	23.1
Soft drinks	19.5	20.7

Source: Euromonitor

Latin America is a large market for beverage producers. Brazil stands out. It is among the top five countries worldwide in terms of beer consumption. Two upcoming major athletic events, the 2014 FIFA World Cup and the 2016 Summer Olympic Games, are likely to stimulate capital spending in Brazil additionally.





Carbonated soft drinks (CSDs) make up another large market segment. Worldwide, about 220 billion litres were probably consumed in 2012, which represents a 22.3% share of the overall market. Soft drinks are especially popular in North and South America. But they are likely to lose market shares in the future. Euromonitor analysts believe that consumption of bottled CSDs will grow on average by 1.7% in the period from 2012 to 2015, which is only half the growth rate of global beverage consumption.

In the milk and dairy drink segment, which accounted for 15.7% of the overall beverage market in 2012, a mixed picture emerges. While demand for plain milk is growing less than proportionately, fruit-flavoured dairy drinks are becoming increasingly popular. Altogether, the average annual growth rate for milk and dairy drinks is likely to be around 2.8% in the period to 2015.

The rest of the beverage market consists of fruit and vegetable juices (2012: 7.2% share) and »new drinks« (2012: 5.7% share), which include ready-to-drink tea and coffee as well as energy and sports drinks. Especially because demand for packaged ready-to-drink tea is increasing significantly in Asia, consumption of new drinks is likely to rise in the coming three years by 5.8% on average. Euromonitor expects an average growth rate of 3.0% in the segment of packaged fruit and vegetable juices.

### Beverage consumption by region

Packaged beverages Share of global consumption	2012		2015		Average annual growth 2012–2015%
	billion litres	%	billion litres	%	
North America/Central America	187.6	19.0	190.4	17.5	0.5
South America	154.3	15.6	172.3	15.8	3.7
China	152.3	15.4	186.0	17.0	6.9
Asia-Pacific (incl. Japan)	151.3	15.3	178.3	16.3	5.6
Western Europe	138.7	14.0	142.5	13.1	0.9
Russia/cis/Eastern Europe	83.0	8.4	88.6	8.1	2.2
Africa/Middle East	67.4	6.8	79.3	7.3	5.6
Central Europe	53.2	5.5	53.6	4.9	0.3
<b>Worldwide</b>	<b>987.8</b>	<b>100.0</b>	<b>1,091.0</b>	<b>100.0</b>	<b>3.4</b>

Sources: Euromonitor, own estimates

*Demand for packaged beverages is rising sharply in China. The Asia-Pacific and Africa-Middle East regions are also among the booming markets.*

Demand for packaged beverages is also increasing more than proportionately in fast-growing emerging markets and developing countries. For that reason, regional shares of total consumption will continue to shift from Europe and America towards the Asia-Pacific region and China in the coming years.

# Indonesia

Bottled water is the most popular beverage in Indonesia. There has been little demand for soft drinks, but consumption is increasing more than proportionately from a low level. Demand for ready-to-drink tea is also growing strongly.

5.7%  
Water

8.0%  
Soft drinks

7.1%  
Ready-to-drink tea

Average annual growth rates for 2012–2016  
Source: Euromonitor



## The packaging market by material

PET continued to grow its lead among packaging materials in the reporting period. Preliminary data show that PET containers were used for 41.1% of packaged beverages worldwide in 2012 (previous year: 39.7%). The steadily rising consumption of water, which is often packaged in PET bottles, as are carbonated soft drinks, has supported the trend towards PET. The total amount of beverages packaged in PET containers is likely to grow on average by 4.5% annually in the period from 2012 to 2015.

Glass is the second most often used material, and its share of packaged beverages worldwide increased slightly to 22.8% in 2012 (previous year: 22.7%). It is the leading packaging material for alcoholic beverages. Demand for glass beverage packaging is likely to rise less than proportionately in the future, as global beer consumption is growing only slightly. The total volume of beverages packaged in glass containers is expected to expand at an average annual rate of 2.5% in the period from 2012 to 2015.

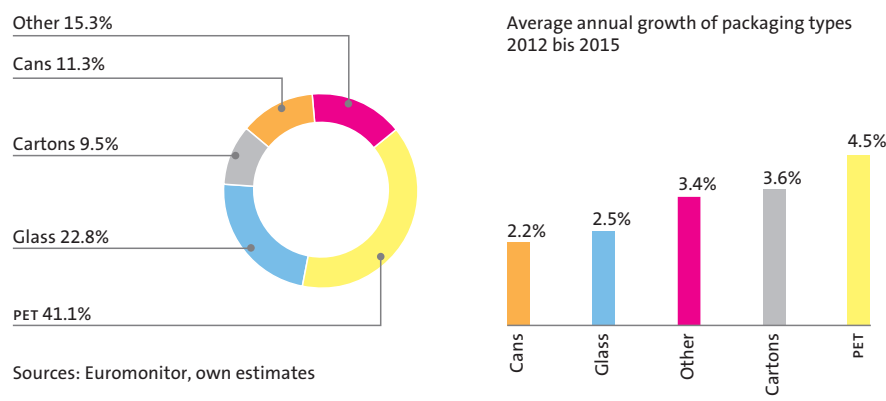
Metal cans occupied third place among packaging materials in the year under review. Their share of total packaged beverages was 11.3%. Cans are used mainly to package beer and CSDs. Demand for these two types of beverage is likely to grow only slightly in the coming years. Euromonitor analysts therefore expect the amount of beverages packaged in cans to increase by only 2.2% on annual average in the period to 2015.

*KRONES machines can fill beverages into plastic, glass, and metal containers.*

With growth rates averaging 3.6% per year, carton packaging is likely to increase roughly in line with the overall market in the period to 2015. Cartons accounted for 9.5% of total packaged beverage volume worldwide in 2012. Milk and dairy drinks and fruit and vegetable juices are often packaged in cartons.

*The trend towards beverage packaging made of PET continues unabated.*

Global beverage market by packaging material in 2012 (Based on beverage volume)



- KRONES continues growth trend in 2012
- Operating earnings improved
- Dividend to rise from €0.60 to €0.75 per share

KRONES increased all key performance indicators in 2012. Sales revenue was up 8.9% to €2,250.8 million. Earnings before taxes rose from +€0.8 million in the previous year to +€78.1 million. This figure was shaped by the positive operating trend on the one hand and a one-time expense on the other (see page 44). KRONES plans to pay out a dividend of €0.75 per share for 2012 (previous year: €0.60 per share).

### KRONES revenue up 8.9% in 2012

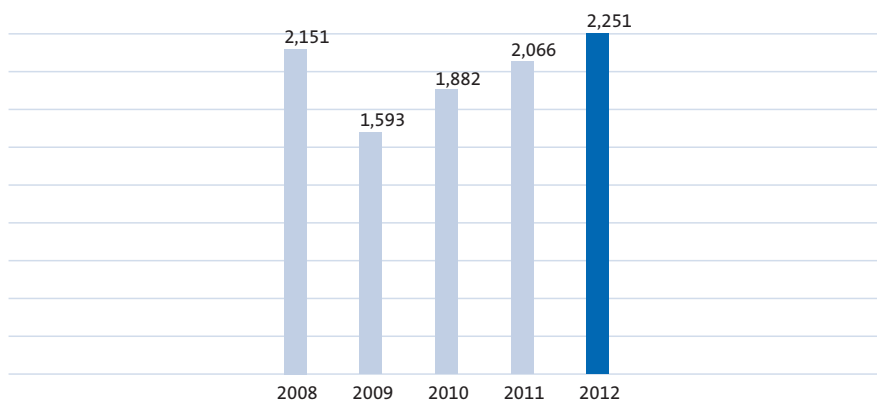
KRONES grew further in 2012 despite the challenging economic environment. Sales revenue rose 8.9% year-on-year from €2,066.2 million in 2011 to €2,250.8 million. Overall, KRONES benefited from its broad range of products and services in 2012. The company's strong position internationally has also proved its value. Revenue growth in the emerging markets more than made up for softer demand in parts of Europe. International food and beverage companies are continually expanding their capacities in regions like Asia, Latin America, and Africa to meet rising consumer demand there.

The trend toward packaging more beverages and liquid foods in plastic continued in the reporting period. And as the leading supplier of efficient machines and lines for producing, filling, and packaging bottles made of PET plastic, KRONES benefited from this trend. Other product areas also contributed to our company's growth. Demand for machines that fill beverages into glass bottles increased in the reporting period.

For our customers, it is very important that KRONES has people available locally who can be on site quickly to perform maintenance and service work on their production lines. That is why we have been expanding our service business worldwide for many years now. Our service business made a significant contribution to KRONES' growth in 2012.

*KRONES' strong position internationally supported our growth in 2012*

KRONES AG sales (€ million)



## Revenue by region

Because of the uncertain economic situation, customers in KRONES' home market, Germany, were less inclined to make capital investments. Revenue generated in Germany was down 3.7% from €235.1 million the previous year to €226.3 million in 2012. Thus, sales in Germany accounted for only 10.1% (previous year: 11.4%) of total sales revenue.

Sales in Europe (excluding Germany) were satisfactory overall in 2012 despite the economic crisis that affected large portions of the continent in the reporting period. Whereas revenue in Western Europe declined only slightly (1.4%) year-on-year to €309.4 million, Eastern Europe revenue rose 10.3% to €82.3 million. Sales in Central Europe increased 18.1% to €73.0 million. Revenue in Russia and the countries of the former Soviet Union was down 7.3% to €93.7 million. KRONES' total revenue in Europe (excluding Germany) declined from €568.4 million in the previous year to €558.4 million in 2012. This sales region accounted for 24.8% of revenue in the reporting period (previous year: 27.5%).

Sales outside Europe contributed the biggest part of KRONES' growth in 2012. We are very well positioned in the emerging markets and are systematically expanding that position. The biggest revenue increase was in China. Our strong local service offerings were an important reason why many national and international companies in China chose products and services from KRONES in 2012. At €321.5 million, revenue in China exceeded our strong year-earlier figure by 32.0%. Business in China accounted for 14.3% of total revenue, up from 11.8% the previous year. Sales in the rest of the Asia-Pacific region were down 2.4% to €288.3 million. The Africa/Middle East region has become an important market for KRONES over the years. Many new beverage plants are being built there. Our revenue in the region grew 27.2% to €350.3 million in 2012.

KRONES continued to grow in Latin America in 2012. Rising demand in important markets such as Brazil contributed to the 24.0% year-on-year increase in revenue in the South America/Mexico region to €261.7 million in 2012. At €210.0 million, sales in North and Central America were more or less constant compared with the previous year (-1.1%). All told, the share of KRONES AG's revenue generated outside Europe grew to 65.1% in 2012 (previous year: 61.1%).

## Revenue by industry

Sales to producers of non-alcoholic beverages such as water, soft drinks, and juices, rose from €1,204.0 million to €1,257.5 million (+4.4%). The sector's revenue share shrank from 58.3% to 55.9%.

At €873.7 million (+26.3%), sales of equipment for processing alcoholic beverages accounted for 38.8% of revenue (previous year: 33.5%).

By contrast, sales to companies in the »non-beverage« sector (milk, dairy drinks, food, chemicals, pharmaceuticals, and cosmetics) decreased 29.8% to €119.6 million. This sector's share of total sales contracted to 5.3% (previous year: 8.2%).



