

*Growing profitably* Annual Report 2012

## 2012 highlights

- KRONES increased revenue 7.4% to €2,664.2 million.
- Earnings before taxes (EBT) rose from €74.6 million in the previous year to €97.9 million.
- KRONES settled its legal disputes in the USA. That resulted in a €37.8 million charge against 2012 EBT.
- The Executive Board and Supervisory Board propose a dividend of €0.75 per share (previous year: €0.60 per share).

		2012	2011	Change
Revenue	€ million	2,664.2	2,480.3	+7.4%
New orders, including Lifecycle Service	€ million	2,721.1	2,514.0	+8.2%
Orders on hand at 31 December, including Lifecycle Service	€ million	999.3	942.4	+6.0%
EBIT	€ million	92.3	70.6	+30.7%
EBT	€ million	97.9	74.6	+31.2%
Consolidated net income	€ million	67.0	43.7	+53.3%
Earnings per share	€	2.22	1.45	+53.1%
Dividend per share	€	0.75*	0.60	+25.0%
Capital expenditure for				
PP&E and intangible assets	€ million	110.9	106.0	+4.9
Free cash flow	€ million	30.6	-7.4	+38.0
Net cash position	€ million	132.9	125.5	+7.4
ROCE	%	9.9	7.9	
Employees at 31 December				
Worldwide		11,963	11,389	+574
Germany		9,076	8,887	+189
Outside Germany		2,887	2,502	+385

\* As per proposal for the appropriation of retained earnings

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.



## CONSOLIDATED MANAGEMENT REPORT

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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 area 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. KRONES had already recognised provisions relating to the proceedings in the 2011 financial statements. We increased the provision in the third quarter of 2012. As a result, a one-time expense of €37.8 million reduced earnings before taxes for the financial year 2012.

Our company's operations performed well in 2012 despite the difficult economic environment. KRONES grew further thanks to our strong position in the emerging markets. Consolidated revenue was up 7.4% over 2011, to €2,664.2 million. Earnings before taxes rose from €74.6 million in the previous year to €97.9 million. 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 18 through 39. 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 urbani-



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

*Volker Kronseder  
Chairman of the Executive Board*

sation 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 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 our 11,963 employees 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 company'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 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.

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 separate 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 FUTTERSAAKTBAU  
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.

## Q1

New orders: €659.8 million

Revenue: €648.6 million

Earnings before taxes: €32.5 million

Share price at 31 March 2012: €37.62



Business at KRONES was good in the first three months of 2012. Revenue was up 6.9% on the previous year, to €648.6 million. New orders rose 5.0% to €659.8 million. From January to March 2012, KRONES generated €32.5 million in earnings before taxes.

At the end of January, KRONES released news regarding the company's legal disputes in the US. KRONES entered into a mediation process with several plaintiffs to explore options for ending the long-running proceedings.

At the Anuga FoodTec trade fair Cologne, Germany, KRONES unveiled its twin-flow process, in which juice and fruit bits are handled in two completely separate product flows and meet in the bottle. This process preserves the structure of the precious fruit chunks and saves resources.

KRONES' share price fluctuated sharply in the first quarter. It first climbed from around €37 to €44 in just a few weeks' time. Then it fell again to close the first quarter at €37.62, only about 2% higher than it had started the year.

## Q2

New orders: €668.0 million

Revenue: €641.1 million

Earnings before taxes: €31.5 million

Share price at 30 June 2012: €39.77



The outlook for the global economy worsened in the second quarter. KRONES fared well despite the difficult environment. At €641.1 million, quarterly revenue was down 1.5% year-on-year but still within our target range. The same was true for earnings before taxes, which came to €31.5 million (€2.5 million less than in the second quarter of 2011).

The annual shareholders' meeting was held on 13 June in Neutraubling. The Executive Board informed shareholders about the current status of the Value strategy programme and explained KRONES' targets. Shareholders received a dividend of €0.60 per share for the financial year 2011, which is €0.20 more than in the previous year.

The mood on the stock markets was sour in the period from April to June, due largely to fears over the future of the euro. The DAX lost around 8% in the second quarter. The MDAX mid-cap index dropped 3.3%. The KRONES share fared better, gaining 5.7% in the period from April to June.



## Q3

New orders: €639.5 million

Revenue: €607.9 million

Earnings before taxes: –€13.6 million

Share price at 30 September 2012: €41.65



On 6 July, Executive Board Chairman Volker Kronseder helped inaugurate KRONES' new training centre in Neutraubling. The new hall is twice the size of the previous one. It is equipped with state-of-the-art machines on which young trainees can gain skills and knowledge that are important for their future careers. The investment in the new training centre is another example of KRONES' ongoing commitment to training young talent.

KRONES posted a loss for the third quarter of 2012. The reason for the negative result was that the company increased its provision for the legal disputes in the US, resulting in a one-time expense. Operating earnings before taxes (EBT), that is EBT without accounting for the one-time expense, were up year-on-year in the third quarter, from €14.9 million to €27.0 million.

The KRONES share price rose further in the third quarter. In all, it climbed 4.7% to €41.65 in the period from July to September.

## Q4

New orders: €753.8 million

Revenue: €766.6 million

Earnings before taxes: €47.5 million

Share price at 31 December 2012: €47.00



In early November, KRONES was able to end the legal disputes in the US that had been ongoing since October 2008. KRONES decided to settle with the plaintiffs in order to eliminate the possible risks arising from the proceedings, which might otherwise have dragged on for years.

KRONES was well represented at the trade fairs that take place each fall. The Brau Beviere in Nuremberg, a major capital goods fair for the beverage industry, went especially well for KOSME. Customers showed great interest in the products offered by our smallest segment.

In the period from October to December, revenue was up 15.1% year-over-year to €766.6 million. With that, KRONES grew 7.4% in 2012. Fourth-quarter earnings before taxes came to €47.5 million.

The KRONES share had a good final quarter, benefiting particularly from the improved sentiment on the stock markets in general. The KRONES share price climbed nearly 13% in the last quarter of 2012, to €47.00.

KRONES offers machinery and complete systems for filling and packaging and for beverage production. KRONES' customers include breweries, beverage producers, and companies from the food, chemical, pharmaceutical, and cosmetic industries. KRONES offers all of the products and services they need from a single source – from constructing new beverage plants to getting the finished product out the door. The company is organised in three segments:

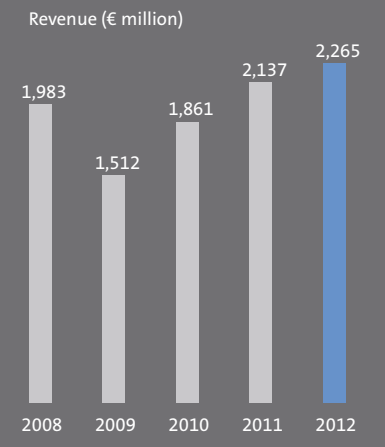
Product filling and decoration



KRONES' core business area – by far the company's largest and most profitable segment – offers machines and complete lines for filling, packaging, labelling, and conveying products. Machines for producing PET containers and converting used plastic bottles into food grade recycled material (PET recycling systems) are also part of this segment.

	2012	2011
EBT (€ million)	119.2	108.9
EBT margin (%)	5.3	5.1
Employees*	10,513	10,045

\*Consolidated group

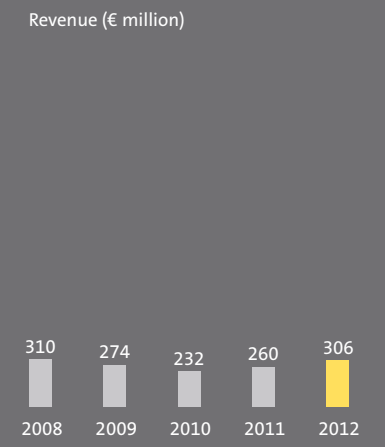


Beverage production/process technology



This segment includes brewhouse and cellar systems (i.e. products for breweries). Equipment used for treating sensitive beverages such as milk and for producing dairy drinks and fruit juices is also part of this KRONES segment. Material flow technology/intralogistics is also part of the »beverage production/process technology« segment.

	2012	2011
EBT (€ million)	-13.6	-19.3
EBT margin (%)	-4.5	-7.4
Employees*	671	664

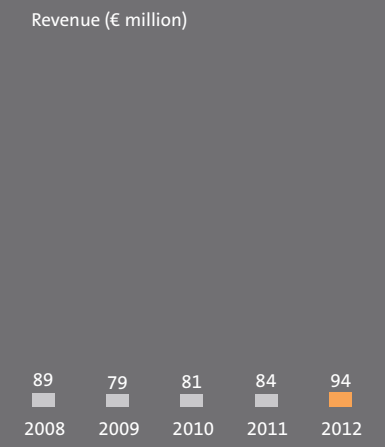


Low output range (KOSME)



Our subsidiary KOSME offers a product range similar to that of our »machines and lines for product filling and decoration« segment, but for the lower output range. With KOSME, we are able to serve smaller and mid-sized companies that do not need high-speed machines but nevertheless are committed to quality. Thus, KOSME perfectly complements KRONES' core business.

	2012	2011
EBT (€ million)	-7.6	-15.0
EBT margin (%)	-8.1	-17.9
Employees*	495	477

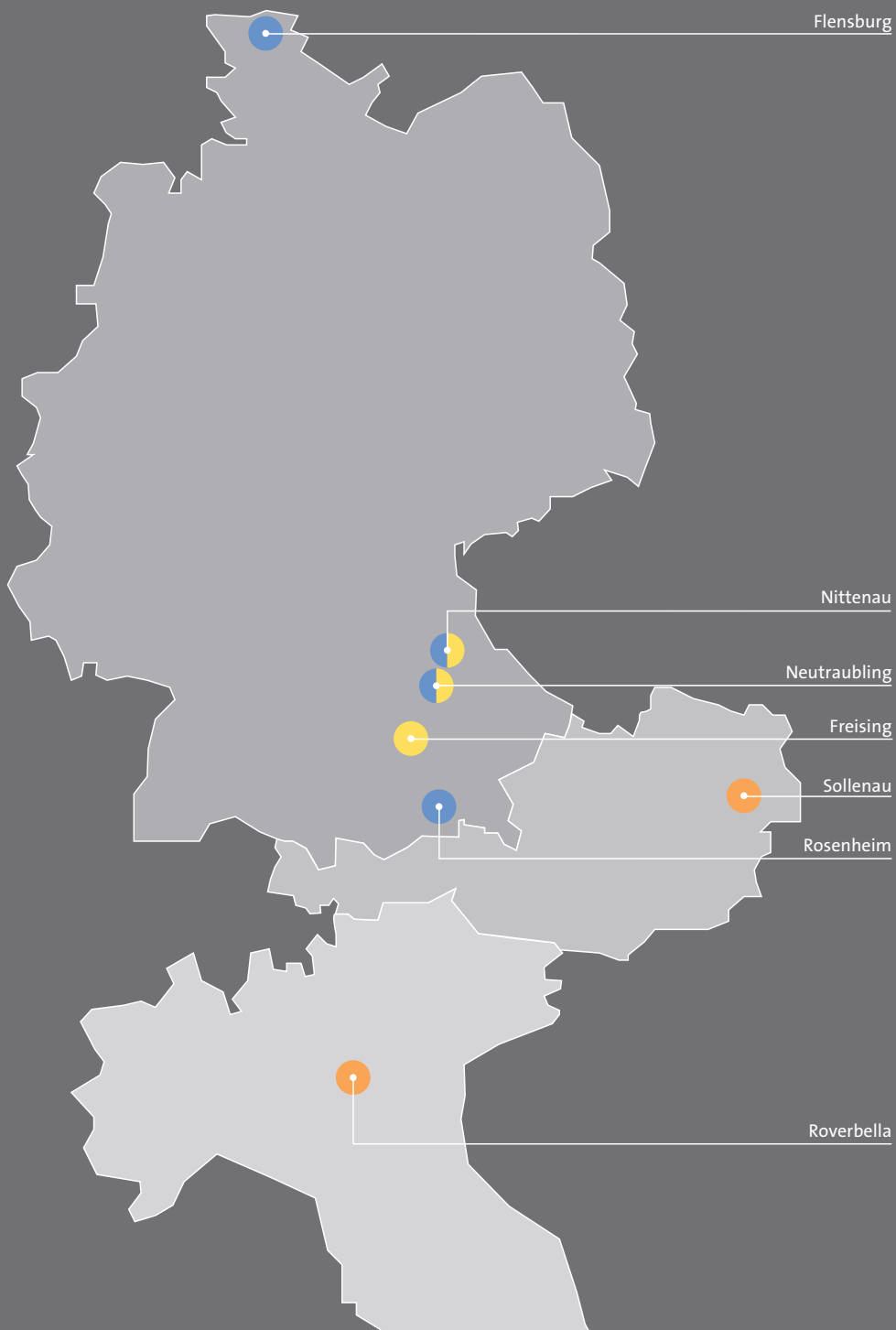




KRONES makes use of the advantages of that Germany offers as a business location, producing the lion's share of its machines and lines in Germany. Our subsidiary KOSME produces in Austria and Italy.

- Machines and lines for product filling and decoration
- Machines and lines for beverage production/process technology
- Machines and lines for the low output range (KOSME)

KRONES Group production sites for new machinery



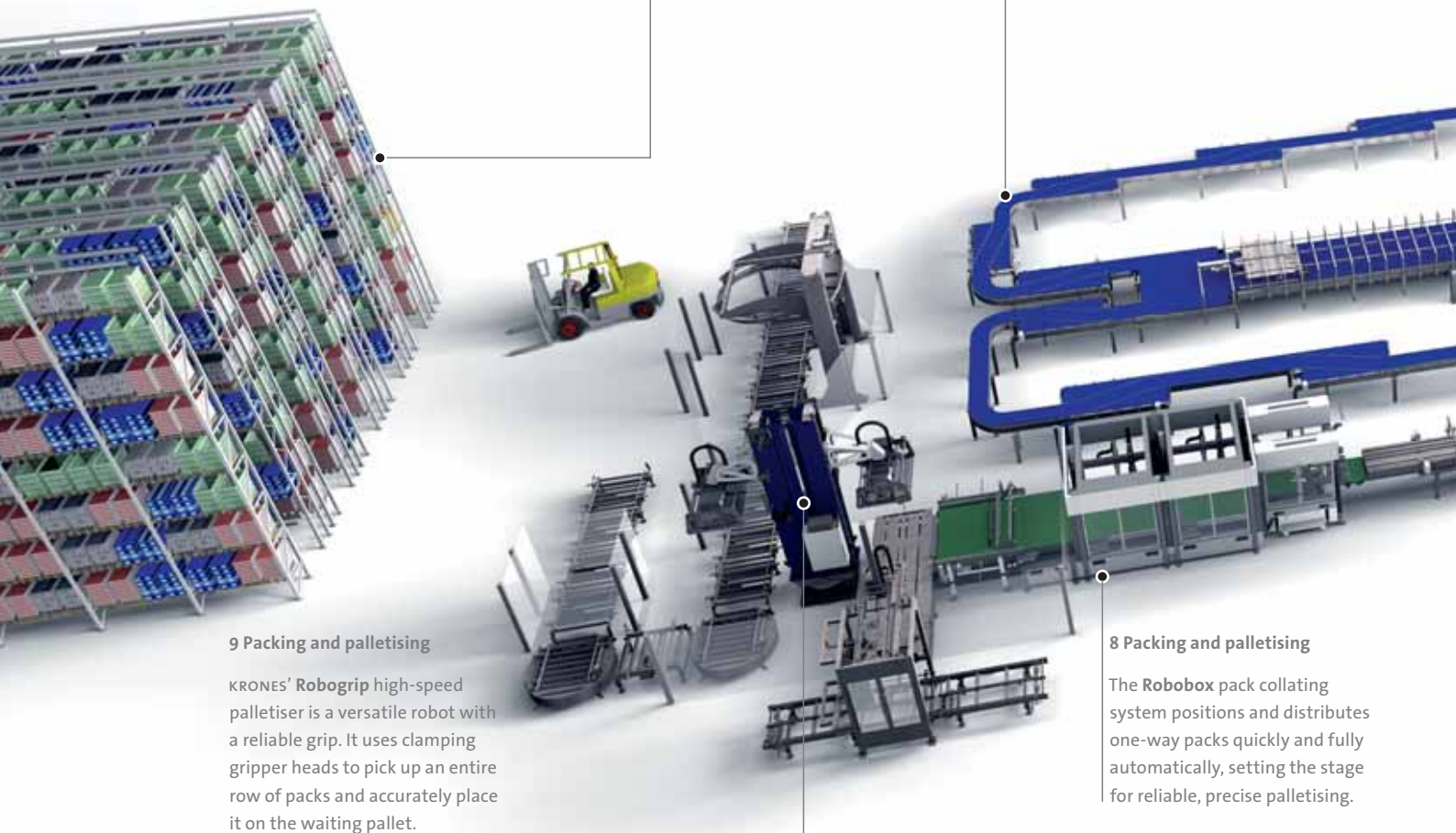
A KRONES filling line is composed of innovative individual machines and systems that produce, fill, label, and pack bottles. Custom IT solutions from KRONES control and document all processes within the line.

#### 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

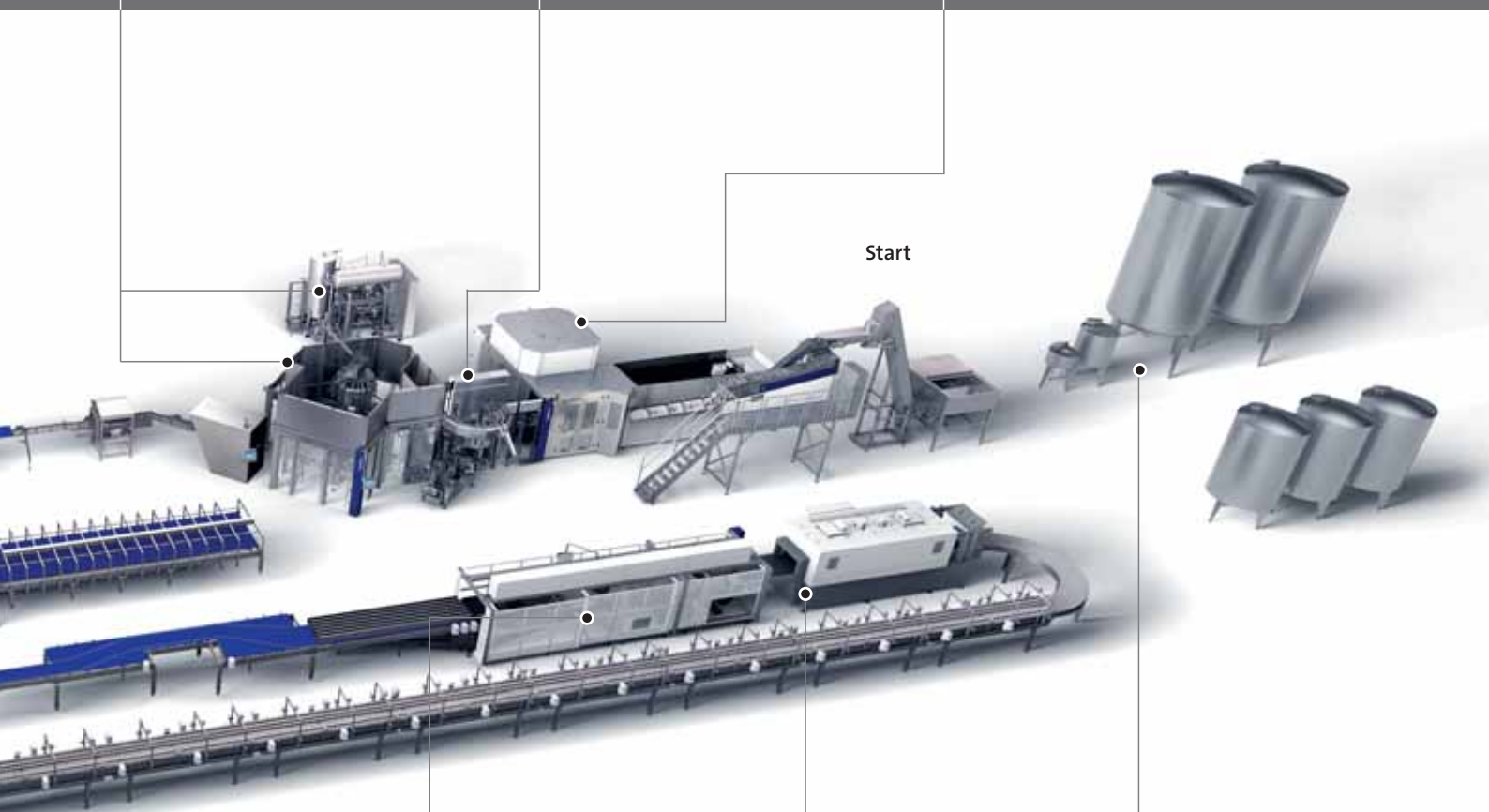
A variety of filling processes are available for each type of beverage and each type or shape of container. In KRONES' **Volumetric VODM** filler, an inductive flow meter precisely determines the correct fill quantity.

### 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.

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 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 (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 80) 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.

Value<sup>☀</sup>  
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.

*To achieve our targets, we have to further reduce costs in all three segments.*

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 102) 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, KRONES 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. The following pages show concrete examples of how KRONES implemented Value in the reporting period.



