

A close-up, high-angle photograph of industrial machinery, likely a printing press, featuring two prominent cylindrical components with red-tipped nozzles. The background is filled with various metal parts, pipes, and structural elements, creating a complex, technical scene.

# AG

Annual Report for KRONES AG 2013

 **KRONES**



# KRONES

KIC KRONES  
KRONES GROUP

KIC KRONES

Creating value  
for a long future

KRONES GROUP



The international food and beverage industry operates in growing but intensely competitive markets. The importance of packaging in the fight for consumers is growing. Filling and packaging lines must be powerful, flexible, reliable, and cost-effective. As the market and technology leader, KRONES meets all of these requirements excellently.

We demonstrated this fact quite impressively in 2013 at the drinktec trade fair. But the competitive environment is challenging overall. That, too, was apparent at drinktec, as it is in day-to-day business. That is why KRONES is untiring in its efforts to become even better in every aspect of our business. We have moulded concrete measures for this purpose into our Value strategy programme, focussing on our customers' needs.

As we strive to succeed in business, we never forget that KRONES has a special responsibility towards its employees, shareholders, and other stakeholders. And so, our business decisions are always informed by sustainable values.



## MANAGEMENT REPORT FOR KRONES AG

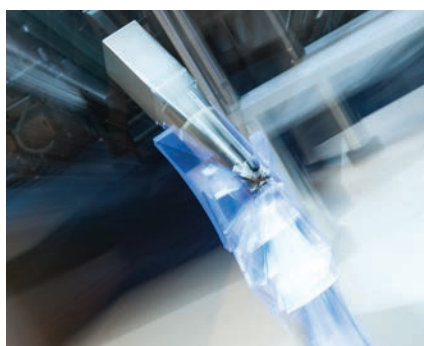
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## Dear shareholders and friends of KRONES,

2013 was a successful year for KRONES. But success does not happen on its own. One must take an active hand in shaping it. This year's annual report, entitled "Shaping success", describes the important decisions and actions we took in 2013 to ensure KRONES' future success.

One highlight of this eventful year was, of course, the drinktec trade fair. Customers were impressed with our innovative exhibits at the fair, which takes place only every four years and is the "global economic summit" for the beverage and packaging industry. Some 60,000 visitors came to our booth, including all of the industry's major decision-makers. In short, the 2013 drinktec was a superlative event for KRONES!

### Innovations meet customers' needs

The Contiform AseptBloc attracted special attention with its energy-saving concept of sterilising preforms for aseptic (germ-free) filling. Our innovations in labelling technology – the DecoType digital direct printing system and the ErgoModul – also drew drinktec visitors. The fact that all of our innovations are subject to KRONES' enviro sustainability programme was and remains an important factor for customers. Machines and lines that bear the enviro label help our customers conserve energy and other resources and are also easier to operate. Many highlights from drinktec are featured in this report.

We made great progress in 2013 in implementing our Value strategy programme, with its four pillars of profitability, growth, innovation, and quality (see page 30). Our accomplishments under the Value programme thus far are also reflected in our key performance indicators for 2013.

### New corporate structure gives us more punch

We want to become even better. And KRONES' new group structure, launched at the start of 2014, will play a vital role here. Our old corporate structure worked very well for us for many years. But our considerable growth has taken it to its limits. In other words, we've simply outgrown it.

For this reason, we have developed a new corporate structure. To fulfil our customers' wishes even faster and even more accurately, we have purposefully reduced the interfaces along our value chain. We have given the new structure a strong regional emphasis to bring us even closer to customers. We firmly believe that the new structure will make KRONES even more agile and effective. Our new colleague on the Executive Board, Markus Tischer, who was appointed to the Executive Board as of 1 January 2014 and is responsible for International Operations and Services, will help make this happen.



*"The 2013 drinktec was a superlative event for KRONES."*

*Volker Kronseder  
Chairman of the Executive Board*

Even the best structure is no good if a company's employees do not bring it to life and implement it with determination. I am certain that we can count on each and every one of our employees. KRONES' people are highly motivated and superbly qualified.

*The new group structure will make KRONES even more agile and bring us even closer to our customers.*

### **KRONES remains committed to Germany as a business location**

Last year we added 322 new jobs within the group – and almost all of that hiring was done outside Germany. This trend will continue in 2014. Our business demands it. In 2013, KRONES generated around 90% of consolidated revenue in markets outside Germany and only €292 million from domestic customers. The overwhelming majority of our machines and lines operate far from Germany. To provide fast service to KRONES customers around the globe, we need more service people on the ground locally.

However, that does not mean that KRONES is turning its back on Germany. We want to utilise the advantages of our German sites in the future and will continue investing in our home market. In 2013 we expanded our Rosenheim plant and put the first phase of construction of our new logistics and module production hall into operation at the end of July 2013. In Nittenau, we completed construction of our new production facility for EVOGUARD GmbH, which manufactures valves and pumps. With EVOGUARD GmbH, a stand-alone company, we will grow our attractive components business considerably.

*KRONES continues to invest heavily in its infrastructure worldwide.*

### **KRONES practices sustainability**

Everyone who has known KRONES for some time knows that sustainability has always been a very high priority in our company.

By transferring our shares in the company to the next generation, members of the Kronseder family have taken an important step towards securing the company's sustainability well into the future. The Kronseder family intends to remain a stable majority shareholder of KRONES for the long term and to work hand-in-hand with KRONES' employees to ensure that the company continues to be managed sustainably.

On behalf of the entire Executive Board, I would like to thank our dedicated employees for their great work in 2013. I am certain that together we are "shaping success" for KRONES' future.



Volker Kronseder  
Chairman of the Executive Board

## The Executive Board

Volker Kronseder  
\*1953

Member of the Executive Board  
since 1989. Chairman of the Executive  
Board since 1996.

Human Resources, Communications  
and Quality

Christoph Klenk  
\*1963

Member of the Executive Board  
since 2003.

Finance, Controlling and  
Information Management

Rainulf Diepold  
\*1955

Member of the Executive Board  
since 1996.

Sales and Marketing





Werner Frischholz  
\*1951

Member of the Executive Board  
since 2003.

Plants and Components

Thomas Ricker  
\*1968

Member of the Executive Board  
since 2012.

Bottling and Packaging Equipment

Markus Tischer  
\*1968

Member of the Executive Board  
since 2014.

International Operations and Services



## Ladies and Gentlemen,

KRONES entered 2013 with a roster of great tasks. The focal point was the company's presentation at the industry's most important trade fair, drinktec. In addition, further measures were implemented company-wide under the Value strategy programme last year. Together with the Executive Board, the Supervisory Board discussed a new group structure that will enable KRONES to operate even more efficiently.

The accomplishments made in 2013 demonstrate that KRONES is on the right track. The Supervisory Board will continue to do its part to ensure that the company remains consistently on this path.

## Advising and oversight

In 2013, 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. Four 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 financial year was convened on 20 March 2013. In this meeting, the board restructured the work of the committees. The existing Supervisory Board Committee was renamed the Audit and Risk Management Committee. The Supervisory Board also created a Standing Committee, which will handle topics such as corporate strategy, human resources strategy, Supervisory Board remuneration, and Executive Board remuneration. The Executive Board then presented the preliminary consolidated financial statements for 2012 to the Supervisory Board and provided explanations for all of the group's key financial performance indicators. In its business report, the Executive Board informed the Supervisory Board about the current business situation and the outlook for the KRONES Group. With respect to Value topics, discussion focused on the new corporate structure. Executive Board Chairman Volker Kronseder explained to the Supervisory Board the reasons for and the goals and benefits of the new structure. The Board unanimously approved the new structure. Moreover, the Supervisory Board resolved that the Executive Board should implement the new corporate structure in collaboration with the Standing Committee. The Boards agreed to propose to the annual shareholders' meeting that a dividend of €0.75 per share be paid out for the financial year 2012.

Representatives from KRONES' auditing firm were present for a portion of the Supervisory Board meeting on 19 April 2013. The auditors explained to the Supervisory Board their audit mandate and the areas on which their review of the 2012 annual financial statements focused and provided a detailed overview of the audit. The Supervisory Board then approved and thus adopted the 2012 annual financial statements and the 2012 consolidated financial statements along with the management report for the financial year 2012. Following the Executive Board's report on the current economic position, the market, and the competition as well as technology and



*Ernst Baumann  
Chairman of the Supervisory Board*

production, the Supervisory Board turned its attention to the new corporate structure and the timetable for its implementation. The Supervisory Board, together with the Executive Board, also discussed the agenda for the annual shareholders' meeting of KRONES AG, which would be held on 19 June 2013.

At the third Supervisory Board meeting, on 25 September 2013, the Supervisory Board dealt with the restructuring of Executive Board remuneration. New regulatory requirements made adjustments necessary. The Supervisory Board approved the changeover to the new remuneration system, to take effect as of the start of 2014. The material changes are that the share of fixed remuneration has been reduced, the duration of the long-term performance incentive component has been shortened from ten years to five years, and a medium-term performance incentive has been introduced to partially replace the short-term component. The drinktec trade fair was the dominant topic at the meeting. The Executive Board informed the Supervisory Board in detail about the positive reception KRONES sensed from customers at the world's premiere trade fair. After that, the Executive Board explained to the Supervisory Board the current development of business and progress made in implementing the new corporate structure.

The fourth Supervisory Board meeting, on 20 November 2013, began with a tour of the Steinecker plant in Freising, Germany. This visit to the production halls gave the Supervisory Board an in-depth look at how brewery and filtering systems are built. The Audit and Risk Management Committee explained how KRONES' risk management works and the focal points of current risk assessments. After the Executive Board presented its annual planning for 2014, the Board resolved to change the dividend policy, raising the range for dividend payments from the previous 20%–25% to 25%–30% of consolidated net income.

### **The work of the Supervisory Board Committees**

The Audit and Risk Management Committee (formerly 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. Chairman of the committee is Philipp Graf von und zu Lerchenfeld. The Audit and Risk Management 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 Audit and Risk Management Committee monitors the effectiveness of the internal control system, the risk management system, and the compliance system.

Before the Supervisory Board meeting held to ratify the financial statements on 19 April 2013, the Audit and Risk Management 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 2012.



In addition, in a meeting held in November, the Committee in collaboration with the Heads of the Internal Control System, Internal Audit, and Compliance Management prepared the report for the fourth Supervisory Board meeting on the basis of corresponding reports.

The Standing Committee, which the Supervisory Board established by unanimous vote at its 20 March 2013 meeting, consists of Werner Schrödl, Norman Kronseder, Josef Weitzer, and Ernst Baumann. Chairman of the Standing Committee is Ernst Baumann. The Committee deals with all other topics that do not fall within the scope of the Audit and Risk Management Committee.

In four meetings, the Standing Committee prepared the Supervisory Board's resolutions on the new corporate structure, on the associated new Executive Board posts, and on Executive Board remuneration.

### 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 2013 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 2013 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 25 April 2014. 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 2013 annual financial statements for KRONES AG are thereby adopted.

The members of the Supervisory Board would like to thank the Executive Board and all of the company's employees for their excellent work in 2013.

Neutraubling, April 2014

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 Number 1 of the Codetermination Act.

**Ernst Baumann**  
Chairman of the Supervisory Board  
\* ZF FRIEDRICHSHAFEN AG

**Werner Schrödl\*\***  
Chairman of the Central Works Council  
Deputy Chairman of the Supervisory Board  
\* ADVISORY BOARD OF BAYERISCHE BETRIEBSKRANKENKASSEN

**Klaus Gerlach\*\***  
Head of Central International Operations and Services

**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  
\* CONSORTIUM GASTRONOMIE GMBH

**Norman Kronseder**  
Farmer and forester  
\* BAYERISCHE FUTTERSAATBAU GMBH

**Philipp Graf von und zu Lerchenfeld**  
Member of the German Bundestag, Dipl.-Ing. agr., auditor and tax consultant

**Dr. Alexander Nerz**  
Attorney

**Johann Robold\*\***  
Member of the Works Council

**Petra Schadeberg-Herrmann**  
Managing partner at KROMBACHER FINANCE GMBH, SCHAWEL GMBH, DIVERSUM HOLDING GMBH & CO. KG  
\* since 19 April 2013  
COMMERZBANK AG

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

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

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

\*\* Elected by the workforce

- Low interest rates drive stock markets to record highs
- KRONES share price gains 32.8% in 2013
- KRONES plans to pay out a total of €2.00 per share

Central banks' loose monetary policy drove a powerful stock market rally in 2013. Both of Germany's major share indexes, the DAX and the MDAX, and the Dow Jones in the US hit new record highs. KRONES' share price advanced 32.8% to €62.43 in 2013.

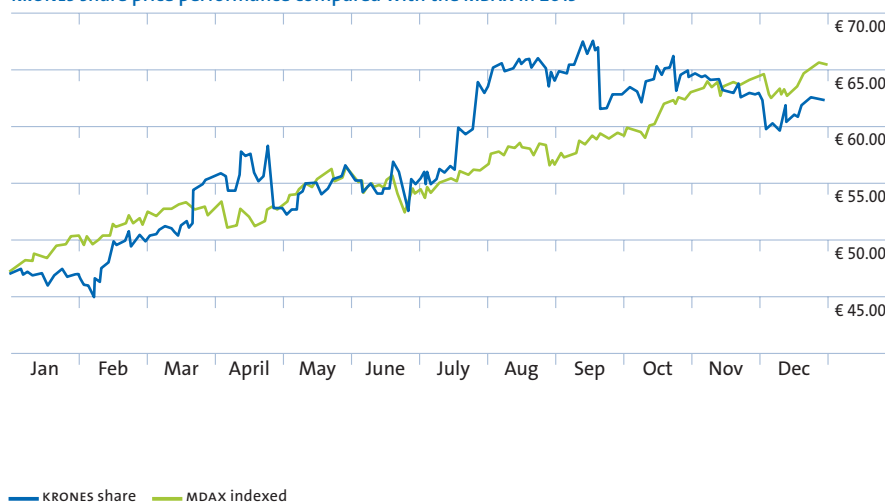
**The stock markets in 2013**

Most of the world's stock markets rallied sharply in 2013. Monetary easing on the part of the central banks was a primary force driving share prices upwards. The European Central Bank lowered its key interest rate twice in 2013 and promised to maintain its policy of low interest rates. Economic recovery in the USA and a stabilisation in the euro area also supported the uptrend. Fears of a speedy end to the US Federal Reserve's very loose monetary policy flared at regular intervals but resulted in only temporary setbacks on the stock markets in 2013. And when the Fed announced at the end of 2013 that it would reduce its bond purchases, investors flinched, but only briefly. In the last trading days of 2013, investors were driving share indexes upwards again.

The leading US index, the Dow Jones, rose to a new record high in 2013 and closed the trading year at 16,577 points, up 26.5% from the start of the year. Japan's Nikkei index soared 56.7% in 2013. Germany's blue-chip index, the DAX, gained 25.5% last year to 9,552 points.