More information is available at [www.krones.com/en/your-industry.php](http://www.krones.com/en/your-industry.php)

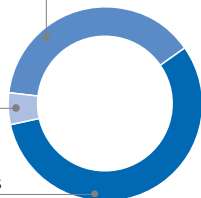
### KRONES AG sales by industry

Alcoholic beverages 38.8%

Food, chemicals,  
pharmaceuticals,  
cosmetics 5.3%

Non-alcoholic beverages  
55.9%

Sales in 2012: €2,250.8 million

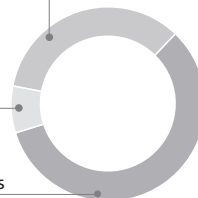


Alcoholic beverages 33.5%

Food, chemicals,  
pharmaceuticals,  
cosmetics 8.2%

Non-alcoholic beverages  
58.3%

Sales in 2011: €2,066.2 million



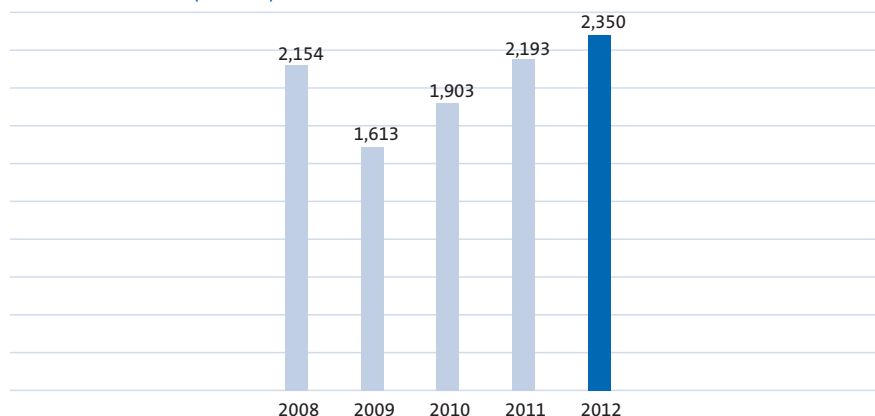
### Demand for KRONES products and services is growing

New orders at KRONES AG improved 7.1% year-on-year from €2,192.9 million to €2,349.5 million in 2012.

We are pleased to note that the strong demand is not limited to individual product segments but instead stretches across large parts of our broad range of products and services. Complete filling lines were as heavily in demand as individual machines. Our innovative products – such as the new generation of the Contiform stretch blow-moulder and our Modulfill modular fillers – were well received among customers.

The emerging markets contributed a significant portion of the increased orders intake. New orders from China, Asia, Africa, and Latin America were up year-on-year – in some places quite considerably. Demand from the USA also gained progressively more momentum last year.

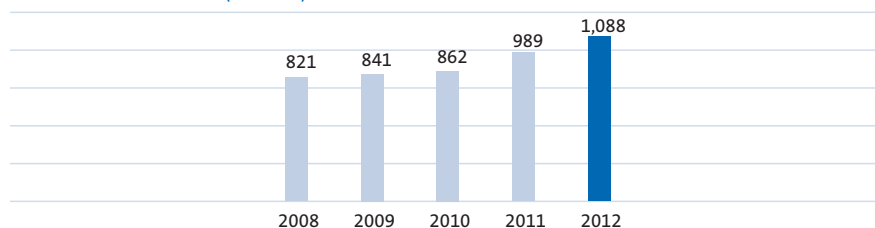
KRONES AG new orders (€ million)



### KRONES AG has a good orders cushion

The higher orders intake has also caused KRONES AG's orders backlog to grow. At 31 December 2012, the company had orders on hand totalling €1,087.5 million (previous year: €988.8 million). That gives us a solid basis for balancing our capacity utilisation in the months ahead.

KRONES AG orders on hand (€ million)





### KRONES AG improves earnings performance

The out-of-court settlement of our legal disputes in the US (Le-Nature's) had a significant impact on KRONES AG's earnings in 2011 and 2012. In November 2012, KRONES agreed to settle with the major plaintiffs in order to bring an end to the long-running proceedings. The developments in 2012 forced us to increase the provisions recognised at the group level. In the future, there will be no further charges against earnings arising from the Le-Nature's case. Also as a result of the developments in 2012, the provisions had to be handled in the financial statements of the US subsidiary KRONES INC. Accordingly, the provision that had been recognised on KRONES AG's annual financial statements in 2011 (€36.7 million) were reversed in 2012.

As a result, KRONES AG's earnings before taxes amounted to €78.1 million, after +€0.8 million in the previous year. After taxes, KRONES AG had net income of €68.9 million (2011: net loss of €6.3 million).

Given the positive operating trend, the Executive Board and the Supervisory Board of the company will propose to the annual shareholders' meeting that the dividend for the financial year be increased to €0.75 per share (previous year: €0.60 per share).

### KRONES AG earnings structure

€ million	2012	2011	Change
Sales revenue	2,250.8	2,066.2	+8.9%
Changes in finished goods inventories and work in progress	-1.4	70.5	
Total operating performance	2,249.4	2,136.7	+5.3%
Cost of materials	-1,267.3	-1,223.1	+3.6%
Personnel expenses	-618.7	-605.4	+2.2%
Net of other operating income (expenses) and own work capitalised	-239.6	-254.0	-5.7%
EBITDA	123.8	54.2	+128.4%
Depreciation, amortisation, and write-downs of fixed assets	-45.5	-46.8	-2.8%
EBIT	78.3	7.4	+958.1%
Net financial income (expense)	-0.2	-6.6	
EBT	78.1	0.8	
Taxes on income	-7.8	-6.0	
Other taxes	-1.4	-1.1	
Net income (net loss) for the financial year	68.9	-6.3	

KRONES AG expanded its business considerably in 2012. Revenue rose 8.9% over 2011, to €2,250.8 million. The company's total operating performance increased 5.3% from €2,136.7 million in the previous year to €2,249.4 million in 2012.

Expenses for goods and services purchased (cost of materials) increased less than proportionately to total operating performance. At €1,267.3 million, KRONES' biggest expense item was up only 3.6% in 2012 over the previous year (€1,223.1 million). Because we are increasingly using identical assemblies and modules in our machines, we are able to obtain more favourable purchasing conditions. Modular construction is part of KRONES' Value programme. Our product mix also had a positive impact on the cost of materials figure. The ratio of this figure to total operating performance declined year-on-year from 57.2% to 56.3% in 2012.

*Personnel expenses grew less than proportionately to total operating performance.*

Personnel expenses were up 2.2% from €605.4 million in the previous year to €618.7 million. Thus, this expense item also rose less than total operating performance. This fact is reflected in the ratio of personnel expenses to total operating performance. At 27.5%, the ratio is even lower than the already-low 28.3% achieved in the previous year. The fact that many of the new employees KRONES hired in 2011 and 2012 had become increasingly productive following their initial on-the-job training period is certainly reflected in this improved figure.

Depreciation and amortisation of fixed assets increased 2.8% in the reporting period from €46.8 million in the previous year to €45.5 million. The ratio of depreciation and amortisation to total operating performance decreased to 2.0% (previous year: 2.2%). The net of other operating income and expenses and own work capitalised improved from –€254.0 million in the previous year to –€239.6 million in 2012. An important reason for the improvement is the processing of the one-time charges from the Le Nature's lawsuit in the two years.

In all, earnings before interest and taxes (EBIT) improved by €7.4 million year-on-year in 2012 to €78.3 million.

Although the company has a very solid financial base, KRONES AG is posting a small financial expense of €0.2 million for 2012 (previous year: financial expense of €6.6 million). This is due to the discounting of long-term provisions such as provisions for pensions and to write-downs on long-term financial assets.

At +€78.1 million, earnings before taxes (EBT) are also much improved over the previous year (+€0.8 million) due to the one-time effects from our US litigation. KRONES paid €7.8 million in income taxes in 2012. With that, the company's tax burden for 2012 was largely unchanged from 2011 (€6.0 million) despite the considerably higher EBT. That is primarily due to the fact that KRONES AG had made additional tax payments in the previous year as a result of a tax audit. KRONES AG's net income for 2012 came to €68.9 million (previous year: net loss of €6.3 million).

As at the reporting date for the previous year, KRONES AG had no bank debt at 31 December 2012 despite the sharp increase in sales revenue. We were able to achieve this sound position by further improving production processes along the value chain and further improving our management of receivables. At the reporting date, KRONES AG had cash and cash equivalents totalling €38.5 million (31 December 2011: €53.5 million).

KRONES AG's cash flow (net income or loss for the year plus depreciation and amortisation) amounted to +€121.4 million in 2012 (previous year: +€52.5 million).

### Asset and capital structure of KRONES AG

(€ million at 31 December)	2012	2011
Fixed assets	476.2	447.2
Current assets and prepaid expenses	711.7	771.0
of which cash and cash equivalents	38.5	53.5
Equity	530.6	479.8
Total debt	657.3	738.4
Provisions	402.0	458.8
Liabilities	255.3	279.6
<b>Total</b>	<b>1,187.9</b>	<b>1,218.2</b>

*For more information, please refer to the complete balance sheet on page 88.*

At 31 December 2012, KRONES AG's total assets were down 2.5% from the previous year to €1,187.9 million despite the 5.3% increase in the company's total operating performance. At the end of the reporting period, the carrying amount of fixed assets came to €476.2 million, which is up 6.5% from the year-earlier period (€447.2 million). This increase was due to an increase in tangible fixed assets, which reflects the investments made in manufacturing and logistics in 2012.

A detailed presentation of changes in fixed assets can be found in the notes to the annual financial statements on page 90.

The company's current assets (including prepaid expenses) amounted to €711.7 million at the reporting date for 2012. Despite the larger business volume, this figure was well below the previous year (31 December 2011: €771.0 million). The inventories figure was reduced by far higher prepayments received, which are netted against inventories. Trade receivables and other assets were also down slightly year-on-year despite the larger business volume. Here, we are seeing the results of the continued optimisation of our receivables and working capital management.

At 31 December 2012, KRONES AG had cash and cash equivalents totalling €38.5 million (31 December 2011: €53.5 million).

The positive net income figure for 2012 brought equity up to €530.6 million (31 December 2011: €479.8 million). As a result, KRONES' equity ratio improved year-on-year from 39.4% to 44.7%. Provisions totalled €402.0 million at the end of 2012 (31 December 2011: €458.8 million). Provisions for pensions were up by €6.3 million year-on-year to €95.8 million and other provisions were down from €358.1 million to €297.0 million. The resolution of the Le-Nature's lawsuit is also reflected here.

As in the previous years, KRONES had no bank debt at the end of 2012. Total liabilities decreased by €24.3 million to €255.3 million.

*KRONES AG had net cash and cash equivalents of €38.5 million at the end of 2012. The company's equity ratio was 44.7%.*

- KRONES' whole-plant expertise starts with innovative individual machines
- Number of patents and utility models up sharply
- Customers benefit from new products

KRONES is committed to being a one-stop provider of efficient, state-of-the-art production systems and services. It is this commitment that drives us to continually expand our range of products and improve our established machines and systems. KRONES' R&D team consists of more than 1,800 highly qualified employees working on new and evolving development projects and optimising existing products in order to further increase the benefit to our customers.

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

The inventiveness of KRONES' people and our targeted innovation processes, such as the »Invention Brainpool« and special innovation workshops, bore fruit once again in 2012. The number of patents and utility models held by KRONES grew a solid 25% over the previous year, to more than 2,750. We are especially pleased that the number of registered patents and patent applications increased in all of the company's core technology areas.

### Dependable individual machines are the bedrock of our success

In the past, filling and packaging lines consisted of individual stand-alone machines connected by various conveyors. These lines have now evolved into complete systems comprising process engineering, filling and packaging, and material flow technology, all of which are networked by way of intelligent information technology. KRONES has mastered all of the technologies required to plan, build, and operate state-of-the-art production lines. Our unique systems expertise gives us a major competitive advantage. But reliable, innovative individual machines are still the bedrock of KRONES' success as the market leader and leader in innovation. They are the very foundation on which we build our customers' efficient production systems.