Christoph Klenk  
Chief Financial Officer

Growing  
*profitably*



KRONES is pursuing important strategic goals with the Value programme. The focus is on sustainable, profitable growth. The following pages contain concrete examples of how we are implementing Value in various parts of the company.

Growing  
*profitably*

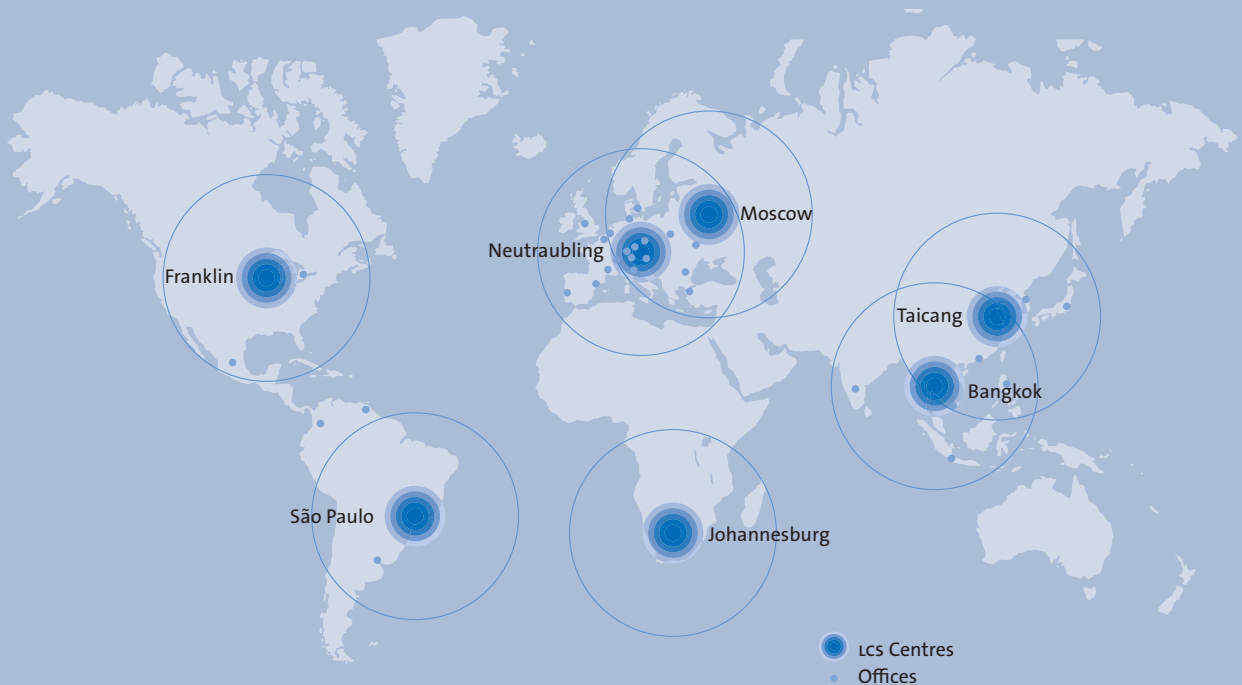
... through internationalisation

The emerging economies in China, the Asia-Pacific region, South America, and Africa offer KRONES big growth opportunities. With a revenue share totalling 62%, the emerging markets already account for a large portion of our business. Apart from new machinery sales, KRONES intends to further consolidate the already-strong position of our services business in the international markets.



We are expanding our local capacities to further strengthen our presence in the emerging markets, focussing particularly on our after-sales service business. To provide our customers with the best possible service, KRONES needs more people on the ground who speak our customers' language and understand their culture – to be closer and more responsive to our customers.

Case in point: We have steadily expanded our LCS Centre in Taicang, China, over the past several years. By the end of 2013, we will have nearly 500 people in China, delivering high-quality products and services to our customers – fast.



Growing  
*profitably*

... through components business

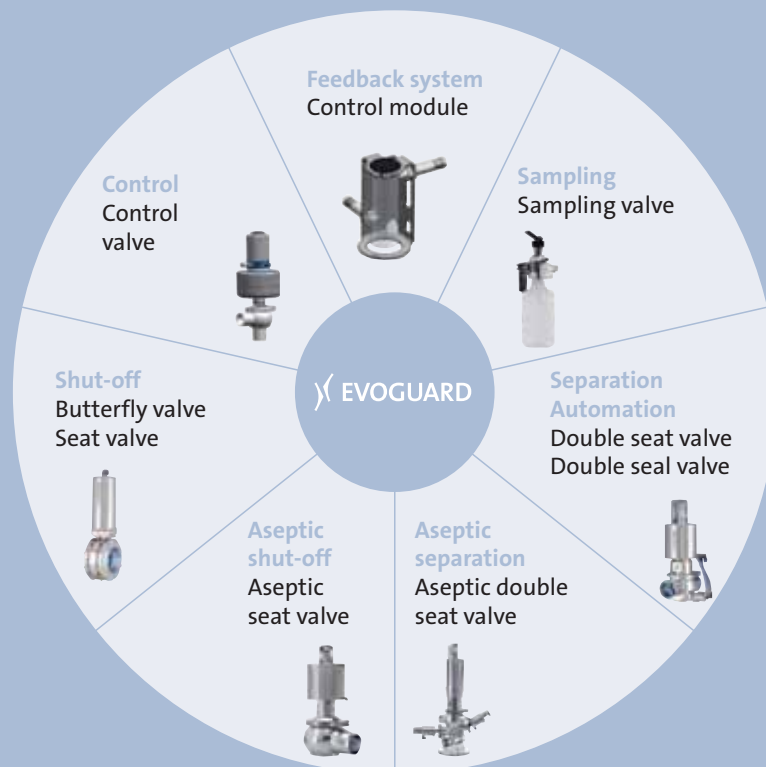
As part of the Value programme, KRONES intends to grow its activities in the profitable components market. That will not only increase our own share of the value added in the production of our machines and lines. It will also enable us to offer our components to customers outside our current target markets. EVOGUARD valve technology, which was developed in-house, is an important first step in this direction.



EVOGUARD



The EVOGUARD family of valves includes all of the valve designs required in the beverage industry. It even includes valves that are ideally suited for applications outside the food and beverage industry, such as chemicals, pharmaceuticals, and biotech. With EVOGUARD, we are tapping completely new customer potential. With EVOGUARD valves, we can now also serve the lucrative after-sales service business in our process technology segment.



Growing  
*profitably*

... through a large installed base

In the mature markets, the growing variety of our customers' products is supporting KRONES' growth. To withstand rising competitive pressures, beverage producers have to update and upgrade their existing lines. KRONES provides the products and services to accomplish that.



Competitive pressure is high in the international beverage industry. To distinguish themselves from the competition, KRONES' customers need flexible lines that can efficiently handle their highly individualised packaging.

KRONES has the know-how to quickly respond to customers' changing needs with retrofits and upgrades. One such example is an upgrade that enables customers to handle lighter-weight PET bottles with shorter screw caps on their existing machinery. That is valuable added value. Because it enables customers to use less packaging material and thus reduce their costs.



Growing  
*profitably*

... through innovation

To grow profitably, a company has to set itself apart from the competition with innovative products. Customers need lines that are dependable, powerful, and efficient. All new and continuing developments at KRONES are informed by these requirements. Our aim is to provide our customers with solutions that ensure reliable, cost-effective production.

Value   
create value together





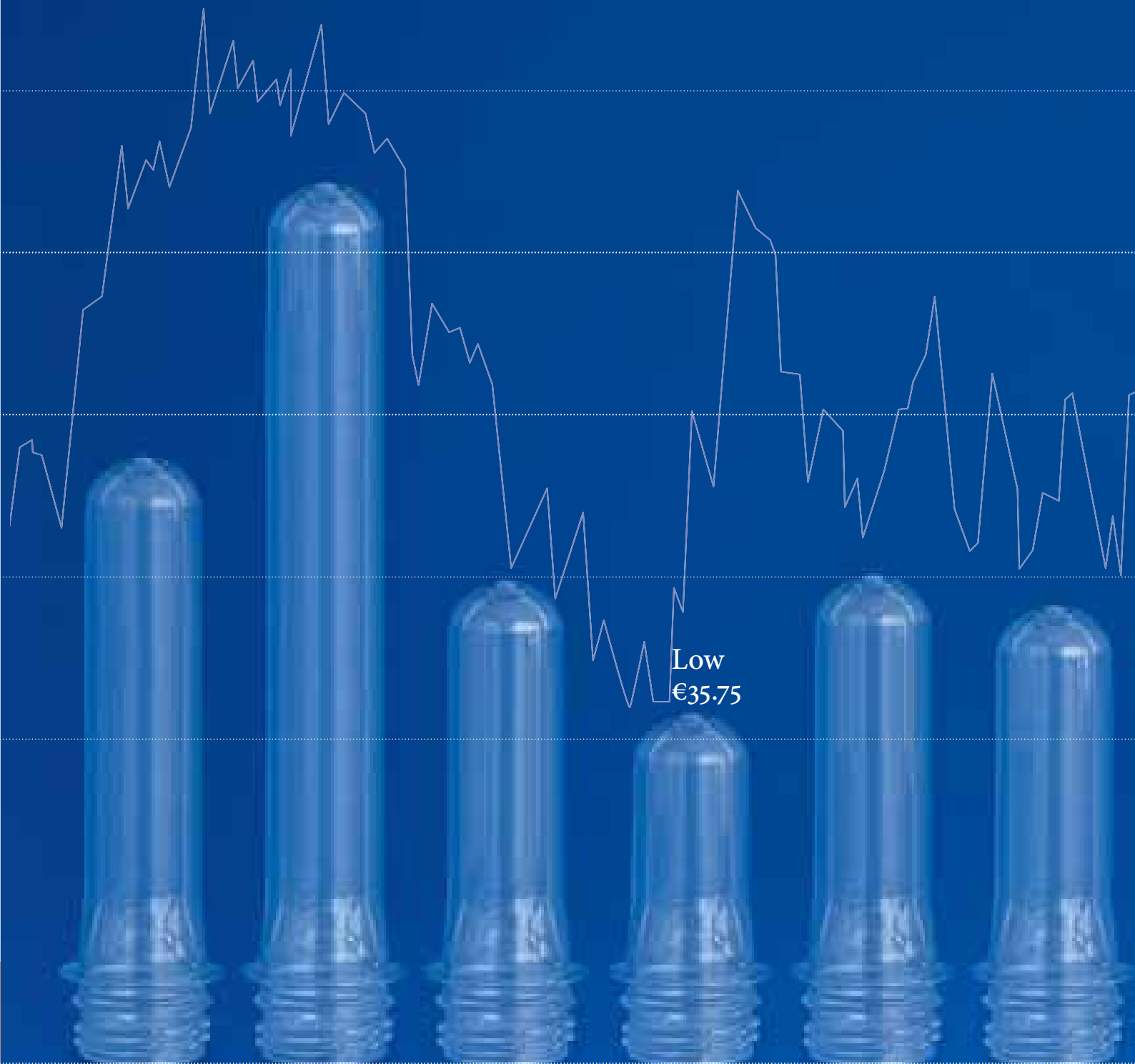
One example of our innovative power is the ErgoBloc L, a bloc solution for the wet end of the line that can fill up to 81,000 containers per hour. KRONES made targeted innovations to optimise each of the individual machines for use in a bloc system and then linked them together with intelligent control 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.



## 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.

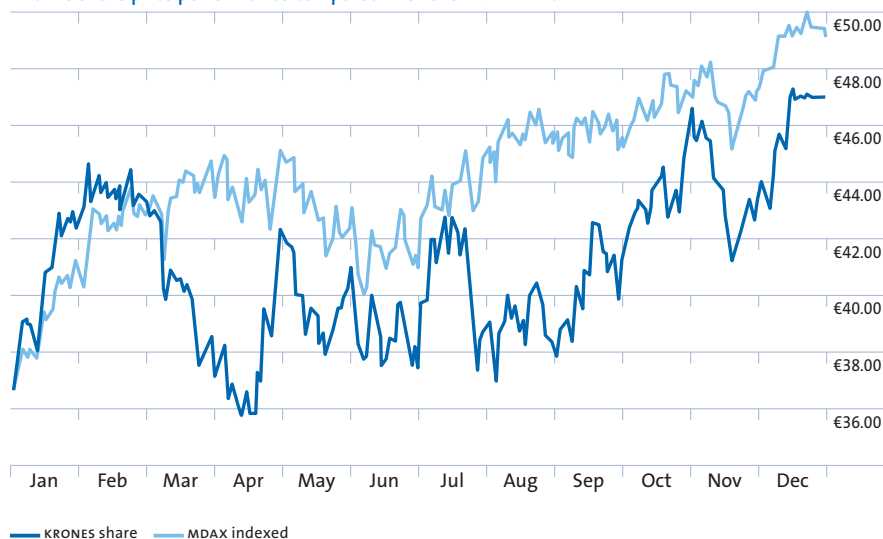


*»A lot happened at KRONES in 2012. We kept the capital markets informed of all developments in a timely and transparent manner.«*

*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
Free cash flow per share*	€	1.01	-0.25	0.09
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

\*\* 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.

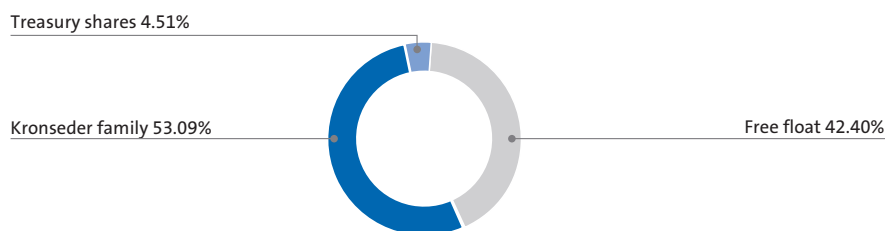
### Key data for the KRONES share

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%.

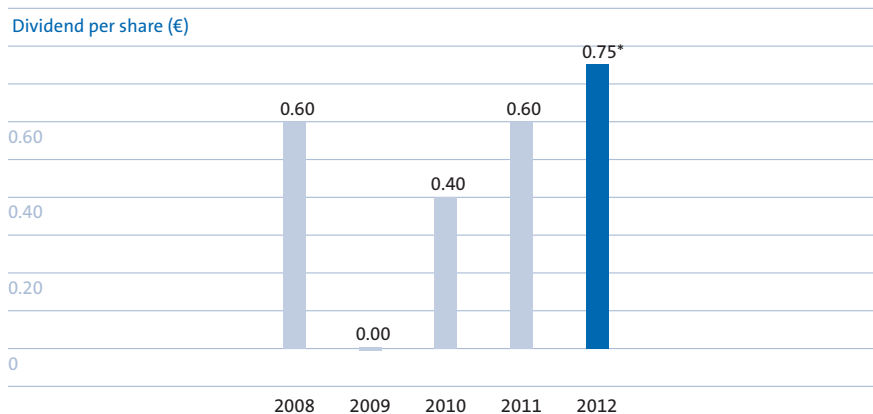
### Shareholder structure (March 2013)



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

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

KRONES' long-term dividend policy aim is to distribute 20% to 25% of profit. Earnings for the financial year 2012 were burdened by the one-time effect relating to the US litigation. 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%).

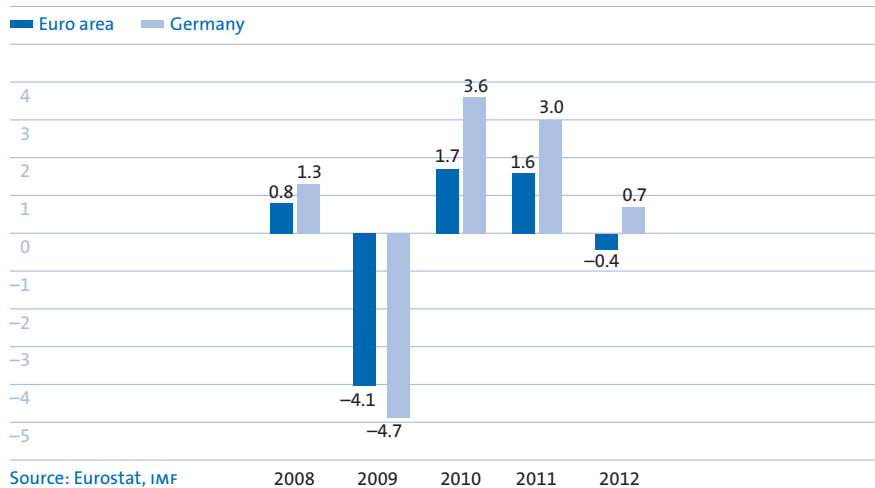
*The global economy grew 3.2% year-on-year in 2012.*

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

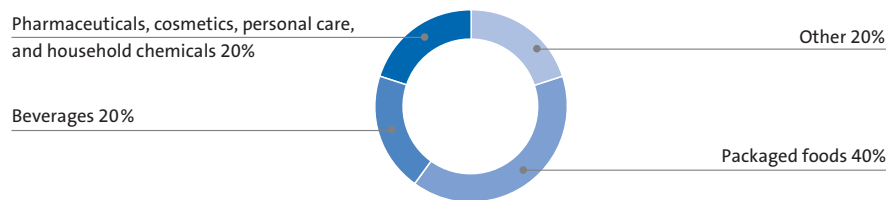
Rapidly declining orders intake from euro zone countries and weak domestic orders made things difficult for German machinery manufacturers in 2012. Nevertheless, the year generally went a little better than expected for the industry. In September, the German Engineering Federation (VDMA) raised its output 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.*

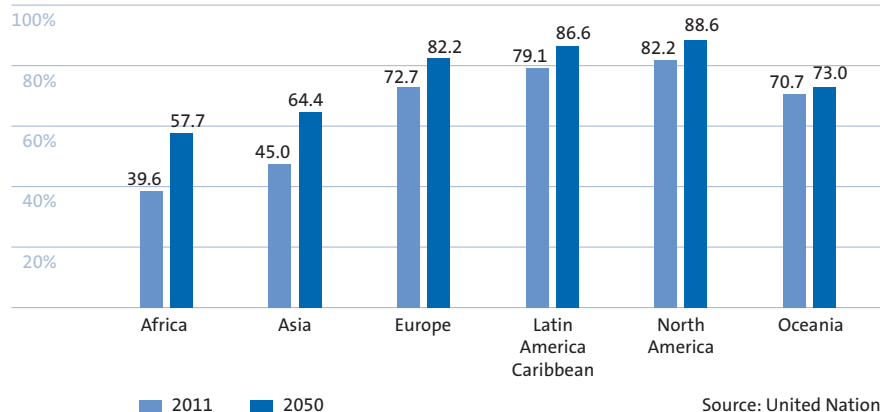
### The global market for packaging machinery by application



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.

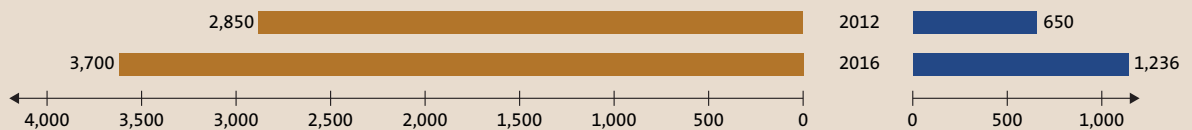


\*Annual average growth rate from 2012 to 2016

+7%\*

+17%\*

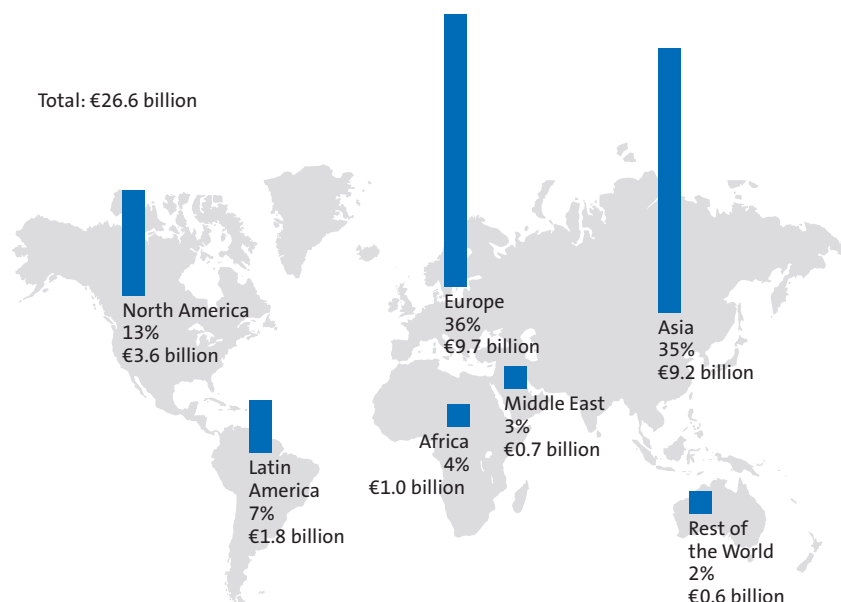
Packaged volume (million litres)



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

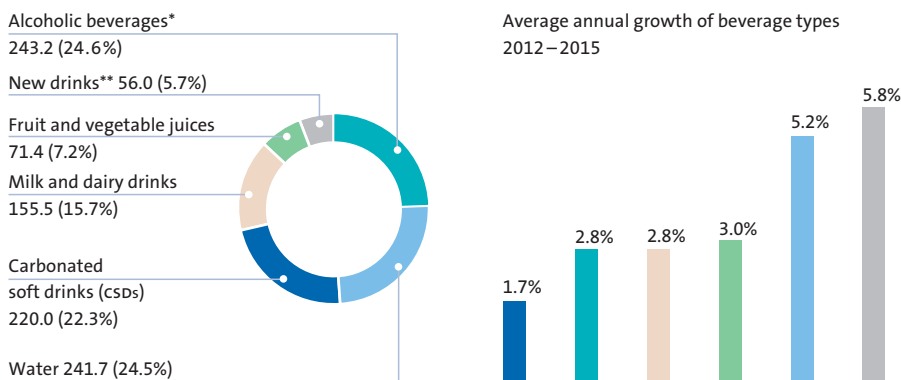
*Demand for packaging machinery in Asia has grown rapidly in recent years. The Asian market is now nearly as large as the European market.*

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 consolidated 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. Euromonitor 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.