**KRONES share benefits from good business development**

KRONES share price performance compared with the MDAX in 2013



*"The KRONES share's strong performance and the sale of treasury shares strengthened our position on the MDAX in 2013."*

*Olaf Scholz  
Senior Vice President  
of Investor Relations*

*KRONES' share took a breather in the final quarter of 2013 but posted nearly the same gains for the year as a whole as the MDAX, the "stock market star" of 2013.*



As in the previous year, Germany's MDAX mid-cap index, which includes KRONES, posted stronger gains than the DAX. On 27 December 2013, the MDAX hit a new all-time high of 16,625 points. The mid-cap index closed the year at 16,574 points, only slightly below this record. With that, the MDAX gained 39.1% over the previous year. Driving the strong uptrend were media stocks ProSieben, Kabel Deutschland, and Sky as well as index heavyweight EADS.

KRONES' share price climbed 32.8%. Assuming that the dividends of €0.75 per share were reinvested, the share gained 34.6% in 2013. That means our share outperformed the DAX All-Industrial-Index. Deutsche Börse's industry index, which includes the shares of machinery manufacturers, rose by around one-quarter last year.

*KRONES' share outperformed  
Germany's All-Industrial Index.*

In the first weeks of trading in 2013, KRONES' share price dipped slightly from the €47.00 where it had started the year. On 4 February our share hit €45.02, its lowest closing price for 2013. From there, the share turned upward. The rally accelerated in March, driven in part by our preliminary revenue and earnings figures for the 2012 financial year. Our share price trended sideways overall in the second quarter. At the end of April, KRONES sold 1,425,421 treasury shares (4.51% of share capital) to institutional investors at €52.55 per share. The sale of the treasury shares increased KRONES' free float and the share's weighting within the MDAX.

The share price rose dramatically in the period from July to September. Alongside the generally positive mood on the markets, our strong figures for the first half of 2013 contributed to the rally. The KRONES share hit €67.58, its highest closing price for 2013, on 16 September. Profit-taking surrounding the drinktec trade fair prevented the share from maintaining this record high. The share price briefly dipped below the €60 mark in early December. After a year-end rally, the KRONES share closed 2013 at €62.43. Thus, KRONES also generated value for its shareholders with the Value strategy programme in 2013.

#### Key figures for the KRONES share

At 31 December		2013	2012	2011
Number of shares	million	31.59	31.59	31.59
Free cash flow per share	€	2.12	1.01*	-0.25*
Equity per share	€	30.20	26.50*	26.04*
Earnings per share	€	3.84	2.26*	1.45*
Price/earnings (P/E) ratio) based on closing price for the year	€	16.3	20.8	25.4
Dividend per share	€	2.00**	0.75	0.60
High	€	67.58	47.25	59.06
Low	€	45.02	35.75	33.87
Year's closing price	€	62.43	47.00	36.76

\* Based on total number of shares less 1.43 million treasury shares

\*\* As per proposal for the appropriation of retained earnings, including a €1.00 special dividend

Reference: KRONES Group financials according to IFRSs.

## The KRONES share is an excellent long-term investment

KRONES' share price has tripled over the past ten years. That means our share has gained exactly as much as the MDAX share price index, that is, the MDAX excluding dividends. The KRONES share's average annual price gain in this period comes to 11.5%. This calculation does not include the dividends that shareholders have received over the last ten years. Assuming that dividends were reinvested in KRONES shares each year, the average annual performance for the last ten years comes to 12.9%.

KRONES share price performance compared with the MDAX, 2004 – 2013



## 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 since 29 October 1984. KRONES celebrates the 30<sup>th</sup> anniversary of its IPO in 2014. Our share is available for trading on all German stock exchanges. KRONES has been included in the MDAX share index, the German stock exchange's mid-cap index, since its inception.

Key criteria for inclusion in Deutsche Börse AG's indices are free-float market capitalisation as well as volumes traded through the XETRA trading platform and floor trading on the Frankfurt stock exchange. At the end of 2013, KRONES' share had improved its positions in the rankings used for MDAX inclusion to 43<sup>rd</sup> for market capitalisation (previous year: 46<sup>th</sup>) and 46<sup>th</sup> for trading volume (previous year: 51<sup>st</sup>).

In the financial year 2013, daily trading volume in XETRA trading and on the Frankfurt stock exchange averaged around 48,300 shares in total (previous year: 46,000 shares). Trading volume has dropped in recent years although investor interest has risen. The reason for this change is that investors are increasingly trading on off-exchange platforms known as “dark pools”. This phenomenon affects almost all index shares and is not specific to KRONES. Experts say that as much as half of the total trading volume for some shares is already being executed on off-exchange platforms.

#### Key data for the KRONES share

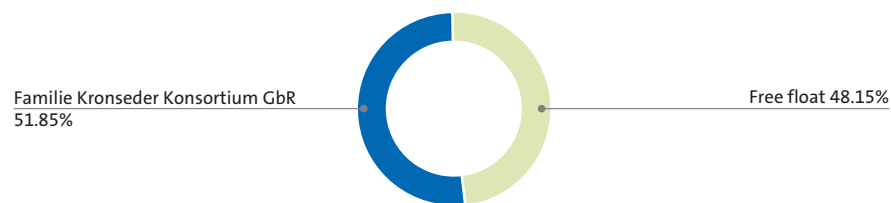
Number of shares	31,593,072
German securities identification number	633500
ISIN	DE 0006335003
Ticker symbol	KRN

#### Shareholder structure

Volker Kronseder, Chairman of the Executive Board of KRONES AG, and Norman Kronseder, Member of the Supervisory Board, transferred their shares to a foundation and their children in 2013. With that, they have taken proactive steps to continue the company’s tradition as a successful family enterprise. The existing pooling agreement, under which the voting rights of all members of the Kronseder family and their enterprises are exercised as a voting trust, remains unaffected by the share transfer. In this way, the Kronseder family has a 51.85% stake and remains a stable majority shareholder of KRONES AG.

KRONES had bought back 1,425,421 of its own shares in 2009, equivalent to 4.51% of the share capital. At the end of April 2013, KRONES sold those treasury shares to institutional investors. The shares now count towards the free float. In all, the free float totals 48.15%.

#### Shareholder structure as of 31 March 2014

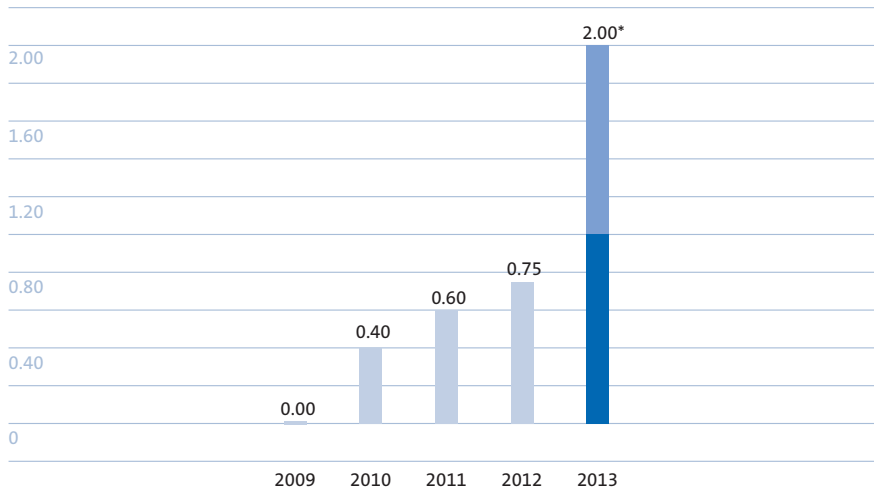




## KRONES plans to increase dividend from €0.75 to a total of €2.00 per share

In November 2013, KRONES' Executive Board proposed to the Supervisory Board that the company's long-term dividend policy be revised. Instead of the previous 20%–25%, the range for future dividend payments will be 25%–30% of consolidated net income. The Supervisory Board approved this proposal. The new dividend policy will be applied for the first time for the financial year 2013. Given last year's strong earnings performance, the Executive Board and the Supervisory Board will propose to the annual shareholders' meeting on 25 June 2014 that a dividend of €1.00 per share (€0.25 per share more than in the previous year) be paid out for the financial year 2013. In addition, KRONES wants to share the proceeds from the sale of the treasury shares with shareholders by paying out an additional €1.00 per share.

Dividend per share (€)



\* As per proposal for the appropriation of retained earnings, including a €1.00 special dividend

## KRONES is continually improving investor relations

As a member of the MDAX share index, KRONES is watched by many international analysts and investors. Investors need meaningful, transparent information about our company for their investment decisions. We are always working to improve our financial communications. In 2013 KRONES began holding a Conference Call after the release of each quarter's results, using a presentation to explain the figures to analysts and investors. These presentations are freely available on our website.

*As of 2013, KRONES uses conference calls and presentations to explain annual and quarterly results promptly and in detail.*

On 19 September 2013, KRONES hosted an analyst meeting at the drinktec trade fair, welcoming some 20 financial market experts. Executive Board members Christoph Klenk (Finance) and Thomas Ricker (Technology) gave the analysts a tour of KRONES' booth and explained the special features of the machines and systems on display. After the tour, the Executive Board members presented market trends and the company's latest innovations to the analysts.

Chief Financial Officer Christoph Klenk and KRONES' Senior Vice President for Investor Relations, Olaf Scholz, went on several road shows once again in 2013 to international financial centres like New York, London, Zurich, Stockholm, and Frankfurt. There, they visited and shared information with local investors and analysts.

### **2013 annual shareholders' meeting well attended**

KRONES held its annual shareholders' meeting in Neutraubling on 19 June 2013. High temperatures were the only cause for perspiration on the part of KRONES' shareholders, Executive Board, and Supervisory Board. The meeting itself was, as always, a very harmonious one. Some 200 shareholders attended. In all, nearly 80% of the company's share capital was represented at the meeting. Thus, shareholder presence was far higher than the average for the annual shareholders meetings of all MDAX companies, which came to around 68% in 2013.

Shareholders approved all of the resolutions proposed for voting by a large majority. For the financial year 2012, KRONES' shareholders received a dividend of €0.75 per share, €0.15 more than for the previous year. The total payout to shareholders for the financial year 2012 was €23.7 million (previous year: €18.1 million).





## Management report for KRONES AG

### Fundamental information

#### about KRONES AG

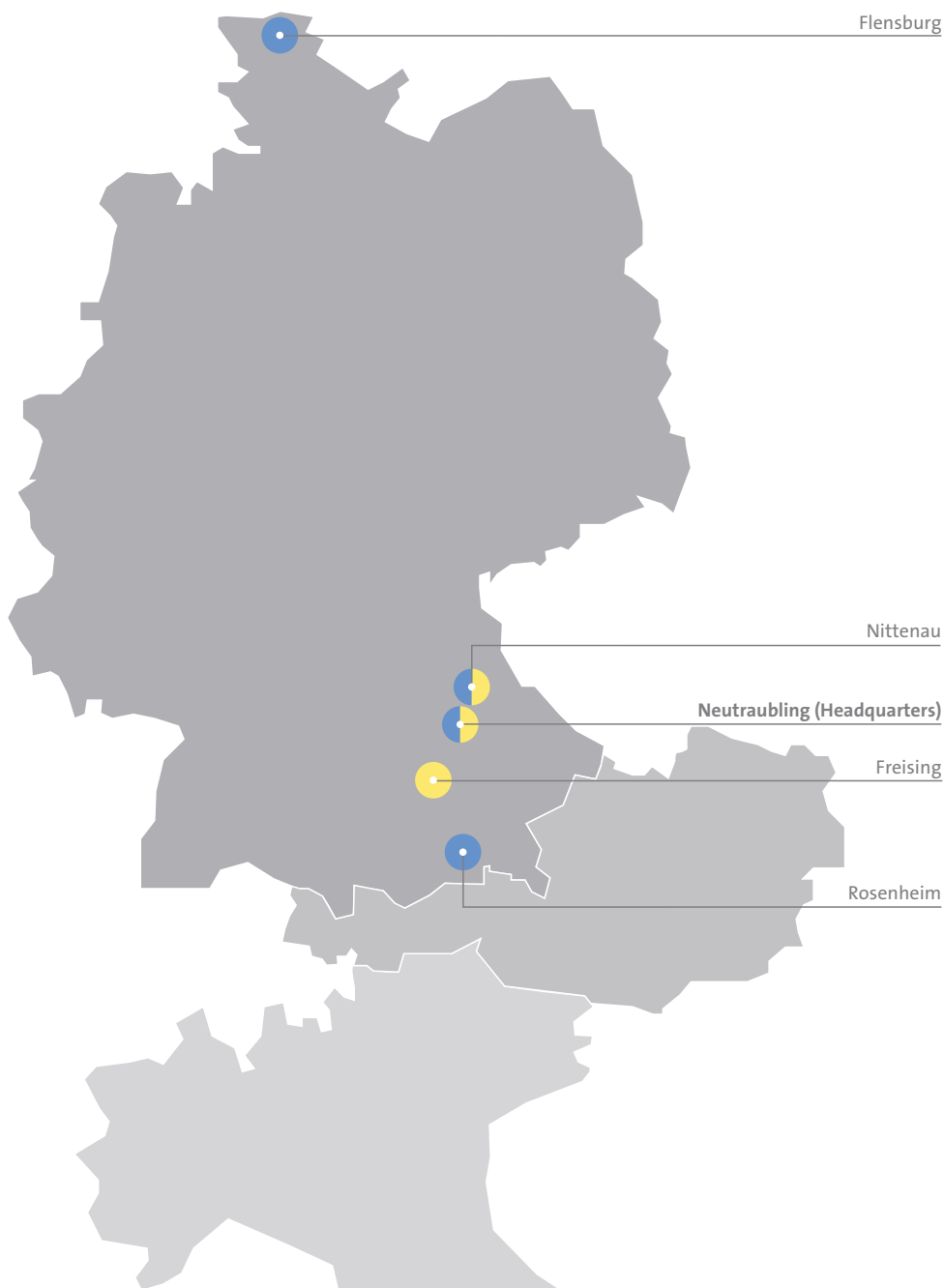
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■ KRONES has whole-plant expertise .....	24
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■ Strategy and management system .....	30
■ Research and development (R&D) .....	44

In 2013, the management report has been prepared in accordance with GAS 20 (German Accounting Standard 20) for the first time.



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

- Machines and lines for product filling and decoration
- Machines and lines for beverage production/process technology







A complete KRONES filling line for producing, filling, and packaging beverages is composed of innovative individual machines and systems from the company's different product divisions.

KRONES machines produce finished beverages and produce, fill, label, and pack bottles. Custom IT solutions from KRONES control and document all processes within the production line.

### 1 Process technology

The **SyPro S** sugar dissolving station and sugar syrup pasteuriser can produce up to 30,000 litres of syrup per hour.

### 2 Process technology

The **Contiflow** mixer combines this syrup with other ingredients to produce beverages that are then fed into the filler.

### 3–5 Contiform AseptBloc

The **Contiform AseptBloc** is a compact, user-friendly system that covers bottle production and filling in an integrated concept. It is well suited for dairy drinks, UHT milk, juices, iced tea, other teas, energy drinks, and beverages containing chunks of fruit.