That is why our R&D activities begin with the individual machines. A major aim of our innovation work is to deliver machines that require minimal maintenance, are easy to operate, and provide maximum uptime. The individual machines must also be easily combined into integrated units, to keep the complexity of the production lines as low as possible and increase line efficiency.

One example of such a unit is the ErgoBloc L, a bloc solution for the wet end of the line that can fill up to 81,000 containers per hour. KRONES has integrated our Contiform 3 small cavity technology – stretch blow-moulding for small containers – with a Contiroll labelling system that includes a Multireel magazine for automatic splicing and fillers from the new Modulfill series into a single, harmonious concept. Prior to bringing them together, we optimised each of the individual machines for



use in a bloc with targeted innovations and then linked them together with intelligent control systems. These sophisticated measures have made the ErgoBloc L far more cost-effective than previous line concepts. Total operating costs are far lower than those of conventional filling lines. The bloc also has a 25% smaller footprint.

### Our customers benefit from bundled expertise

At KRONES, all technologies and the associated expertise are bundled centrally. The close proximity of our departments enables our engineers to quickly and consistently define standards that apply across the disciplines and develop uniform interfaces – whether mechanical, electronic, or process engineering in nature. Intensive communication among the various departments throughout the entire development process is especially critical for highly integrated technologies and machines destined for use in bloc and system solutions. It avoids potential sources of error and establishes a sound basis that ensures the smooth operation of our customers' lines.

### Selected innovations

#### LavaClassic

Customers have high expectations of state-of-the-art bottle washers. The technology has to be rugged and it has to achieve optimum cleaning results, even under difficult conditions. With the LavaClassic, KRONES has added a low-cost option to its range of bottle washers. The machine's modular design offers versatility at an affordable price. Despite the low price, there is no compromising on quality. In developing the LavaClassic, KRONES drew heavily on experience from our field-proven Lavatec series and incorporated many of its functions. The LavaClassic uses dependable technology and is easy to access, maintain, and operate. In sum, it ensures maximum uptime and the utmost in production security.



*State-of-the-art bottle washers are energy efficient. KRONES' LavaClassic offers quality at an affordable price.*

#### CombiCube F

The compact CombiCube B brewhouse was KRONES' first step towards providing innovative systems tailored to the specific needs of craft breweries. In 2012, KRONES added another brewery process area to the modular CombiCube concept – the CombiCube F for the filter cellar. The system's filtration throughput ranges from 25 to 108 hectolitres per hour, and is therefore dimensioned to optimally match the capacity of the CombiCube B brewhouse. With the CombiCube F, craft breweries with an annual production output of up to 250,000 hectolitres are now able to benefit – on a more compact scale – from KRONES' field-proven technology in yet another section of their production operations. The filter is tailored to the needs of small and mid-sized breweries and is divided up into five individual modules that can be combined at will to suit a brewery's particular needs.



*The modular CombiCube F is a filter cellar solution that is perfectly tailored to the needs of craft breweries.*

# Contiform 318



## Contiform 3 series

Just one year after the successful market launch of KRONES' latest generation stretch blow-moulder, Contiform 3, we have nearly completed the product portfolio. In addition to the machine types for standard applications, KRONES is now offering the first versions for producing hot fill bottles (heat set), sterilising preforms (Contipure), and producing up to 81,000 containers per hour (Small Cavity).

**Small Cavity (sc):** The high-speed stretch blow-moulder for containers up to 0.75 litres is equipped with a newly developed mould carrier that requires no lubrication. This innovation yields a 70% reduction in the time needed for manual lubrication compared with the predecessor model – and that means more machine uptime.

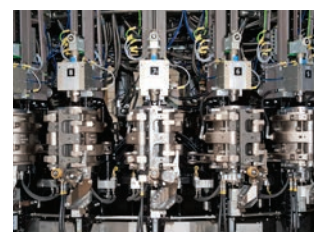
KRONES has already delivered several C336 sc machines, with which the company has not only set yet another world record in terms of stretch blow-moulder output but also offers the lowest operating costs. The C324 sc, C328 sc, and C332 sc models will round out the small cavity series in 2013.

**Heatset:** In addition to all of the innovations contained in the Contiform 3, the new version for producing containers for hot filling (heat set) also includes integrated tempering units. That saves space and increases the stability of the production process. The machine is also equipped with a lubricant-free mould carrier. A new configuration of the pressure pads yields improved bottle quality. The Contiform 3 Heatset is the first heat set machine on the market to use an electromagnetically controlled stretch system. This opens up new possibilities for increasing both quality and speed. The new machine solution, which covers the entire performance range from 18,000 to 58,500 containers per hour, has been available since early 2013.

**Contipure:** KRONES further evolved the Contipure preform sterilisation module, which was already available for the Contiform 2 generation, and has already delivered the first Contiform 3 machines with Contipure. We integrated the process unit for hydrogen peroxide treatment into the module and further improved the hygienic design. Contiform 3 with Contipure is a very economical solution for filling products with high acid content such as iced teas and fruit juices. Contipure modules are also now available in two additional sizes in order to provide the most cost-effective solution for all output ranges.



*The Contiform (sc) can produce up to 81,000 containers per hour with a volume of up to 0.75 litres.*



*The Contiform Heatset is specifically designed for producing hot-fillable containers.*



*Contipure is top technology for preform sterilisation.*



## New generation bottle inspectors

KRONES' latest generation of empty and full bottle inspectors is based on a modular concept. The linear machines are inexpensive and deliver optimum product security for bottlers who are concerned about quality. The market launch of the Linatronic EBI (empty bottle inspector) for empty bottles made of PET and glass was very successful. Precise inspection results keep the number of false rejects to a minimum. The machine's technical highlights include complete hygienic design, durable LED lighting, fast changeover thanks to automatic adjustment of conveyor belts and camera units, and the space-saving Ecopush rejection system, which does not consume any compressed air. This machine features significantly reduced energy consumption and maintenance requirements. The Linatronic EBI is also setting new standards in terms of functionality and ergonomics. Its modular design gives our customers optimum flexibility since any new functions needed can simply be added to the base machine. Development of the Linatronic FBI (full bottle inspector) will be completed in 2013 and will use the same modular design.



*KRONES' Linatronic EBI inspects empty bottles made of glass and PET plastic for damage and contamination.*

- Strategic focus on being close to customers
- Expansion of decentralised expertise
- Investments in logistics

»To see the world through our customers' eyes.« That aim is at the heart of KRONES' Lifecycle Service (LCS) division. And in our customers' eyes, the LCS cycle of a KRONES line consists of the following stages.



More information is available at [www.krones.com/en/lcs.htm](http://www.krones.com/en/lcs.htm)

## Producing

Our customers expect KRONES machines and lines to produce for a long time, without compromising on quality. To ensure that we meet that expectation, we provide our customers with original spare parts and a wide range of services. KRONES is available for its customers around the clock. Our 24/7 support is added value for our customers because it minimises downtimes.

*KRONES provides its customers around the globe with comprehensive after-sales service and products of the highest quality.*

## Maintaining

A production line is a capital good that is depreciated over the course of its life. For this reason, it is necessary from a business perspective to maintain the investment's value. KRONES provides services that accomplish that. Whether it's innovative maintenance strategies or line tuning, with KRONES LCS products, our lines remain productive and maintain their value over their entire useful lives.

## Optimising

Every KRONES machine contains the latest technology when it leaves our factories. But our customers' needs can change at any time after a machine is delivered. They may need to handle new products or packaging, meet stricter environmental protection rules, or change the layout of their production hall to accommodate new investments. KRONES always has a fitting solution and the expertise and know-how to complete such complex projects with retrofits and upgrades. Another challenge arises from the rapid pace of technological change – particularly in electronics. That is why KRONES' developers are committed to ensuring that new technologies can always be retrofitted to existing machines. These upgrades often give customers considerable added value, for instance, in the form of more cost-effective operation or increased quality of the end product.



## Getting close to customers – a model for success

KRONES' LCS team of over 2,000 highly qualified people is putting our broad range of services into action worldwide to satisfy our customers' needs. We maintain ongoing dialogue with our customers, which helps us to identify market trends and future needs and to develop suitable products or optimise existing ones.

In our Value strategy programme, we have defined measures with which KRONES is preparing for future challenges. The increased internationalisation of our services business is of particular importance for the LCS division. A typical KRONES customer is a global company and invests primarily in the world's growth markets. Whether in China, Africa, India, or South America – being close to our customers has always been a key factor in KRONES' success.

Quick response times, communication in our customer's language, and ongoing support from a regular team of technicians in the region gives customers real added value. For this reason, our decentralised strategy includes a major expansion of our local expertise and even more hiring of local service employees. Already more than 50% of KRONES' service technicians are based at our LCS Centres and offices worldwide and not at our corporate headquarters in Neutraubling. Our push toward internationalisation will further increase this percentage in the years ahead. KRONES attaches the utmost importance to always keeping our service technicians' knowledge and skill at the highest possible level. For this reason, we invest heavily in training and continuing education for our service personnel worldwide.

*Being close to customers is a key success factor in the service business.*



Another part of our decentralised strategy is to produce more and more of our spare parts and change parts in our LCS Centres and to offer them directly to customers from the LCS Centres and representative offices. This eliminates long lead times. It also allows us to clarify questions with customers directly, without the detour or delay of going through our head offices, and permits us to respond to customer wishes quickly and tailor proposals to their individual needs.

The benefits of KRONES' local service expertise are not confined to acute cases. Our close proximity also means that a specialist is always available to provide knowledgeable support on all aspects of »producing, maintaining, and optimising«. That strengthens the relationship and lays the foundation for long-term service revenue.

### Investing in logistics

KRONES is investing heavily in logistics in order to ensure optimum availability of parts for our customers. These investments are being made in our LCS Centres worldwide and at our corporate headquarters in Neutraubling. In some regions, we are already able to fill as many as 8 out of 10 customer orders from our LCS Centres' decentralised warehouses. To raise this figure even further, KRONES is investing in intelligent systems that determine which spare parts are frequently needed. Here, we are not only using scheduling strategies based on historic parts consumption data. We also use statistically calculated failure rates to identify which parts absolutely must be kept on hand. Using this method, we are able to stock our LCS Centres with parts before customers report a need for them.

*Spare parts need to be delivered to customers' plants quickly to prevent long downtimes.*

We offer the same expertise to our customers, to optimise their own warehousing. With »SPAC«, our spare parts availability concept, customers can increase their stock of important parts to ensure their availability in the event of an emergency and thus avoid long line downtimes. »SPAC« also makes it possible to reduce overall inventories and the amount of capital tied up in them.

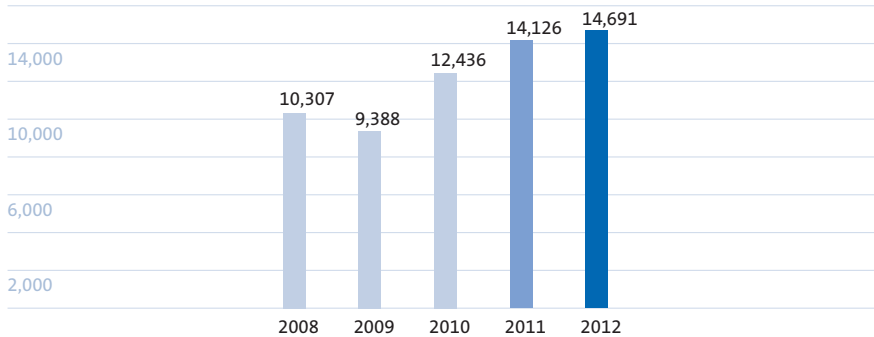
### New LCS logistics centre in Neutraubling

We are also investing heavily in the logistics processes at our Neutraubling site. The new LCS logistics centre that will go into operation in 2013 will speed up order handling considerably. The new centre features 38,000 bays for storing spare parts, brings all logistics processes relating to spare parts into a single location, reduces the number of internal interfaces, and meets the requirements for the air cargo security programme – so that KRONES can supply customers with spare parts even better in the future.