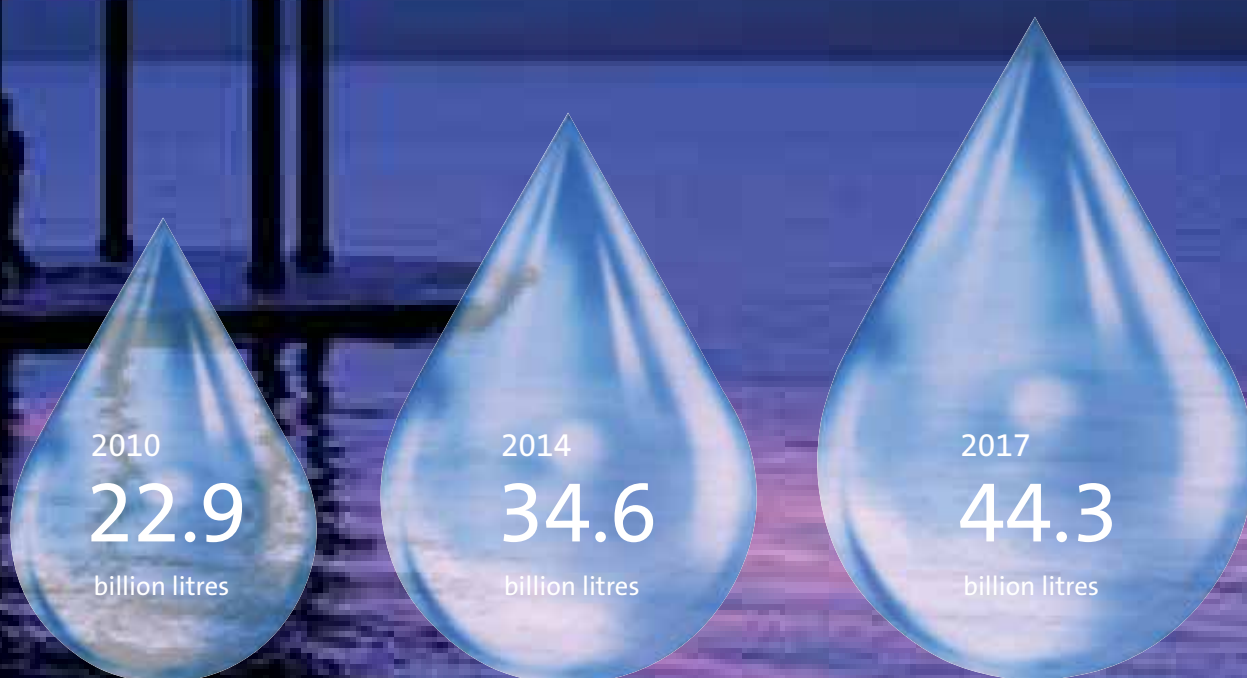
That means that, at the end of 2013, water consumption will already be higher than consumption of packaged alcoholic beverages, which amounted to 243.2 billion litres last year. Of that, some 194 billion litres were beer. In China, beer is quite popular and demand is rising sharply. On the other hand, 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

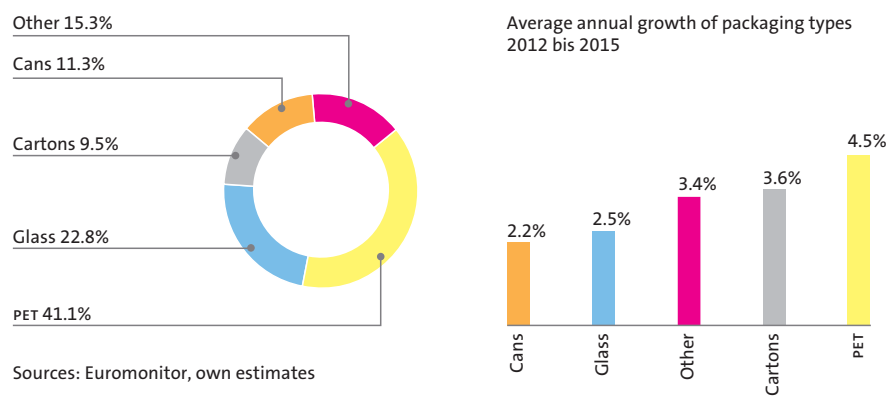
PET continued to grow its lead among packaging materials in the reporting period. Preliminary data show that PET containers were used for 41.1% of packaged beverages worldwide in 2012 (previous year: 39.7%). The steadily rising consumption of water, which is often packaged in PET bottles, as are carbonated 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.

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.

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



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

## KRONES in figures

KRONES improved all key performance indicators in 2012. Consolidated revenue was up 7.4% to €2,664.2 million. Earnings before taxes rose from €74.6 million in the previous year to €97.9 million. KRONES plans to pay out a dividend of €0.75 per share for 2012 (previous year: €0.60 per share).

Germany  
8.4%

Central  
Europe  
3.6%

Western  
Europe  
13.5%

Eastern  
Europe  
4.1%

Middle East/  
Africa  
14.4%



Russia  
4.3%

Asia-Pacific  
12.8%

China  
13.5%

North  
and Central  
America  
12.3%

South  
America  
13.1%



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

### KRONES revenue up 7.4% in 2012

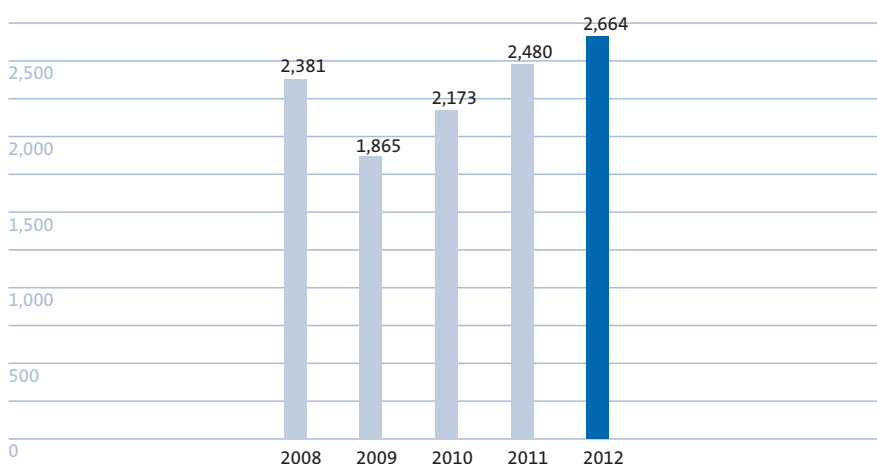
KRONES grew further in 2012 despite the challenging economic environment. Consolidated revenue rose 7.4% year-on-year from €2,480.3 million in 2011 to €2,664.2 million. Strong fourth-quarter sales in 2012 enabled us to beat our target of up to 4% growth. Overall, KRONES benefited from its broad range 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.

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

KRONES Group revenue (€ million)



*KRONES' revenue has increased by 12.6% each year on average since the 2009 financial crisis.*



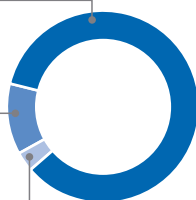
## Revenue by segment

### KRONES Group revenue by segment

Machines and lines  
for product filling  
and decoration  
84.8% (€2,258.3 million)

Machines and lines  
for beverage production/  
process technology  
11.7% (€311.9 million)

Machines and lines  
for the low output range  
(KOSME)  
3.5% (€94.0 million)

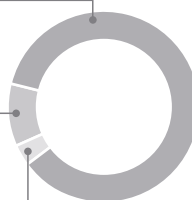


Revenue in 2012: €2,664.2 million

Machines and lines  
for product filling  
and decoration  
86.1% (€2,137.0 million)

Machines and lines  
for beverage production/  
process technology  
10.5% (€259.7 million)

Machines and lines  
for the low output range  
(KOSME)  
3.4% (€83.6 million)



Revenue in 2011: €2,480.3 million

*KRONES generated 85% of consolidated revenue in its core segment in 2012.*

Revenue in our core segment, »machines and lines for product filling and decoration«, rose 5.7% year-on-year to €2,258.3 million in 2012 (previous year: €2,137.0 million). With that, segment's share of consolidated revenue was 84.8% (previous year: 86.1%).

KRONES' »machines and lines for beverage production/process technology« segment generated €311.9 million in revenue in the reporting period, 20.1% more than in 2011 (€259.7 million). The segment's share of consolidated revenue increased to 11.7% (previous year: 10.5%).

Revenue in the »machines and lines for the low output range (KOSME)« segment improved 12.6% from €83.6 million in the previous year to €94.0 million. KRONES' smallest segment contributed 3.5% of consolidated revenue (previous year: 3.4%).

*Further information can be found in the section »Reports from the segments«, which begins on page 74, and under »Segment reporting« in the notes to the consolidated financial statements on page 126.*

## 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 11.5% from €253.2 million the previous year to €224.1 million in 2012. Thus, sales in Germany accounted for only 8.4% (previous year: 10.2%) of KRONES' consolidated revenue.

*KRONES generated around 62% of consolidated sales in the emerging markets in 2012.*

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 2.3% year-on-year to €358.2 million, Eastern Europe revenue rose 13.1% to €110.4 million. Our KOSME subsidiaries have a good market position in Central Europe (Austria, Switzerland, Netherlands) and supported our growth there. Revenue in this region increased 16.5% to €95.5 million in 2012. Revenue in Russia and the countries of the former Soviet Union was down 9.9% from a relatively high baseline to €116.0 million. KRONES' total revenue in Europe (excluding Germany) improved from €675.2 million in the previous year to €680.2 million in 2012. This sales region accounted for 25.5% of consolidated revenue in the reporting period (previous year: 27.2%).

## KRONES Group revenue by region

Share of consolidated revenue	31 Dec 2012		31 Dec 2011		Change
	€ million	%	€ million	%	
Germany	224.1	8.4	253.2	10.2	-11.5
Central Europe (excluding Germany)	95.5	3.6	82.0	3.3	+16.5
Western Europe	358.2	13.5	366.8	14.8	-2.3
Eastern Europe	110.4	4.1	97.6	3.9	+13.1
Russia, Central Asia (CIS)	116.0	4.3	128.7	5.2	-9.9
Middle East/Africa	383.0	14.4	348.5	14.0	+9.9
Asia-Pacific	340.3	12.8	334.2	13.5	+1.8
China	359.8	13.5	260.7	10.5	+38.1
North and Central America	327.7	12.3	277.3	11.2	+18.2
South America/Mexico	349.2	13.1	331.3	13.4	+5.4
<b>Total</b>	<b>2,664.2</b>		<b>2,480.3</b>		<b>+7.4</b>

Sales outside Europe contributed the biggest part of KRONES' growth in 2012. We are very well positioned on the emerging markets and are systematically expanding that position. The biggest revenue increase was in China. Our strong local service offerings were one reason why many national and international companies in China chose products and services from KRONES in 2012. At €359.8 million, revenue in China exceeded our strong year-earlier figure by 38.1%. Business in China accounted for 13.5% of consolidated revenue, up from 10.5% the previous year. Sales in the rest of the Asia-Pacific region were up 1.8% to €340.3 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 9.9% to €383.0 million in 2012. With a revenue share of 14.4%, this is one of KRONES' most important sales markets.

KRONES continued to grow in Latin America in 2012. Rising demand in important markets such as Brazil contributed to the 5.4% year-on-year increase in revenue in South America to €349.2 million in 2012. KRONES' business in North and Central America in the reporting period developed very well, particularly because demand in the USA picked up. Our total sales in the North and Central America region grew 18.2% to €327.7 million in 2012. All told, the share of KRONES' consolidated revenue generated outside Europe grew to 66.1% in 2012 (previous year: 62.6%).

### Revenue by industry

KRONES generated €1,461.1 million in revenue with companies that produce and process non-alcoholic beverages such as water, soft drinks, and juices in the reporting period. That represents a 0.9% improvement in revenue generated with this customer group over 2011 and brings the share of consolidated revenue to 54.8% (previous year: 58.4%), once again the largest share of consolidated revenue.

The revenue KRONES generated with producers of alcoholic beverages in 2012 was up 26.0% year-on-year to €1,048.9 million. This large improvement reflects growing demand from breweries for process technology products as well as filling and packaging technology. KRONES generated 39.4% of consolidated revenue through sales to customers in the »alcoholic beverages« sector in 2012 (previous year: 33.5%).

Revenue from milk, dairy drink and foodstuff producers and chemical, pharmaceutical, and cosmetic manufacturers was down 23.1% year-on-year to €154.2 million in 2012. This customer group's share of consolidated revenue decreased to 5.8% (previous year: 8.1%).



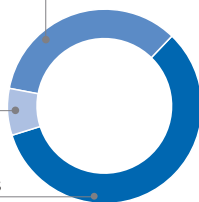
More information is available at  
[www.krones.com/en/your-industry.php](http://www.krones.com/en/your-industry.php)

#### KRONES Group revenue by industry

Alcoholic beverages 39.4%

Food, chemicals,  
pharmaceuticals,  
cosmetics 5.8%

Non-alcoholic beverages  
54.8%

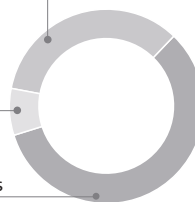


Revenue in 2012: €2,664.2 million

Alcoholic beverages 33.5%

Food, chemicals,  
pharmaceuticals,  
cosmetics 8.1%

Non-alcoholic beverages  
58.4%



Revenue in 2011: 2,480.3 million

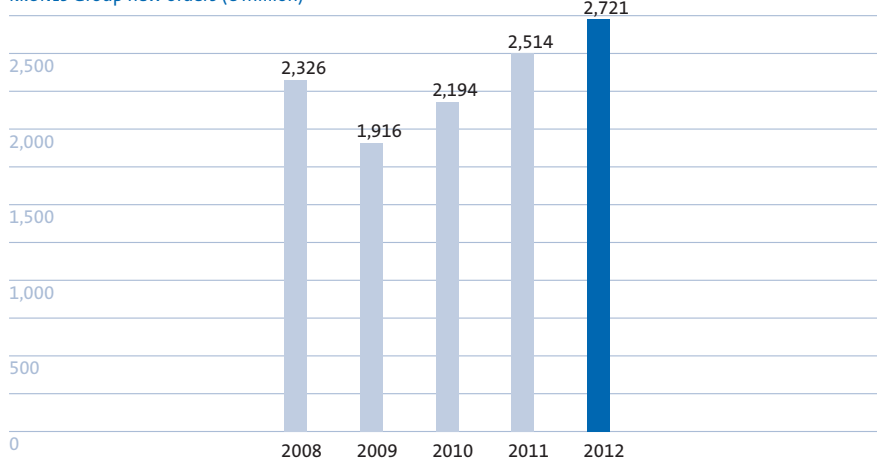
### Demand for KRONES products and services is growing

New orders at KRONES improved 8.2% year-on-year from €2,514.0 million to €2,721.1 million in 2012. First-half orders were up only slightly over the year-earlier period. Growth then accelerated dramatically. In the period from October to December 2012, orders intake came to €753.8 million, more than one-fifth higher than in the last quarter of 2011. That reflects the fact that demand was picking up in a growing number of regions.

*New orders at KRONES rose 8.2%.*

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.

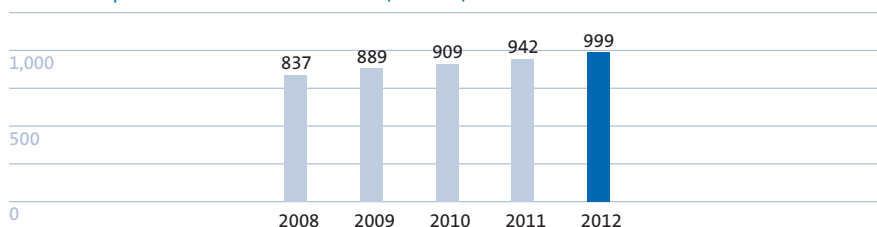
KRONES Group new orders (€ million)



### KRONES has an orders backlog of around €1 billion

The higher orders intake has also caused KRONES' orders backlog to grow. At 31 December 2012, the company had orders on hand totalling €999.3 million (previous year: €942.4 million). That gives us a solid basis for balancing our capacity utilisation in the months ahead.

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

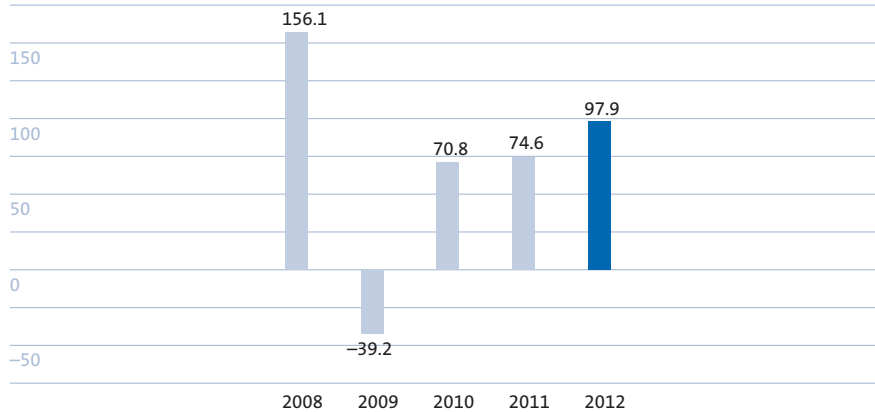


**KRONES improves earnings performance**

The out-of-court settlement of our legal disputes in the US (Le-Nature’s) had a significant impact on KRONES’ earnings in 2012. Against the background of possible risks arising from the proceedings in the US, which might otherwise have dragged on for years, KRONES decided to bring an end to the matter by concluding settlements with the major plaintiffs, and reaching an agreement with the district attorney as well, at the same time. This resulted in a €37.8 million charge against earnings before taxes (EBT) for 2012. The charge against earnings in the previous year was €36.7 million. The settlement payments were made in full in the financial year 2012.

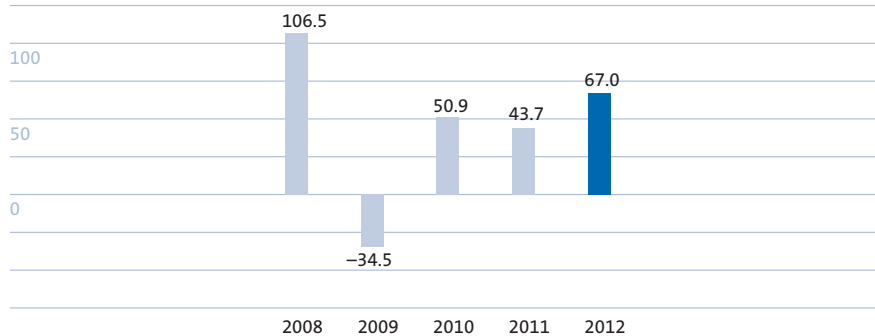
*Provisions for the legal disputes in the US reduced KRONES’ earnings before taxes in 2011 and 2012.*

KRONES Group EBT (€ million)



At €97.9 million, EBT was up 31.2% in 2012 from the year-earlier figure of €74.6 million. The EBT margin – the ratio of earnings before taxes to sales – improved from 3.0% in the previous year to 3.7%. Adjusted to exclude the one-time expense, KRONES’ EBT margin was 5.1% in 2012 (previous year: 4.5%). Thus, we achieved our target of an operating EBT margin of more than 5% in the reporting period.

KRONES Group EBT (€ million)

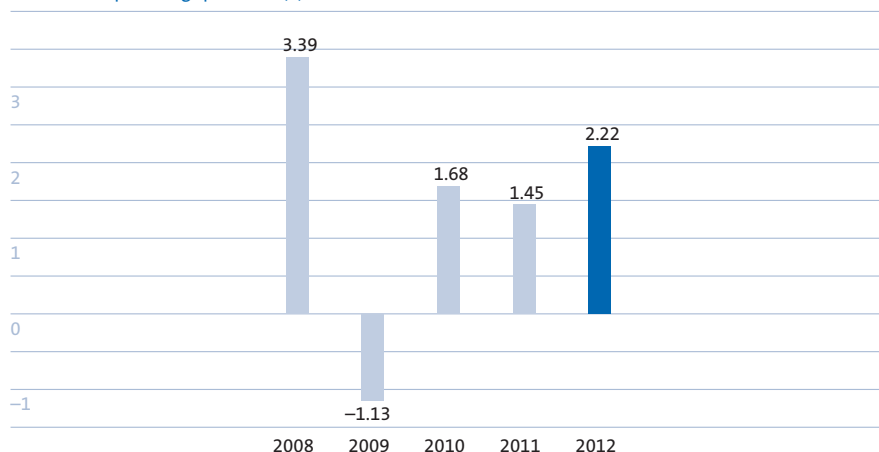


KRONES’ net income was up 53.3%, from €43.7 million in the previous year to €67.0 million in 2012. The increase in net income was far bigger than the increase in EBT because the company’s tax rate decreased from 41.5% in the previous year to 31.5% in the reporting period. In 2011, KRONES had to pay back taxes for previous years following a tax audit.