### 3 Conveyors

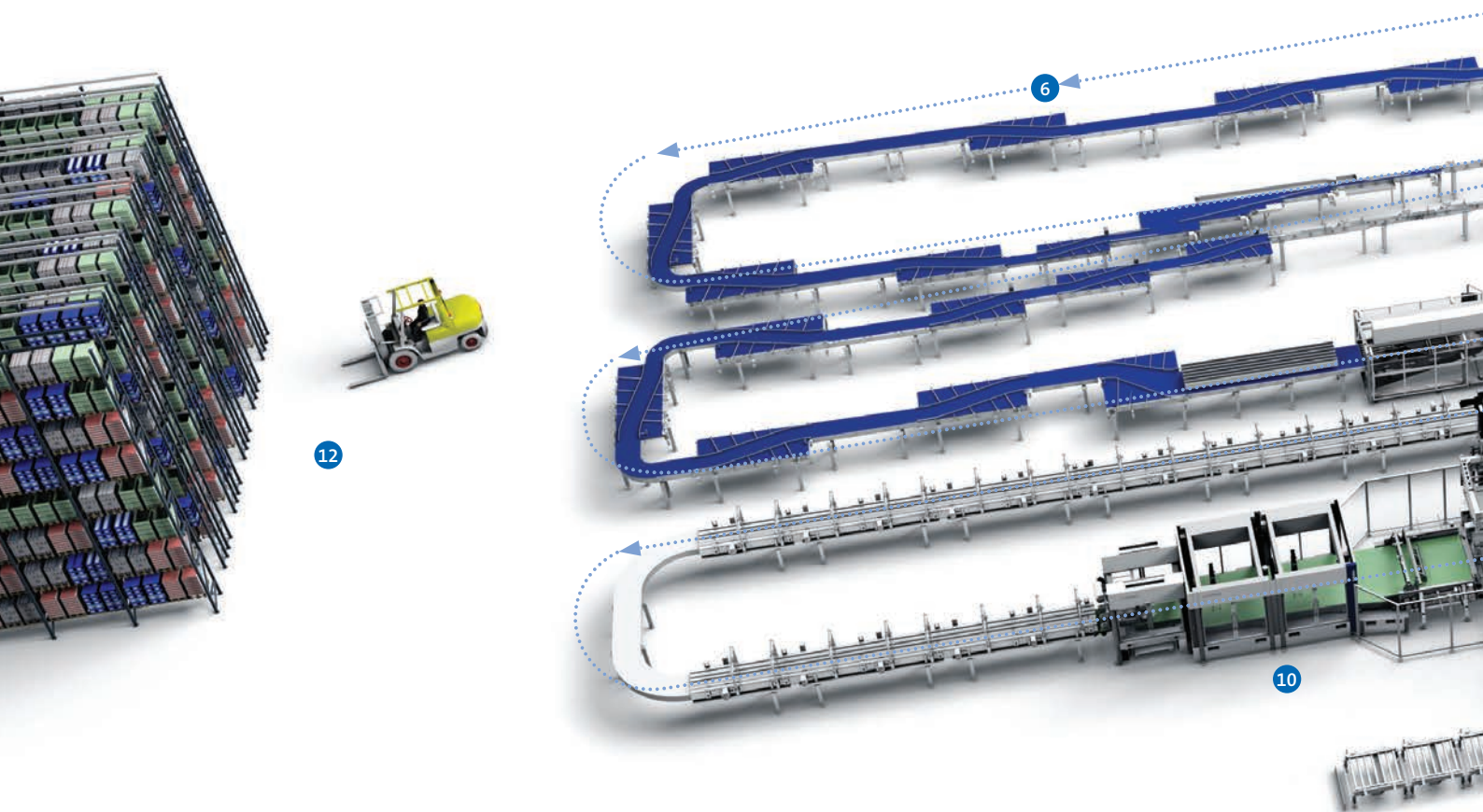
The **Contifeed** preform feed unit sorts and inspects PET preforms before they are fed into the stretch blow-moulder.

### 4 Plastics technology

The **PreFlow** preform sterilisation unit uses H<sub>2</sub>O<sub>2</sub> to sterilise preforms before they are passed to the next module to be blow-moulded into bottles. The system can produce up to 32,000 1.5-litre bottles per hour.

### 5 Filling

The **Modulfill** filler is suited for highly sensitive beverages such as juices and can operate continuously for up to 144 hours.



### 6 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.

### 7 Labelling

The **Ergomodul** labeller dresses containers in wrap-around labels and checks to ensure that they are perfectly placed.

### 8 Packing and palletising

The options for packaging are myriad. Therefore, packaging lines need to be highly versatile. The various models of KRONES' **Variopac Pro** fully automated packer cover almost every type of single-use packaging.

### 9 Packing and palletising

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

### 10 Packing and palletising

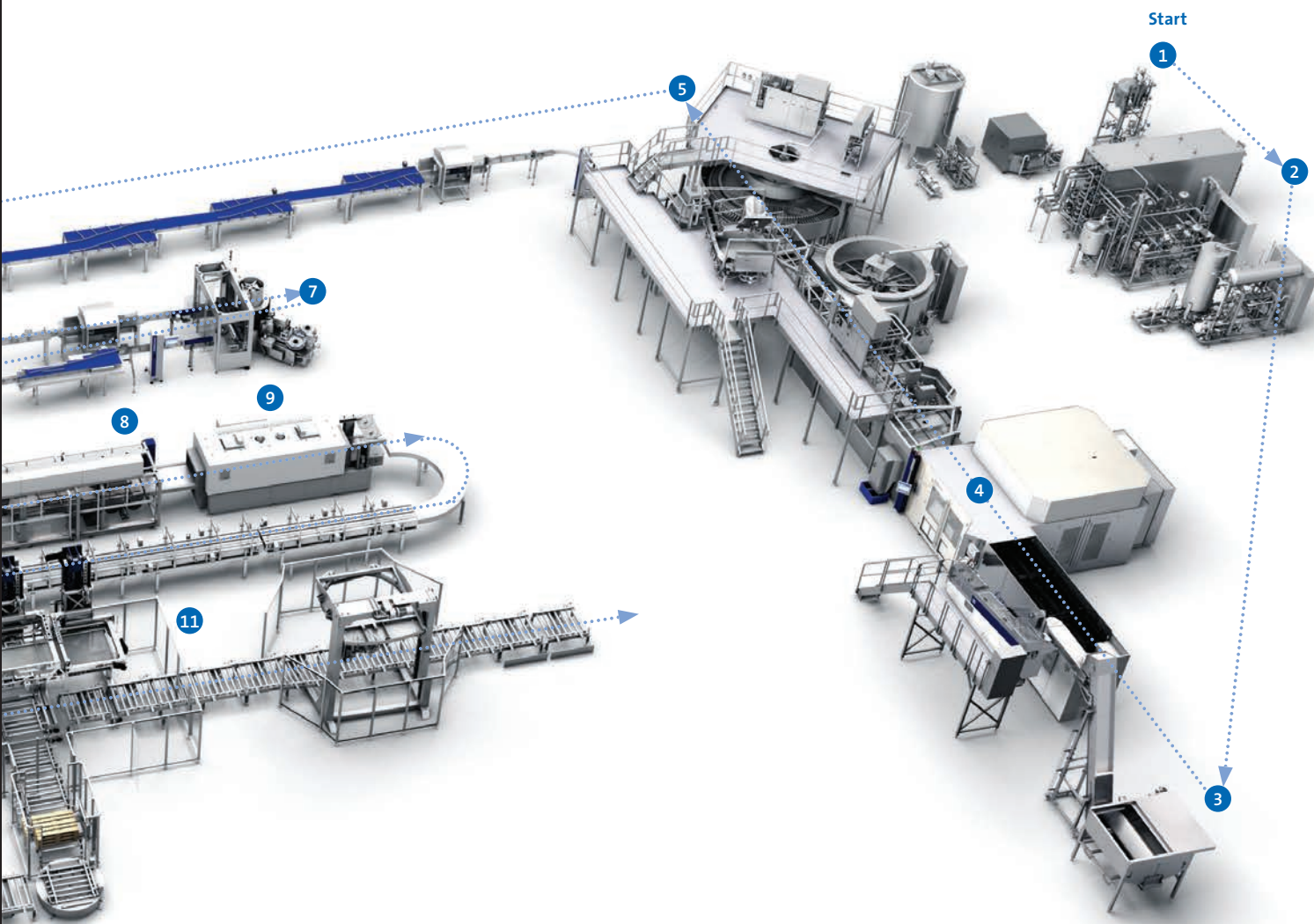
The **Robobox** pack collating system positions and distributes single-use packs quickly and fully automatically, setting the stage for reliable, precise palletising.

### 11 Packing and palletising

The **Modulpal Pro** palletiser for single-use packs gently loads more than 600 layers onto pallets per hour.

### 12 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.





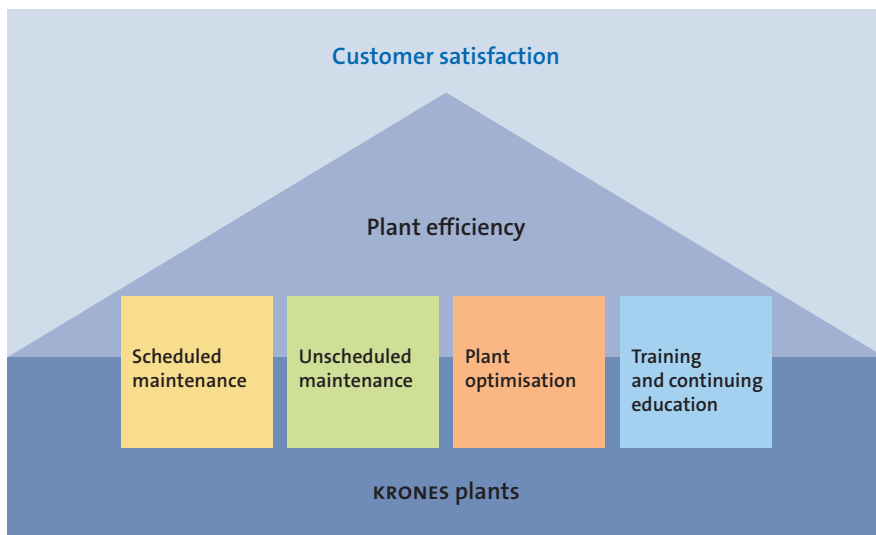
- Plant efficiency is the key factor for investment decisions
- Internationalisation increases proximity to customers
- Data management offers value added for customers

Operators of bottling and packaging plants and breweries take a comprehensive look at the total cost of ownership (TCO) when evaluating their capital expenditures. TCO includes the cost of acquiring the plant as well as all costs associated with its operation. Customers are looking for plant and equipment that will operate cost-effectively over its entire useful life. And that means minimised downtimes and sustained high performance. KRONES' Lifecycle Service (LCS) division provides comprehensive products and services and highly qualified technicians to ensure that our customers' lines run reliably and efficiently.

### Efficient machines and lines are key to customer satisfaction

Customer satisfaction is a top priority for KRONES. That is why we do our utmost to keep our lines in tip-top shape. The high efficiency of KRONES production lines is based on four key pillars:

- Scheduled maintenance
- Unscheduled maintenance and repairs
- Plant optimisation
- Training and continuing education



*For customers to be satisfied, KRONES plants and equipment have to be cost-effective in production. Ensuring that is LCS' primary job.*

KRONES has developed suitable LCS solutions for all of these areas, which our service staff around the world implement for our customers.

### Scheduled maintenance

Scheduled maintenance work is very important in order to prevent significant loss or damage and to keep performance where it should be. These tasks must be carried out professionally to quickly get the line back up and running at full capacity.

KRONES determines and implements the best maintenance strategies for its customers. We use special software tools that enable our service staff to complete their work faster and thus minimise costs for customers while ensuring high operational reliability. KRONES perfectly coordinates parts delivery and service. The global structure of our LCS business enables us to provide for all maintenance needs quickly and at the highest level of quality worldwide.

### Unscheduled maintenance and repairs

Although scheduled maintenance reduces unscheduled downtimes, it cannot rule them out entirely. When the need for unscheduled maintenance and repairs arises, long and costly downtimes are certainly something customers want to avoid. KRONES Lifecycle Service offers a range of suitable solutions that speed the process of getting the production line up and running again.

*KRONES Lifecycle Service has a global structure that enables service technicians to be on site at a customer's plant quickly and provide immediate support.*

For emergencies, KRONES has qualified technicians available for phone support and remote service (that is, fast support via online access to the machine) 24 hours a day, 7 days a week, 365 days a year.

KRONES also ensures the fastest possible spare parts delivery. For this, we use a three-level spare parts concept that includes the customer, our global LCS Centres, and our main plant in Neutraubling. At the first level, we use our innovative SPAC (spare parts availability concept) tools to develop customised spare parts packages that customers keep on site. These packages take into account the risk of part failure as well as technical and logistical aspects. At the end of the selection process, customers keep only the most critical parts on site. This minimises the amount of capital tied up in spare parts.

Our LCS Centres make up the second level. In recent years, we have built up decentralised warehouses to ensure even faster delivery of spare parts to our customers. In some regions, we are already able to serve more than 80% of customers' spare parts needs from our LCS Centre warehouses.

Our group headquarters in Neutraubling make up the third level of our spare parts strategy. With more than 50,000 parts on hand, our main warehouse is able to immediately deliver a large share of the parts needed. Any parts that are not kept on hand are produced quickly and in the highest quality in a separate KRONES production facility in Neutraubling, even overnight or on the weekend if necessary. Our global logistics network fast-tracks delivery of all parts from Neutraubling to our customers worldwide as well as their installation into the machines and lines.

KRONES' service technicians play a crucial role in keeping unscheduled downtimes as short as possible. A growing share of our service people are employed at our LCS Centres and branch offices worldwide to swiftly provide support on site.

## Optimisation measures

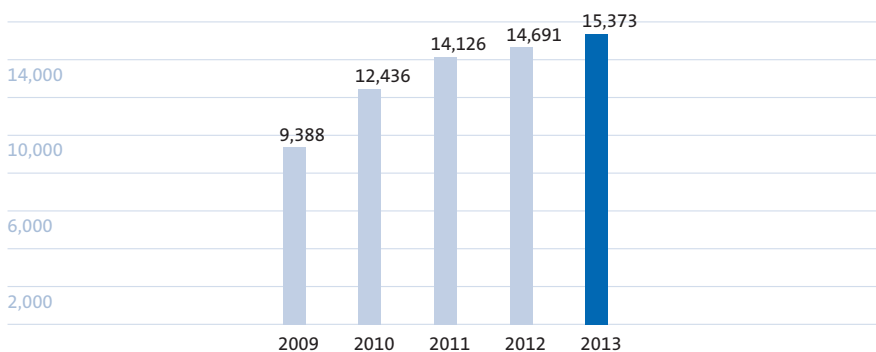
No technology is so good that it can't be improved upon. This principle drives our ongoing product and technology development efforts. At KRONES, technological advances and innovations benefit not only new machinery buyers but also operators of existing machines and lines. Upgrades and retrofits from KRONES Lifecycle Services enable customers to boost their lines' efficiency and overcome challenges such as stricter environmental regulations, new packaging forms, and the need to conserve energy.