## KRONES Academy

The KRONES Academy is an important part of KRONES Lifecycle Service, offering a broad range of practical training courses. More than 50 qualified trainers instruct operating personnel on the fundamentals of our machines and lines, conduct special courses for individual tasks, and train management personnel. The courses are held at our headquarters in Neutraubling and at our international training centres, which are located within KRONES' Service Centres. All of our course offerings are aimed at ensuring that our customers have a perfect mastery of their KRONES machines and lines and can operate them safely and efficiently. In 2012, a total of 14,691 people (previous year: 14,126) attended KRONES Academy events.

KRONES Academy participants



*Participation in KRONES Academy training courses has increased continuously since 2009.*

### KRONES Expert Dialogue event a success

Some 40 employees from 30 different customer companies attended our second KRONES Expert Dialogue event in Neutraubling in September 2012, which was hosted by LCS and KRONES Academy. Participants discussed current trends and challenges in the industry from a practical perspective. For example, brewery experts reported on how they are using new IT systems to address the growing challenges of energy management and on how they are using meticulous analyses of energy and media flows to tap potential savings. During a tour of the plant, KRONES showed specific examples that demonstrated the results achievable with Total Productive Management (TPM). The KRONES Expert Dialogue event is an excellent platform for fostering dialogue with our customers and strengthening customer loyalty.





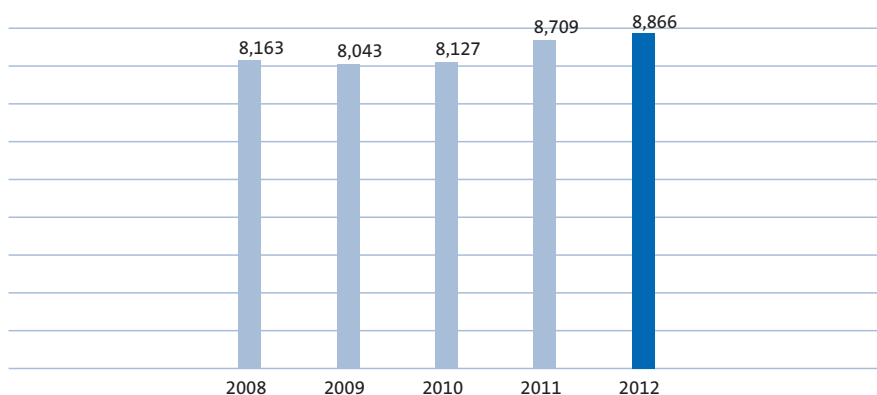


### KRONES continues to grow its workforce

KRONES AG's workforce grew further in the reporting period. At the end of 2012, the company employed 8,866 people, up from 8,709 in the previous year. By growing our team, KRONES is making an ongoing Value investment – to secure the company's future and lay the groundwork for future growth. Internationalising our staff is one of our strategic goals as we work to strengthen KRONES' local after-sales service for customers. For this reason, most of the new hiring within the group was done outside Germany.

*KRONES is investing heavily in expanding our international workforce.*

Employees at KRONES AG at 31 December



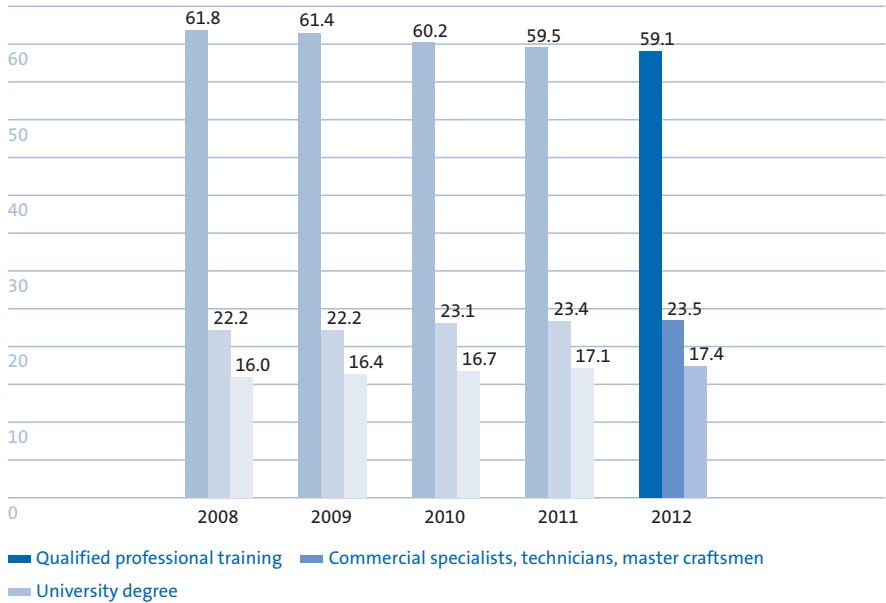
Demographic change has meant that ensuring a lasting supply of qualified young recruits and further improving our existing employees' – even our older employees' – qualifications is one of our most important human resources tasks. We aim to further build and enhance KRONES' international employer branding in the years ahead.

A breakdown of our employees' qualifications shows that our workforce is highly skilled. Nearly 60% of our employees in Germany have completed a recognised vocational training programme. Almost one-quarter of our workforce are commercial specialists, technicians, and master craftsmen. University graduates make up 17.4% of our workforce.

### KRONES invests in good recruits

KRONES offers a strong in-house training programme to draw qualified young recruits. The company provides appealing options for motivated young people who begin their careers with KRONES through vocational training, internships, or graduate theses.

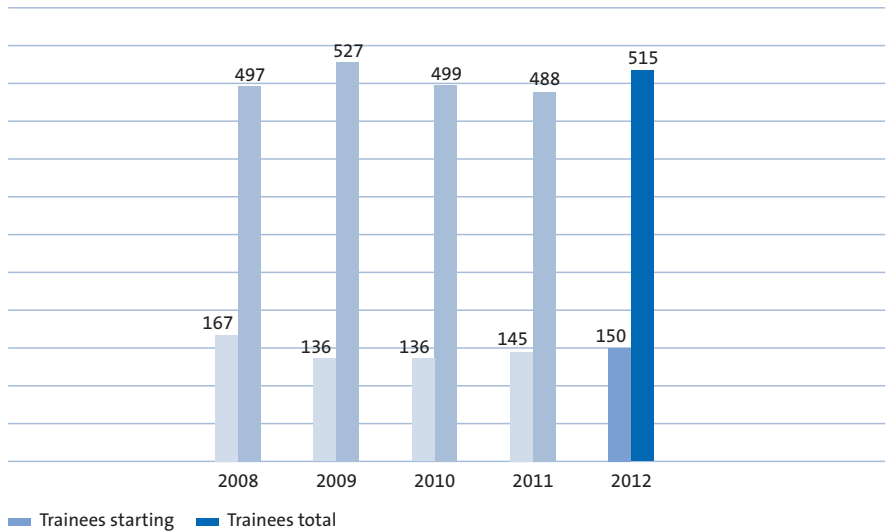
Employee qualifications (% of workforce)



The share of employees with a university degree at our German sites is growing steadily.

KRONES offers attractive, challenging training opportunities to a large number of young people in 20 different fields every year. We invest around €70,000 in each of our young trainees. After a long and rigorous selection process, 150 young people began their training with KRONES in the fall of 2012.

Total number of trainees and trainees starting at KRONES AG



KRONES offers young people an attractive array of vocational training options.

In all, KRONES was training 515 young people in Germany at the end of 2012. That puts our training rate at a very respectable 5.8%. In addition to the content prescribed by the respective training programmes, KRONES aims to give its trainees additional qualifications such as presentation techniques, and international experience through stays in our subsidiaries and offices abroad.

## New training centre opens

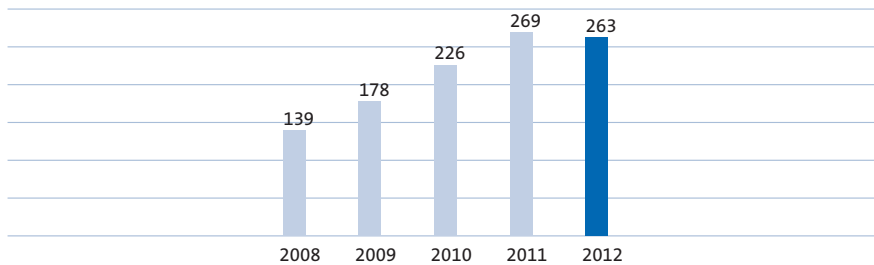
In July 2012, we opened the newly constructed training centre at our headquarters in Neutraubling, Germany. With the new building and other spaces in adjacent buildings, we now have more than twice as much space available for training. KRONES invested nearly €4 million in the new »training campus«. The investment underscores KRONES' ongoing commitment to growing our own, highly qualified talent.

*KRONES invested nearly €4 million in the new »training campus« in Neutraubling, more than doubling the space available for training purposes.*

## Close collaboration with colleges, universities, and students

KRONES has for years been working closely with universities to ensure early contact with university graduates. The company organises a range of events at which budding engineers and scholars can learn about the careers and opportunities KRONES offers. Because KRONES has an excellent reputation among university students, these events are very well attended.

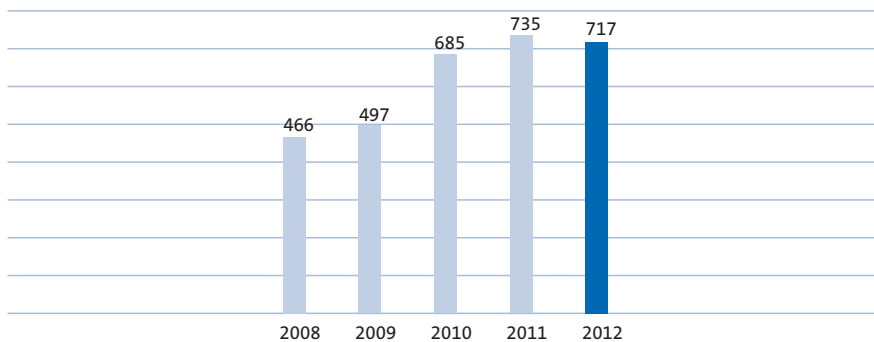
Theses written at KRONES AG



We have a long-standing partnership with the University of Applied Sciences in Regensburg and the University of Regensburg in the sciences. Through this programme, KRONES gives many young scientists a chance to combine theory and practice in practical semesters and thesis-writing opportunities.

In 2012, we advised 263 students writing theses and 717 interns on a variety of projects with practical relevance. And KRONES gained a number of highly qualified recruits from this pool once again in 2012.

Interns at KRONES



Social responsibility is an important part of doing business and making commercial and technological progress. KRONES took this insight on board very early and has always viewed its social responsibilities to its staff, its business associates, society as a whole, and the planet's natural environment as the very basis of its corporate culture.

The fundamental principles that guide our employees in thinking and acting sustainably are firmly anchored in our rules of conduct, our codes, and our mission statement.