Treasury shares (of which there are around 1.43 million) are not included in the calculation of earnings per share. Thus, earnings per share for the financial year 2012 amount to €2.22 (previous year: €1.45).

*Adjusted to exclude the one-time expense, earnings per share came to €3.07 (previous year: €2.33).*

KRONES Group earnings per share (€)



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 Group earnings structure

€ million	2012	2011	Change
Revenue	2,664.2	2,480.3	+7.4%
Changes in inventories of finished goods and work in progress	-16.9	+2.8	
Total operating performance	2,647.3	2,483.1	+6.6%
Goods and services purchased	-1,325.3	-1,271.8	+4.2%
Personnel expenses	-777.4	-738.4	+5.3%
Other operating income (expenses) and own work capitalised	-375.6	-332.0	+13.1%
EBITDA	169.0	140.9	+19.9%
Depreciation and amortisation on non-current assets	-76.7	-70.3	+9.1%
EBIT	92.3	70.6	+30.7%
Financial income	5.6	4.0	+40.0%
EBT	97.9	74.6	+31.2%
Income tax	-30.9	-30.9	±0
Consolidated net income	67.0	43.7	+53.3%

*KRONES improved earnings considerably in 2012.*

KRONES expanded its business considerably in 2012. Revenue rose 7.4% over 2011, to €2,664.2 million. The company's total operating performance increased 6.6% from €2,483.1 million in the previous year to €2,647.3 million in 2012.

Expenses for goods and services purchased increased less than proportionately to total operating performance. At €1,325.3 million, KRONES' biggest expense item was up only 4.2% in 2012 over the previous year (€1,271.8 million). Because we are increasingly using identical assemblies and modules in our machines, we were able to reduce the ratio of expenses for goods and services purchased to total operating performance from 51.2% in the previous year to 50.1% in 2012. Modular construction is

part of KRONES' Value programme. Our product mix also had a positive impact on the goods and services purchased figure.

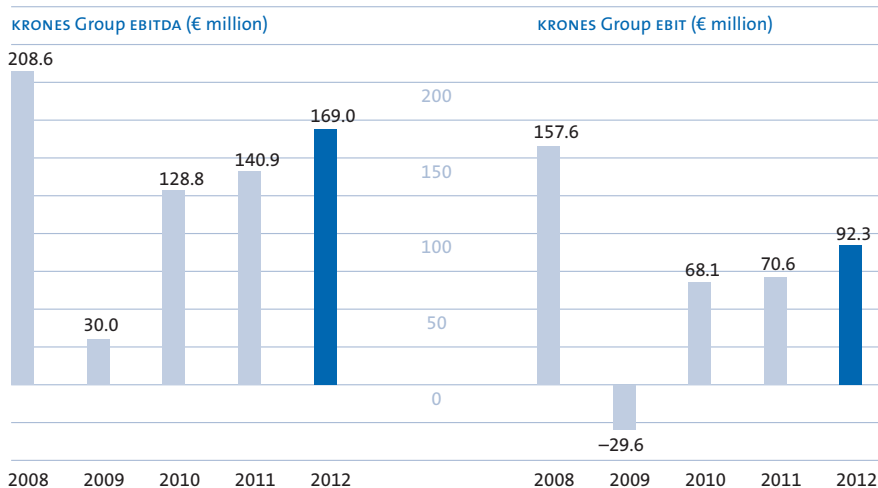
Personnel expenses were up only 5.3% from €738.4 million in the previous year to €777.4 million. Thus, this expense item also rose less than total operating performance. This fact is reflected in the ratio of personnel expenses to total operating performance. At 29.4%, the ratio is even lower than the already-low 29.7% achieved in the previous year despite the fact that there were 493 more KRONES employees working in the group than in the previous year. The very high operating performance in the fourth quarter of 2012 was largely to thank for the improvement. 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.

*Personnel expenses and the expense for goods and services purchased grew less than total operating performance.*

Depreciation and amortisation of non-current assets increased 9.1% in the reporting period from €70.3 million in the previous year to €76.7 million. The increase was due in part to an unscheduled write-down of €2.8 million in our material flow technology division, which was necessary in connection with the measures taken within the division. The ratio of depreciation and amortisation to revenue rose only slightly to 2.9% (previous year: 2.8%).

The net of other operating income and expenses and own work capitalised worsened from –€332.0 million in the previous year to –€375.6 million in 2012. This figure includes the €37.8 million charge against earnings resulting from the one-time expense for Le-Nature's. In the previous year, KRONES had recognised a provision of €36.7 million for the legal disputes, which had reduced 2011 EBIT accordingly. In all, earnings before interest and taxes (EBIT) improved by €21.7 million year-on-year in 2012 to €92.3 million.

Financial income or expense traditionally has little impact on KRONES' earnings since the company has a solid financial base. In 2012, financial income contributed €5.6 million (previous year: €4.0 million) to earnings before taxes (EBT), which came to €97.9 million (previous year: €74.6 million). KRONES paid €30.9 million in income taxes in 2012, which corresponds to a tax rate of 31.5%. With that, the company's absolute tax burden for 2012 was largely unchanged from 2011 despite the considerably higher EBT.



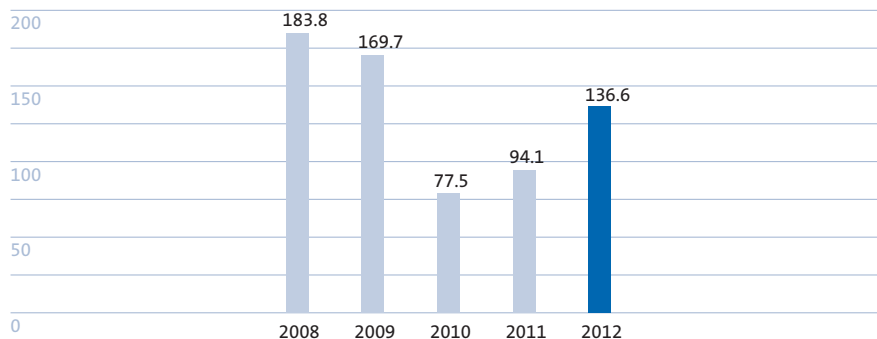
€ million	2012	2011	Change
Earnings before taxes	97.9	74.6	+23.3
Cash flow from operating activities	136.6	94.1	+42.5
Cash flow from investing activities	-106.0	-101.5	-4.5
Free cash flow	30.6	-7.4	+38.0
Cash flow from financing activities	-20.0	-14.1	-5.9
Net change in cash and cash equivalents	10.6	-21.5	+32.1
Other changes in cash and cash equivalents	-3.2	-0.4	-2.8
Cash and cash equivalents at the beginning of the period	125.5	147.4	-21.9
Cash and cash equivalents at the end of the period	132.9	125.5	+7.4

For more information, please refer to the complete statement of cash flows on page 124.

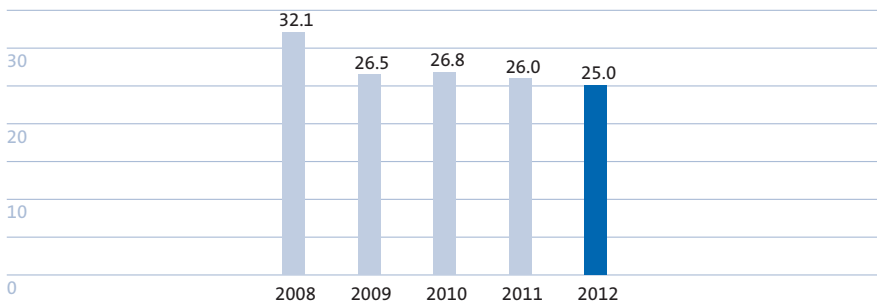
KRONES improved cash flow from operating activities by €42.5 million over 2011 to €136.6 million in the reporting period. Higher earnings before taxes as well as a sharp decrease in working capital contributed to the increase, which more than offset the negative effect from the adjustment for using the provision for the Le-Nature's settlement payments. The ratio of working capital to sales decreased from 22.8% in the previous year to 19.4% in 2012. The annual average of this ratio is more telling than the figure at the end of the period alone. The average of the ratios of working capital to sales for the four quarters of 2012 was 25.0% (previous year: 26.0%).

*KRONES generated free cash flow in 2012 despite the €30.6 million settlement payment.*

KRONES Group cash flow from operating activities (€ million)

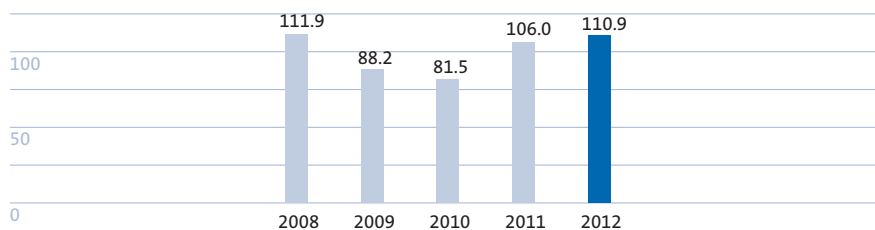


KRONES Group working capital to sales (%) (average over 4 quarters)



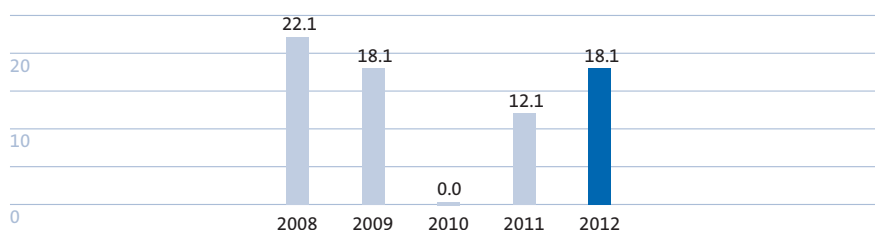


KRONES Group capital expenditure for PP&E and intangible assets (€ million)



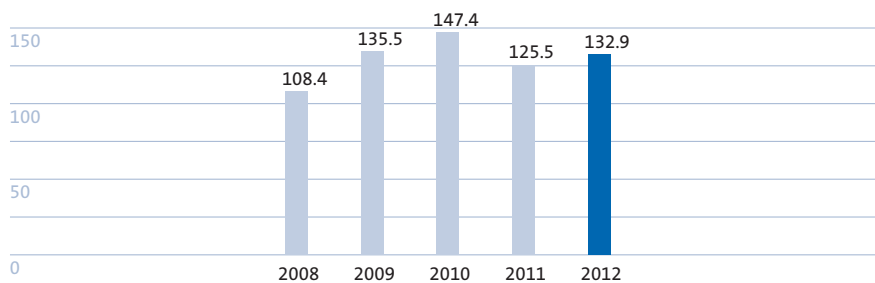
KRONES increased its investments in property, plant and equipment and intangible assets to €110.9 million in the reporting period (previous year: €106.0 million). These expenditures went toward, among other things, the expansion of the international LCS Centres, new production machinery, and the expansion of our logistics and IT infrastructure. The sharp increase in cash flow from operating activities resulted in a positive free cash flow of €30.6 million after capital expenditure in 2012 (previous year: negative €7.4 million).

KRONES Group dividend payout (€ million)



The dividend payout of €18.1 million (previous year: €12.1 million) and the payment of lease liabilities totalling €1.9 million (previous year: €2.1 million) in 2012 resulted in an increase in cash flow from financing activities.

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



Changes arising from exchange rates and the consolidated group had an impact of –€3.2 million on cash and cash equivalents in 2012 (previous year: –€0.4 million). All told, KRONES' cash and cash equivalents increased in the reporting period from €125.5 million in the previous year to €132.9 million.

€ million at 31 December	2012	2011	2010	2009	2008
Non-current assets	625	597	569	542	534
of which fixed assets	587	555	519	496	482
Current assets	1,445	1,443	1,317	1,248	1,291
of which cash and equivalents	133	125	147	136	108
Equity	836	785	759	696	790
Total debt	1,234	1,255	1,127	1,094	1,035
Non-current liabilities	155	134	125	125	144
Current liabilities	1,079	1,121	1,002	969	891
<b>Total</b>	<b>2,070</b>	<b>2,040</b>	<b>1,886</b>	<b>1,790</b>	<b>1,825</b>

For more information, please refer to the complete statement of financial position on pages 122 and 123.

At 31 December 2012, KRONES' total assets were up 1.5% from the previous year to €2,069.6 million. This increase is far smaller than the increase in total operating performance (+6.6%). At the end of the reporting period, the carrying amount of fixed assets came to €586.5 million, which is up 5.8% from the year-earlier period (€554.6 million). This increase was due to an increase in property, plant and equipment, whose carrying amount grew from €441.3 million in the previous year to €464.9 million at the end of 2012. The higher PP&E figure reflects the investments made in manufacturing and logistics in 2012. Intangible assets, which consist primarily of development costs that must be capitalised, were up to €119.1 million at 31 December 2012 (31 December 2011: €110.7 million). In all, KRONES had non-current assets totalling €625.1 million at the end of 2012, which is 4.7% higher than the previous year (€597.2 million).

Current assets amounted to €1,444.5 million at the reporting date for 2012. Thus, despite the larger business volume, this figure was largely unchanged from the previous year (31 December 2011: €1,442.6 million). Inventories were up only slightly (0.9%) from €642.8 million to €648.4 million. Trade receivables were down 1.4% year-on-year to €559.9 million at the end of 2012. Other assets, which consisted largely of advances paid and tax receivables, decreased year-on-year from €102.0 million to €90.6 million in 2012. At 31 December 2012, cash and cash equivalents were up from €125.5 million in the previous year to €132.9 million, although the company paid the settlement for the legal proceedings in the US in the fourth quarter of 2012.

The positive net income figure for 2012 brought equity up to €836.2 million (31 December 2011: €785.5 million). As a result, KRONES' equity ratio improved year-on-year from 38.5% to 40.4%. Non-current liabilities totalled €155.1 million at the end of 2012 (31 December 2011: €133.6 million). Provisions for pensions were up by €5.3 million year-on-year to €87.6 million and deferred tax liabilities were up from €3.9 million to €21.1 million. The company had no non-current bank debt at the end of the 2012 reporting period.

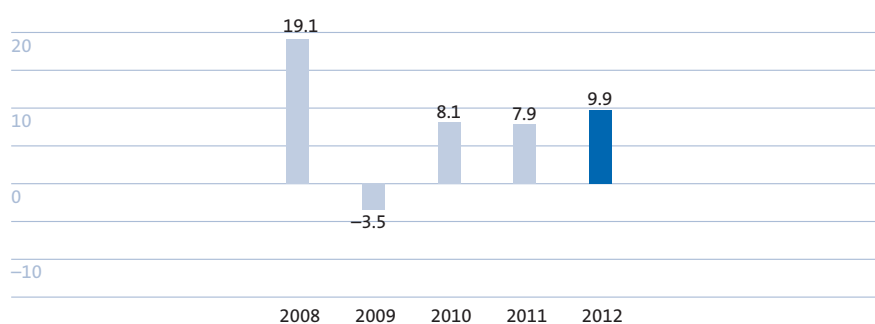
At 31 December 2012, KRONES' current liabilities were down from €1,120.7 million in the previous year to €1,078.4 million. Whereas advances received increased to €497.2 million (31 December 2011: €443.5 million), other provisions decreased to €128.7 million (31 December 2011: €176.1 million). Other provisions primarily consist of provisions for warranties. Current trade payables were down from €201.3 million at the end of 2011 to €197.8 million. KRONES had no current bank debt at the end of 2012. Thus, KRONES had net cash and cash equivalents (that is, cash and cash equivalents less bank debt) totalling €132.9 million at 31 December 2012 (31 December 2011: €125.5 million).

*KRONES had net cash and cash equivalents of €132.9 million at the end of 2012. The company's equity ratio was 40.4%.*

### KRONES improved ROCE

The return on capital employed (ROCE), that is the ratio of EBIT to average net tied-up capital, improved to 9.9% (previous year: 7.9%) due to the considerable increase in earnings. Adjusted to exclude the effect of Le-Nature's on earnings, ROCE was 13.6% (previous year: 11.9%). Our medium-term target – and a fundamental part of the Value programme – is to achieve an ROCE of 20%.

KRONES Group ROCE (%)



## Report from the segments

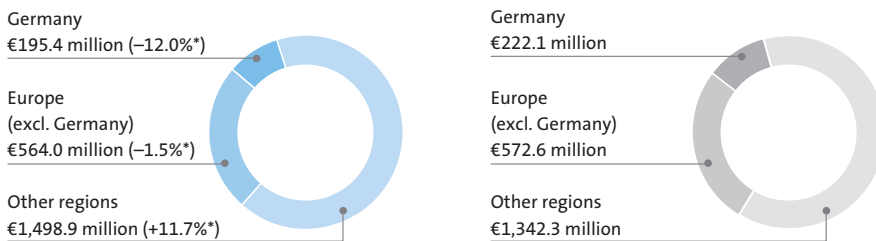
### Product filling and decoration

#### Segment revenue

Sales in our core segment, »machines and lines for product filling and decoration«, increased 5.7% to €2,258.3 million in 2012 (previous year: €2,137.0 million). Continuing high demand for our machines and lines outside Europe supported this growth. Revenue from outside Europe was up 11.7% year-on-year while segment revenue in Europe (including Germany) was down slightly. The segment contributed 84.8% of consolidated revenue in 2012 (previous year: 86.1%).

*Our biggest segment made strong gains outside Europe and increased its profit margin slightly.*

#### Revenue – product filling and decoration



Revenue in 2012: €2,258.3 million

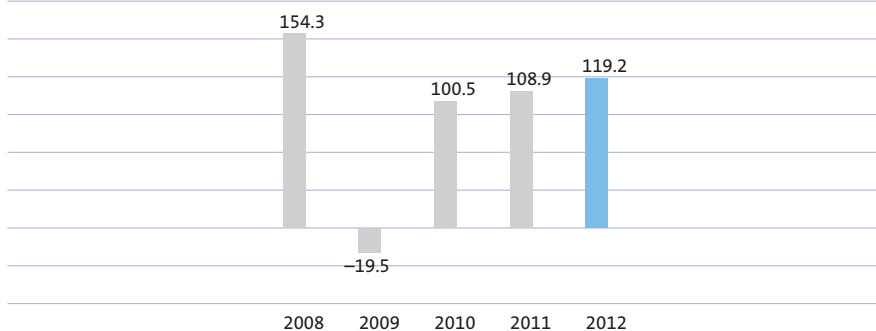
Revenue in 2011: €2,137.0 million

\* Percentage change on previous year

#### Segment earnings

As in the previous year, the €37.8 million provision for the legal disputes in the US (previous year: €36.7 million) had a negative impact on earnings performance in our core segment, »machines and lines for product filling and decoration«. In all, segment earnings before taxes (EBT) improved 9.4% in 2012 from €108.9 million in the previous year to €119.2 million. With that, the EBT margin, the ratio of earnings before taxes to segment revenue, advanced from 5.1% to 5.3%. Adjusted to exclude the one-time expense relating to Le-Nature's, the EBT margin was 7.0% for the reporting period (previous year: 6.8%).

#### Segment EBT (€ million)





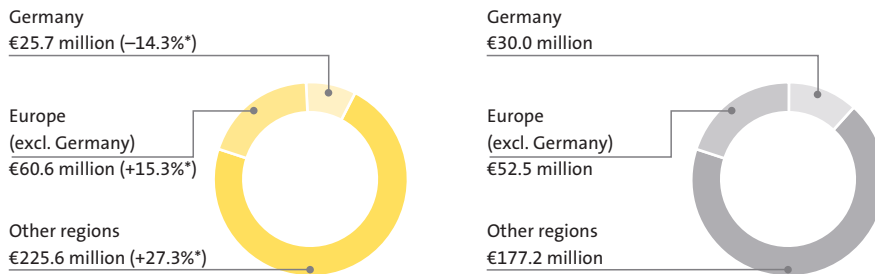


## Segment revenue

In our »machines and lines for beverage production/process technology« segment, sales were up 20.1% in 2012, to €311.9 million (previous year: €259.7 million). Demand from abroad was high and more than made up for the decline in Germany. The segment's contribution to consolidated revenue at KRONES grew to 11.7% in 2012 (previous year: 10.5%).