## Training and continuing education at KRONES Academy

KRONES' LCS concept attaches great importance to training customers on all aspects of KRONES machines and lines. The KRONES Academy plays a key role here. More than 50 expert trainers offer a diverse range of practical training opportunities for machine operators and our customers' own service technicians in Neutraubling as well as at our LCS Centres worldwide. In this way, we enable them to operate KRONES machines and lines as safely and cost effectively as possible. The KRONES Academy sees itself as our customers' partner in ensuring that their lines operate at optimum efficiency. In 2013, a total of 15,373 people made use of the Academy's courses (previous year: 14,691).

*KRONES trains our customers' employees so that they can operate the machines and lines safely and cost-effectively.*

KRONES Academy participants



## **KRONES continues the push to internationalise its service business**

To provide perfect service, you must be close to your customers. Close proximity is important for better understanding a customer's daily needs with respect to operating machines and lines. And rapid response times are essential to the success of any service business. At KRONES, we want LCS to be where our customers are. KRONES' LCS strategy is designed to ensure that our products and services are as close to our customers as possible. Many years ago, we established LCS Centres in strategically important regions. We continue to expand these today.

*Being close to customers is an important factor for success in the services business.*

LCS projects are now being implemented in our LCS Centres and branch offices using local resources. That means parts are delivered from regional warehouses and technicians, trained in Neutraubling, are then available locally for our customers.

KRONES will systematically continue its strategy of internationalising by further building and expanding local resources and expertise.

## **Efficient data management increases customer benefit**

KRONES machines already deliver information digitally that helps us develop tomorrow's technologies. Effective data management enables us to collect machines' operating data and translate it into usable information. Our aim is to further increase operational reliability in future generations of our machines. At the same time, we will proactively extract information from the analysed data to make KRONES machines and lines operate even more efficiently. For this, we plan to soon be offering our customers products that offer concrete added value.



## New group structure gives Value additional thrust

We began implementing our Value strategy programme in 2011. Our aim is to make KRONES faster and more agile, so that the company can continue to grow profitably long into the future. In our third year of Value, we once again made good progress in all four of the core areas: innovation, quality, profitability, and growth.

But we will not rest there. To launch the next phase in the company's development, we introduced a new organisational structure for the group at the start of 2014. With clear management structures that are based on our key processes, we are giving more weight to the different needs of the three new Business Units: *Bottling and Packaging Equipment*, *Plants and Components*, and *International Operations and Services*. The new management structure also enables us to address our customers' specific needs even better.

The new corporate structure gives Value an added boost since it makes us even more efficient and flexible and puts us even closer to customers. The new structure makes it possible to maintain clear, consistent accountability throughout the entire order handling process, from preparing the quote to putting the machines and lines into operation. It also speeds decision-making considerably. In this way, the new structure supports the strategies we have defined for the segments on the basis of the management system. Well-qualified local technicians will provide our customers with fast, uncomplicated service. We are making good progress here. KRONES AG already performs a large share of installation work in the emerging markets with technicians from the respective regions. That is why our workforce outside Germany will continue to grow steadily in the years ahead. In 2013, this force grew by 300 to 3,187 groupwide.



*"The new group structure puts KRONES even closer to its customers and is making the company even more efficient and flexible."*

*Christoph Klenk  
Chief Financial Officer*

Employees by region 2009–2013

Year	South America	Africa	Asia	cis/Eastern Europe	China	Total
2009	202	180	95	94	174	745
2010	384	193	159	92	202	1,030
2011	406	225	198	109	258	1,196
2012	438	285	293	121	298	1,435
2013	484	339	400	132	325	1,680

## KRONES operates in markets with stable growth

KRONES' sales markets remained stable worldwide in 2013 even as the economic situation fluctuated in individual regions. That shows that KRONES can operate successfully even in a volatile macroeconomic environment. With our products and services, the company benefited from various megatrends. The steady growth of the middle class in the emerging economies and countries with increasing urbanisation will continue to drive strong demand for packaged food and beverages for the long term. As populations move into cities, they adapt to urban lifestyles and consume

more and more packaged food and beverages. In addition, the number of different packaging options will continue to grow as food and beverage producers seek to set themselves apart from the competition by offering a wider range of product variations.

Despite the strong market growth, intense competition kept prices under pressure last year. Only by lowering costs were we able to improve profitability in 2013.

### Significant progress towards our 7/7/20 target

Our medium-term target of 7/7/20, which stands for the following targets within the group

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

is coming within reach thanks to the measures we have taken. In 2013, we increased consolidated revenue by 5.7 percent, after 7.4 percent growth in the previous year. That means we are already within our target range of 5 to 7 percent revenue growth on average. We improved our EBT margin from 5.1 percent (adjusted for the one-time expense relating to Le-Nature's) to 6.0 percent for the group. We still have plenty of work to do on this target. We are also making good progress on our ROCE, which came to 16.7 percent. Here, too, we still have more potential to leverage. KRONES AG will contribute an important part of this.

To ensure that we continue to grow profitably for the long term, we also improved in the areas of quality and innovation, two more pillars of our Value strategy, in 2013. We defined ten quality gates, quality controls within our production process that must be met in order for the process to run at its best. The quality gates enable us to shorten lead times and further improve the quality of our products.

*We also made good progress with the Value pillars quality and innovation in 2013.*

In terms of innovation, 2013 was an especially strong year at KRONES due in part to the drinktec trade fair. Many new developments were designed with this milestone event in mind. That is why we are even more pleased about the extremely positive feedback we received on the innovations from fair visitors. It paid off to keep our focus for all products on our customers' needs. Crucial factors, apart from lower total cost of ownership, include low down times, high production security, and quick changeovers. The exhibits on display also meet the high standards of the enviro sustainability programme, which yields documented reductions in resource consumption.

Now we need to translate the success of drinktec into long-term business. We have to quickly turn the prototypes we showed at the fair into final products ready for the market and assert our leadership in innovation. A very good example of this is the ErgoBloc L, one of our showcase exhibits at the 2009 drinktec. The line has since become successfully established on the market and KRONES is still the only vendor supplying a product at its level of technological maturity.

## Continued focus on lowering costs

Since we can expect only meagre support from prices, reducing costs remains an important item for improving profitability within Value. In 2013, we made good progress in both of the company's larger segments.

In the core segment, machines and lines for product filling and decoration, we improved efficiency in manufacturing and assembly with various measures, including the continued modularisation of our filling, packing, and palletising product ranges. Buying more locally at our sites worldwide has enabled us to save on the cost of goods purchased. We are also reaping the benefits of our new logistics centre, with which KRONES has been able to increase the availability of spare parts.

Improved project management has helped us reduce costs in our process technology segment. The repositioning of our material flow technology/intralogistics business in early 2013 also helped to improve the segment's earnings significantly and reduce its loss for the year.

We successfully expanded our process technology business with innovations, for example, in tank construction. We also made good progress in establishing our components business in 2013. Our very own EVOGUARD series of pumps was unveiled at drinktec to complement our already very successful EVOGUARD valves. In early 2014, KRONES spun off its components business into EVOGUARD GmbH in order to promote sales in industries outside the beverage sector, such as pharmaceuticals and biotech. This independent company has favourable cost structures and great flexibility with which to rapidly advance the promising components business. With our own range of components, we will also be able to take on more smaller, profitable orders and increasingly fill them within favourable local structures.

Acquiring HST Maschinenbau GmbH, a leading producer of homogenisers, expands our process technology offerings. The acquisition will bolster our business with milk and juice producers. The addition supports our aim of expanding process technology in the years ahead.

## Good cash position gives us flexibility

Although we will be paying a dividend of 25% to 30% of profit in the future instead of 20% to 25% as we had previously, KRONES remains extremely well positioned financially. Our strong net cash position and positive free cash flow enable us to quickly and flexibly seize investment opportunities, whether internally or through acquisitions. In terms of acquisitions, we are interested in companies that are strong in process technology and information technology. We want to add interesting components to our process technology offerings and step up their international marketing through our sales channels. When considering possible acquisitions, KRONES is careful to take only limited risks.

*Value's success depends on the great dedication of our employees.*

Despite the achievements made thus far, KRONES will continue to implement the Value strategy in 2014 – at a faster pace under the new organisational structure. Those of us on the Executive Board will never lose sight of our group's 12,300 employees who are making improvements happen every day. Our ability to shape KRONES' success well into the future depends on a motivated, competent team.



Christoph Klenk  
Chief Financial Officer

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## KRONES' management system

KRONES' management primarily uses the following financial performance indicators to steer KRONES AG:

- Revenue
  - Earnings before taxes (EBT)
-



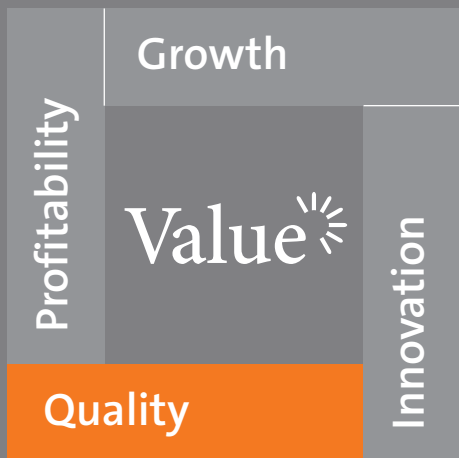
With the Value strategy programme, KRONES intends to further improve the quality of its products and services, increase profitability for the long term, drive growth, and purposefully promote innovation. In all of our activities, our focus is unswervingly on our customers' needs.

2013 was the third year of "Value" at KRONES. We had set ourselves ambitious goals in order to continue forward along the road to Value. Together with our employees, we made great progress. In 2013, KRONES expanded its components business, further augmented local service for customers worldwide, and optimised cost structures throughout the company.

Innovations are a cornerstone of Value. Our presence at drinktec, the premier trade fair for the international beverage and packaging industry, in September 2013 demonstrated that we are on the right track in this respect. KRONES presented visitors to our booth with a broad range of innovative machines and lines. You can read about these in more detail in this Annual Report. Overall, 2013 was a successful year for Value. Every one of KRONES' employees will work hard to continue to "create value together" in 2014.

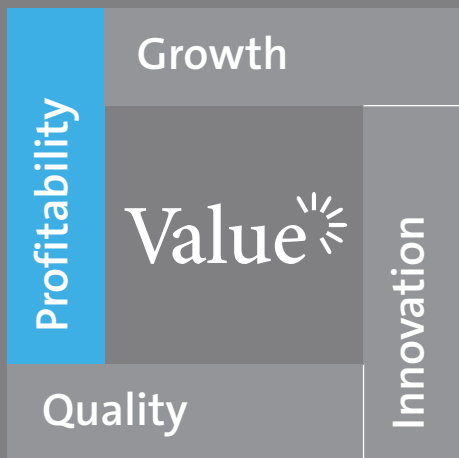


**K**RONES wants satisfied customers. That is why we only deliver products and services of the highest quality. At competitive prices. The challenge is to also operate profitably. We can only do that if we can maintain our level of quality for the long term at lower costs. As part of the Value strategy programme, we are optimising key processes along our entire value chain. The aim of these efforts is to put our customers' machines and lines into operation faster.



**E**very company has to invest in research and development, IT projects, production systems, and its workforce in order to remain successful over the long term. For this, a company needs capital. KRONES has traditionally relied on its own funding capacity and retains around 70% to 75% of consolidated profit in order to remain largely independent of banks. To ensure that this continues to be the case, we must operate profitably and generate a proper return on capital employed. Our shareholders also want a good return on their investment in KRONES and expect to receive their share of the company's profits in the form of attractive dividends.





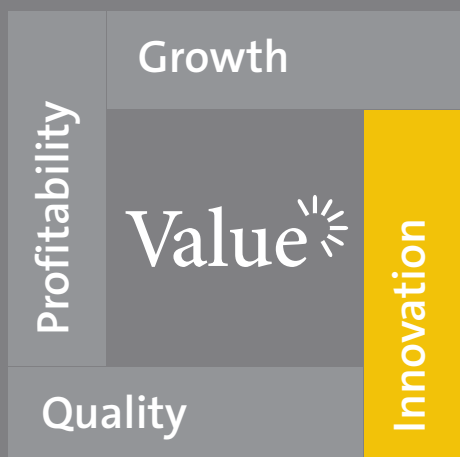
**K**RONES wants to remain the world's market leader and participate in the growing market. Profitable growth contributes to long-term gains in KRONES' share price and, thus, enterprise value. By further expanding our business, we are also securing and creating highly skilled jobs. The continuous expansion of our service business in the regions is an important pillar of growth at KRONES.



**T**o grow profitably, a company must offer its customers innovative products and services. **KRONES'** customers need dependable machines and lines with little downtime that deliver cost-effective, reliable production. The total cost of ownership (TCO) – the sum of acquisition cost and operating costs – must be as low as possible.

All new and continuing developments are informed by **KRONES'** enviro sustainability programme. enviro stands for cost-effective, high-performance machines and lines that are proven to conserve resources.





- **KRONES cements technological leadership at drinktec**
- **All innovations generate added value for customers**
- **Number of patents and utility models up sharply**

Drinktec is to KRONES' R&D team what the Olympic Games are to athletes. The fair also takes place every four years. And we can confirm that the hard work we put into preparing for it paid off. With the innovations presented at drinktec, KRONES soundly defended its position as the technology leader.

New, successful products are the result of hard work. KRONES has a team of around 1,900 highly qualified people worldwide keeping the pipeline filled with excellent new and evolving machines, lines, systems, and services. The creativity and inventiveness of our team is evident in the fact that the number of patents and utility models held by KRONES grew by 15 percent year-on-year to 3,150.

**We develop what our customers want**

Innovation is one of the four pillars of our Value programme. To grow profitably, a company must bring innovative products and services to the market. One question guides all of our new developments: How can we increase the benefit to producers? To answer this question, we listen closely to our customers in an intensive dialogue. The drinktec trade fair was the ideal platform for such exchange. Views on future developments in the industry were a major topic of conversation there. But our outreach to customers is not limited to trade fairs. We are in dialogue on a daily basis. That gives us a good sense of how overarching megatrends are influencing our customers' strategies and needs.

New customer groups are emerging in the newly industrialised countries – and they don't all need high-performance machines and lines.

Our customers need flexible packaging lines because different consumers demand different products.

Machines and lines must be easy to operate without unnecessary physical strain.



Consumers are increasingly choosing healthy beverages like fruit juices. Such products can only be produced and bottled on specially designed lines.

New technologies increase line performance

The food and beverage industry needs lines that conserve energy and other resources.

*Global megatrends shape the expectations of our products and services.*

Regardless of megatrends and market developments, innovations are always driven by the demand for:

- Cost-effective machines and lines with low total cost of ownership
- High availability and fast changeover and start-up times
- Ease of operation
- The utmost in production reliability

### **enviro – a lasting success story**

Visitors at drinktec showed a keen interest in our enviro sustainability programme. More and more, our customers are focusing on resource consumption in their production processes, for both financial and environmental reasons. Back in 2009, when we obtained certification of our enviro management system, we were the first in our industry to establish a standard for objectively assessing the energy and media efficiency and environmental compatibility of machines and systems.