### **KRONES joins UN Global Compact**

KRONES AG signed on to the United Nations (UN) Global Compact in May 2012 to communicate to the public our corporate commitment to issues of business ethics. The overarching goal of the UN Global Compact is to establish international, universal principles and values for policymakers, business, and society. The Compact lays down guidelines with worldwide validity for the fields of human rights, labour standards, environmental protection, and combatting corruption and holds its member companies to these guidelines. More than 6,000 companies worldwide have signed on, including many of KRONES' customers.

*By joining the UN Global Compact, KRONES is further demonstrating its commitment to doing business sustainably.*

### **Dialogue with all stakeholders**

As the circumstances under which companies do business change more and more rapidly, we have to identify new challenges quickly. KRONES systematically analyses and assesses opportunities and risks relating to CSR (Corporate Social Responsibility) topics on the basis of ongoing dialogue with our stakeholders (customers, suppliers, shareholders, employees, policymakers, trade associations, academia, and others) and the additional opportunities for dialogue afforded by our membership in the Global Compact. And with that, we are minimising risks for the company and strengthening our partners' trust in us.

### **CSR strategy**

Our CSR strategy is embedded in the overarching corporate strategy programme Value. Along with our CSR targets, we also want to 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 and our CSR strategy is in our Sustainability Report, which is available online at [www.krones.com](http://www.krones.com).

- 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 variety 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 significant 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 at KRONES.

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 accounting and financial reporting can be described as follows:

- KRONES 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

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.

#### 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, the Australian dollar, the Canadian dollar, and the 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.

#### 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.

## 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.

## 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 revenue, 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.

### 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. Where necessary, provisions are recognised for such risks.



## 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.

## 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 continue to deliver growth opportunities 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.

## 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 2012, the direct fixed remuneration of the five active members of the Executive Board was €2,593 thousand (previous year: €2,912 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 €74 thousand (previous year: €91 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 revenue, 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 2012, the variable compensation amounted to €1,605 thousand (previous year: €2,167 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 2012, as in the previous year, no such compensation came due for payment as scheduled following the 10-year waiting period.

- 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 revenue 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 €2,709 thousand at the end of the financial year (previous year: €1,350 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 €6,568 thousand (previous year: €3,389 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 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.
- 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 €768 thousand (previous year: €510 thousand) were made and a €613 thousand excess of plan assets over pension liability was recognised (previous year: provision of €644 thousand).

## 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 €8,000 for the financial year 2012.

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 €428 thousand (previous year: €356 thousand) including variable portions totalling €96 thousand (previous year: €24 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.



### KLUG GMBH – KRONES' new shareholding

Development of KRONES' own in-house operations in the fields of material flow technology and intralogistics has been unsatisfactory in recent years. For this reason, we restructured this business area in early 2013 and acquired a 26% stake in KLUG GMBH integrierte Systeme (KLUG). The company, which was founded in 1995 and is located in Teunz, Bavaria, is a leading specialist for complete logistics solutions. KLUG's core expertise is project planning for highly automated logistics systems, with a focus on software and control systems. At the end of 2011, KLUG GMBH had around 250 employees and sales revenue for 2011 came to around €25 million. KLUG is a profitable company.

KRONES also signed a cooperation agreement with KLUG that enables us to continue to deliver the best possible material flow technology and intralogistics solutions through KLUG GMBH.

KLUG has experience with customers in the food industry but is not focused on a specific sector. The company's product range is very similar to that of KRONES' own material flow technology/intralogistics operations. But because they focus exclusively on complete intralogistics solutions, KLUG has far better cost structures and is therefore profitable. Since KRONES' material flow technology/intralogistics operations have generated considerable losses in recent years, the shareholding and cooperation agreement will have a substantial positive impact on our consolidated net income in the years ahead.

KLUG GMBH plans to continue to grow in the years ahead. We firmly believe that KRONES can help support this growth. With our access to international growth markets, KLUG can acquire customer orders worldwide that would otherwise be out of the company's reach.

KRONES will have the option of acquiring a further 26% stake in KLUG GMBH on or after 31 December 2016. The price for these shares will depend on KLUG's earnings development up to that point.

- Uncertainties dominate global economic outlook
- German machinery sector expects output to increase
- KRONES intends to grow profitably

### World economy to grow more in 2013 than in previous year

The central banks of the USA, Japan, and Europe used expansive monetary policy to counter the effects of the debt and euro crises in 2012. For this reason, economic experts with the International Monetary Fund (IMF) believe there is a good chance that the global economy will gain some momentum in 2013. At the same time they are warning of considerable downside risks, including a re-escalation of the euro crisis or excessive short-term fiscal tightening in the US, which could slow economic activity. Assuming that policymakers can keep these risks under control, the IMF expects global economic growth to rise from 3.2% in the previous year to 3.5% in 2013.

*Economic growth in China and India is expected to accelerate further in 2013.*

The IMF says the emerging markets will be the most important source of growth in 2013. The Chinese economy, for example, is expected to expand by 8.2% in 2013 (previous year: 7.8%). Growth in India, which came to 4.5% last year, is likely to accelerate to 5.9% in 2013. In all, the rate of economic growth in the emerging markets and developing countries is expected to increase from 5.1% in 2012 to 5.5% in 2013.

Looking now to the developed industrialised countries, the euro zone will likely remain in recession in 2013. The International Monetary Fund (IMF) is forecasting 0.2% economic growth for this year for the single currency area. Within Europe, the German economy is expected to remain strong. Germany's gross domestic product (GDP) will likely rise 0.6% in 2013. For the USA, the world's biggest economy, the IMF is relatively optimistic despite the country's budget woes. Its growth forecast for the US economy is 2.0%. In Japan, continued monetary easing and the economic stimulus package will likely yield 1.2% GDP growth in 2013.

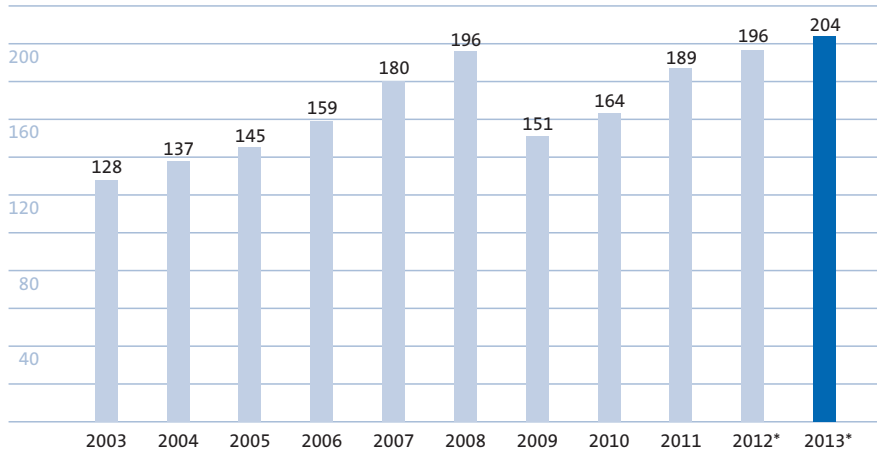
The ordering behaviour of KRONES' customers is affected not only by economic growth but also by unemployment and inflation. Generally speaking, the lower these two rates are, the stronger private consumption will be. Higher consumption means higher demand for our customers' products and makes customers more willing to invest in new technology. We expect unemployment and inflation in KRONES' major sales markets to have only slight negative effects on our business in 2013.

## German machinery sector output to rise 2% in 2013

The new orders situation in the German machinery sector worsened slightly at the start of 2013. January orders were down 2% on the year-earlier period. A slight increase in exports lent some support. Despite the slow start to the year, the German Engineering Federation (VDMA) expects the sector to post moderate growth in 2013. The VDMA is forecasting a 2% year-on-year increase in output.

The VDMA expects this growth to vary widely from one subsector to another. The »food processing and packaging machinery« segment is likely to fare better than the machinery sector as a whole in 2013.

Output in the German machinery sector (€ billion)



\* Forecast

Source: Germany's Federal Statistical Office

### **KRONES intends to grow profitably in 2013**

The medium-term business environment for KRONES remains good overall despite the global economy's volatility. In the long term, growth in the packaging machinery market will be stronger and more stable than the global economy. The steady growth of the middle class in the emerging economies and increasing urbanisation remain the biggest growth drivers. These trends are resulting in rising demand for industrially packaged food and beverages. Moreover, food and beverage producers increasingly need to use a variety of packaging options in order to stand out from the competition. That, too, drives demand for innovative packaging solutions upward.

KRONES is cautiously optimistic about the outlook for the global economy in 2013. The markets in Asia, South America, Africa, and the Middle East continue to offer good prospects for growth. KRONES intends to capitalise on its strong market position in these regions and grow its profitable after-sales business. To do this, KRONES will further expand its workforce in the relevant regions in 2013 and further internationalise its human resources policy.

The North American market, which already recovered strongly in 2012, is expected to develop positively again in 2013. We expect the euro area markets to continue to show considerable capital expenditure restraint due to the ongoing euro and sovereign debt crises.

### **Earnings to improve further in 2013**

KRONES' focus for 2013 within the Value strategy programme is on the pillars growth and profitability. In our core segment, machines and lines for product filling and decoration, we intend to further improve cost structures and make them more flexible in order to offset future cost increases arising from higher wage agreements. This effort involves making our purchasing even more international and our assemblies and machines more modular. Expanding our international service structures and LCS Centres to ensure that we can provide our customers the best services and products fast is an important part of profitable growth.

Process technology is strategically important to KRONES since many customers want beverage production and product filling to be linked as seamlessly as possible. We intend to further optimise structures in our process technology segment this year. Our restructuring in the field of material flow technology at the start of 2013 is a big first step toward increasing earnings for the long term. We also plan to further expand our services business to include components and software upgrades and grow our product portfolio for the »non-alcoholic« beverages sector.

Overall, based on the development of KRONES' markets and the continuing uncertain economic outlook for 2013, we expect revenue to grow by around 4%. KRONES does not expect any support from price levels. In all, we are confident that we will generate an EBIT in the mid double-digit millions in 2013.

According to forecasts by leading economic research institutions, the overall economic picture should improve in 2014. With this in mind and from today's perspective, we expect our key performance indicators to improve.



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 chair 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 28 February 2013

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the date given above (28 February 2013). 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.

**Statement required by § 37y No. 1 of the German Securities Trading Act (WpHG) in conjunction with § 289 (1) Sentence 5 of the German Commercial Code (HGB)**

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

Neutraubling, 28 March 2013

KRONES AG

The Executive Board



Volker Kronseder  
Chairman



Christoph Klenk



Rainulf Diepold



Werner Frischholz



Thomas Ricker

*The statement on corporate governance is also available online at [www.krones.com](http://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.

#### **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 15 May 2012 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. For this reason, 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. For this reason, 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 performance-related compensation of the members of the Supervisory Board is currently not oriented toward the sustainable growth of the enterprise. 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)

*In accordance with the company's articles of association, the performance-related compensation of the members of the Supervisory Board is currently based on the company's net income for the most recently ended financial year. Through its actions and decisions, the Supervisory Board plays a key role in the company's long-term success. The company's commercial success and sustainable development are also reflected in the net income for the year. Nevertheless, the Supervisory Board has resolved to follow this recommendation in the future and, together with the Executive Board, will propose an amendment to the articles of association to the annual shareholders' meeting in 2014. 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. (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.*

*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 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, 28 March 2013

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. The Supervisory Board shall contain no more than two former members of the Executive Board.

Moreover, the members of the Supervisory Board shall meet the criteria for independence under Item 5.4.2 of the Corporate Governance Code. Presuming that execution of a Supervisory Board mandate as employee representative casts no doubt on the compliance with the criteria for independence under Item 5.4.2 of the Code, the majority of the members of the Supervisory Board shall be independent within the meaning of Item 5.4.2 of the Code.