*The beverage production/process technology segment developed according to plan in the reporting period. Segment revenue increased more than proportionately and the segment's loss was reduced considerably.*

### Revenue – beverage production/process technology



Revenue in 2012: €311.9 million

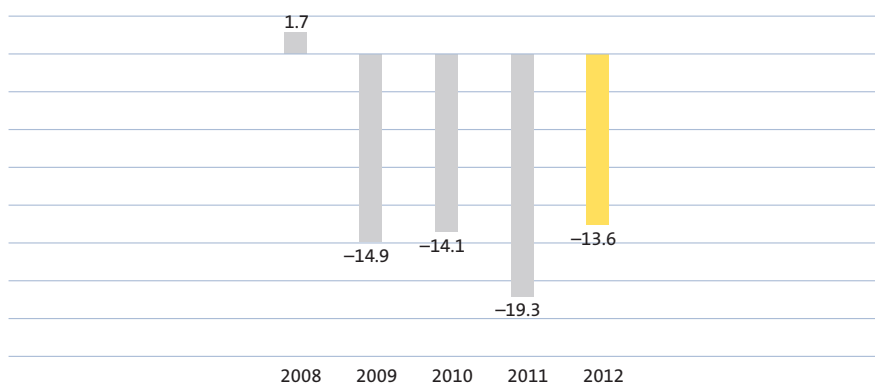
Revenue in 2011: €259.7 million

\* Percentage change on previous year

## Segment earnings

The earnings situation in the »machines and lines for beverage production/process technology« segment developed according to plan in 2012. We achieved our target of significantly reducing the loss posted in 2011. Earnings before taxes (EBT) improved from -€19.3 million in the previous year to -€13.6 million in the reporting period. This figure includes an unscheduled write-down of €2.8 million in our material flow technology division as a result of the measures taken in the division. In addition to the actions taken in intralogistics, which are now complete, we will further optimise structures in our process technology segment in order to break even in 2013. We will continue to expand our components business and strengthen our process technology portfolio. Process engineering is strategically important to KRONES as a full-service supplier and we therefore intend to further expand this segment. The segment's EBT margin was -4.4% in 2012 (previous year: -7.4%).

### Segment EBT (€ million)





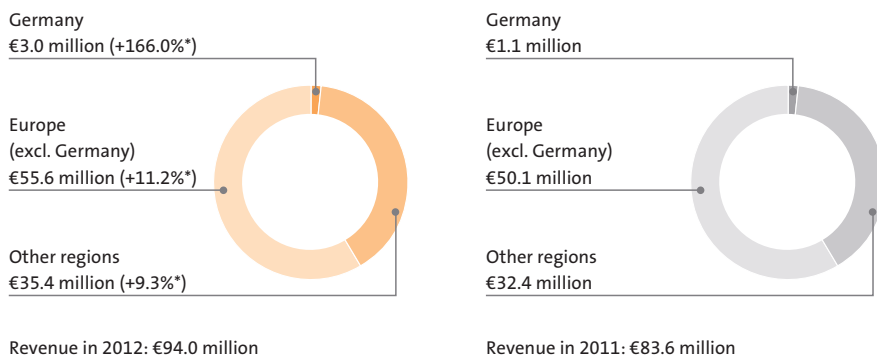


## Segment revenue

Sales in KRONES' smallest segment, »machines and lines for the low output range (KOSME)«, improved 12.6% year-on-year to €94.0 million in 2012 (previous year: €83.6 million). KOSME gained ground in all sales regions and benefited from the fact that we changed the sales structure and revised the product portfolio. In 2012, KOSME contributed 3.5% to consolidated revenue (previous year: 3.4%).

*We made good progress in our smallest segment and reached our targets for 2012. KRONES is confident that KOSME will come out of the red in 2013.*

### Revenue – KOSME

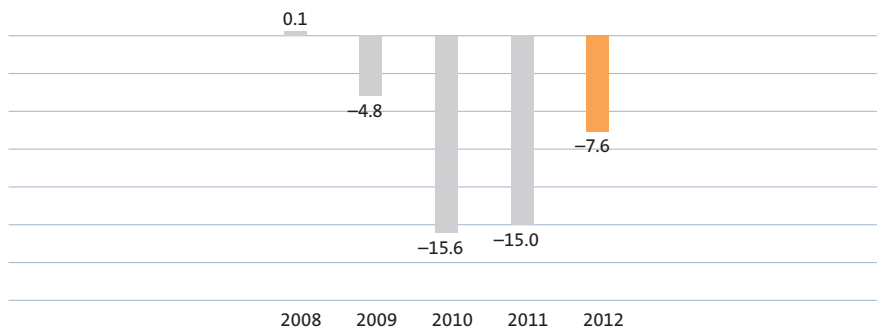


\* Percentage change on previous year

## Segment earnings

Earnings before taxes (EBT) in the »machines and lines for the low output range (KOSME)« segment improved year-on-year from –€15.0 million to –€7.6 million. 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. Balancing our capacity utilisation and repositioning the segment on the personal hygiene and cleaning products market are key factors here. Moreover, we will continue to optimise costs and further develop our LCS business.

### Segment EBT (€ million)







- **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. Figures can be found in the notes to the consolidated financial statements.

### **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.



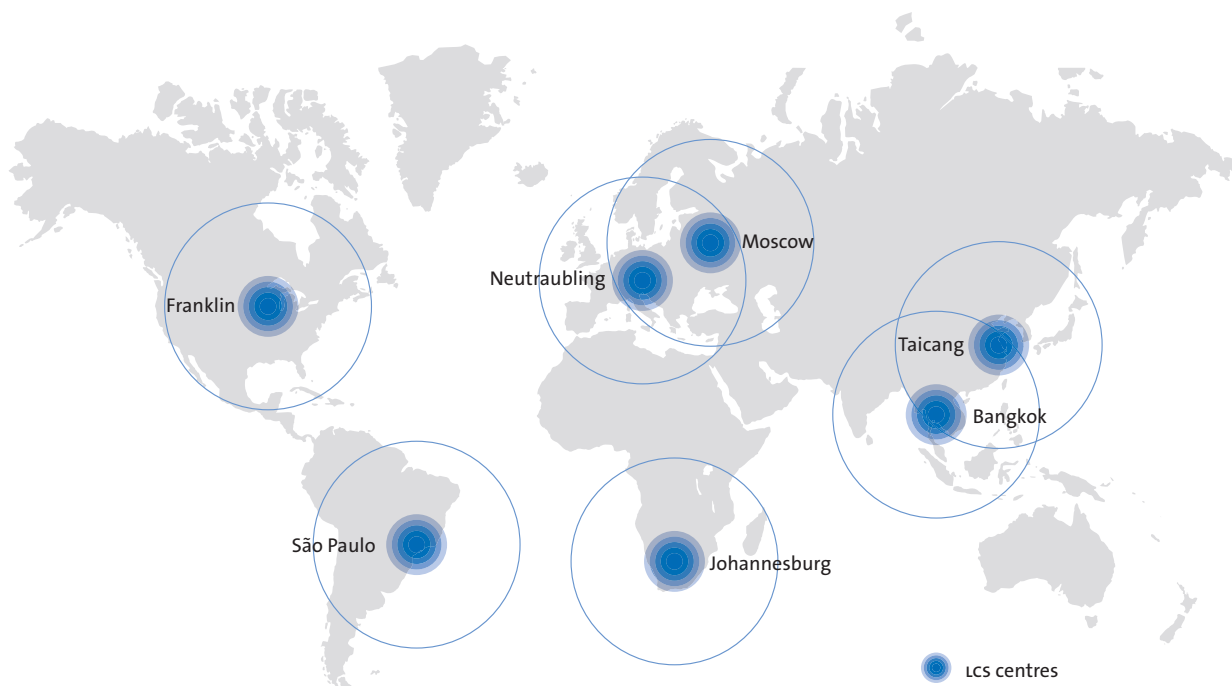
## Getting close to customers – a model for success

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.

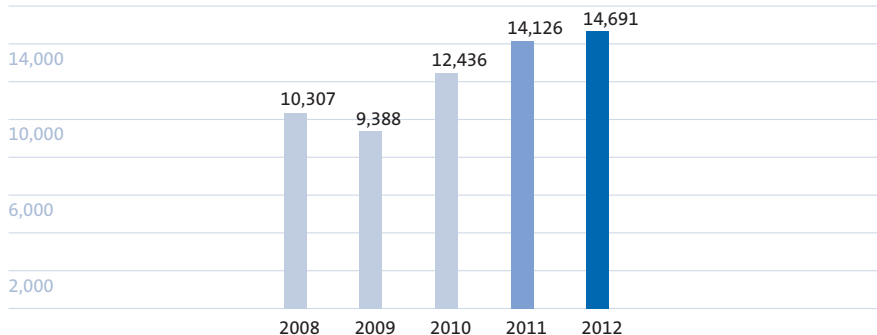
### New LCS logistics centre in Neutraubling

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.



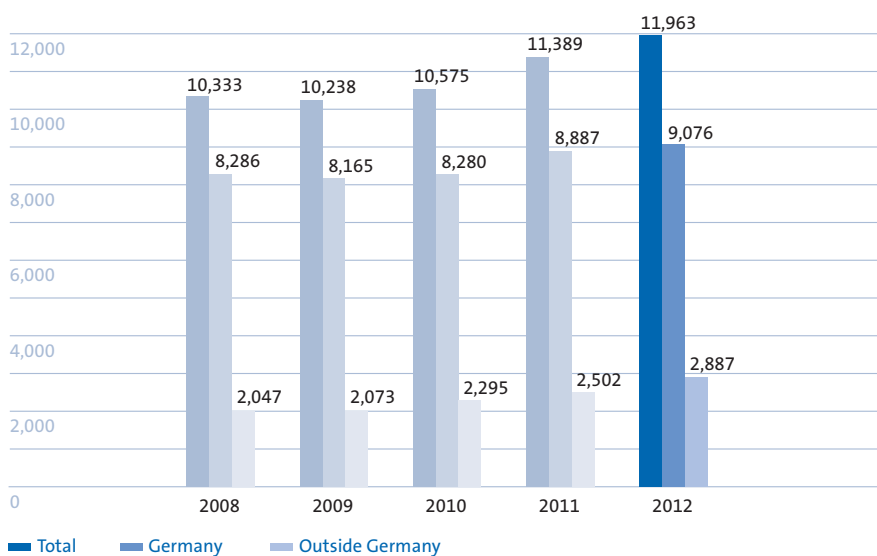
LIFECYCLE SERVICE

## KRONES continues to grow its workforce

KRONES' workforce grew further in the reporting period. At the end of September 2012, the company employed 11,963 people, up from 11,389 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. That is why we did most of our new hiring outside Germany last year, bringing the share of employees outside Germany up from 22.0% in the previous year to 24.1% at the end of the reporting period.

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

Employees by region



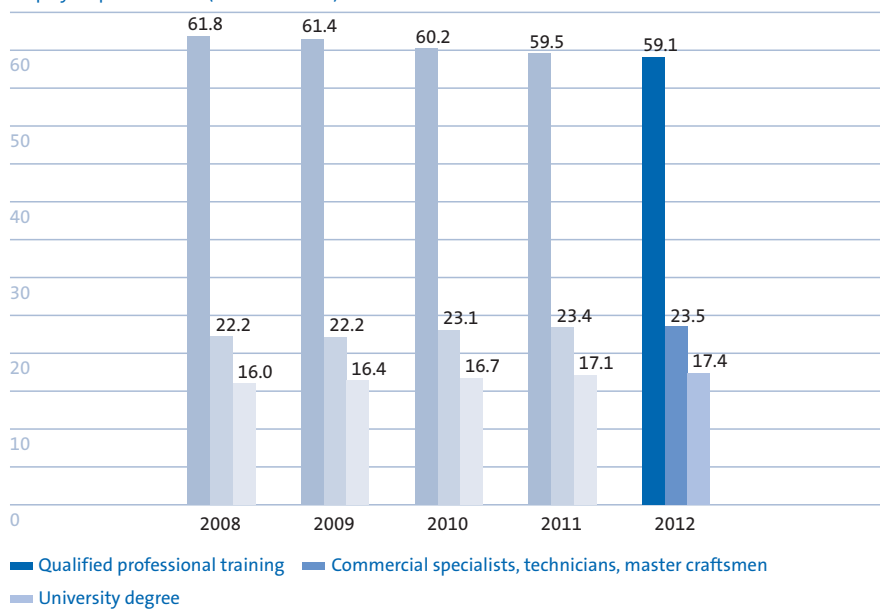
Demographic change has meant that ensuring a lasting supply of qualified young recruits and further improving our existing employees' – even our older employees' – qualifications is one of our most important human resources tasks. We aim to further build and enhance KRONES' international employer branding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

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

## 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.

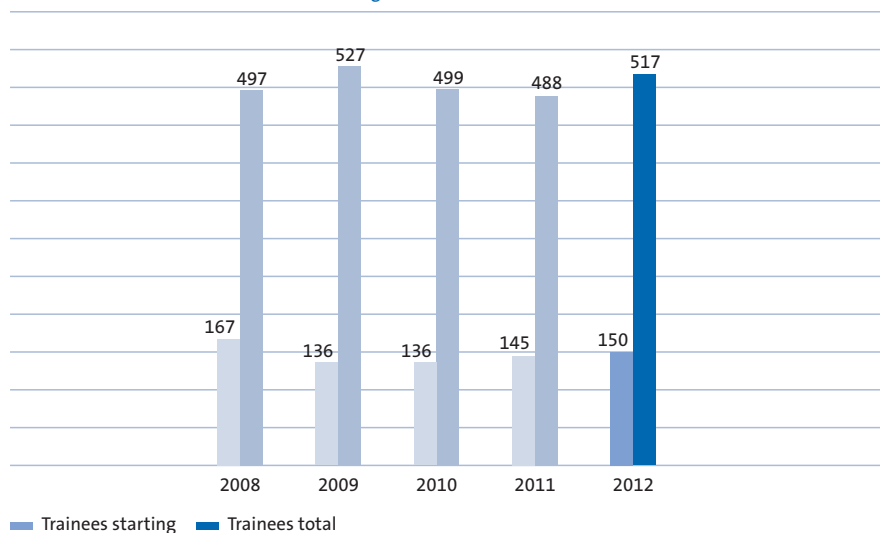
Employee qualifications (% of workforce)



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



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

In all, KRONES was training 517 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

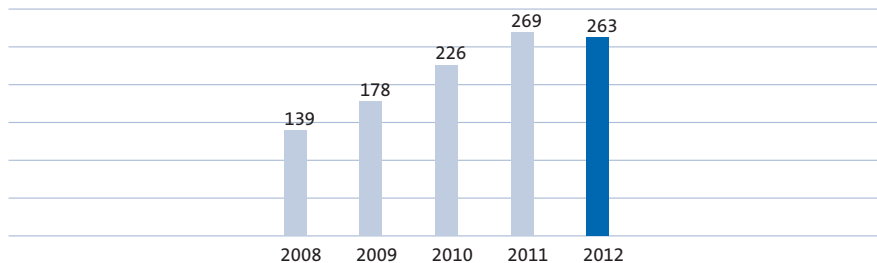
In July 2012, we opened the newly constructed training centre at our headquarters in Neutraubling, Germany. With the new building and other spaces in adjacent buildings, we now have more than twice as much space available for training. KRONES invested nearly €4 million in the new »training campus«. The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

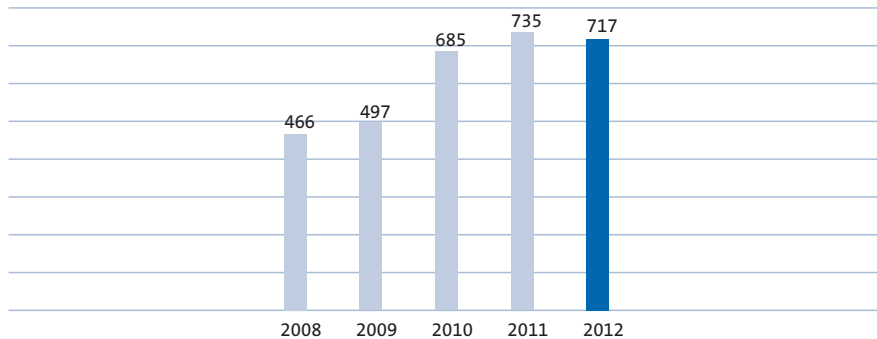
Theses written at KRONES AG



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

### Risk planning and control

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

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

### Risk management organisation

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

### Risk controlling

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

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

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

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

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

## Financial risks

Information relating to IFRS 7 Financial Instruments: Disclosures.

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

### 1. Default risk

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

#### 1.1 Trade receivables

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

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

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

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

€ thousand	Carrying amount	Of which not overdue at the reporting date	Of which overdue by the following number of days at the reporting date			
			up to 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
31 Dec 2012						
Trade receivables	568,317	391,104	96,277	28,157	22,651	30,128
31 Dec 2011						
Trade receivables	585,116	402,476	97,421	26,581	30,879	27,759

### 1.2 Derivative financial instruments

KRONES uses derivative financial instruments on the basis of individual contracts 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 material contractual details (amount, term) of the underlying and hedge transactions are largely identical. The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. More on this topic is in the notes to the consolidated financial statements.

### 1.3 Other financial assets

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

## 2. Liquidity risk

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

KRONES generates most of its cash and cash equivalents through operating activities. These funds primarily serve to finance working capital and capital expenditures. KRONES manages its liquidity by reserving sufficient cash and cash equivalents and credit lines with banks in addition to the regular inflow of payments from operating activities. The company's liquidity management for operations consists of a cash management system, which is based in part on rolling monthly liquidity planning with a planning horizon of one year. This allows KRONES to be proactive about any possible liquidity bottlenecks. Apart from cash on hand, KRONES' cash and cash equivalents consist primarily of demand deposits. The following overview of maturities shows how the undiscounted cash flows relating to liabilities as of 31 December 2012 influence the company's liquidity situation.

€ thousand	Carrying amount at 31 Dec 2012	Cash flow for 2013		Cash flow for 2014–2017		Cash flow for 2017 or later	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
		Derivative financial instruments	1,244	0	1,089	0	155
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from leases	1,377	24	588	18	789	0	0
Discounted trade bills	17,056	0	14,879	0	2,177	0	0
Other financial liabilities	11,092	0	10,426	133	666	0	0
	<b>30,769</b>	<b>24</b>	<b>26,982</b>	<b>151</b>	<b>3,787</b>	<b>0</b>	<b>0</b>

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

### 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.

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

€ thousand	Currency	Currency	Currency
	USD	CAD	AUD
Cash and cash equivalents	262	742	0
Trade receivables	7,188	2,555	2,510
Other financial receivables	654	0	0
Derivatives at positive market values	0	0	0
Loans	0	0	0
<b>Total assets</b>	<b>8,104</b>	<b>3,297</b>	<b>2,510</b>
<b>Liabilities</b>			
Trade payables	4,418	-197	382
Due to banks	0	0	0
From finance leases	0	0	0
Derivatives at negative market values	0	0	0
Financial liabilities at amortised cost	0	0	0
<b>Total liabilities</b>	<b>4,418</b>	<b>-197</b>	<b>382</b>
<b>Balance of assets and liabilities</b>	<b>12,522</b>	<b>3,100</b>	<b>2,892</b>
<b>Items hedged through derivatives</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net exposure at 31 Dec 2012</b>	<b>12,522</b>	<b>3,100</b>	<b>2,892</b>

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

(+) Currency translation gains/(-) losses totalling (€ thousand)	-1,138	-282	-263
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### 3.3 Share price risks

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

### 3.4 Commodity price risks

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

## 4. Legal risks

Legal risks exist as a part of doing business. For a discussion of the legal risk arising from the Le-Nature's lawsuit, please see page 154.

## Operational risks and opportunities

### 1. Price risks

KRONES operates in a highly competitive market in which some orders are generated by way of prices that do not cover costs. Fixed-price contracts with customers also entail price risks, as we must bear any additional costs that arise. KRONES has introduced a multi-dimensional order analysis process to minimise this risk. Any inquiry or order that reaches or exceeds a predefined size is assessed on the basis of financial, technical/technological, tax, legal, and regional risks.

## 2. Procurement risks

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

## 3. Cost risks

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

## 4. Personnel risks

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

The company agreement that entered into force on 1 January 2005 has enabled us to counter personnel cost pressures as our employees have agreed to work longer, more flexible hours in exchange for our promise to secure employment and the future of our German sites until the year 2012.

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

## Summary

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

We expect our markets to 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.

### 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.





REENTISMA  
THE REPORTING PERIOD

- 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.

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.

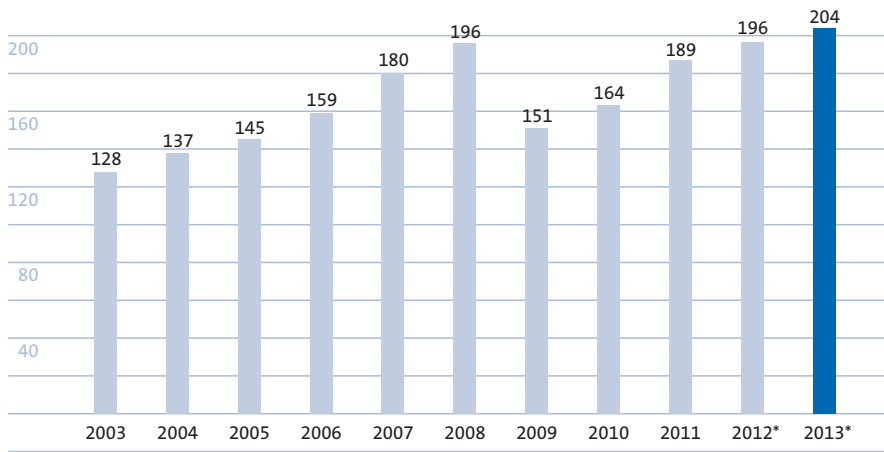
*Economic growth in China and India is expected to accelerate further in 2013.*

### 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 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 in 2012, is expected to remain stable 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.