*Machines and lines from KRONES that carry the enviro label enable customers to significantly reduce their resource consumption.*

All KRONES innovations aim to reduce energy and media consumption on existing and new equipment in breweries and beverage bottling operations. The innovations we exhibited at drinktec feature significant reductions in consumption. We intend to have assessed and optimised our entire machinery portfolio under enviro criteria by 2015.

### **Selected innovations and drinktec highlights**

On the following pages, we present machines and lines that exemplify our efforts to meet all of the customer needs listed above and will contribute to KRONES' profitable growth.

#### **Contiform AseptBloc**

With the Contiform AseptBloc, which was unveiled at drinktec, KRONES is setting new standards for aseptic (germ-free) beverage filling. The big advantage of this system over its predecessor models is that it sterilises the preforms (that is, the PET blanks) before they are blow-moulded into bottles. Since the preforms have a far smaller surface area than finished bottles, sterilising the preforms saves time, energy, and sterilising media. Another benefit: The Contiform AseptBloc can also handle extremely lightweight PET containers since, unlike bottles, preforms are not prone to shrinkage during the sterilisation process.







The sterile preforms are passed into a hermetically sealed sterile unit in which they are blow-moulded, filled, and capped in a seamless aseptic process chain. The Contiform AseptBloc fills sensitive beverages such as juices, iced tea, energy drinks, and dairy drinks in an environment that ensures maximum microbiological safety. Our combined expertise in aseptic technology and stretch-blow moulding has yielded a unique integrated concept.

### PreBeam

The PreBeam module is an ideal complement to KRONES' new generation of aseptic technology and the first of its kind worldwide. In this innovation, KRONES combines the general advantages of preform sterilisation provided by the Contiform Asept-Bloc with our proprietary electron beam (e-beam) technology, which we developed specifically for this purpose. PreBeam sterilises preforms using accelerated electrons – and no chemicals. PreBeam destroys even the toughest, most chemically resistant germs in an energy-saving process that leaves absolutely no chemical residue. The technology will be put into serial production following successful practical testing.



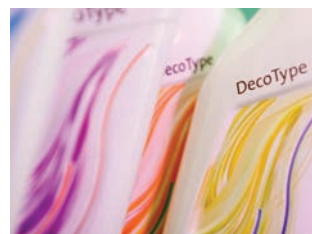
### Ergomodul/Ergomatic

The new Ergo series is a completely modular concept for labelling technology. The base machine can be combined with different labelling stations which can be either permanently installed or interchangeable by way of docking systems. That ensures the highest possible level of flexibility. The new development also incorporates significant improvements to cost points, quality, ergonomics, safety, and environmental friendliness. The total cost of ownership is lower since the system uses less energy and consumables, allows for shorter changeover times, and requires less maintenance. We are gradually expanding the range of available sizes in order to establish a complete series.



### DecoType

The DecoType digital direct printing system makes possible individual, attractive design of round and oval-shaped plastic containers. For our customers, that means maximum flexibility and the shortest possible launch lead times for new products. Digital printing is especially well suited for marketing campaigns and product launches with short lead times. DecoType can print uneven product surfaces that existing labelling technology cannot accommodate. Moreover, the highly versatile decoration technology uses no adhesives and requires no label storage. We are adding more performance classes to the DecoType series to cover the entire market.





## Sypro S

Demand for beverages containing sugar is growing worldwide. At drinktec 2013, KRONES presented a revamped design of a sugar dissolving and pasteurisation system. The entire sugar preparation unit from KRONES is modular in construction. It can be individually expanded and adjusted to suit different input materials. The compact design reduces the time needed for commissioning. In addition, Sypro S uses a heat recovery system to reduce energy consumption. The innovative inlet nozzle ensures fast, complete dissolution of granulated sugar without the need for an additional pump or agitator in the tank. That shortens dissolving times and reduces energy consumption. With the Sypro S sugar-dissolving unit, KRONES is now able to deliver the entire syrup room from a single source.



## Viscofill

KRONES developed the Viscofill series to handle products like jams and jellies, sauces and dressings, dairy products, and pet food in a precise, gentle, and hygienic process. The dosing principle is a classic piston-type rotary filler that is particularly suited for filling highly viscous products and products containing large chunks or high particle concentrations. The following criteria were vital in KRONES' development of the Viscofill series: greater hygiene, improved product quality, and more efficient processes. Pneumatically controlled valves and fully automatic cleaning processes meet these criteria. The Viscofill series is divided into three types, each featuring different valve technologies to cover a wide range of food products and meet diverse customer needs. As is customary for KRONES filling technology, Viscofill machines can handle cans as well as containers made of glass or plastic.

*The Viscofill series fills food products in a precise, gentle, and hygienic process (see photo right).*

## BEVkeg

BEVkeg is an integrated system for single-use kegs made of PET that demonstrates KRONES' courage to keep it simple. The crux is that the containers require no compressed gas for tapping and, because they are single use, also eliminate hygiene issues at "the bar". The system is the result of collaboration between KRONES and the tapping systems specialists at Micro Matic. BEVkeg ensures high beverage quality from container production all the way to the beer glass. It protects beverages from temperature fluctuations and CO<sub>2</sub> loss. So, guests always get a cool, fresh, perfectly tapped beer. BEVkeg is initially being offered to breweries but further development is underway to make it available to other sectors.









## Management report for KRONES AG

### Report on economic position

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- World economy grows 3.0% in 2013
- Emerging economies weaker
- Rising demand for food and packaging machinery

### Growth loses momentum

The International Monetary Fund (IMF) had to lower its growth forecast for 2013 for the global economy four times last year. Momentum in the emerging and developing economies slackened, leaving global growth slower than expected. The budget battle in the USA and recession in the euro area presented additional burdens to the global economy. In all, the world economy did not grow 3.6% in 2013 as forecast at the start of the year but only 3.0% (previous year: 3.1%).

*The global economy grew only 3.0% in 2013, after 3.6% growth had been forecast at the start of the year.*

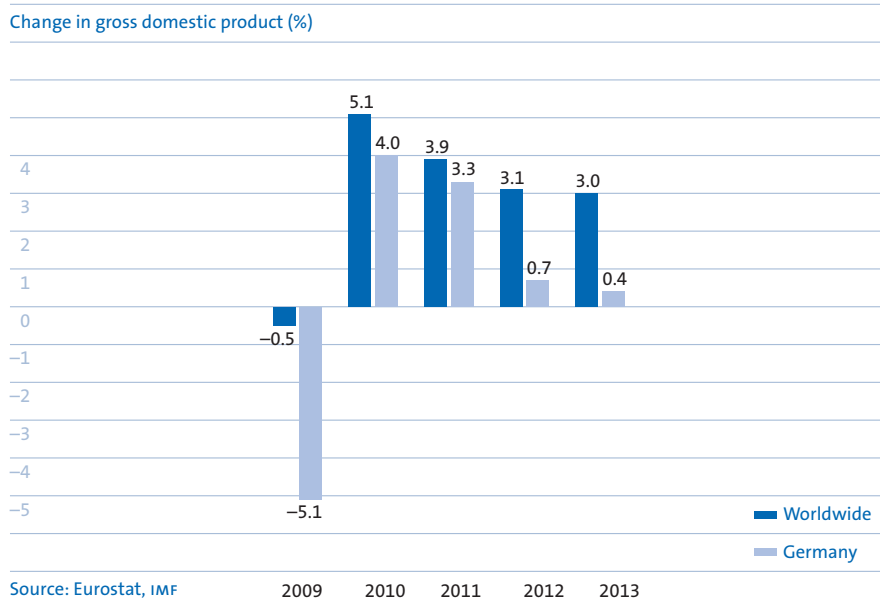
The newly industrialised countries suffered as a result of the weak economy in Europe – an important export market – and low domestic demand in 2013. In China, the economy was also hampered by problems in the banking sector. China's gross domestic product (GDP) rose 7.7% in 2013, the same as in the previous year. In all, economic growth in the emerging and developing countries last year came to 4.7% (previous year: 4.9%).

At 1.3%, growth in the industrialised countries was far slower than in the emerging markets in 2013. The world's biggest economy, the USA, grew its GDP by 1.9% 2013. The Japanese economy expanded 1.7%. The euro area remained in recession in 2013. GDP for the common currency area contracted by 0.4%.

### Consumers rescue German economy

Germany's economy grew only slightly in 2013. GDP improved 0.4% year-on-year according to preliminary figures from Germany's Federal Statistical Office. The economy had grown 0.7% in 2012. But at least Germany was able to escape Europe's recession. Private consumption was an important factor here, having gained 0.9% in 2013 on the back of a strong labour market. Government consumption was also up last year. Capital expenditure was down, reflecting many companies' continued scepticism about future economic developments.





### 2013 a disappointing year for the German machinery sector

The new orders trend in Germany's machinery sector was not good, particularly in the first half of 2013. Domestic orders and crucial export business were both down. That prompted the German Engineering Federation (VDMA) to lower its output forecast for the year 2013 as a whole in July, from +2% to -1% as compared with 2012.

There were significant differences in output among the different VDMA subsectors. The food and packaging machinery subsector developed better than the industry as a whole. Output among German companies in this subsector was up 4% year-over-year in 2013.

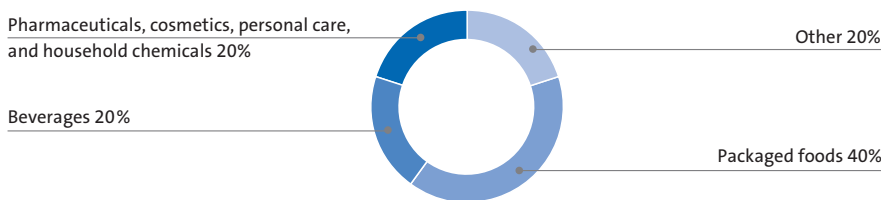
*The food and packaging machinery subsector developed better than the machinery industry as a whole in 2013.*

### Megatrends benefit packaging machinery market

According to the German Engineering Federation (VDMA), the packaging machinery market worldwide amounted to €28.7 billion 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 around 20% of total packaging machinery sales. KRONES generated around 92% of consolidated revenue with the beverage industry in 2013.

*Megatrends are driving demand for packaging machinery. The market is growing by 5% to 7% annually on a long-term basis.*

The global market for packaging machinery by application



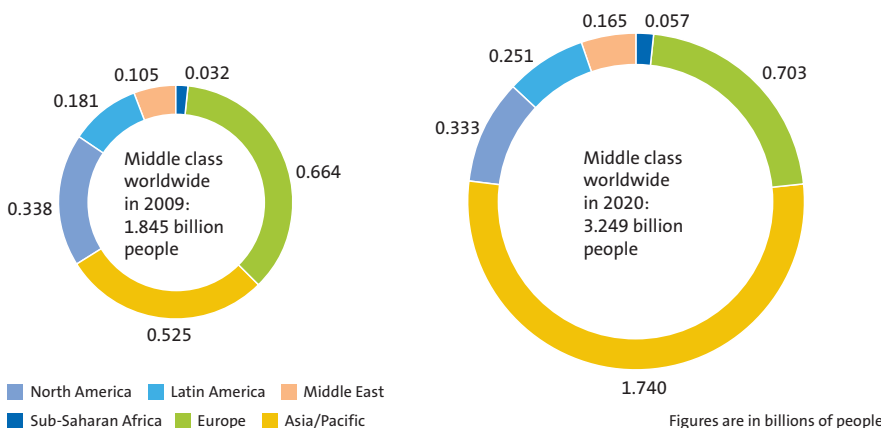
Source: VDMA, estimate for 2012

### Long-term trends drive growth

KRONES operates in an attractive market with stable long-term growth. We expect demand for packaging machinery to grow by 5% to 7% per year on a long-term basis. This growth will be driven by megatrends.

The world's population will steadily increase in the coming years and decades. All those people will need to eat and drink. In addition, standards of living and consumption will rise more quickly than average in the fast-growing emerging markets and developing countries. Forecasts by the United Nations predict that the middle-class population in the Asia-Pacific region alone will have grown by around 1.2 billion between 2009 and 2020. Worldwide, the middle class is expected to grow by 1.4 billion people in the same period. As these people's incomes rise, so too will their consumption.

The middle class is growing



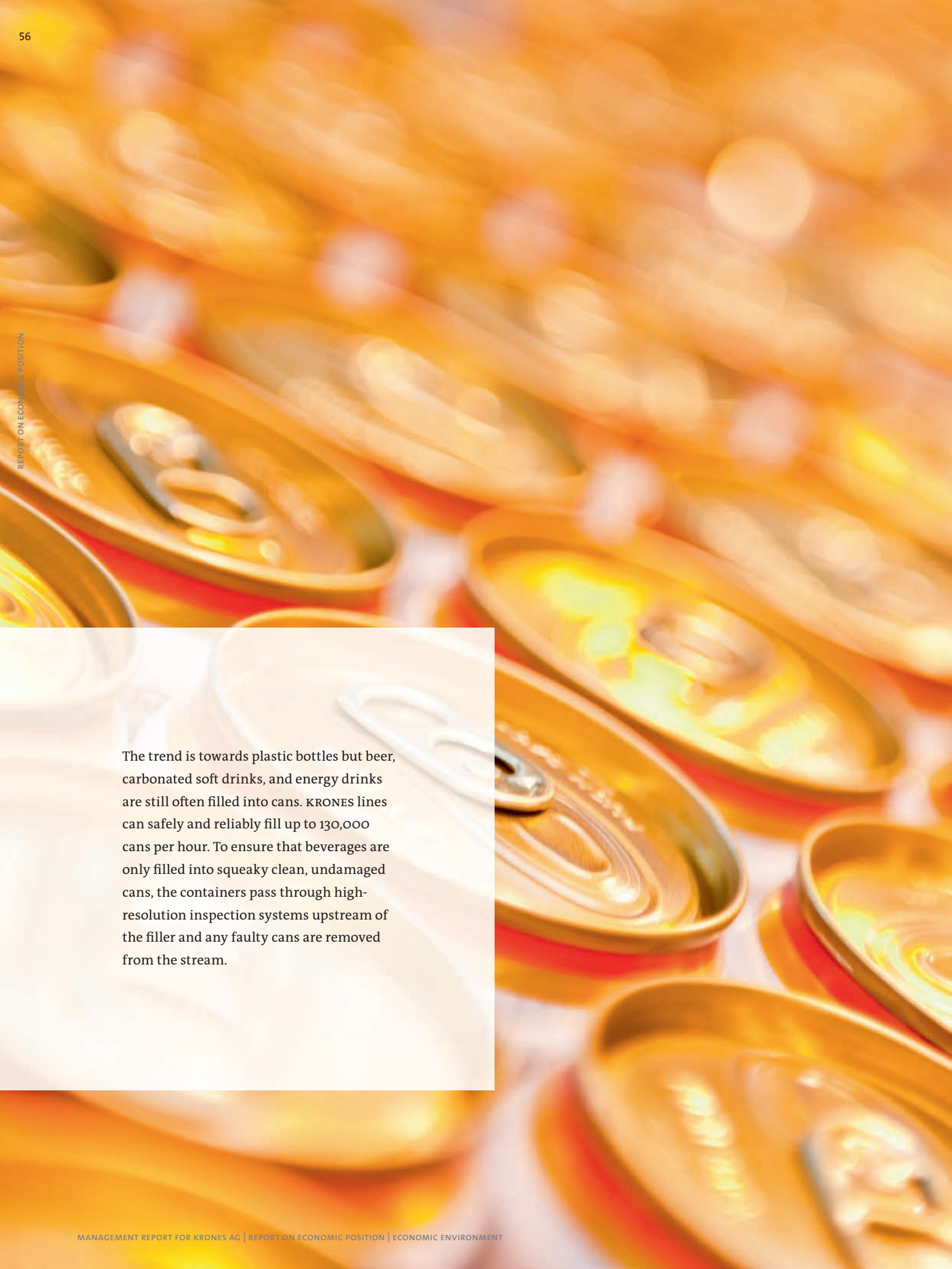
*Many people in newly industrialised countries will climb the income ladder into the middle class in the years ahead. As their incomes rise, so will their consumption.*

\*The term "middle class" includes people who earn or spend between 10 and 100 dollars per day (based on purchasing power from 2005) Source: Brookings Institution 2012



## DecoType

Plastic is the leader among packaging materials. The KRONES DecoType, unveiled at the drinktec trade fair, will soon be printing labels directly onto bottles and other containers made of plastic. This process will dispense with pre-printed labels entirely. And that opens up previously unimaginable possibilities for our customers. In principle, the digital direct printing system could apply a different design to every single container without a single handling part or label changeover. That makes DecoType absolutely unbeatable from an economic perspective.