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 70th 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.

The Supervisory Board of KRONES implemented all of the objectives a) through e) in the financial year 2012.

### 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 preventing and fighting corruption.

### **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 8 and 107). 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 pages 13 and 107 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.

In addition to the Chairman of the Supervisory Board Committee, Graf Philipp von und zu Lerchenfeld, the Committee consists of Supervisory Board Chairman Ernst Baumann and Deputy Chairman Werner Schrödl as well as the following Supervisory Board members: Norman Kronseder, 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.

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		2012	2011
€ thousand	Notes		
1. Sales revenue	14	2,250,814	2,066,247
2. Decrease or increase in finished goods inventories and work in progress		-1,399	70,498
3. Other own work capitalised		13,656	9,338
4. Other operating income	15	102,464	85,536
		<b>2,365,535</b>	<b>2,231,619</b>
5. Cost of materials			
a) Cost of raw materials, consumables and supplies, and of purchased merchandise		-979,045	-940,051
b) Cost of purchased services		-288,294	-283,005
		-1,267,339	-1,223,056
6. Personnel expenses	16		
a) Wages and salaries		-523,758	-513,442
b) Social security, post-employment and other employee benefit costs		-94,946	-91,951
		-618,704	-605,393
7. Depreciation and amortisation of tangible and intangible fixed assets	17	-45,456	-46,803
8. Other operating expenses	18	-355,724	-348,888
9. Income from long-term equity investments	19	12,120	10,288
10. Income from other securities and long-term loans	19	467	893
11. Other interest and similar income	19	3,242	1,908
12. Write-downs of long-term financial assets	19	-7,000	-12,003
13. Interest and similar expenses	19	-9,051	-7,718
		-2,287,445	-2,230,772
<b>14. Result from ordinary activities</b>		<b>78,090</b>	<b>847</b>
15. Taxes on income	20	-7,740	-6,066
16. Other taxes	20	-1,414	-1,122
<b>17. Net income (net loss) for the year</b>		<b>68,936</b>	<b>-6,341</b>
<b>18. Retained profits (accumulated losses) brought forward</b>		<b>5,104</b>	<b>4,545</b>
<b>19. Withdrawal from revenue reserves, from other revenue reserves</b>		<b>0</b>	<b>25,000</b>
<b>20. Retained earnings</b>		<b>74,040</b>	<b>23,204</b>

## Balance sheet

Assets		31 Dec 2012	31 Dec 2011
€ thousand	Notes		
<b>A, Fixed assets</b>			
I. Intangible fixed assets	1		
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets		21,576	16,021
II. Tangible fixed assets	2		
1. Land, including buildings on third-party land		221,107	212,915
2. Technical equipment and machinery		55,482	52,956
3. Other equipment, operating and office equipment		49,104	49,457
4. Prepayments and assets under construction		30,112	9,708
		355,805	325,036
III. Long-term financial assets	3		
1. Shares in affiliated companies		87,483	87,409
2. Loans to affiliated companies		9,969	17,348
3. Long-term securities		38	34
4. Other loans		1,364	1,351
		98,854	106,142
		<b>476,235</b>	<b>447,199</b>
<b>B. Current assets</b>			
I. Inventories	4		
1. Raw materials, consumables and supplies		146,995	156,965
2. Work in progress		199,535	181,964
3. Finished goods and merchandise		270,262	260,836
4. Prepayments		13,539	14,759
5. Payments received on account of orders		-486,153	-426,412
		144,178	188,112
II. Receivables and other assets	5		
1. Trade receivables		360,045	387,310
2. Receivables from affiliated companies		114,172	79,166
3. Other assets		52,552	60,710
		526,769	527,186
III. Cash-in-hand, bank balances, and cheques	6		
		38,458	53,548
		<b>709,405</b>	<b>768,846</b>
<b>C. Prepaid expenses</b>			
		<b>2,225</b>	<b>2,145</b>
<b>Total assets</b>		<b>1,187,865</b>	<b>1,218,190</b>

Equity and liabilities		31 Dec 2012		31 Dec 2011	
€ thousand	Notes				
<b>A, Equity</b>					
I. Subscribed capital <span style="float: right;">7</span>					
1. Ordinary shares		40,000		40,000	
2. Treasury shares, notional value		-1,805		-1,805	
			38,195		38,195
II. Capital reserves					
			103,703		103,703
III. Revenue reserves					
1. Legal reserve		51		51	
2. Other revenue reserves	8	314,635		314,635	
			314,686		314,686
IV. Retained earnings (net accumulated losses) <span style="float: right;">9</span>					
1. Retained profits brought forward		5,104		4,545	
2. Net income (net loss) for the year		68,936		-6,341	
3. Withdrawals from other revenue reserves		0		25,000	
			74,040		23,204
			<b>530,624</b>		<b>479,788</b>
<b>B. Provisions</b> <span style="float: right;">10</span>					
1. Provisions for pensions and similar obligations		95,763		89,487	
2. Provisions for taxes		9,203		11,254	
3. Other provisions		296,996		358,069	
			<b>401,962</b>		<b>458,810</b>
<b>C. Liabilities</b> <span style="float: right;">11</span>					
1. Trade payables		152,275		144,734	
2. Liabilities to affiliated companies		63,829		92,106	
3. Other liabilities		39,175		42,752	
			<b>255,279</b>		<b>279,592</b>
<b>Total equity and liabilities</b>			<b>1,187,865</b>		<b>1,218,190</b>

## Statement of changes in fixed assets in 2012

€ thousand	Cost				At 31 Dec 2012	Depreciation, amortisation, and write- downs At 31 Dec 2012	Carrying amounts	
	At 1 Jan 2012	(T) Transfers Additions	Subsequent costs added	(T) Transfers Disposals			At 31 Dec 2012	At 31 Dec 2011
<b>Intangible fixed assets</b>								
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	90,063	10,553	400	1,866	99,150	77,574	21,576	16,021
<b>Tangible fixed assets</b>								
1. Land, including buildings on third-party land	330,090	(T) 1,061 15,830	0	199	346,782	125,675	221,107	212,915
2. Technical equipment and machinery	215,214	(T) 4,081 11,230	0	(T) 31 6,852	223,642	168,160	55,482	52,956
3. Other equipment, operating and office equipment	166,268	(T) 508 17,845	0	25,634	158,987	109,883	49,104	49,457
4. Prepayments and assets under construction	9,708	26,023	0	(T) 5,619 0	30,112	0	30,112	9,708
		(T) 5,650		(T) 5,650				
	721,280	70,928	0	32,685	759,523	403,718	355,805	325,036
<b>Long-term financial assets</b>								
1. Shares in affiliated companies	165,117	(T) 7,000 74	0	0	172,191	84,708	87,483	87,409
2. Loans to affiliated companies	17,348	2,500	0	(T) 7,000 2,879	9,969	0	9,969	17,348
3. Long-term securities	41	0	0	0	41	3	38	34
4. Other loans	1,351	13	0	0	1,364	0	1,364	1,351
		(T) 7,000		(T) 7,000				
	183,857	2,587	0	2,879	183,565	84,711	98,854	106,142
		(T) 12,650		(T) 12,650				
	995,200	84,068	400	37,430	1,042,238	566,003	476,235	447,199

## General disclosures

### ■ Legal basis

The annual financial statements of KRONES AG have been prepared in accordance with the provisions of the Third Book of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG).

KRONES AG prepares the income statement according to the total cost (nature of expense) method

### ■ Currency translation

Receivables in foreign currencies with a remaining maturity of one year or less are translated using the middle spot rate at the balance sheet date. All other receivables in foreign currencies are translated using the exchange rate applicable at the time of initial recognition or the middle spot rate at the balance sheet date, whichever is lower.

Liabilities in foreign currencies with a remaining maturity of one year or less are translated using the middle spot rate at the balance sheet date. All other liabilities in foreign currencies are translated using the exchange rate applicable at the time of initial recognition or the middle spot rate at the balance sheet date, whichever is higher.

KRONES AG uses forward exchange transactions to hedge future currency risks. If the requirements are met, these financial instruments are combined with the hedged item to form hedges. Changes in the value of the hedged items and the hedging instruments offset each other.

Accounting is done in accordance with the rules applicable to corporations. The same accounting policies have been applied as in the previous year.

#### ■ Assets

Purchased intangible fixed assets are recognised at the cost that must be capitalised and are amortised on a scheduled straight-line basis over an estimated useful life of three to 20 years. Internally generated intangible fixed assets are not capitalised. Therefore, research and development costs are immediately expensed in their full amount. Unscheduled write-downs are taken as necessary.

Tangible fixed assets are measured at cost less scheduled depreciation and any necessary unscheduled write-downs. The cost of internally generated plant and equipment includes all costs that are directly attributable to the production process as well as those indirect material and labour costs that must be capitalised.

Depreciation and write-downs of tangible fixed assets are carried out using the highest applicable rates under the law. The current German tax depreciation schedules were used for additions in Germany in 2012. Buildings and moveable items of fixed assets of KRONES AG are depreciated using the declining balance method wherever possible. All other fixed assets are depreciated using the straight-line method. For assets depreciated using the declining balance method, depreciation switches to the straight-line method if it results in higher depreciation. Since the declining balance method of depreciation is not compatible with BilMoG rules, all tangible fixed assets acquired on or after 1 January 2010 are depreciated using the straight-line method only. Unscheduled write-downs are taken for impairments that are expected to be permanent.

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

Useful life	In years
Buildings	25–50
Machinery	5–20
Technical equipment	5–25
Operating and office equipment	3–20
Software and other rights	3–20

Moveable items of fixed assets with a cost of €150 or less that can be used independently and are subject to wear and tear are immediately expensed. Assets with a cost of more than €150 and not more than €1,000 are pooled and depreciated or amortised over a useful life of 5 years using the straight-line method.

Shares in affiliated companies are recognised at amortised cost.



Securities and loans are recognised at the lower of nominal value and fair value; write-downs have been reversed as required.

Inventories are carried at the lower of cost and market value.

The cost of finished goods and work in progress includes direct material and labour costs as well as indirect material and indirect labour. The carrying amount of inventories is reduced in keeping with the lower-of-cost-or-market principle. This reduction takes into account all inventory risks arising from reduced marketability or obsolescence that were identifiable when the financial statements were prepared.

Receivables and other assets are recognised at cost. Identifiable risks are accounted for through specific valuation allowances. General credit and financing risks are accounted for by way of global valuation allowances. Delinquent accounts and non-interest-bearing items with longer terms are discounted based on the expected date of payment. Export receivables in foreign currencies are recognised using the middle spot rate at the transaction date or at the reporting date.

Assets that serve exclusively to settle pension obligations and are exempt from attachment by all other creditors (plan assets) are measured at fair value. Income and expenses from these assets are netted against the interest cost on the corresponding obligations and recognised in financial income (expense). Moreover, the assets themselves are offset against the corresponding liabilities. Any obligations in excess of the assets are recognised under provisions. If the value of the assets exceeds the amount of the obligations, the difference is recognised as an asset under a separate heading, »excess of plan assets over post-employment benefit liability«.

Prepaid expenses are recognised to the extent permissible under commercial law.

#### ■ Equity and liabilities

The reported provisions for pensions and similar obligations are recognised at the settlement amount dictated by prudent business judgement. Future price and cost increases are taken into account in the measurement. The pension provisions for post-employment benefit obligations with a remaining maturity of more than one year are discounted at the average market interest rate corresponding to their remaining maturity, as calculated by the Deutsche Bundesbank. Instead of calculating individual discount rates for each individual liability, a single remaining maturity of 15 years is assumed across the board for all of these liabilities as permitted under § 253 (2) Sentence 2 HGB.