*KRONES intends to capitalise on its strong position in growth markets in 2013.*

### 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. This effort involves making our purchasing 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.

The process technology segment 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 the segment's earnings for the long term. With the measures in the material flow technology/intralogistics division now complete, segment earnings will no longer contain any significant losses from 2013 onward.

Moreover, we intend to expand our components business, including its service portion and the product range. These measures, combined with higher capacity utilisation, should enable the segment to break even in 2013.

»KOSME«, our segment for the low output range, is also expected to post no more losses in 2013. Key topics here are stable capacity utilisation and the expansion of LCS activities. In addition, we are repositioning KOSME in the market for personal hygiene and household cleaning products. Together, these measures will bring the segment out of the red.

Overall, based on the development of KRONES' markets and the continuing uncertain economic outlook for 2013, we expect revenue to grow by 4%. KRONES does not expect any support from price levels.

*Despite the uncertain economic outlook, KRONES is targeting further growth in 2013.*

Earnings performance will increase further. KRONES expects the EBT margin (earnings before taxes to sales) to be slightly over 5.5% in 2013.

This is still below our medium-term target of 7%. We want to increase our third strategy target, ROCE, to 15% this year (2012: 13.6%, adjusted to exclude Le-Nature's). Our medium- to long-term target is 20%. KRONES also intends to generate higher free cash flow on higher earnings and lower working capital.

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.

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

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

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

Pursuant to § 18 (1) of the articles of association, only those shareholders who register with the company in writing in German or English and provide proof of their shareholding prior to the annual shareholders' meeting are entitled to participate and vote in the annual shareholders' meeting. A special written document confirming the shareholding, issued in German or English by the institution with which the investment account is held, constitutes sufficient proof. This document must refer to the start of the twenty-first day prior to the annual shareholders' meeting.

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

In the annual shareholders' meeting, the 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 Kronseeder mbH	15.00
Volker Kronseeder	12.02
Harald Kronseeder	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.

## 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 €1,092 thousand at the end of the financial year (previous year: €1,022 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 pension provisions of €380 thousand (previous year: €693 thousand) were recognised.

## Supervisory Board compensation

Compensation of the members of the Supervisory Board is governed by the articles of association and resolved by the annual shareholders' meeting. For the financial year 2011, the articles of association as amended by the annual shareholders' meeting on 15 June 2011 apply.

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

On this basis, the variable compensation for each member of the Supervisory Board is €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.

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

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

Neutraubling, 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 6 and 158). 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 11 and 158 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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## Separate income statement and Statement of comprehensive income

Separate income statement		2012		2011	
€ thousand, except per share amounts	Notes				
Sales revenue	19	2,664,194		2,480,308	
Increase (previous year: decrease) in inventories of finished goods and work in progress		-16,926		2,803	
Other own work capitalised	20	41,802		33,377	
Other operating income	21	104,353	2,793,423	98,743	2,615,231
Goods and services purchased	22				
Expenses for materials and supplies and for goods purchased		-1,086,061		-1,035,675	
Expenses for services purchased		-239,244	-1,325,305	-236,101	-1,271,776
Personnel expenses	23				
Wages and salaries		-645,117		-613,470	
Social security contributions and expenses for pension plans and for benefits		-132,244	-777,361	-124,973	-738,443
Depreciation and amortisation of intangible assets and property, plant and equipment	1/2		-76,685		-70,270
Other operating expenses	24		-521,781		-464,196
<b>EBIT</b>			<b>92,291</b>		<b>70,546</b>
Investment income	25	2,137		1,422	
Income from other securities and loans classified as non-current financial assets	25	28		10	
Other interest and similar income	25	6,925		11,035	
Interest and similar expenses	25	-3,468		-8,423	
			<b>5,622</b>		<b>4,044</b>
<b>Earnings before taxes</b>			<b>97,913</b>		<b>74,590</b>
Income tax	7/26		-30,885		-30,936
<b>Consolidated net income</b>			<b>67,028</b>		<b>43,654</b>
Profit share of non-controlling interests			0		0
Profit share of KRONES Group shareholders			67,028		43,654
Earnings per share (diluted/basic) in €	27		2.22		1.45

Statement of comprehensive income		2012	2011
€ thousand	Notes		
Consolidated net income		67,028	43,654
Exchange differences on translation		-5,282	841
Available-for-sale financial instruments			
Derivative financial instruments	11	7,028	-5,014
Other comprehensive income	8	1,746	-4,173
<b>Total comprehensive income</b>	8	<b>68,774</b>	<b>39,481</b>
of which attributable to KRONES Group shareholders		68,774	39,481

## Statement of financial position

Assets		31 Dec 2012		31 Dec 2011	
€ thousand	Notes				
Intangible assets	1	119,116		110,718	
Property, plant and equipment	2	464,885		441,295	
Non-current financial assets	3	2,520		2,564	
Fixed assets		586,521		554,577	
Deferred tax assets	7	21,605		13,523	
Trade receivables	5	8,455		17,366	
Income tax receivables	7	6,624		8,071	
Other assets	5	1,937		3,708	
<b>Non-current assets</b>			<b>625,142</b>		<b>597,245</b>
Inventories	4	648,442		642,826	
Trade receivables	5	559,862		567,750	
Current income tax receivables	7	12,603		4,521	
Other assets	5	90,634		101,990	
Cash and cash equivalents	6	132,920		125,496	
<b>Current assets</b>			<b>1,444,461</b>		<b>1,442,583</b>
<b>Total</b>			<b>2,069,603</b>		<b>2,039,828</b>

Equity and liabilities		31 Dec 2012		31 Dec 2011	
€ thousand	Notes				
Share capital	8	40,000		40,000	
Capital reserves	9	66,807		66,750	
Profit reserves	10	368,819		373,383	
Other reserves	11	1,389		-5,639	
Group retained earnings		359,152		311,000	
<b>Group equity of the parent company</b>			<b>836,167</b>		<b>785,494</b>
Non-controlling interests	12	0		0	
<b>Equity</b>	8		<b>836,167</b>		<b>785,494</b>
Provisions for pensions	13	87,557		82,278	
Deferred tax liabilities	7	21,142		3,869	
Other provisions	14	35,537		32,250	
Liabilities to banks	15	0		0	
Trade payables	15	6,829		0	
Other financial liabilities	15	2,177		7,034	
Other liabilities	15	1,811		8,189	
<b>Non-current liabilities</b>			<b>155,053</b>		<b>133,620</b>
Other provisions	14	128,666		176,065	
Provisions for taxes	14	14,030		10,682	
Liabilities to banks	15	0		0	
Advances received	15	497,163		443,452	
Trade payables	15	197,849		201,326	
Current income tax liabilities	7	558		201	
Other financial liabilities	15	14,879		34,723	
Other liabilities and accruals	15	225,238		254,265	
<b>Current liabilities</b>			<b>1,078,383</b>		<b>1,120,714</b>
<b>Total</b>			<b>2,069,603</b>		<b>2,039,828</b>

## Statement of cash flows

		2012	2011
€ thousand	Notes		
Earnings before taxes		97,913	74,590
Depreciation and amortisation (reversals)	1/2	76,685	70,270
Decrease (previous year: increase) in provisions and accruals	14/15	-56,715	31,218
Deferred tax item changes recognised in profit or loss	7	-4,419	-4,516
Interest expenses and interest income	25	-3,457	-2,612
Gains and losses from the disposal of non-current assets	21/24	-221	-1,338
Other non-cash expenses and income		-1,340	-3,252
Decrease (previous year: increase) in trade receivables and other assets not attributable to investing or financing activities		28,379	-55,795
Increase in inventories	4	-8,090	-59,894
Increase in trade payables and other liabilities not attributable to investing or financing activities		38,502	67,368
<b>Cash generated from operating activities</b>		<b>167,237</b>	<b>116,039</b>
Interest paid		-2,779	-2,992
Income tax paid and refunds received		-27,837	-18,976
<b>Cash flow from operating activities</b>		<b>136,621</b>	<b>94,071</b>
Cash payments to acquire intangible assets		-39,123	-34,555
Proceeds from the disposal of intangible assets	1	11	64
Cash payments to acquire property, plant and equipment		-71,732	-71,477
Proceeds from the disposal of property, plant and equipment	2	1,983	2,381
Cash payments to acquire non-current financial assets		-47	-652
Proceeds from the disposal of non-current financial assets		91	225
Cash payments to acquire shares in affiliated companies	12	0	-853
Interest received		707	1,956
Dividends received		2,137	1,422
<b>Cash flow from investing activities</b>		<b>-105,973</b>	<b>-101,489</b>
Cash payments to company owners		-18,101	-12,067
Cash payments to pay lease liabilities	15	-1,904	-2,061
<b>Cash flow from financing activities</b>		<b>-20,005</b>	<b>-14,128</b>
<b>Net change in cash and cash equivalents</b>		<b>10,643</b>	<b>-21,546</b>
Changes in cash and cash equivalents arising from exchange rates		-3,219	-675
Changes in cash and cash equivalents arising from the consolidated group		0	270
Cash and cash equivalents at the beginning of the period		125,496	147,447
<b>Cash and cash equivalents at the end of the period</b>	6	<b>132,920</b>	<b>125,496</b>

€ thousand	Parent company							Non-controlling interests	Group equity
	Share capital	Capital reserves	Profit reserves	Currency differences in equity	Other reserves	Group retained earnings	Equity	Equity	
Notes	8	9	10		11			12	
<b>At 1 January 2011</b>	<b>40,000</b>	<b>66,645</b>	<b>389,078</b>	<b>8,043</b>	<b>-625</b>	<b>254,939</b>	<b>758,080</b>	<b>853</b>	<b>758,933</b>
Dividend payment (€0.40 per share)						-12,067	-12,067		-12,067
Consolidated net income 2011						43,654	43,654		43,654
Deduction from profit reserves			-25,000			25,000	0		0
Allocation to profit reserves			421			-421	0		0
Allocation to capital reserves		105				-105	0		0
Changes in the consolidated group							0	-853	-853
Currency differences				841			841		841
Hedge accounting					-5,014		-5,014		-5,014
<b>At 31 December 2011</b>	<b>40,000</b>	<b>66,750</b>	<b>364,499</b>	<b>8,884</b>	<b>-5,639</b>	<b>311,000</b>	<b>785,494</b>	<b>0</b>	<b>785,494</b>
Dividend payment (€0.60 per share)						-18,101	-18,101		-18,101
Consolidated net income 2012						67,028	67,028		67,028
Deduction from profit reserves			0			0	0		0
Allocation to profit reserves			718			-718	0		0
Allocation to capital reserves		57				-57	0		0
Currency differences				-5,282			-5,282		-5,282
Hedge accounting					7,028		7,028		7,028
<b>At 31 December 2012</b>	<b>40,000</b>	<b>66,807</b>	<b>365,217</b>	<b>3,602</b>	<b>1,389</b>	<b>359,152</b>	<b>836,167</b>	<b>0</b>	<b>836,167</b>

# Notes to the consolidated financial statements of KRONES AG

## Segment reporting

	Machines and lines for product filling and decoration		Machines and lines for beverage production/ process technology		Machines and lines for the low output range (KOSME)	
€ thousand	2012	2011	2012	2011	2012	2011
<b>Sales revenue</b>	<b>2,258,252</b>	<b>2,137,023</b>	<b>311,902</b>	<b>259,735</b>	<b>94,039</b>	<b>83,550</b>
Germany	195,408	222,121	25,745	30,011	2,967	1,115
Rest of Europe	563,952	572,585	60,552	52,532	55,682	50,049
Other regions	1,498,893	1,342,317	225,606	177,193	35,390	32,386
<b>Depreciation and amortisation</b>	<b>66,443</b>	<b>63,532</b>	<b>8,475</b>	<b>4,673</b>	<b>1,767</b>	<b>2,065</b>
of which unscheduled write-down	0	0	2,796	0	0	0
Interest income					25	43
Interest expense					226	598
<b>EBT</b>	<b>119,170</b>	<b>108,909</b>	<b>-13,649</b>	<b>-19,334</b>	<b>-7,608</b>	<b>-14,985</b>
Other material non-cash income and expenses	898	3,525	562	129	-120	-402
<b>Assets</b>	<b>1,732,583</b>	<b>1,764,922</b>	<b>252,983</b>	<b>206,562</b>	<b>79,489</b>	<b>71,868</b>
Germany	1,284,070	1,369,671	252,983	206,562	0	0
Rest of Europe	93,769	87,863	0	0	79,489	71,868
Other regions	354,745	307,388	0	0	0	0
<b>Liabilities</b>	<b>909,347</b>	<b>964,566</b>	<b>266,907</b>	<b>249,860</b>	<b>58,456</b>	<b>55,481</b>
<b>Capital expenditure for intangible assets and property, plant and equipment</b>	<b>100,820</b>	<b>94,427</b>	<b>8,093</b>	<b>10,343</b>	<b>1,942</b>	<b>1,261</b>
Germany	93,810	82,050	8,093	10,343	0	0
Rest of Europe	692	795	0	0	1,942	1,261
Other regions	6,319	11,582	0	0	0	0
<b>Return on sales (EBT to sales)</b>	<b>5.3%</b>	<b>5.1%</b>	<b>-4.4%</b>	<b>-7.4%</b>	<b>-8.1%</b>	<b>-17.9%</b>



Total for the segments		Consolidation		Other		KRONES GROUP	
2012	2011	2012	2011	2012	2011	2012	2011
						<b>2,664,194</b>	<b>2,480,308</b>
						224,119	253,247
						680,186	675,165
						1,759,889	1,551,896
						<b>76,685</b>	<b>70,270</b>
						2,796	0
				6,900	10,992	6,925	11,035
				3,242	7,825	3,468	8,423
						<b>97,913</b>	<b>74,590</b>
						1,340	3,252
<b>2,065,056</b>	<b>2,043,352</b>	<b>-37,004</b>	<b>-30,325</b>	<b>41,551</b>	<b>26,801</b>	<b>2,069,603</b>	<b>2,039,828</b>
1,537,053	1,576,233	-21,960	-21,560	41,551	26,801	1,556,644	1,581,474
173,258	159,731	-14,426	-7,878	0	0	158,832	151,853
354,745	307,388	-618	-887	0	0	354,127	306,501
<b>1,234,710</b>	<b>1,269,907</b>	<b>-37,004</b>	<b>-30,325</b>	<b>35,730</b>	<b>14,752</b>	<b>1,233,436</b>	<b>1,254,334</b>
						<b>110,856</b>	<b>106,031</b>
						101,903	92,393
						2,634	2,056
						6,319	11,582
						<b>3.7%</b>	<b>3.0%</b>

#### ■ Legal basis

The consolidated financial statements of KRONES AG («KRONES Group») for the period ended 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, applicable at the end of the reporting period, including the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union. No early application was made of IFRSs that had not yet entered into force or their interpretations. A list of these standards and interpretations and of standards being applied for the first time is on page 156. The Executive Board authorised these consolidated financial statements for issue on 28 March 2013.

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

If applicable, non-controlling interests have been added to the statement of changes in equity. The following explanatory notes comprise disclosures and remarks that, under IFRSs, must be included as notes to the consolidated financial statements in addition to the statement of financial position, the separate income statement and statement of comprehensive income, the statement of changes in equity, and the statement of cash flows.

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

#### ■ Consolidated group

Besides KRONES AG, the consolidated financial statements for the period ended 31 December 2012 include all material domestic and foreign subsidiaries in which KRONES AG holds more than 50% of the voting rights.

KRONES acquired another 50% stake in KONPLAN S.R.O., Prague, Czech Republic, in the financial year 2012. As a result, KRONES AG now holds a direct 100% stake in this company and an indirect stake in its subsidiaries. Moreover, KRONES Makina Sanayi ve Ticaret Ltd. Sirketi, Istanbul, Turkey, was established and acquisition accounting was done to include it in the consolidated group.

The first-time consolidation of the newly established company was effected at the time of acquisition.

## ■ Consolidation principles

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

Capital consolidation is performed in accordance with IFRS 3 («Business combinations»), under which all business combinations must be accounted for using the »purchase method« of accounting, whereby the acquired assets and liabilities are to be recognised at fair value.

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

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

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

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

## ■ Currency translation

The functional currency for KRONES AG is the euro.

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

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

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

Exchange rate differences compared with the previous year arising from capital consolidation are recognised outside profit or loss (in equity) in other profit reserves.

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

		Closing rate		Average rate	
		31 Dec 2012	31 Dec 2011	2012	2011
us dollar	USD	1.319	1.293	1.286	1.393
British pound	GBP	0.816	0.837	0.811	0.868
Swiss franc	CHF	1.207	1.217	1.205	1.233
Danish krone	DKK	7.461	7.434	7.444	7.451
Canadian dollar	CAD	1.312	1.319	1.285	1.377
Japanese yen	JPY	113.650	100.070	102.646	111.040
Brazilian real	BRL	2.700	2.414	2.510	2.326
Chinese renminbi (yuan)	CNY	8.215	8.144	8.116	9.002
Mexican peso	MXN	17.206	18.073	16.912	17.287
Ukrainian hryvnia	UAH	10.614	10.363	10.391	11.120
South African rand	ZAR	11.187	10.476	10.553	10.083
Kenyan shilling	KES	113.593	110.223	108.692	123.642
Nigerian naira	NGN	205.960	209.840	204.178	216.949
Russian ruble	RUB	40.249	41.687	39.925	40.872
Thai baht	THB	40.334	40.829	39.929	42.433
Indonesian rupiah	IDR	12,707.500	11,730.600	12,039.824	12,201.906
Angolan kwanza	AOA	126.640	122.920	122.658	130.571
Turkish lira	TRY	2.356	2.446	2.315	2.335

#### ■ Accounting policies

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

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

#### ■ Intangible assets

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

#### ■ Research and development expenditure

Development expenditure of the KRONES Group is capitalised at cost to the extent that costs can be allocated clearly and the technical feasibility and a future economic benefit as a result of their use are probable. According to IAS 38, research expenditure cannot be capitalised and is, therefore, recognised as an expense directly in profit or loss. Borrowing costs are capitalised as cost at a capitalisation rate of 0.60%.

#### ■ Goodwill

There is no goodwill in these consolidated accounts.

#### ■ Property, plant and equipment

Property, plant and equipment are accounted for at cost less scheduled depreciation on a straight-line basis over their estimated useful lives. The cost of internally generated plant and equipment comprises all costs that are directly attributable to the production process and an appropriate portion of overheads.

A revaluation of property, plant and equipment pursuant to IAS 16 was not carried out.

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

Useful life	In years
Buildings	14–50
Technical equipment and machinery	5–18
Furniture and fixtures and office equipment	3–15

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

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

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

#### ■ Leases

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

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

#### ■ Financial instruments

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

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

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

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

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

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

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

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

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

#### ■ Non-current financial assets

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

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

#### ■ Derivative financial instruments

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

The primary category of currency risk at KRONES is transaction risk arising from exchange rates and cash flows in foreign currencies. The currencies materially affected by this are the US dollar, Australian dollar, Canadian dollar, and British pound.

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

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

The derivative financial instruments are measured at fair value at the end of the reporting period. The fair values are determined using Level 2 inputs under IFRS 7.27A. Gains and losses from the measurement are recognised as profit or loss on the separate income statement and the statement of comprehensive income unless the conditions for hedge accounting are met.

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

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

#### ■ Receivables and other assets

Receivables and other assets, with the exception of derivative financial instruments, are assets that are not held for trading. They are recognised at amortised cost. Receivables with maturities of over one year that bear no or lower-than-market interest are discounted. Impairments are recognised to take account for all identifiable risks. The indicators used for this are the ageing of the receivables and the customer's business situation.

#### ■ Inventories

Inventories are carried at the lower of cost and net realisable value. Cost includes those costs that are directly related to the units of production and an appropriate portion of fixed and variable production overheads. The portion of overheads is determined on the basis of normal capacity of the production facilities.

Selling costs and general administrative costs are not included in the costs of inventories. For inventory risks arising from increased storage periods or reduced usability, write-downs are made on the inventories.

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

#### ■ Construction contracts for specific customers

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

#### ■ Deferred tax items

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

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

#### ■ Provisions for pensions

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

Actuarial gains and losses are only recognised as income or expenses if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of

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



#### ■ Other provisions

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

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

#### ■ Financial liabilities

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

#### ■ Revenue

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

Revenue is reported less reductions.