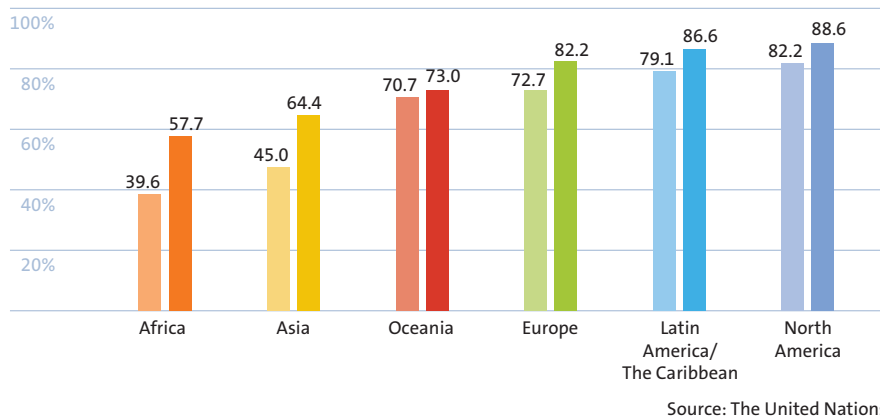


The trend is towards plastic bottles but beer, carbonated soft drinks, and energy drinks are still often filled into cans. KRONES lines can safely and reliably fill up to 130,000 cans per hour. To ensure that beverages are only filled into squeaky clean, undamaged cans, the containers pass through high-resolution inspection systems upstream of the filler and any faulty cans are removed from the stream.



Increasing urbanisation – the migration of people from the countryside to cities – will also stimulate demand for packaged food and beverages. That is because people who live in cities generally consume more packaged products than those who live in rural areas. While many people already live in cities in Europe and in North and Latin America, urbanisation is advancing rapidly in Africa and Asia. More and more people there are moving to the cities and adopting urban lifestyles and consumer behaviour.

Urban population 2011 and 2050 (% of total)



## Europe and Asia are the biggest markets for packaging machinery

Since the megatrends apply primarily to the emerging markets, these markets' share of global demand for packaging machinery is likely to continue to grow.

The global market for packaging machinery in 2012 – by region



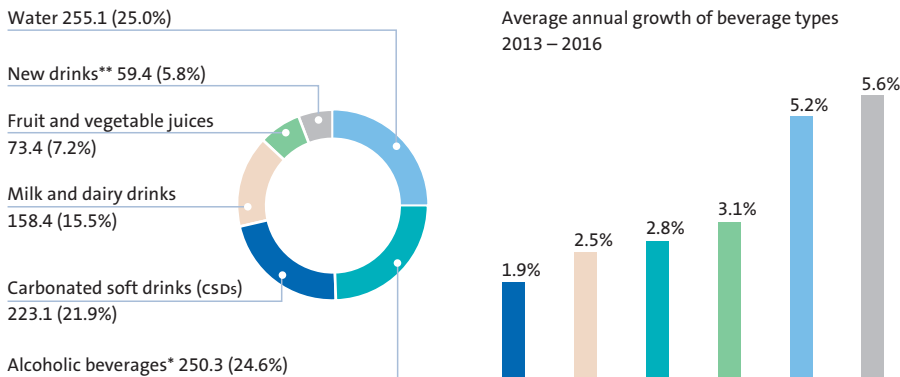


## Good environment for makers of beverage filling lines

Boom or bust, thirst doesn't follow economic cycles. Global demand for packaged beverages has been growing steadily for years, regardless of macroeconomic cycles. The increasing variety of packaging options is another factor driving growth on the beverage filling and packaging machinery market.

According to preliminary data compiled by the market research institute Euromonitor, global consumption of packaged beverages rose by around 3.2% year-on-year in 2013 to almost 1,020 billion litres. Euromonitor estimates that packaged beverage consumption worldwide will grow by an average of 3.4% annually, to around 1,126 billion litres in 2016.

Global consumption of packaged beverages in 2013 (billion litres)




*Consumption of new drinks – energy and sports drinks and ready-to-drink tea and coffee – will grow the most through 2016.*

2013: 1,019.7 billion litres Sources: Euromonitor, own estimates


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

Consumption of packaged water is growing faster than the packaged beverage market as a whole. Rising demand for clean, packaged water in the emerging markets and expanding health consciousness in industrialised countries are driving the increase in water consumption. At 255.1 billion litres, water accounted for one-quarter of total volume of packaged beverages in 2013. Global consumption of bottled water is expected to rise by 5.2% each year on average through 2016.

Demand for alcoholic beverages is expected to grow more slowly than the beverage market as a whole. This beverage type includes wine and spirits but beer accounts for the largest share (around 80%). While the beer market is booming in China, demand in North America and Europe is nearly saturated. In 2013, global consumption of packaged alcoholic beverages came to 250.3 billion litres (share of total beverage market: 24.6%). Euromonitor expects the average annual growth rate for alcoholic beverage consumption to be 2.8% through 2016.



Demand for bottled water is increasing rapidly. The popular thirst-quencher is primarily packaged in bottles made of PET (polyethylene terephthalate). Nearly three-quarters of the water packaged worldwide is sold in PET bottles. KRONES is very well positioned on this market. Our machines and lines are capable of producing, filling, labelling, and packing plastic bottles and recycling used bottles into food-grade material. We also develop ultra-lightweight PET bottles that offer an even more attractive price point.



Before the strong trend towards PET, glass was the long-time favourite among beverage packaging materials. Today, a solid 20% of all beverages, particularly beer, wine, and spirits, are still bottled in glass. Cooking oils, sauces, dressings, baby foods, and other viscous foods are also primarily packaged in glass. The flow characteristics of these products place special demands on the filling technology. That is no problem for KRONES. Our glass fillers are not only for beverages but are also ideally suited for filling viscous food products.

Carbonated soft drinks, such as colas and sodas, make up the third-largest market segment. Last year, the world's population consumed 223.1 billion litres of such beverages, which represents a 21.9% share of the overall market. Because calorie-conscious consumers are increasingly shying away from beverages containing sugar, soft drinks are steadily losing market share to water. Therefore, consumption of these beverages is expected to increase by only 1.9% on average per year through 2016.

The share of total consumption accounted for by milk and dairy drinks decreased slightly, to 15.5% in 2013. While demand for plain milk is likely to grow only slightly in the future, Euromonitor expects fruit-flavoured dairy drinks to grow by more than 6% each year. In all, market researchers are anticipating average annual growth of 2.5% for milk and dairy drinks through 2016.

Fruit and vegetable juices (2013: 7.2% share) and "new drinks" (2013: 5.8% share) make up only a small portion of the global beverage market. "New drinks" include ready-to-drink tea and coffee as well as energy and sports drinks. In Asia, demand for ready-to-drink packaged tea is growing rapidly. For this reason, consumption of new drinks is expected to increase by 5.6% on average per year through 2016. This trend will further close the gap between new drinks and fruit and vegetable juices in the future. Euromonitor expects consumption of packaged fruit and vegetable juices to grow by only 3.1% on average through 2016.

### Beverage markets booming in emerging economies

A growing middle class in the newly industrialised and developing countries is fuelling demand for packaged beverages in these regions. The beverage markets here are growing far more rapidly than in North America and Western and Central Europe. Regional shares of global consumption will continue to shift towards China and the Asia-Pacific and Africa/Middle East regions. KRONES is well positioned in all of these regions.

Packaged beverages Share of global consumption	2013		2016		Annual average growth (%) 2013–2016
	Billion litres	%	Billion litres	%	
North America/Central America	189.2	18.6	191.9	17.0	0.5
China	162.4	15.9	195.6	17.4	6.4
Asia/Pacific	160.2	15.7	189.0	16.8	5.7
South America	159.5	15.6	178.4	15.8	3.8
Western Europe	138.4	13.6	142.1	12.6	0.9
Russia/cis/Eastern Europe	85.1	8.3	91.0	8.1	2.3
Africa/Middle East	71.3	7.0	84.3	7.5	5.7
Central Europe	53.6	5.3	53.6	4.8	0.0
<b>Worldwide</b>	<b>1,019.7</b>	<b>100.0</b>	<b>1,125.9</b>	<b>100.0</b>	<b>3.4</b>

Sources: Euromonitor, own estimates

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



## Trend towards beverage packaging made of PET continues

Some 85% of the total volume of beverages packaged worldwide in 2013 went into packages made of either PET (polyethylene terephthalate), glass, metal cans, or cartons.

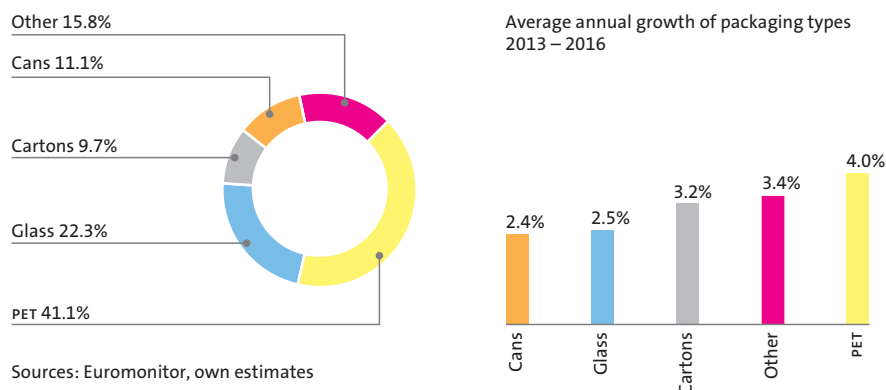
PET is the leading packaging material by far. Preliminary data from Euromonitor show that PET containers were used for 41.1% of packaged beverages worldwide in 2013. The trend towards PET is likely to continue in the years ahead. Euromonitor is expecting annual growth on the order of 4.0% on average for PET through 2016. Growth expectations for cartons, cans, and glass bottles, are, in part, far lower.

For glass, which currently accounts for 22.3% of the global packaged beverage volume and was the second-most popular packaging material in 2013, Euromonitor is predicting average annual growth of 2.5%.

The volume of beverages flowing into metal cans is expected to increase by 2.4% on average each year through 2016. The can's share of the overall beverage packaging market will shrink from 11.1% last year to 10.8%.

A total of 9.7% of the world's packaged beverages flowed into cartons in 2013. With growth rates averaging 3.2% per year, carton packaging is likely to increase at almost the same pace as the overall market in the period to 2016.

Global beverage market by packaging material in 2013 (Based on beverage volume)



*Beverage packaging made from PET will continue to grow its market share considerably through 2016.*





From the bottle to the glass – when done properly, the process of pouring beer can be a delight to the beer-lover’s eye. But the sound of bottles and glasses clinking to a toast is also a treat for the ears. It’s no wonder, then, that nearly two-thirds of all of the packaged beer sold worldwide comes in glass bottles. And that share will continue to grow slightly in the years ahead. Just under a quarter of the global volume of beer is filled into cans and about four percent into PET bottles. Cartons are not used for packaging beer at all.

- KRONES AG revenue matches year-earlier level at €2,251.2 million, total operating performance up 5.4%
- Earnings performance improves as planned (on adjusted basis)
- Shareholders to receive a dividend of €2.00 per share for 2013 (previous year: €0.75)

A comparison of the forecasts we made in our 2012 annual report for KRONES AG with the figures actually attained in 2013 reveals the following:

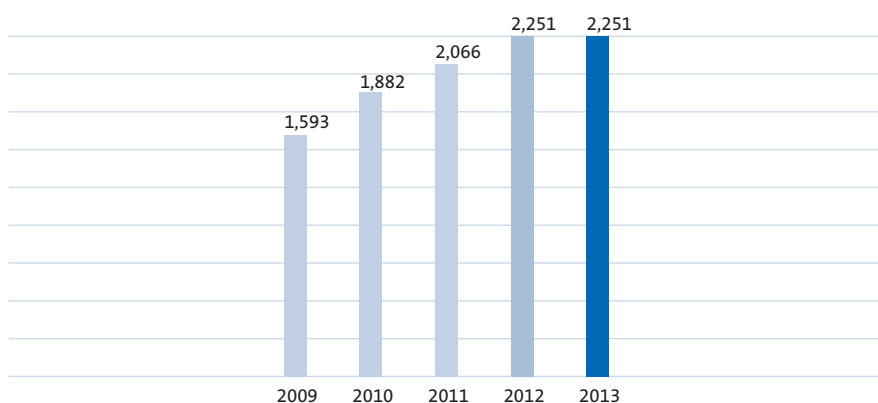
Because of invoice timing, we did not achieve the +4% revenue growth we had forecast (revenue growth for 2013: 0.0%). However, total operating performance rose 5.4%. We did squarely achieve our EBIT forecast in the mid-double-digit millions (€70.9 million).

### KRONES achieves solid growth in total operating performance for 2013

KRONES AG continued to grow in 2013. Although revenue, at €2,251.2 million, was largely unchanged from the year-earlier level, total operating performance increased 5.4% to €2,370.8 million (previous year: €2,249.4 million).

KRONES benefited from its strong market position, broad range of products and services, and an economic environment that was satisfactory overall in the reporting period. The company's strong competitive position in the emerging markets had an especially positive impact. KRONES' services business made an important contribution to growth in 2013. We are progressively expanding our services business, particularly in the emerging markets, in order to offer our customers even better service even faster.