Other provisions are recognised for obligations to third parties when an outflow is probable and there is uncertainty regarding the amount or timing of its utilisation. They are recognised at the amount dictated by prudent business judgement for all identifiable risks and uncertain obligations. Measurement is based on the settlement amount. Provisions with a remaining maturity of more than one year are discounted at the average market interest rate corresponding to their remaining maturity, as calculated by the Deutsche Bundesbank.

Provisions for anniversary bonuses are discounted at the average market interest rate calculated by the Deutsche Bundesbank based on an assumed remaining maturity of 15 years pursuant to § 253 (2) Sentence 2 HGB.

Liabilities are carried at the settlement amount. Trade payables in a foreign currency that are not hedged are recognised as liabilities at the middle spot rate at the reporting date.

The value date for contingent liabilities on bills, guarantees, and warranties is the reporting date.

## Assets

### ■ Fixed assets

The fixed asset items stated on the balance sheet are presented in the statement of changes in fixed assets. The carrying amounts are presented gross on the basis of historical cost.

#### 1 Intangible assets

The addition relates primarily to software licenses (€10,005 thousand).

#### 2 Tangible fixed assets

The addition to land and buildings results primarily from the expansion of the Neutraubling site (€15,432 thousand). Capital expenditure for the remaining tangible fixed assets amounting to €55,098 thousand relates primarily to capacity expansion and updating at the production sites.

#### 3 Long-term financial assets

The additions to long-term financial assets relate primarily to the acquisition of the remaining shares in KONPLAN S.R.O., Pilsen, Czech Republic, and the establishment of KRONES Makina San. ve Tic. Ltd., Istanbul, Turkey, and loans to x., Roverbella, Italy, and Dematech Pty Ltd., Constantia, South Africa. A complete presentation of shareholdings is made public through the electronic Federal Gazette (elektronischer Bundesanzeiger).

#### 4 Inventories

The carrying amount of inventories is up 2.6% compared with the previous year. Around 77.1% of inventories were prefinanced through prepayments from customers.

#### 5 Receivables and other assets

€ thousand	31 Dec 2012	Amounts due in 1 year or later	31 Dec 2011	Amounts due in 1 year or later
Trade receivables	360,045	5,139	387,310	10,320
Receivables from affiliated companies	114,172		79,166	
Other assets	52,552	6,549	60,710	18,054
	<b>526,769</b>	<b>11,688</b>	<b>527,186</b>	<b>28,374</b>

Of the trade receivables, 8.7% are due from customers in Germany and 91.3% are due from customers outside Germany. The general credit risk is sufficiently accounted for by way of a global valuation allowance of 1% of the risky receivables. Delinquent accounts and non-interest-bearing items with longer terms are discounted at a rate of 3.79%.

The receivables from affiliated companies, totalling €113,572 thousand, result from deliveries effected or services rendered between group companies.

## 6 Cash-in-hand, bank balances

€ thousand	31 Dec 2012	31 Dec 2011
Cash-in-hand	8	11
Bank balances	38,450	53,537
	<b>38,458</b>	<b>53,548</b>

## 7 Subscribed capital

The subscribed capital of KRONES AG amounts to €40,000,000.00.

At the reporting date, there were 31,593,072 ordinary bearer shares outstanding.

KRONES AG held 1,425,421 treasury shares at the reporting date. No further treasury shares were acquired in 2012. The notional value of the acquired treasury shares, which had to be deducted from the item »subscribed capital«, was €1,804,726.05.

By resolution of the annual shareholders' meeting of 15 June 2011, a stock of authorised capital was established. With this authorised capital, the Executive Board may, with approval of the Supervisory Board, increase the share capital by a total of up to €10,000,000.00 through the issuance once or repeatedly of ordinary bearer shares against cash contributions up to and including 15 June 2016. Shareholders must be granted subscription rights to these shares.

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 on its behalf up to and including 15 June 2015. The holdings of shares acquired for this purpose, combined with other treasury shares previously acquired and still held by the company, shall not exceed 10% of the share capital of KRONES AG. The acquisition may be carried out, at the discretion of the Executive Board, through a stock exchange, through a public tender offer, or through a public call for tenders.

If the shares are purchased through a stock exchange, the consideration paid per share shall not exceed by more than 10% and not fall short of by more than 10% the opening price in the XETRA trading 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 shall not exceed by more than 20% and not fall short of by more than 20% the opening price in the XETRA trading system on the Frankfurt Stock Exchange on the third trading day prior to the public announcement of the tender offer or call for tenders.

By resolution of the shareholders' meeting on 16 June 2010, the Executive Board is authorised to use treasury shares of KRONES AG for any lawful purpose.

This authorisation can be exercised once or multiple times, in whole or in part.

## 8 Other revenue reserves

€ thousand	2012	2011
At 1 January	314,635	339,635
Withdrawal allocated to retained earnings	0	-25,000
	<b>314,635</b>	<b>314,635</b>

## 9 Retained earnings

€ thousand	2012	2011
Retained profits brought forward	5,104	4,545
Net income (net loss) for the year	68,936	-6,341
Withdrawals from other revenue reserves	0	25,000
	<b>74,040</b>	<b>23,204</b>

## 10 Provisions

Under a pension scheme KRONES AG has committed to providing post-employment, permanent disability, and widow(er)'s pensions to all employees who started at KRONES AG prior to 1999. Recognition of the pension provisions is based on actuarial valuations. The following factors were taken into account in the actuarial calculation:

	2012	2011
Standard of measurement	Projected unit credit method	Entry age normal method
Basis of calculation	»2005G actuarial tables« from Klaus Heubeck	»2005G actuarial tables« from Klaus Heubeck
Discount rate	5.04%	5.14%
Projected increases in wages and salaries	0.00%	0.00%
Projected increase in state pensions	2.00%	2.00%
Employee turnover rate	2.00% p.a.	2.00% p.a.

Since the pension commitments are independent of future pay increases, the projected increase in wages and salaries was not taken into account for determining the corresponding pension provisions.

The settlement amount of the pension liabilities that was offset against the plan assets was €112,039 thousand. The fair value of the plan assets, which serve exclusively to cover post-employment benefit obligations and are exempt from attachment by all other creditors, was €16,276 thousand; the cost of the plan assets was €16,402 thousand. The net of these expenses and income was €5,343 thousand.

Direct pension obligations that are not covered by the assets of KRONES Unterstützungsfonds e.V. amount to €6,990 thousand.

The provisions for taxes take into account the expected payments of tax in arrears.

The other provisions cover all identifiable risks and other uncertain obligations. The long-term provisions were discounted at rates between 3.69% – 5.04% corresponding to their remaining maturity.

The provisions for anniversary bonuses were discounted at a rate of 5.04%.

The other provisions are essentially provisions for personnel obligations, including partial retirement (€81,853 thousand), and order-specific provisions (€188,219 thousand) that include, in particular, installation work not yet performed, warranties, claims for damages, anticipated losses, and outstanding supplier invoices.

## 11 Liabilities

€ thousand	Amounts due in 1 year or earlier		Amounts due in 1 year or earlier	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Trade payables	152,275	152,275	144,734	144,734
Liabilities to affiliated companies	63,829	63,829	92,106	92,106
Other liabilities	39,175	38,084	42,752	41,651
	<b>255,279</b>	<b>254,188</b>	<b>279,592</b>	<b>278,491</b>

The liabilities to affiliated companies, totalling €22,020 thousand, result from deliveries effected or services rendered between group companies.

The other liabilities contain tax liabilities amounting to €10,489 thousand (previous year: €10,999 thousand) and social security liabilities totalling €3,958 thousand (previous year: €4,305 thousand).

## 12 Contingent liabilities

€ thousand	31 Dec 2012	31 Dec 2011
Contingent liabilities from bill guarantees	17,100	41,957
Contingent liabilities from guarantees and warranties	10,260	2,720
	<b>27,360</b>	<b>44,677</b>

The contingent liabilities from bill guarantees result from the issuance and transfer of trade bills. The risks relating to guarantees and warranties, of which €10,260 thousand relate to affiliated companies, stem from binding letters of comfort (Patronatserklärung) in the amount of €2,000 thousand and guarantees in the amount of €8,260 thousand.

Taking into account what was known at the time this report was prepared, KRONES AG expects that the principal obligors will be able to fulfil the obligations underlying the contingent liabilities and therefore deems the risk of payout to be unlikely.



### 13 Other financial liabilities

€ thousand	31 Dec 2012	Amounts due in years 2–5	Amounts due in years after year 5	31 Dec 2011	Amounts due in years 2–5	Amounts due in years after year 5
Rental and lease agreements	26,112	12,411	0	23,338	13,436	0
Maintenance contracts	16,509	5,716	0	19,229	9,000	0
	<b>42,621</b>	<b>18,127</b>	<b>0</b>	<b>47,567</b>	<b>22,436</b>	<b>0</b>

The lease liabilities, of which €0 thousand are to affiliated companies, result primarily from the leases on our vehicle fleet and on data storage systems.

The liabilities from maintenance contracts are related to IT (hardware and software) and office communication devices.

### 14 Sales revenue

Breakdown by region	2012	2011
Germany	10.1%	11.4%
Rest of Europe	24.8%	27.5%
Other regions	65.1%	61.1%

### 15 Other operating income

€ thousand	2012	2011
Income from currency translation	14,346	13,948
Prior-period income	61,832	36,409
Income from disposal of fixed assets	319	1,464
Income from reversal of provisions	58,191	25,621
Income from reduction in specific and global valuation allowances on receivables	1,585	5,507
Income from reduction in the discounting of receivables	247	110
Income from derecognition of liabilities	832	2,215
Income from reversals of write-downs and costs subsequently added to the carrying amounts of assets	548	871
Other prior-period income	110	621

## 16 Personnel expenses

€ thousand	2012	2011
Wages and salaries	523,758	513,442
Social security, post-employment and other employee benefit costs	94,946	91,951
of which for post-employment benefits	6,009	6,855
<b>Total</b>	<b>618,704</b>	<b>605,393</b>

Average number of employees for the year (excluding trainees)	2012	2011
Employees covered by collective agreements	6,292	6,005
White-collar employees exempt from collective agreements	2,096	1,974
<b>Total</b>	<b>8,388</b>	<b>7,979</b>

The company employed 462 trainees on average in 2012 (previous year: 463 trainees).

## 17 Depreciation, amortisation, and write-downs

Scheduled amortisation of intangible fixed assets amounting to €5,383 thousand were taken on purchased concessions, industrial and similar rights and assets, and licenses in such assets.

Scheduled depreciation of tangible fixed assets totalling €40,026 thousand were taken on land and buildings (€8,780 thousand), technical equipment and machinery (€12,741 thousand), and other equipment, operating and office equipment (€18,505 thousand). Unscheduled depreciation and write-downs on buildings totalled €47 thousand.

## 18 Other operating expenses

€ thousand	2012	2011
Operating costs	98,792	120,577
Administrative expenses	49,344	43,235
of which losses from currency translation	21,001	15,401
Selling expenses	206,773	183,970
Prior-period expenses	815	1,106
of which losses on disposal of fixed assets	33	21
of which losses on receivables	447	594

## 19 Financial income (expense), net

€ thousand	2012	2011
Income from long-term equity investments		
Income from long-term equity investments in affiliated companies	12,120	10,288
Interest income (expense)		
Income from other securities and long-term loans	467	893
Other interest and similar income		
from affiliated companies	10	21
from other companies	558	1,842
from discounting	2,674	45
Interest and similar expenses		
to affiliated companies	-725	-868
to other companies	-2,210	-2,002
from discounting	-6,116	-4,848
Net interest income (expense)	-5,342	-4,917
Write-downs of long-term financial assets	-7,000	-12,003
<b>Net financial income (expense)</b>	<b>-222</b>	<b>-6,632</b>

Write-downs of long-term financial assets totalling €7,000 thousand were taken on shares in affiliated companies.