#### ■ Segment reporting

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

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

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

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

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

## 1 Intangible assets

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

€ thousand	Industrial property rights and similar rights and assets as well as licenses	Capitalised development expenditure	Total
<b>1 January 2011</b>			
Cost	88,815	162,562	251,377
Accumulated amortisation	74,227	76,568	150,795
<b>Net carrying amount</b>	<b>14,588</b>	<b>85,994</b>	<b>100,582</b>
<b>Changes in 2011</b>			
<b>Cost</b>			
Consolidated additions	83	0	83
Additions	10,567	23,988	34,555
Disposals	3,876	0	3,876
Currency differences	-75	0	-75
<b>Amortisation</b>			
Consolidated additions	22	0	22
Additions	8,116	16,287	24,403
Disposals	3,812	0	3,812
Currency differences	-62	0	-62
<b>Net carrying amount at 31 December 2011</b>	<b>17,023</b>	<b>93,695</b>	<b>110,718</b>
<b>1 January 2012</b>			
Cost	95,514	186,550	282,064
Accumulated amortisation	78,491	92,855	171,346
<b>Net carrying amount</b>	<b>17,023</b>	<b>93,695</b>	<b>110,718</b>
<b>Changes in 2012</b>			
<b>Cost</b>			
Additions	11,157	27,966	39,123
Disposals	1,922	0	1,922
Currency differences	-153	0	-153
<b>Amortisation</b>			
Additions	5,777	24,926	30,703
Disposals	1,911	0	1,911
Currency differences	-142	0	-142
<b>Net carrying amount at 31 December 2012</b>	<b>22,381</b>	<b>96,735</b>	<b>119,116</b>
<b>31 December 2012</b>			
Cost	104,596	214,516	319,112
Accumulated amortisation	82,215	117,781	199,996
<b>Net carrying amount</b>	<b>22,381</b>	<b>96,735</b>	<b>119,116</b>

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

The capitalised development expenditure relates to new machinery projects of KRONES AG. The development expenditure capitalised in the reporting period amounts to €27,966 thousand (previous year: €23,988 thousand). This figure includes borrowing costs totalling €100 thousand (previous year: €302 thousand). Including capitalised development expenditure, a total of €121,168 thousand was spent on research and development in 2012 (previous year: €123,064 thousand). In the reporting period, a €2,796 thousand write-down on intangible assets was recognised within the depreciation and amortisation figure (previous year: €0 thousand) and relates to the segment »machines and lines for beverage production/process technology«. The write-down is for capitalised development projects to which no further benefit can be attributed.

## 2 Property, plant and equipment

For property, plant and equipment, there were no impairment losses and no reversals under depreciation pursuant to IAS 36 in 2012 or the previous year.

In 2012, the carrying amounts for property, plant and equipment included grants of €211 thousand (previous year: €261 thousand). Of the grants, €50 thousand (previous year: €50 thousand) were recognised in profit and loss by way of a reduced depreciation charge in 2012. No reversals (previous year: €272 thousand) are included in the depreciation figure.

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

Property, plant and equipment includes leased assets amounting to €1,472 thousand (previous year: €13,203 thousand), which are to be attributed as the economic property of the relevant group company due to the provisions of the underlying lease (finance lease).

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

€ thousand	31 Dec 2012	31 Dec 2011
Land, land rights and buildings, including buildings on third-party land	767	12,353
Technical equipment and machinery	91	231
Other equipment, furniture and fixtures, and office equipment	614	619
<b>Total</b>	<b>1,472</b>	<b>13,203</b>

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

Property, plant and equipment have changed as follows:

€ thousand	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures, and office equipment	Construction in progress	Total
<b>1 January 2011</b>					
Cost	394,179	236,712	209,758	5,215	845,864
Accumulated depreciation	119,895	158,975	150,694	0	429,564
<b>Net carrying amount</b>	<b>274,284</b>	<b>77,737</b>	<b>59,064</b>	<b>5,215</b>	<b>416,300</b>
<b>Changes in 2011</b>					
<b>Cost</b>					
Consolidated additions	0	0	293	0	293
Additions	12,565	20,605	29,865	8,442	71,477
Disposals	352	8,628	36,295	46	45,321
Transfers	3,605	2,530	352	-6,487	0
Currency differences	663	531	205	97	1,496
<b>Depreciation</b>					
Consolidated additions	0	0	79	0	79
Additions	11,378	13,427	21,334	0	46,139
Disposals	329	8,442	35,507	0	44,278
Reversals	272	0	0	0	272
Currency differences	409	543	330	0	1,282
<b>Net carrying amount at 31 December 2011</b>	<b>279,579</b>	<b>87,247</b>	<b>67,248</b>	<b>7,221</b>	<b>441,295</b>
<b>1 January 2012</b>					
Cost	410,660	251,750	204,178	7,221	873,809
Accumulated depreciation	131,081	164,503	136,930	0	432,514
<b>Net carrying amount</b>	<b>279,579</b>	<b>87,247</b>	<b>67,248</b>	<b>7,221</b>	<b>441,295</b>
<b>Changes in 2012</b>					
<b>Cost</b>					
Consolidated additions	0	0	74	0	74
Additions	6,764	18,070	22,890	24,008	71,732
Disposals	855	7,441	27,890	4	36,190
Transfers	1,156	1,569	477	-3,202	0
Currency differences	-165	-665	-490	-20	-1,340
<b>Depreciation</b>					
Consolidated additions	0	0	32	0	32
Additions	11,491	11,224	23,267	0	45,982
Disposals	280	7,045	27,103	0	34,428
Currency differences	-165	-388	-347	0	-900
<b>Net carrying amount at 31 December 2012</b>	<b>274,371</b>	<b>93,596</b>	<b>65,999</b>	<b>30,919</b>	<b>464,885</b>
<b>31 December 2012</b>					
Cost	416,498	261,890	198,778	30,919	908,085
Accumulated depreciation	142,128	168,294	133,778	0	443,200
<b>Net carrying amount</b>	<b>274,371</b>	<b>93,596</b>	<b>65,999</b>	<b>30,919</b>	<b>464,885</b>

### 3 Non-current financial assets

The non-current financial assets consist primarily of lendings.

### 4 Inventories

The inventories of the KRONES Group are composed as follows:

€ thousand	31 Dec 2012	31 Dec 2011
Materials and supplies	176,132	189,473
Work in progress	222,475	207,036
Finished goods	139,731	169,192
Goods purchased for sale	100,455	69,253
Other inventories	9,649	7,872
<b>Total</b>	<b>648,442</b>	<b>642,826</b>

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

Write-downs of €25,902 thousand on inventories were recognised as expense in 2012 (previous year: €14,832 thousand) and are based substantially on customary net realisable values and obsolescence allowances. The amount of reversals of write-downs recognised in profit and loss due to improved market conditions was insignificant. The carrying amount of the inventories recognised at fair value less selling expenses totalled €55,325 thousand in the reporting period (previous year: €61,641 thousand).

### 5 Receivables and other assets

€ thousand	31 Dec 2012	31 Dec 2011
Trade receivables	568,317	585,116
(of which amounts are due in 12 months or later)	8,455	17,366
Other assets	92,571	105,698
(of which amounts are due in 12 months or later)	1,937	3,708

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

The allowance account developed as follows:

At 1 January 2012	23,305
Change in the consolidated group and effects of currency translation	-609
Additions	6,979
Reversals	7,971
At 31 December 2012	21,704

The trade receivables at 31 December 2012 include gross amounts due from customers for contract work totalling €44,649 thousand (previous year: €27,712 thousand). These amounts relate to construction contracts in which costs incurred plus recognised profits less the sum of recognised losses exceeds progress billings and advances received. There are no gross amounts due to customers for contract work.

The other assets include primarily advances paid (€18,824 thousand; previous year: €23,605 thousand), current tax assets (€47,465 thousand; previous year: €39,730 thousand), prepaid expenses (€5,261 thousand; previous year: €4,772 thousand), and creditors with debit balances (€1,361 thousand; previous year: €2,013 thousand).

The derivative financial instruments measured at fair value, which were entered into for future payment receipts and meet the conditions for hedge accounting or which were entered into as free-standing hedge transactions, amounted to €3,170 thousand in 2012 (previous year: €21 thousand).

## 6 Cash and cash equivalents

Apart from cash on hand amounting to €232 thousand (previous year: €209 thousand), the cash and cash equivalents of €132,920 thousand (previous year: €125,496 thousand) consist primarily of demand deposits. Changes in cash and cash equivalents under IAS 7 »Statement of cash flows« are presented in the statement of cash flows on page 124.

## 7 Income tax

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

The income tax breaks down as follows:

€ thousand	31 Dec 2012	31 Dec 2011
Deferred tax expense/income (-)	4,419	4,516
Current tax	26,466	26,420
<b>Total</b>	<b>30,885</b>	<b>30,936</b>

The deferred tax items are computed on the basis of the national income tax rates that apply or are expected due to the current legal situation in the individual countries at the time of realisation. In Germany, a corporate income tax rate of 15.0% plus a solidarity surcharge of 5.5% and a local business tax rate (Gewerbesteuerhebesatz) for KRONES AG that averages 328% apply.

Thus, the total income tax rate for the companies in Germany is 27.3%. Abroad, the tax rates are in the 20% to 38% range. The 27.3% rate was used to calculate deferred taxes.

The deferred tax assets and liabilities at 31 December 2012 break down by items on the statement of financial position as follows:

€ thousand	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Intangible assets	28	219	26,966	25,954
Property, plant and equipment	45	60	12,703	15,200
Non-current financial assets	1	6	1	0
Other non-current assets	65	0	1,454	2,927
Inventories	3,224	2,477	129	480
Other current assets	7,770	5,496	4,938	3,442
Tax loss carryforwards	20,746	25,633	0	0
Provisions, non-current	9,807	8,543	0	0
Other non-current liabilities	216	3,173	727	840
Provisions, current	13,927	11,489	1,827	1,902
Other current liabilities	123	416	6,642	604
Cash flow hedging	297	2,796	1,220	6
Consolidation	821	701	0	0
<b>Subtotal</b>	<b>57,070</b>	<b>61,009</b>	<b>56,607</b>	<b>51,355</b>
<b>Offsetting (-)</b>	<b>-35,465</b>	<b>-47,486</b>	<b>-35,465</b>	<b>-47,486</b>
<b>Total</b>	<b>21,605</b>	<b>13,523</b>	<b>21,142</b>	<b>3,869</b>

The deferred tax assets and liabilities recognised in other comprehensive income amounted to €458 thousand at the end of the reporting period (previous year: €4,341 thousand) and resulted from hedging activities. The deferred tax items recognised on loss carryforwards relate to KRONES AG and KRONES INC., USA. According to our earnings planning, positive tax results can be expected in the future. Deferred tax items were not recognised on tax loss carryforwards of €44,996 thousand.

The tax expense of €30,885 thousand reported in 2012 is €4,155 thousand higher than the expected tax expense that would theoretically result from application of the domestic tax rate of 27.3% at the group level. The difference can be attributed to the following:

€ thousand	31 Dec 2012	31 Dec 2011
Earnings before taxes	97,913	74,590
Tax rate for the parent company KRONES AG	27.30%	27.30%
Expected (theoretical) tax expense	26,730	20,363
Adjustments due to different tax rates	-4,928	1,158
Reductions in tax due to tax-free earnings	-8,367	-13,232
Tax loss carryforwards	2,091	3,557
Increases in tax expense due to non-deductible expenses	13,886	15,087
Tax income (-)/tax expense (+) for previous years	388	2,930
Other	1,085	1,073
<b>Income tax</b>	<b>30,885</b>	<b>30,936</b>

The difference between reductions in taxes and increases in taxes for 2012 yields a net increase in taxes. This is primarily attributable to non-deductible operating expenses and tax audits. Penalty interest is recognised under tax expense.

## 8 Equity

KRONES AG's share capital amounted to €40,000,000.00 at 31 December 2012, unchanged on the previous year. It is divided into 31,593,072 ordinary bearer shares, each with a theoretical par value of €1.27 per share.

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

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

The authorisation becomes effective upon resolution by the annual shareholders' meeting and applies until the end of the day 15 June 2015. The authorisation resolved by the annual shareholders' meeting on 16 June 2010 (agenda item 6) expires when this new authorisation takes effect.

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

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

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

If the shares are purchased through a public tender offer or a public call for tenders, the tender price per share or the high and low ends of the price range per share (excluding incidental costs) shall not exceed by more than 20% and not fall short of by more than 20% the opening price in the XETRA trading system (or any comparable successor system) on the Frankfurt Stock Exchange on the third trading day prior to the public announcement of the public tender offer or public call for tenders (the »relevant price«). If significant deviations from the relevant price occur after the publication of an announcement of a public tender offer or a public call for tenders, the offer or invitation to tender can be adjusted.



In such a case, the basis of any adjustment shall be the corresponding price on the last trading day prior to the public announcement of any adjustment. The tender offer or call for tenders can stipulate additional conditions. If the tender offer is oversubscribed – or, in the case of a call for tenders, if there are several tenders of equal value and the total amount exceeds the total amount accepted – acceptance must be granted on a pro-rated basis. Provision may be made for preferential acceptance of small lots of up to 100 tendered shares per shareholder.

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

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

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

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

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

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

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

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

The changes in equity that are not recognised in profit or loss (excluding dividends) totalled €1,746 thousand in the reporting period (previous year: –€4,173 thousand) and consist of changes in currency differences and hedge accounting under other reserves. The sum of changes in equity that are not recognised in profit or loss and those that are recognised in profit or loss, was €68,774 thousand (previous year: €39,481 thousand).

## Disclosures about capital management

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

### 9 Capital reserves

The capital reserves total €66,807 thousand (previous year: €66,750 thousand). The capital reserves do not include any additional capital contributions under § 272 (2) No. 4 of the German Commercial Code (HGB).

### 10 Profit reserves

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

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

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

### 11 Other reserves

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

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

€ thousand	Reserve for cash flow hedges	Reserve for the fair value of securities	Total
<b>At 1 January 2011</b>	<b>-619</b>	<b>-6</b>	<b>-625</b>
Measurement change recognised in equity	-7,157	-3	-7,160
Tax on items taken directly to or transferred from equity	2,280	1	2,281
Currency difference	-135		-135
<b>At 31 December 2011</b>	<b>-5,631</b>	<b>-8</b>	<b>-5,639</b>
Measurement change recognised in equity	11,445	9	11,454
Tax on items taken directly to or transferred from equity	-4,362	-3	-4,365
Currency difference	-61		-61
<b>At 31 December 2012</b>	<b>1,391</b>	<b>-2</b>	<b>1,389</b>

## 12 Non-controlling interests

As in the previous year, there were no non-controlling interests in the financial year 2012.

A detailed overview of the composition of and changes to the individual equity components for the KRONES Group in 2012 and the previous year is presented in the statement of changes in equity on page 125.

## 13 Provisions for pensions

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

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

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

In defined benefit plans, the company undertakes an obligation to render the benefits promised to active and former employees, whereby a distinction is made between systems that are financed by provisions and those financed through pension funds. The amount of the pension obligations («defined benefit obligation») has been computed in accordance with actuarial methods. Apart from the assumptions regarding life expectancy based on the 2005 Heubeck actuarial tables, the following factors were also taken into account in the actuarial calculation:

%	Germany		Other countries, average	
	2012	2011	2012	2011
Discount rate	3.60	4.40	6.93	6.90
Projected increases in wages and salaries	0.00	0.00	6.60	6.60
Projected increases in state pensions	2.00	2.00	0.00	0.00

The rate recommendations for measuring pension liabilities at the end of the business year as published by Heubeck AG, Mercer Deutschland GmbH, TowersWatson, and AON Hewitt are used to determine the relevant discount rates. These values, which in turn are determined on the basis of market yields on senior fixed-coupon corporate bonds, are used to calculate a discount rate that reflects the anticipated benefit payments.

There has been a significant decline in the number of high-quality corporate bonds in the long maturity range. In order to address this issue, the criteria used to select the high-quality, fixed-coupon, AA-rated corporate bonds were updated effective 31 December 2012 to include more bonds and to enable continued reliable estimates of discount rates. The present value of the benefit commitments would have been €20.2 million higher if the discount rate had been 0.6% lower. This change would not have an effect on pension provisions or on the consolidated separate income statement.

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

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

€ thousand	31 Dec 2012	31 Dec 2011
Present value of benefit commitments financed by provisions	124,533	101,820
Present value of benefit commitments financed through pension funds	44,751	39,917
Present value of benefit commitments (gross)	169,284	141,737
Fair value of plan assets	-28,229	-27,020
Present value of benefit commitments (net)	141,055	114,717
Actuarial gains (losses) not recognised in the statement of financial position	-53,498	-32,439
<b>Carrying amount at 31 December</b>	<b>87,557</b>	<b>82,278</b>

The pension provisions, which amounted to €86,263 thousand at the end of the reporting period (previous year: €80,927 thousand), are primarily attributable to KRONES AG.

The composition of costs arising from pension obligations, which amounted to €9,995 thousand (previous year: €10,301 thousand), the reconciliation of the present value of defined benefit obligations, which amounted to €169,284 thousand (previous year: €141,737 thousand), and the plan assets of €28,229 thousand (previous year: €27,020 thousand) breaks down as follows:

€ thousand	31 Dec 2012	31 Dec 2011
Current service cost	3,506	3,828
Interest expense	6,102	5,691
Expected return on plan assets	-862	-671
Recognised gains and losses	1,249	1,453
<b>Costs arising from pension obligations</b>	<b>9,995</b>	<b>10,301</b>

€ thousand	31 Dec 2012	31 Dec 2011
Present value of benefit commitments at 1 January	141,737	136,676
Consolidated addition	0	0
Current service cost	3,506	3,828
Interest expense	6,102	5,691
Actuarial losses (+)/gains (-) not recognised in the statement of financial position	22,389	-691
Benefits paid	-4,289	-3,864
Currency differences	-161	97
<b>Present value of benefit commitments at 31 December</b>	<b>169,284</b>	<b>141,737</b>

Costs arising from pension commitments are recognised under personnel expenses.

The actual return on plan assets was 8.47%. The plan assets consist of securities. No payments are expected to be made into the plan in 2012. The expected return of between 2.5% and 3.6% is estimated on the basis of the fund administrator's future interest rate developments. In 2012, a total of €46,345 thousand (previous year: €43,326 thousand) was spent on the employer contribution to defined contribution plans (contributions to pensions insurance).

Reconciliation of the assets (€ thousand)	31 Dec 2012	31 Dec 2011
Plan assets at start of year	27,020	21,589
Expected return	862	671
Employer contributions	2,354	6,388
Benefits paid	-1,997	-2,005
Net unrecognised gains on assets	41	338
Currency differences	-51	39
<b>Plan assets at end of year</b>	<b>28,229</b>	<b>27,020</b>

€ thousand	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Present value of benefit commitments	169,284	141,737	136,676	111,843	98,936
Fair value of plan assets	28,229	27,020	21,589	19,170	18,007
Deficit of plan assets	-16,522	-12,897	-17,216	-13,580	-14,470
Adjustments (actuarial assumptions vs. actual development)	4.9%	1.2%	3.0%	1.9%	0.9%

#### 14 Provisions for taxes and other provisions

Of the other provisions amounting to €178,233 thousand (previous year: €218,997 thousand), €142,696 thousand (previous year: €186,747 thousand) are due within one year. These other provisions apply to the following items:

€ thousand	1 Jan 2012	Use	Reversal	Addition	Currency differences	31 Dec 2012	Due within 1 year
Tax liabilities	11,120	8,375	1,277	14,544	-184	15,828	14,030
Personnel obligations	19,976	855	76	4,831	-13	23,863	522
Administrative expenses	2,217	730	638	1,078	-174	1,753	827
Other remaining provisions	185,684	75,361	24,021	51,900	-1,413	136,789	127,317
<b>Total</b>	<b>218,997</b>	<b>85,321</b>	<b>26,012</b>	<b>72,353</b>	<b>-1,784</b>	<b>178,233</b>	<b>142,696</b>

The provisions for personnel obligations are primarily for non-current obligations relating to early retirement (€16,592 thousand; previous year: €13,286 thousand). The other remaining provisions primarily consist of warranties and anticipated losses. Estimates are based on customary empirical values. The non-current provisions have been discounted using rates between 3.7% and 4.8%.

#### 15 Liabilities

€ thousand	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2012
Liabilities to banks	0	0	0	0
Advances received	497,163	0	0	497,163
Trade payables	197,849	6,829	0	204,678
Other financial liabilities	14,879	2,177	0	17,056
Other liabilities	225,238	1,811	0	227,049
<b>Total</b>	<b>935,129</b>	<b>10,817</b>	<b>0</b>	<b>945,946</b>

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

The other financial liabilities are obligations on bills. Under IAS 39, these represent possible liabilities from bills sold and are recognised as trade receivables amounting to €16,317 thousand (previous year: €40,712 thousand).

The other liabilities consist of deferred income (€7,484 thousand; previous year: €2,439 thousand) and other remaining liabilities (€219,565 thousand; previous year: €260,015 thousand).

The other remaining liabilities break down as follows:

€ thousand	Residual term of up to 12 months	Residual term of 1 to 5 years	Residual term of over 5 years	Total at 31 Dec 2012
Tax liabilities	15,670	331		16,001
Social security liabilities	7,645			7,645
Payroll liabilities	18,770			18,770
Debtors with credit balances	10,880			10,880
Finance leases	413	55		468
Accruals	149,341			149,341
Other	15,035	1,425		16,460
<b>Total</b>	<b>217,754</b>	<b>1,811</b>		<b>219,565</b>

Accruals, which amounted to €149,341 thousand (previous year: €169,029 thousand), have greater certainty with respect to their amount and timing than provisions have. The primary items they include are outstanding supplier invoices, obligations relating to flexible working hours, accrued vacation, and performance bonuses.

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

The liabilities from finance leases are recognised under other liabilities without consideration of future interest expense. The residual terms of the individual leases are between 2 and 4 years. Some of the leases contain options for extension or purchase.

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

€ thousand	31 Dec 2012	31 Dec 2011
Future minimum lease payments		
Up to 1 year	612	904
1 to 5 years	807	1.410
	<b>1,419</b>	<b>2,314</b>
Interest portion of future minimum lease payments		
Up to 1 year	24	403
1 to 5 years	18	117
	<b>42</b>	<b>520</b>
Present value of future minimum lease payments		
Up to 1 year	588	501
1 to 5 years	789	1.293
	<b>1,377</b>	<b>1,794</b>

#### 16 Contingent liabilities

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

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

#### 17 Other financial liabilities

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

€ thousand	31 Dec 2012	31 Dec 2011
Future minimum lease payments		
Up to 1 year	14,732	14,253
1 to 5 years	13,067	14,364
	<b>27,799</b>	<b>28,617</b>
Future maintenance		
Up to 1 year	10,890	10,338
1 to 5 years	6,091	9,417
	<b>16,981</b>	<b>19,755</b>

Payments amounting to €20,883 thousand (previous year: €18,211 thousand) were made under these rental and lease agreements in 2012.