KRONES AG revenue (€ million)



*KRONES AG revenue near year-earlier level at €2,251.2 million*

### Revenue by region

At €228.7 million, domestic sales of KRONES products were roughly the same as the previous year (€226.3 million). Thus, sales in Germany accounted for only 10.2% (previous year: 10.1%) of total sales revenue.

In the rest of Europe, business developed far better in Western Europe (€398.7 million, +22.3%) than in Eastern Europe/CIS (€164.8 million, -15.0%). The remaining countries of Central Europe contributed €55.5 million in revenue. All told, the European sales regions (excluding Germany) accounted for 27.5% of total sales (previous year: 24.8%).

KRONES benefits from global population growth and from increasing urbanisation in the emerging economies. The share of revenue coming from outside Europe is correspondingly high (62.3%, previous year: 65.1%).

The Middle East/Africa sales region has been one of our most important markets for many years now. In 2013, we were able to once again increase sales revenue there by 21.9% to €427.2 million. In China, revenue was down 43.2% to €182.6 million from the very high year-earlier figure. In contrast, sales in the rest of the Asia-Pacific region were up 15.0% to €331.6 million. In North America, revenue increased by 3.2% to €216.7 million. Business had been very good in South America, Brazil in particular, in recent years. In 2013 revenue in this region was down 6.3% to €245.3 million.

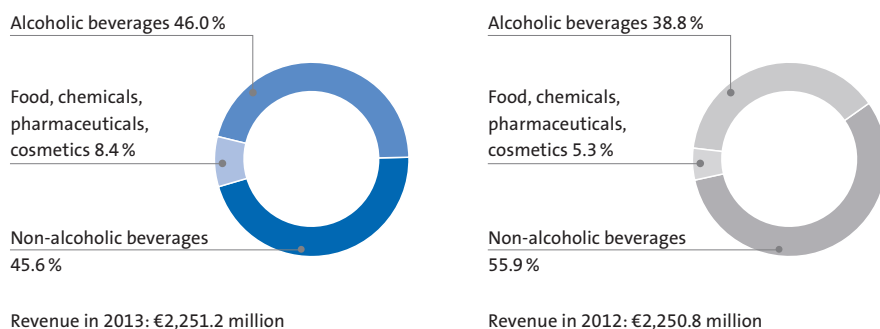
### Revenue by industry

Sales of equipment for processing alcoholic beverages rose 18.5% in 2013 to €1,035.4 million. Among the revenue sources were a number of breweries that were invoiced in emerging markets. This segment's share of revenue increased to 46.0% in 2013 (previous year: 38.8%).

Revenue from producers of non-alcoholic beverages, on the other hand, was down 18.3% to €1,026.8 million. This customer group's share of revenue decreased from 55.9% to 45.6%.

Revenue in the "non-beverage" sectors (milk, food, pharmaceuticals, and cosmetics) increased considerably to €189.0 million (+58.0%), contributing 8.4% of total revenue (previous year: 5.3%).

#### KRONES AG revenue by industry

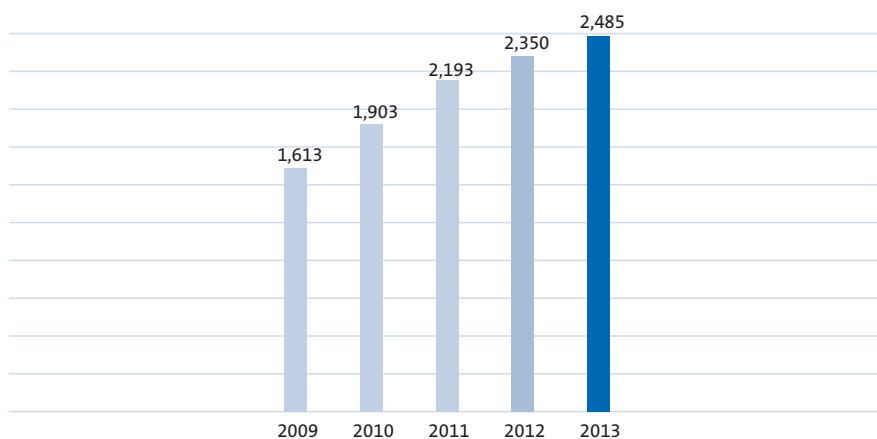


### Orders up sharply year-on-year

In all, capital spending among our customers was at a good level in 2013. International food and beverage companies expanded their capacities last year, particularly in the emerging markets. This trend is reflected in KRONES AG's new orders situation. The contract value of new orders was up 5.7% from €2,349.5 million in the previous year to €2,484.5 million.

Demand last year was strong for both individual machines and complete filling and packaging lines from KRONES. Process technology orders were up more sharply than overall orders. At the regional level, we generated the highest percentage increase in new orders in the Middle East/Africa region, followed by the Asia-Pacific region in 2013.

KRONES AG new orders (€ million)



### KRONES' orders backlog has grown considerably

At the end of 2013, KRONES AG had an orders backlog of €1,320.8 million on the books (previous year: €1,087.5 million). Apart from the satisfactory volume of new orders, the timing of revenue receipt with respect to the reporting date also contributed to the steep increase in orders on hand. The large orders cushion provides a solid basis for balancing our capacity utilisation in the months ahead and for achieving the company's growth target for 2014.

KRONES AG orders on hand (€ million)





## KRONES increases operating profitability

KRONES improved earnings in 2013 as planned despite continued price pressures. Besides the higher operating performance, measures taken under our Value strategy programme to optimise cost structures company-wide had a positive effect on earnings.

Earnings before taxes (EBT) for 2012 contained a positive one-off effect of €36.7 million in KRONES AG's single-entity financial statements (settlement of Le-Nature's lawsuits). This involved the recognition of provisions by the US subsidiary and their reversal to the benefit of KRONES AG. Adjusted for this effect, KRONES AG's EBT for 2012 was €41.4 million. On this basis, earnings improved by 69.3% to €70.1 million in 2013.

KRONES AG generated an EBT margin (the ratio of EBT to revenue) of 3.1% in 2013.

The Executive Board and the Supervisory Board will propose to the annual shareholders' meeting that a dividend totalling €2.00 per share be paid for the successful financial year 2013 (previous year: €0.75 per share). The considerably higher dividend reflects the improved earnings as well as the company's new dividend policy to pay out 25% to 30% of consolidated profit to shareholders instead of the previous 20% to 25%. The Executive Board and Supervisory Board will propose to the annual shareholders' meeting a dividend of €1.00 per share. In addition, KRONES wants to share the proceeds from the sale of the treasury shares with shareholders by paying out an additional €1.00 per share.

*Without the one-time expense in the previous year, earnings before taxes were still up considerably in 2013.*

## KRONES AG earnings structure

€ million	2013	2012	Change
Sales revenue	2,251.2	2,250.8	+0.0%
Changes in inventories of finished goods and work in progress	+119.6	-1.4	-
Operating performance	2,370.8	2,249.4	+5.4%
Goods and services purchased	-1,298.9	-1,267.3	+2.5%
Personnel expenses	-643.4	-618.7	+4.0%
Other operating income (expenses) and own work capitalised	-307.1	-239.6	+28.2%
EBITDA	121.4	123.8	-1.9%
Depreciation and amortisation on fixed assets	-50.5	-45.5	+11.0%
EBIT	70.9	78.3	-9.5%
Financial income/expense	-0.8	-0.2	-
EBT	70.1	78.1	-10.2%
Income tax	-9.7	-7.8	+24.4%
Other taxes	-4.5	-1.4	-
Net income	55.9	68.9	-18.9%

*In 2012, KRONES AG's earnings were influenced by a one-off effect. Adjusted for this effect, EBT was up nearly 70% in 2013.*

KRONES further grew its business volume year-on-year in 2013. Although revenue in 2013, at €2,251.2 million, remained largely unchanged from the previous year (€2,250.8 million), total operating performance rose 5.4% to €2,370.8 million. As planned, KRONES was able to improve its operating profitability since many important expense items grew less than revenue and total operating performance.

*Both goods and services purchased and personnel expenses rose less than total operating performance.*

Goods and services purchased increased less sharply than total operating performance in the reporting period. At €1,298.9 million, KRONES spent 2.5% more for goods and services purchased in the reporting period than in 2012. Therefore, the ratio of expenses for goods and services purchased to total operating performance declined year-on-year from 56.3% to 54.8% in 2013. This decrease reflects the accomplishments made under our Value programme. We were able to reduce procurement costs because, under Value, we are increasingly using identical parts and assemblies in our machines.

Personnel expenses also grew less than our operating performance in the reporting period, rising 4.0% on the previous year to €643.4 million. The ratio of personnel expenses to total operating performance declined from 27.5% in the previous year to 27.1%. We were able to improve on the good year-earlier figure by balancing our capacity utilisation and making our production processes even more cost effective.

Depreciation and amortisation of fixed assets increased from €45.5 million in the previous year to €50.5 million in 2013. The increase reflects the higher capital expenditure in recent years. The ratio of depreciation and amortisation on fixed assets to total operating performance rose only slightly to 2.1% (previous year: 2.0%).

The net of other operating income and expenses and own work capitalised increased from –€239.6 million in the previous year to –€307.1 million in 2013 (+28.2%). That reflects a €40.1 million year-on-year decrease in other operating income. The main part of this was the reversal of the €36.7 million Le-Nature's provision in 2012 (see page 67 for more details).

The financial result consists largely of earnings from investees and, on the expense side, of discounting expenses and a write-down on long-term financial assets. The financial result is slightly negative, at –€0.8 million (previous year: –€0.2 million). After income taxes (€9.7 million) and other taxes (€4.5 million), KRONES AG had net income of €55.9 million for 2013 (previous year, including one-off effect: €68.9 million).

As in the previous years, KRONES AG had no bank debt at 31 December 2013. Cash and cash equivalents at the end of the reporting period came to €113.1 million. That is an increase of €74.6 million over 31 December 2012 (€38.5 million). Of that, €73.7 million came from the sale of KRONES' treasury shares. Within working capital, outflows resulting from the expansion of our business were well offset by the further improvement of receivables management.

Existing lines of credit amounting to €223.5 million were not used at 31 December 2013. In addition, the company also has at its disposal extensive surety lines.

That further strengthens the main objectives of our financial management – ensuring KRONES' strong financial footing and independence.

**KRONES AG's cash flow for 2013 is as follows:**

Cash and cash equivalents at 1 January 2013	€ million	38.5
Cash flow from operating activities	€ million	67.3
Cash flow from investing activities	€ million	-46.7
Cash flow from financing activities	€ million	54.0
Cash and cash equivalents at 31 December 2013	€ million	113.1

**Asset and capital structure of KRONES AG**

(€ million at 31 December)	2013	2012	2011
Fixed assets	487.6	476.2	447.2
Current assets and prepaid expenses	901.0	711.7	771.0
of which cash and cash equivalents	113.1	38.5	53.5
Equity	637.8	530.6	479.8
Total debt	750.8	657.3	738.4
Provisions	452.2	402.0	458.8
Liabilities	298.6	255.3	279.6
<b>Total</b>	<b>1,388.6</b>	<b>1,187.9</b>	<b>1,218.2</b>

*For more information, please refer to the complete balance sheet on page 110*

At 31 December 2013, KRONES AG's total assets were up 16.9% from the previous year to €1,388.6 million. The higher asset total primarily reflects the larger business volume and the sale of treasury shares.

Within this figure, fixed assets were up 2.4% to €487.6 million (previous year: €476.2 million). Tangible fixed assets account for the largest part of fixed assets and came to €362.3 million at 31 December 2013, which is up 1.8% year-on-year. Capital expenditure went primarily into the new logistics centres in Rosenheim and Neutraubling and the production hall for Evoguard components in Nittenau. Long-term financial assets were up slightly, by 1.2%, from €98.9 million in the previous year to €100.1 million.

Current assets, including prepaid expenses, came to €901.0 million in 2013, up 26.6% on the previous year (€711.7 million). Whereas receivables increased only slightly, inventories – particularly finished goods and work in progress – were up considerably due to invoice timing and the reporting date. Another important reason for the increase is that cash and cash equivalents grew by €74.6 million year-on-year to €113.1 million in 2013. The sale of treasury shares brought KRONES proceeds of around €73.7 million.

On the liabilities side, KRONES' provisions were up to €452.2 million at the end of 2013 (31 December 2012: €402.0 million). Apart from provisions for pensions and other personnel provisions, provisions relating to operating activities (orders) also increased further as a result of business growth.

Liabilities were up from €255.3 million at the end of 2012 to €298.6 million in the reporting period. This was due to higher liabilities to affiliated companies. KRONES had no bank debt at the end of 2013. Thus, KRONES AG's net cash and cash equivalents (cash and cash equivalents less bank debt) amounted to €113.1 million at the end of the 2013 reporting period (previous year: €38.5 million).

The positive net income figure of €55.9 million for 2013 and the proceeds from the sale of treasury stock (€73.7 million) brought the company's equity up considerably year-on-year from €530.6 million in the previous year to €637.8 million at 31 December 2013, despite the dividend payout of €23.7 million. That puts the equity ratio at 45.9% at the end of 2013, which is above the year-earlier figure of 44.7%. Thus, KRONES still has an extremely robust financial and capital structure overall.

*A comfortable liquidity cushion and a sound equity position give KRONES a high level of financial flexibility.*



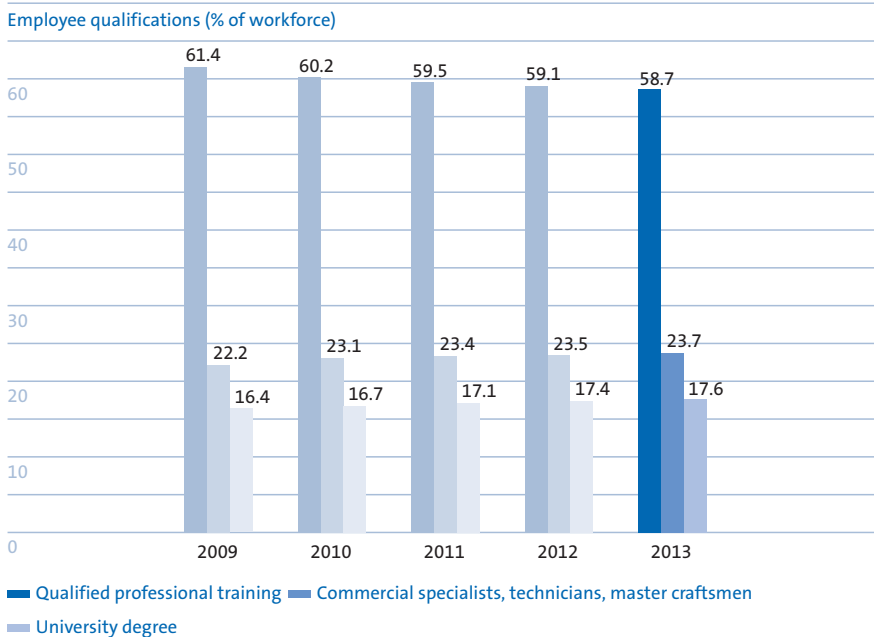
**KRONES continues to grow its workforce worldwide**

Our people are the very foundation on which the four pillars of our Value strategy programme stand. They are the key to our ability to achieve our goals in the areas of quality, innovation, profitability, and growth. That is why KRONES' human resources policy is focused on continually increasing both the quality and the number of our employees.