The interest income arising from the discounting of long-term provisions results primarily from the discounting of order-specific provisions.

The interest expense arising from the discounting of long-term provisions results primarily from the discounting of provisions for pensions and similar obligations (€5,305 thousand), the discounting of provisions for partial retirement (€416 thousand), and the discounting of provisions for anniversary bonuses (€218 thousand).

## 20 Income taxes and other taxes

The item »taxes on income« includes tax charges for the financial year. The income tax expense includes prior-period tax income of €2,238 thousand.

The other taxes include property tax, motor vehicle tax, and other taxes.

## 21 Deferred taxes

The single-entity financial statements of KRONES AG would show deferred tax assets at 31 December 2012 totalling €29,242 thousand.

Temporary measurement differences on assets, liabilities, and items of prepaid expenses and deferred income resulted in deferred tax assets totalling €17,672 thousand. These relate to differences in »raw materials, consumables and supplies«, »trade receivables«, »provisions for pensions and similar obligations«, and »other provisions«.

Moreover, at 31 December 2012 deferred tax assets of €11,570 thousand result from tax loss carryforwards for corporate income tax and local business (trade) tax purposes.

The taxes are calculated on the basis of the tax rates that apply in Germany – that is, a corporate income tax rate of 15.0% plus the solidarity surcharge of 5.5% and a local business tax rate (Gewerbsteuerhebesatz) for KRONES AG that averages 328%. The resulting total income tax rate is 27.3%.

Because the result is an excess of deferred tax assets, no use was made of the option for recognition provided for under § 274 (1) Sentence 2 HGB.

## 22 Corporate Governance Code

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 28 March 2013 at KRONES AG's website. The exceptions are also listed there.

## 23 Notifications of shareholdings in KRONES AG

The company has been notified of the following shareholdings pursuant to §§ 21 et seq of the German Securities Trading Act (WpHG) of 9 July 2004:

Name of shareholder	Total share of voting rights	Of which attributable indirect voting rights pursuant to § 22 (2) of the Securities Trading Act
Mr. Volker Kronseder, Germany	54.04%	43.91%
Mr. Harald Kronseder, Switzerland	54.04%	43.92%
Mr. Norman Kronseder, Germany	54.04%	43.85%
Mr. Gunther Kronseder, Germany	54.04%	49.82%
Beteiligungsgesellschaft Kronseder mbH, Germany	54.04%	34.85%
Kronseder Holding GmbH, Germany	54.04%	53.84%

### Related parties

Due to the existence of a pooling agreement relating to voting rights, the persons and enterprises listed in the notification pursuant to § 21 et seq of the German Securities Trading Act above have a controlling influence over KRONES AG.

## 24 Audit fees

Expenses of €448 thousand were incurred in the financial year 2012 for the legally mandated audits of the annual and consolidated financial statements. Expenses of €61 thousand were incurred for tax advisory services.

## 25 Derivative financial instruments

KRONES AG uses derivative financial instruments solely for the purpose of hedging currency risks in operations and therefore practices micro-hedging. Changes in the value of the hedged items and the hedging instrument largely offset each other over the term of the hedge since material details of the contract, such as term and amount, are largely identical for the hedged item and the hedging instrument. KRONES AG does not use derivative financial instruments for speculative purposes. The derivative financial instruments, with a fair value of –€816 thousand (previous year: –€5,218 thousand), essentially cover the currency risks relating to the British pound, the Canadian dollar, the Australian dollar, and the US dollar. 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. The financial instruments are essentially composed of forward exchange contracts at a secured volume of €115,764 thousand (previous year: €164,688 thousand).

**26 Other**

The mediation process with US financial services companies, which relates to the financial scandal involving the bankruptcy of the US company Le-Nature's, was concluded in the reporting period. The effects on earnings are presented in the management report on page 44.



The basic structure of the compensation system for the members of the Executive Board and the compensation paid to the Executive Board and the Supervisory Board during the reporting period are explained in the compensation report. The compensation report supplements the corporate governance report and is part of the management report.

For the financial year 2012, the direct fixed remuneration of the five active members of the Executive Board was €2,593 thousand (previous year: €2,912 thousand). This fixed amount is the base pay stipulated in the members' contracts and is paid out in equal monthly amounts as a salary. In addition, the members of the Executive Board received fringe benefits in the form of non-cash benefits (company car) amounting to €74 thousand (previous year: €91 thousand). In 2012, the variable compensation amounted to €1,605 thousand (previous year: €2,167 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. In 2012, as in the previous year, no such compensation came due for payment as scheduled following the 10-year waiting period. Provisions for the performance incentive amounted to €1,074 thousand at the end of the financial year (previous year: €1,022 thousand).

Pension provisions of €2,709 thousand (previous year: €1,350 thousand) were recognised for active members of the Executive Board.

For former members of the Executive Board and their surviving dependents, payments amounting to €768 thousand (previous year: €510 thousand) were made and a €613 thousand excess of plan assets over pension liability was recognised (previous year: provision of €644 thousand).

The total remuneration paid to members of the Supervisory Board amounted to €428 thousand (previous year: €356 thousand) including variable portions totalling €96 thousand (previous year: €24 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.

## Proposal for the appropriation of retained earnings

KRONES AG had retained earnings of €74,039,625.73 at 31 December 2012.

We propose to the annual shareholders' meeting on 19 June 2013 that this amount be used as follows:

Proposal for the appropriation of retained earnings	€
Dividend of €0.75 per share	22,625,738.25
Amount brought forward to new account	51,413,887.48

Neutraubling, 28 March 2013

KRONES AG

The Executive Board



Volker Kronseider  
(Chairman)



Christoph Klenk



Rainulf Diepold



Werner Frischholz



Thomas Ricker

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  
\* since 3 April 2012  
ZF FRIEDRICHSHAFEN AG

**Werner Schrödl\*\***  
Chairman of the Central Works Council  
Deputy Chairman of the Supervisory Board  
\* since 1 January 2012  
VERWALTUNGSRAT DER BAYERISCHEN BETRIEBSKRANKENKASSEN

**Klaus Gerlach\*\***  
Senior Vice President  
Material Management  
since 13 June 2012

**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  
\* since 01.10.2012  
CONSORTIUM GASTRONOMIE GMBH

**Norman Kronseder**  
Farmer and forester  
\* BAYERISCHE FUTTERSAAATBAU 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\*\***  
Senior Vice President  
Sales Lcs  
until 13 June 2012

**Petra Schadeberg-Herrmann**  
Managing partner at KROMBACHER FINANCE GMBH, SCHAWEI GMBH, DIVERSUM HOLDING GMBH & CO. KG

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

**Josef Weitzer\*\***  
Deputy Chairman of the Works Council  
\* SPARKASSE REGENSBURG

**Executive Board**

**Volker Kronseder**  
Chairman  
Human Resources and Corporate Communications

**Christoph Klenk**  
Finance and Information Management

**Rainulf Diepold**  
Sales and Marketing

**Werner Frischholz**  
Operations and Service

**Thomas Ricker**  
Technology, Engineering, Research and Development

\* 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.

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the accounting records and the management report of KRONES Aktiengesellschaft, Neutraubling, for the financial year from 1 January to 31 December 2012. The accounting records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements together with the accounting records and on the management report based on our audit.

We conducted our audit of the annual 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 annual financial statements in accordance with the German generally accepted accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company 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 accounting records, the annual financial statements and the management report are examined primarily on the basis of samples within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the 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 annual financial statements comply with the requirements of the law and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German generally accepted accounting principles. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Regensburg, 28 March 2013

KPMG Bayerische Treuhandgesellschaft  
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Braun  
(German Public Auditor)

Herr  
(German Public Auditor)

Corporate governance	Framework for responsible corporate management and supervision that is oriented toward sustainability.
DAX	Deutscher Aktienindex (DAX). Index containing the 30 biggest German companies (based on market capitalisation and trading volume).
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBT	Earnings before taxes.
EBT margin	Ratio of earnings before taxes to sales. (Return on sales).
Equity	Funds made available to the company by the owners by way of contribution and/or investment plus retained earnings.
Fixed assets	Assets intended to serve the company's business operations for the long term. In the context of this report, fixed assets include property, plant and equipment, intangible assets, and long-term financial assets.
Free float	Portion of the total number of shares outstanding that is available to the public for trading (i.e. not held by big investors).
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.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Working capital	Calculated as follows: (trade receivables + inventories + prepayments) – (trade payables + advances received)
XETRA trading system	Deutsche Börse AG's electronic stock market trading system.



<b>Aseptic beverage filling</b>	Germ-free filling of beverages at ambient temperature.
<b>Bloc solutions</b>	Two or more individual machines – such as a stretch blow-moulder and a filler – are directly connected. The ErgoBloc L for the wet section of the line comprises a stretch blow-moulder, a labeller, and a filler.
<b>Brewhouse</b>	In the brewhouse, the raw materials malt, hops, and water are processed in several stages to produce beer.
<b>Contipure</b>	Module of the Contiform stretch blow-moulder that sterilises preforms before they are formed into PET containers. The heated preforms are treated with gaseous hydrogen peroxide (H <sub>2</sub> O <sub>2</sub> ) in a sealed chamber.
<b>Contiroll</b>	KRONES labeller that applies wrap-around labels to glass, plastic, and metal containers.
<b>EHEDG</b>	The European Hygienic Engineering & Design Group (EHEDG) is a consortium of experts comprising machinery and component manufacturers, specialists from the food industry, research institutions, and public health authorities. The principal goal of the EHEDG is to promote safe food production by helping to improve hygienic engineering and design in all aspects of food production.
<b>Filter cellar</b>	After storage in special tanks, beer is filtered to remove solids and components that cause the beer to appear cloudy. This process takes place in filtration equipment located in the brewery's filter cellar.
<b>HygienicDesign</b>	Design for machines and lines that is optimised for hygiene and easy cleaning.
<b>Inspector</b>	Machine that checks empty or full bottles and other containers for damage or contamination.
<b>Intralogistics</b>	The internal flow of materials and goods within a company, including warehouse, order-picking, and conveyance systems.
<b>Multireel</b>	Machine that can hold multiple label reels and automatically feeds them into a labeller.
<b>PET</b>	Polyethylene terephthalate, a thermoplastic material from the polyester family used for producing beverage bottles.
<b>Preforms</b>	Blanks made of PET plastic, similar in shape and size to test tubes. Preforms are made into PET bottles in a stretch blow-moulder.
<b>Small cavity</b>	Blow mould for PET containers with a volume of up to 0.75 litres.
<b>Stretch blow-moulder</b>	A stretch blow-moulder produces containers made of PET plastic (polyethylene terephthalate). The PET preforms are heated and then fed into a blow mould where compressed air is used to blow and mould them into finished containers.
<b>Stretching</b>	Containers made of PET plastic are produced on a stretch blow-moulder. Stretching is part of the stretch blow-moulding process. Once a preheated preform is fed in the blow mould and the mould is closed, a stretching rod descends into the mouth of the preform from above, mechanically stretching the preform. At the same time, compressed air is blown into the stretched preform, pressing the PET material against the walls of the blow mould. As a result of this process, the container obtains the desired form.



## Contact

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