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



## 18 Derivative financial instruments

The derivative financial instruments of the KRONES Group, with a fair value of €1,926 thousand (previous year: –€12,230 thousand) of which €2,069 thousand are short-term (previous year: –€11,396 thousand), substantially cover the currency risks relating to the US dollar, the Australian dollar, the Canadian dollar, the British pound, and the euro. The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the end of the reporting period as well as appropriate premiums or discounts for the expected price development through maturity. These financial instruments are accounted for using the settlement date.

The derivative financial instruments are essentially composed of forward exchange contracts at a secured volume of €221.3 million (previous year: €256.9 million), of which €219.8 million are short-term (previous year: €241.7 million). This volume includes a nominal volume of €74.6 million (previous year: €66.2 million) for short-term cash flow hedges that is measured at a fair value of €74.0 million (previous year: €64.5 million). The risk of default relating to derivative financial instruments is limited to the balance of the positive fair values in the event of a contracting party's default. The cash flow hedges presented are effective.

The net gain from these financial instruments was €108 thousand in the reporting period (previous year: net loss of €442 thousand).

## 19 Revenue

The revenue of the KRONES Group, which amounts to €2,664,194 thousand (previous year: €2,480,308 thousand), consists of deliveries and services billed to customers less reductions. In the segment reporting, sales revenue is presented in detail, divided by business area and geographic market. In 2011, revenue of €1,440,378 thousand resulted from construction contracts (previous year: €1,225,769 thousand). Costs and gains (less any reported losses) for contracts in progress came to €878,560 thousand (previous year: €789,922 thousand). Advances received amounted to €88,837 thousand (previous year: €65,196 thousand).

## 20 Other own work capitalised

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

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

## 21 Other operating income

Apart from the income from the reversal of provisions (€19,087 thousand; previous year: €25,195 thousand), gains from disposals of non-current assets (€644 thousand; previous year: €1,560 thousand), and the reversal of impairments (€4,631 thousand; previous year: €8,889 thousand), which are not related to the period, the other operating income, which amounts to €104,353 thousand (previous year: €98,743 thousand), consists substantially of currency translation gains of €35,069 thousand (previous year: €31,315 thousand). This is compared with the recognition of impairment losses of €3,291 thousand (previous year: €5,637 thousand) and currency translation losses of €47,355 thousand (previous year: €33,412 thousand) under other operating expenses.

## 22 Goods and services purchased

The expenditure for goods and services purchased comprises expenses for materials and supplies and for goods purchased amounting to €1,086,061 thousand (previous year: €1,035,675 thousand) and expenses for services purchased amounting to €239,244 thousand (previous year: €236,101 thousand).

## 23 Personnel expenses

Within the KRONES Group, 11,487 people (previous year: 10,799) including trainees (604; previous year: 466) were employed on average for the year. The workforce of the KRONES Group is composed as follows (on average for the year):

	2012	2011
White-collar employees exempt from collective agreements	2,721	2,525
Employees covered by collective agreements	8,766	8,274
<b>Total</b>	<b>11,487</b>	<b>10,799</b>

## 24 Other operating expenses

Apart from the €423 thousand in losses from disposals of non-current assets (previous year: €222 thousand), which are not related to the period, the other operating expenses include additions to impairments on receivables (€3,291 thousand; previous year: €5,637 thousand), other taxes (€4,210 thousand; previous year: €3,793 thousand), freight costs (€98,928 thousand; previous year: €84,559 thousand), and rent and cleaning costs (€26,127 thousand; previous year: €27,690 thousand).

## 25 Financial income

The financial income of €5,622 thousand (previous year: €4,044 thousand) breaks down as follows:

€ thousand	31 Dec 2012	31 Dec 2011
Income from other securities and loans classified as non-current financial assets	28	10
Other interest and similar income	6,925	11,035
Interest and similar expenses	-3,468	-8,423
Interest income	3,457	2,612
Write-downs on non-current financial assets	0	0
Investment income	2,137	1,422
<b>Financial income</b>	<b>5,622</b>	<b>4,044</b>

## 26 Income tax

Income tax amounted to -€30,885 thousand in 2012 (previous year: -€30,936 thousand). More information is presented under Note 7, »Income tax« (pages 140-142).

## 27 Earnings per share

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

		2012	2011
Consolidated net income less profit or loss shares			
of non-controlling interests	€ thousand	67,028	43,654
Weighted average number of ordinary shares in circulation	Shares	30,167,651	30,167,651
Earnings per share	€	2.22	1.45

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

#### ■ Group audit fees

Expenses of €448 thousand were incurred in the financial year 2012 for the KRONES Group audit and the audit of the parent company. In addition, for the parent company, expenses totaling €61 thousand were incurred for tax consultancy services. No expenses for other services were incurred. The expense for the audit of the German subsidiaries was €36 thousand.

#### ■ Events after the reporting period

No events of material importance occurred after the reporting period.

#### ■ Related party disclosures

Within the meaning of IAS 24 »Related party disclosures«, the members of the Supervisory Board and of the Executive Board of KRONES AG and the companies of the KRONES Group, including unconsolidated subsidiaries, are deemed related parties. Purchases and sales between the related companies are transacted at prices customary on the market (»at arm's length«). Sales to related companies amounted to €21,102 thousand in 2012 (previous year: €19,130 thousand). Trade and other payment transactions resulted in liabilities of €8,230 thousand (previous year: liabilities of €10,530 thousand). Contingent liabilities of €2,760 thousand (previous year: €4,147 thousand) result from guarantees.

#### ■ Compensation of the Executive Board and the Supervisory Board

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

The compensation report is on pages 110 to 112 of the 2012 Annual Report.

#### ■ Other disclosures

The US company of the KRONES Group, KRONES INC. in Franklin/Wisconsin (USA), and KRONES AG, Neutraubling (Germany), have settled the legal disputes that have been ongoing in the US since October 2008. Only one claim for legal fees remains pending. The proceedings concerned relate to claims for damages asserted by several American financial service providers, a group of hedge funds and a liquidator, and most recently investigations by the district attorney in Pennsylvania. The proceedings related to the financial scandal involving the bankruptcy of the US company Le-Nature's.

Against the background of possible risks arising from the proceedings in the US, which might otherwise have dragged on for years, KRONES decided to bring an end to the matter by concluding settlements with all major plaintiffs, and reaching an agreement with the district attorney as well, at the same time.

The agreements involve settlement payments amounting to about USD 110 million to the various plaintiffs, plus a payment by KRONES INC. to the US Treasury amounting to USD 15 million relating to a discontinuation of the investigation. After factoring in the contribution from the relevant insurances, the total net impact on KRONES' pre-tax earnings amounted to €36.7 million in 2011 and €37.8 million in 2012.

The settlement payments were made in full in the financial year 2012.

#### ■ Corporate governance

Shareholders can view the declaration of the Executive Board and the Supervisory Board pursuant to § 161 of the German Stock Corporation Act [AktG] concerning the Corporate Governance Code as amended on 15 May 2012 at KRONES AG's website. The exceptions are also listed there.

#### ■ Risk report

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

### Standards and interpretations not applied early

The following standards, interpretations, and amendments to existing standards and interpretations have been issued by the IASB and adopted by the European Union; however, their application is not yet mandatory (applicable for financial years beginning on or after 1 July 2012) and KRONES AG did not apply them early:

IAS 1	»Presentation of other comprehensive income«
IAS 19	»Employee benefits«
IAS 27	»Separate financial statements«
IAS 32	»Offsetting financial assets and financial liabilities«
IFRS 7	»Disclosures – Offsetting financial assets and financial liabilities«
IFRS 10	»Consolidated financial statements«
IFRS 12	»Disclosure of interests in other entities«
IFRS 13	»Fair value measurement«

The changes to IAS 19 will have the following material effects: Because KRONES AG currently uses the »corridor« method, the amendment – when applied to the figures at 31 December 2012 – will result in an increase of approximately €53 million in the provision for pensions. Equity within other comprehensive income will be reduced by the same amount. The separate income statement will remain free of effects resulting from actuarial gains and losses (e.g. due to interest rate fluctuations).

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

The following standards and interpretations, the application of which is not yet mandatory, are not expected to be relevant for the consolidated financial statements of KRONES AG:

IAS 28	»Investments in associates and joint ventures«
IFRS 11	»Joint arrangements«
IFRIC 20	»Stripping costs in the production phase of a surface mine«

Amendments due to a new standard or a new interpretation and amendments to existing standards and interpretations (applicable for the first time for financial years beginning on or after 1 July 2011):

IAS 12	»Recovery of underlying assets«
IFRS 1	»Severe hyperinflation and replacement of the fixed transition date for first-time application of IFRS«
IFRS 7	»Disclosures about transfers of financial assets«

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

Name and location of the company	Share in capital held by KRONES AG %*
neusped Neutraublinger Speditions-GmbH, Neutraubling, Germany	100.00
KIC KRONES Internationale Cooperations-Gesellschaft mbH, Neutraubling, Germany	100.00
ecomac Gebrauchtmachines GmbH, Neutraubling, Germany	100.00
MAINTEC Service GmbH, Collenberg/Main, Germany	100.00
S.A. KRONES N.V., Louvain-la-Neuve, Belgium	100.00
MAINTEC Service eood, Sofia, Bulgaria	100.00
KRONES Nordic ApS, Holte, Denmark	100.00
KRONES S.A.R.L., Lyon, France	100.00
KRONES UK Ltd., Bolton, UK	100.00
KRONES S.R.L., Garda (VR), Italy	100.00
KOSME S.R.L., Roverbella, Italy	100.00
KRONES Nederland B.V., Bodegraven, Netherlands	100.00
KOSME Gesellschaft mbH, Sollenau, Austria	100.00
MAINTEC Service Ges.m.b.H., Dorf an der Pram, Austria	100.00
KRONES Spółka z.o.o., Warsaw, Poland	100.00
KRONES Portugal Equipamentos Industriais Lda., Barcarena, Portugal	100.00
KRONES o.o.o., Moscow, Russian Federation	100.00
KRONES Romania Prod. S.R.L., Bukarest, Romania	100.00
KRONES AG, Buttwil, Switzerland	100.00
KRONES Iberica, S.A., Barcelona, Spain	100.00
KRONES S.R.O., Prague, Czech Republic	100.00
KONPLAN S.R.O., Pilsen, Czech Republic	100.00
KRONES Makina Sanayi ve Tikaret Ltd. Sirketi, Istanbul, Turkey	100.00
KRONES Ukraine LLC, Kiev, Ukraine	100.00
KRONES Angola – Representacoes, Comercio e Industria, Lda., Luanda, Angola	100.00
KRONES Surlatina S.A., Buenos Aires, Argentina	100.00
KRONES do Brazil Ltda., São Paulo, Brasil	100.00
KRONES S.A., São Paulo, Brasil	100.00
KRONES Machinery (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Trading (Taicang) Co. Ltd., Taicang, China	100.00
KRONES Asia Ltd., Hong Kong, China	100.00
KRONES India Pvt. Ltd., Bangalore, India	100.00
PT. KRONES Machinery Indonesia, Jakarta, Indonesia	100.00
KRONES Japan Co. Ltd., Tokyo, Japan	100.00
KRONES Machinery Co. Ltd., Brampton, Ontario, Canada	100.00
KRONES LCS Center East Africa Limited, Nairobi, Kenya	100.00
KRONES Andina Ltda., Bogotá, Colombia	100.00
KRONES Korea Ltd., Seoul, Korea	100.00
KRONES Mex S.A. DE C.V., Mexico D.F., Mexico	100.00
KRONES LCS Center West Africa Limited, Lagos, Nigeria	100.00
KRONES Southern Africa (Prop.) Ltd., Johannesburg, South Africa	100.00
KRONES (Thailand) Co. Ltd., Bangkok, Thailand	100.00
KRONES, Inc., Franklin, Wisconsin, USA	100.00
Maquinarias KRONES de Venezuela S.A., Caracas, Venezuela	100.00

\* Direct and indirect shareholdings.

## Members of the Supervisory Board and the Executive Board

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

### Supervisory Board

#### Ernst Baumann

Chairman of the Supervisory Board

\* 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 FUTTERSaatBAU

GMBH

#### Philipp Graf

von und zu Lerchenfeld

Member of the Bavarian Landtag,  
Dipl.-Ing. agr., auditor and tax  
consultant

#### Dr. Alexander Nerz

Attorney

#### Johann Robold\*\*

Member of the Works Council

#### Anton Schindlbeck\*\*

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

### 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.



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 Kronseder  
(Chairman)



Christoph Klenk



Rainulf Diepold



Werner Frischholz



Thomas Ricker

We have audited the consolidated financial statements prepared by KRONES Aktiengesellschaft, Neutraubling, comprising the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Regensburg, 28 March 2013

KPMG Bayerische Treuhandgesellschaft  
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Braun  
Wirtschaftsprüfer  
(German Public Auditor)

Herr  
Wirtschaftsprüfer  
(German Public Auditor)

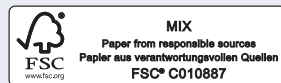
Cash flow	All inflows and outflows of cash and cash equivalents during a period.
Corporate governance	Framework for responsible corporate management and supervision that is oriented toward sustainability.
DAX	Deutscher Aktienindex (DAX). Index containing the 30 biggest German companies (based on market capitalisation and trading volume).
Deferred tax items	Temporary differences between the taxes calculated on the results reported on tax statements and those calculated on the results recognised in the financial statements under IFRSs. The purpose is to show the tax expense in relation to the result under IFRSs.
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	Subset of non-current assets. In the context of this report, fixed assets include property, plant and equipment, intangible assets, and non-current financial assets.
Free cash flow	Measure of financial performance calculated as the cash flow from operating activities minus cash flow from investing activities. It is the cash available to pay dividends, reduce debt, or to be retained.
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).
IFRSs	International Financial Reporting Standards. Accounting standards issued by the International Accounting Standards Board (IASB) that are harmonised and applied internationally.
Market capitalisation	The value of a company based on the market price of issued and outstanding ordinary shares. Calculated by multiplying the share price by the number of shares.
MDAX	Index that contains the 50 biggest German and non-German companies (based on market capitalisation and trading volume) in the traditional sectors after those included in the DAX.
Net cash and equivalents	Cash and highly liquid securities under current assets less liabilities to banks.
Return on equity before taxes	Ratio of earnings before taxes to average equity.
ROCE (assets side)	Ratio of EBIT to the average sum of fixed assets and working capital.
ROCE (liabilities side)	Ratio of EBIT to average capital employed (total assets less interest-free liabilities and interest-free other provisions).
Statement of cash flows	Statement of inflows and outflows of cash that shows the sources and uses of funds within the financial year.
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Total operating performance	Referred to as »total operating revenue« in previous reports, this figure is the sum of »sales revenue« and »changes in inventories of finished goods and work in progress«.
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.

This English language report is a translation of the original German KRONES Konzern Geschäftsbericht 2012. In case of discrepancies the German text shall prevail.

We would be happy to mail you a copy of the original German version of this Annual Report on request. You can also find it in the Investor Relations section at [krones.com](http://krones.com).

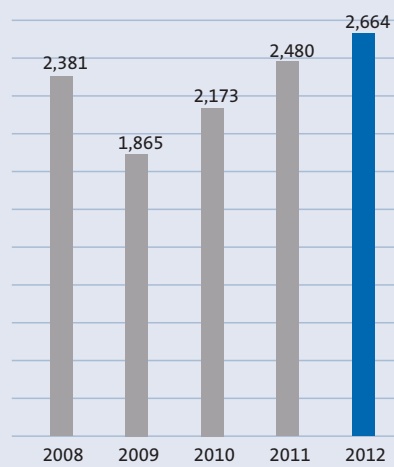
The production of and the paper used for the KRONES Group's 2012 Annual Report have been certified in accordance with the criteria of the Forest Stewardship Council (FSC). The FSC prescribes strict standards for forest management, thus helping to prevent uncontrolled deforestation, human rights violations, and environmental damage. Because products bearing the FSC label are handled by various enterprises along the trading and processing chain, the companies that process the paper, such as printers, are also certified under FSC rules.



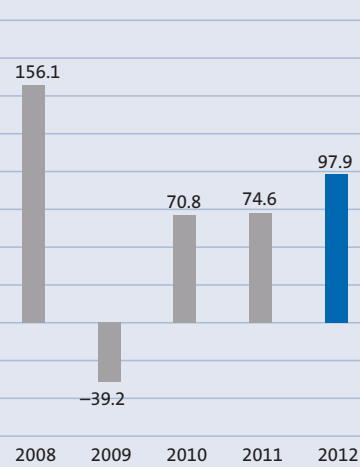
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Photography	KRONES AG, Juliane Zitzlsperger
Printing & litho	Mediahaus Biering GmbH
Paper	PhoeniXmotion, Gmund Colors
Circulation	2,500 German 1,800 English

At a glance: revenues, earnings, employees, dividends

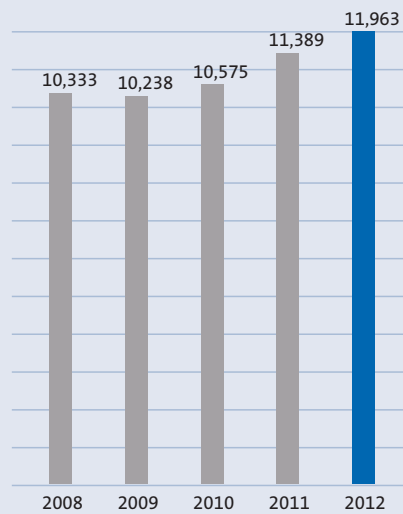
KRONES Group revenue (€ million)



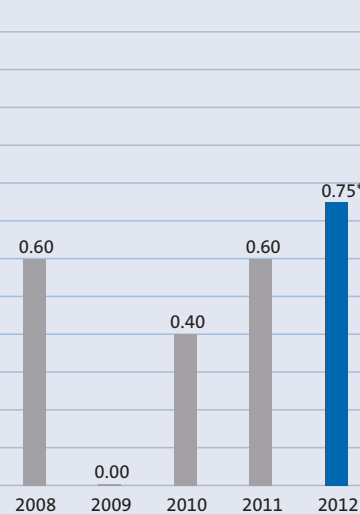
KRONES Group EBT (€ million)



KRONES workforce



Dividend per share (€)



\* As per proposal for the appropriation of retained earnings

### Key figures for the KRONES Group 2008 – 2012

		2012	2011	2010	2009	2008
<b>Revenue</b>						
Sales revenue	€ million	2,664	2,480	2,173	1,865	2,381
Germany	€ million	224	253	234	191	300
Outside Germany	€ million	2,440	2,227	1,939	1,674	2,081
Export share	%	92	90	89	90	87
<b>Earnings</b>						
Earnings before taxes	€ million	98	75	71	-39	156
Net income	€ million	67	44	51	-34	107
Earnings per share	€	2.22	1.45	1.68	-1.13	3.39
<b>Assets and capital structure</b>						
Non-current assets	€ million	625	597	569	542	534
of which fixed assets	€ million	587	555	519	496	482
Current assets	€ million	1,445	1,443	1,317	1,248	1,291
of which cash and equivalents	€ million	133	125	147	136	108
Equity	€ million	836	785	759	696	790
Total debt	€ million	1,234	1,255	1,127	1,094	1,035
Non-current liabilities	€ million	155	134	125	125	144
Current liabilities	€ million	1,079	1,121	1,002	970	891
Total assets	€ million	2,070	2,040	1,886	1,790	1,825
<b>Cash flow/capital expenditure</b>						
Free cash flow	€ million	31	-7	3	83	78
Capital expenditure for PP&E and intangible assets	€ million	111	106	82	88	112
Depreciation, amortisation, and write-downs	€ million	77	70	61	60	51
Net cash position (cash and cash equivalents less debt)	€ million	133	125	147	136	108
<b>Profitability ratios</b>						
EBT margin	%	3.7	3.0	3.3	-2.1	6.6
Return on equity before taxes	%	12.1	9.7	9.7	-5.3	20.8
ROCE (liabilities side)	%	9.9	7.9	8.1	-3.5	19.1
ROCE (assets side)	%	7.7	6.2	6.5	-2.8	13.2
<b>Employees (at 31 December)</b>						
Germany		9,076	8,887	8,280	8,165	8,286
Outside Germany		2,887	2,502	2,295	2,073	2,047
<b>Dividend</b>						
Dividend per share	€	0.75*	0.60	0.40	0.00	0.60

\* as per proposal for appropriation of retained earnings



## KRONES Group segments and product divisions

### Machines and lines for product filling and decoration

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

### Machines and lines for beverage production/process technology

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

### Machines and lines for the low output range (κoσME)

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

## Contact

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93073 Neutraubling  
Germany

## Financial calendar

24 April 2013	Annual report for 2012 Interim report for the period ended 31 March Financial press conference
19 June 2013	Annual shareholders' meeting
25 July 2013	Interim report for the period ended 30 June
24 October 2013	Interim report for the period ended 30 September