Since more than 85% of our machines and lines are sold to customers outside Germany and KRONES is working to strengthen our local after-sales service for customers, growing our international workforce is a strategic goal. That is why most of our new hiring last year was at our foreign subsidiaries. But we also grew our team in Germany from 8,866 to 8,876 people.

Our employees' level of qualification is high and rising. KRONES invests in good recruits. Almost all of our employees in Germany possess recognised professional or vocational qualifications. Nearly one-quarter of our workforce are commercial specialists, technicians, or master craftsmen. University graduates make up 17.6% of our workforce, after 17.4% in the previous year.

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.



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

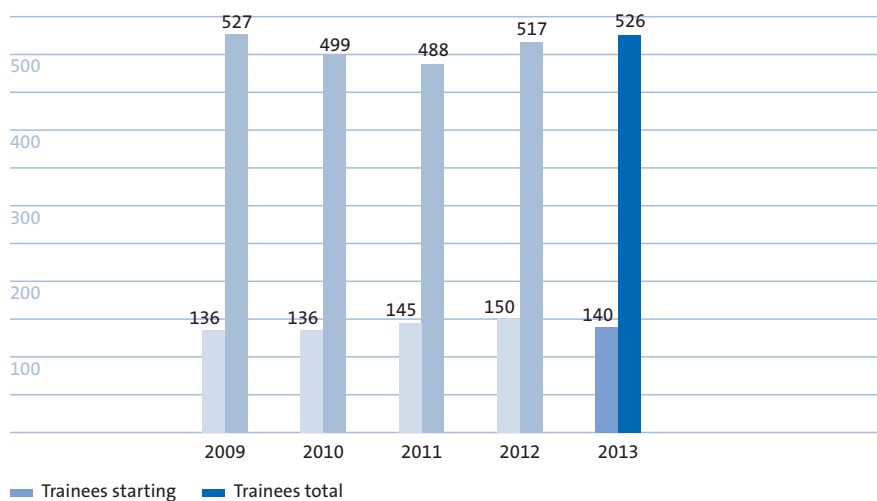
**KRONES trains its own young talent**

As populations in the developed industrialised countries continue to age, ensuring a steady supply of young, skilled recruits is one of the most important tasks of human

resources policy. For this, KRONES relies on its strong in-house training programme. The company offers motivated young people the opportunity to begin their careers with KRONES through vocational training, internships, or graduate thesis work.

KRONES provides attractive, challenging training to a large number of young people in more than 20 different fields and Bachelor studies programmes every year. We invest around €70,000 in each of our young trainees. In the fall of 2013, 140 young people began training with KRONES. In all, KRONES was training 526 young people in Germany at the end of 2013. Of these, 80 were completing a dual course of vocational training and university study.

Total number of trainees and trainees starting at KRONES AG



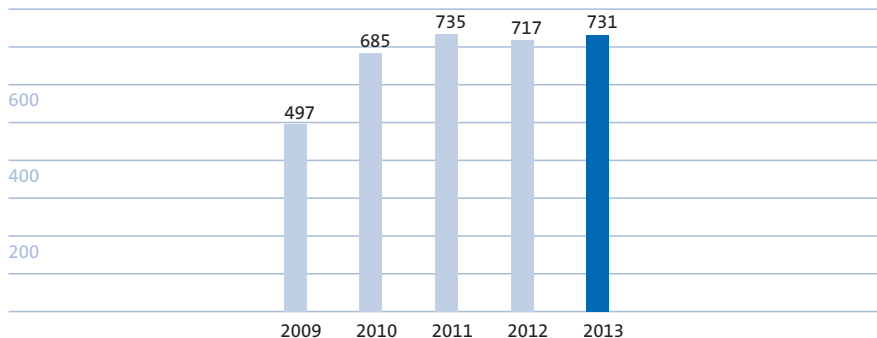
*KRONES invests in growing its own talent with attractive training options.*

For years, KRONES has been working closely with universities to ensure early contact with university graduates. The company organises a range of events at which members of KRONES' human resources department inform prospective young recruits about the careers and opportunities KRONES offers.

## Front-runner in recruiting

The “Best Recruiters” study examines the quality of recruiting management among Germany’s 500 biggest employers on the basis of various criteria and tests. KRONES took an outstanding 2nd place in the overall rankings for 2012/13. In the machinery and equipment manufacturing sector, KRONES took the top spot. This shows that applicants have an extremely positive view of KRONES as an employer. Strong employer branding is an enormously important factor in the “war for talents”. Whereas companies used to be the ones selecting which best-qualified applicants they wanted to hire, the best-qualified applicants are now the ones selecting which companies *they* want to work for.

Interns at KRONES



*Many applicants have an extremely positive view of KRONES as an employer. That strengthens our employer branding.*

Doing business sustainably is essential to KRONES if we want to be able to offer our machines, lines, and services successfully for the long term. 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.

Each of KRONES' departments and divisions is working on numerous topics that make up the company's sustainability policy. The Value strategy programme serves as the basis for positioning sustainability concepts of profitability, growth, quality, and innovation within our company. We are developing concrete goals and actions to fulfil our responsibility as a company with respect to all stakeholder groups in all of these areas.

### **enviro – a big hit at drinktec**

Evolving our machines and lines with respect to resource consumption is a crucial part of our sustainability efforts. Our enviro sustainability programme sets an industry-wide standard for machines that are energy and media efficient and eco-friendly. We plan to have assessed KRONES' entire machinery range under enviro criteria by 2015.

*KRONES is setting an industry-wide standard with the enviro sustainability programme.*

Dialogue with all of our stakeholders (customers, suppliers, shareholders, employees, policymakers, trade associations, academia, and others) is important to KRONES. It is crucial to our ability to accurately assess opportunities and risks and remain successful on the market for the long term. KRONES received a number of awards in 2013, further proof that we are on the right track with our commitment to sustainability.

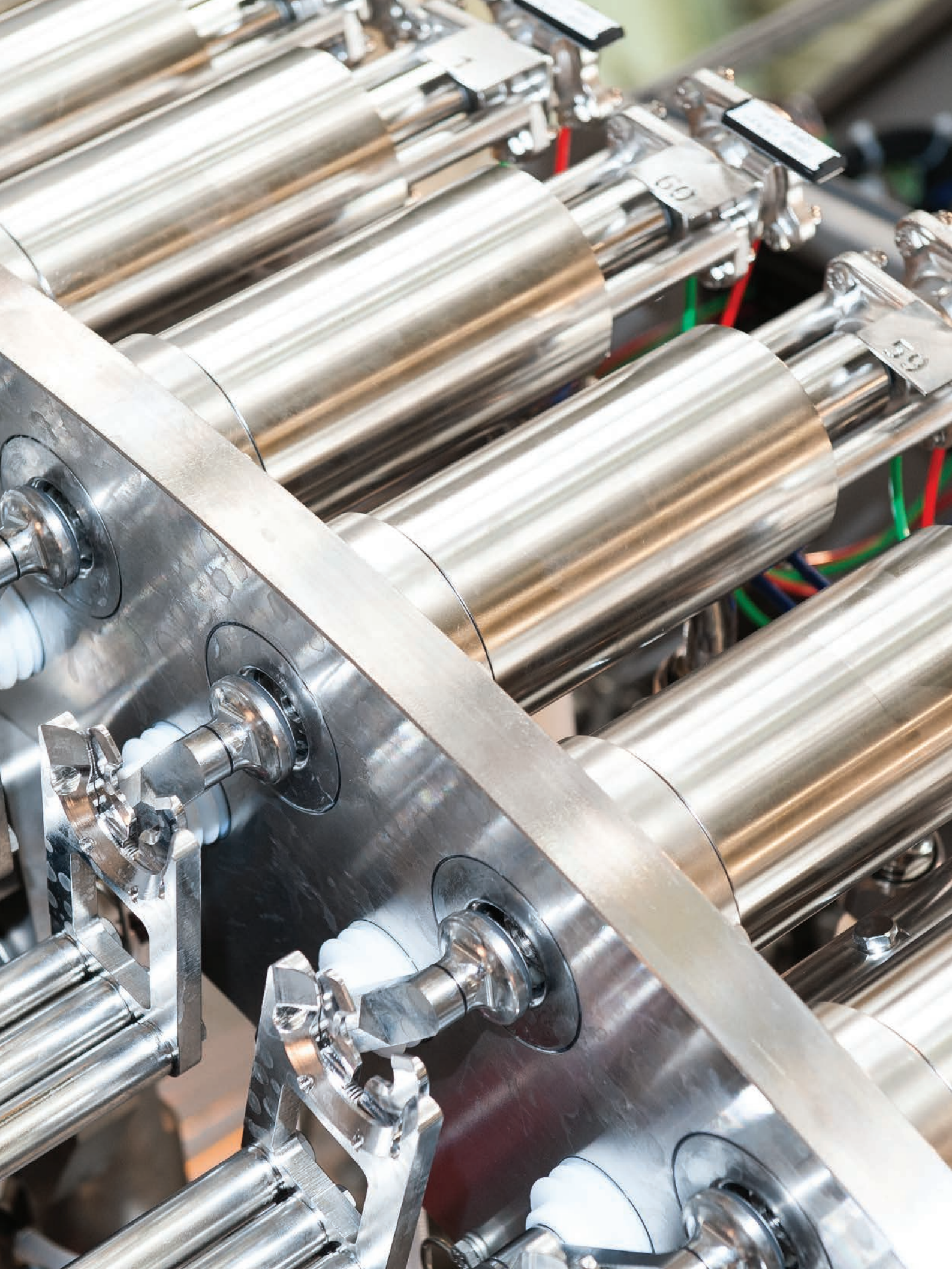
### **KRONES honoured for responsible business practices**

In November, KRONES received the German Investor's Award for Responsible Business Practices. This honour is conferred on companies that demonstrate responsibility with respect to the environment, employees, society, and other stakeholder groups. The prize is awarded by DuMont, one of Germany's largest newspaper publishing companies, and Deutsche Asset & Wealth Management (DeAWM), a leading asset management firm. The award's founders view companies from the perspective of critical investors and journalists and seek to encourage them to firmly establish responsible business practices in their core business.

KRONES improved its rating with oekom Research, one of the world's leading sustainability rating agencies, to C+ Prime in the reporting period, demonstrating a higher-than-average commitment to sustainability in our industry.

More information on the topic of sustainability is in our Sustainability Report, which is available online at [www.krones.com](http://www.krones.com).







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

### KRONES' risk management system

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. Within our corporate strategy, we also identify, analyse, and unlock opportunities. However, unlike risks, business opportunities are not documented within our risk management system.

In essence, risks are defined as possible negative deviations from our earnings forecast for the 2014 financial year. Opportunities are possible positive deviations from our earnings forecast for the 2014 financial year.

KRONES' risk management system consists of an internal control system with which we record, analyse, and assess all relevant risks. We monitor all material risks and any countermeasures already taken in a detailed, ongoing process that entails planning, information, and control.

We assess risks on the basis of the likelihood of an event and its potential financial impact. Earnings before interest and taxes (EBIT) serve as the measure for such potential financial impact. Starting with gross risk, we determine the net risk, which takes into account mitigating actions that have been taken.

KRONES divides the likelihood of an event and financial impacts into three categories: low, medium, and high. The categories are defined as follows:

Likelihood of an event		Potential financial impact (€ million)*	
low	0% to 20%	low	1.0 to 10.0
medium	21% to 49%	medium	10.1 to 50.0
high	50% to 100%	high	> 50.0

\* based on EBIT

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

## Multi-stage risk management system

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.

### Risk analysis

In order to identify risks early, we continuously monitor all business activities. Material project-related risks are reduced or avoided before an order is accepted. Therefore, we conduct a profitability analysis of all of our quotes prior to order acceptance. 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.

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 once each year for KRONES AG and all significant group companies. The results of the risk inventory and mitigating actions are used in our annual planning. 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 and of the status of mitigating actions in a timely manner. For projects with a high contract value, 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:

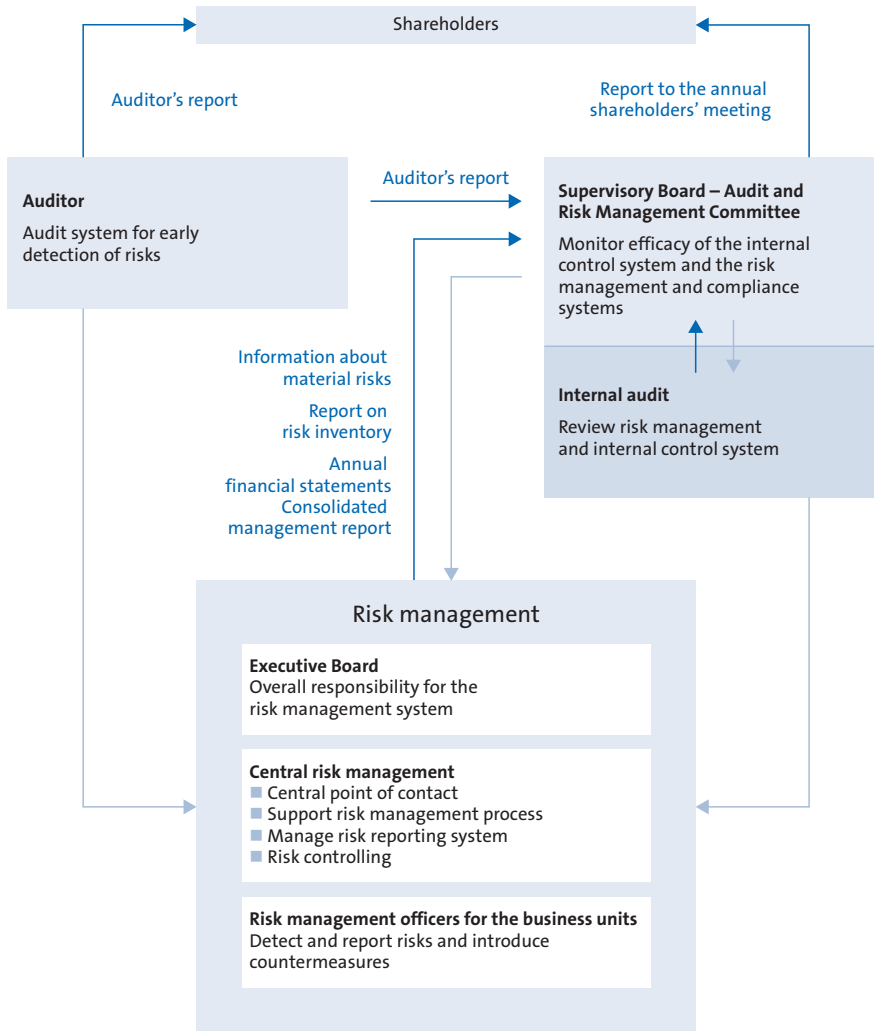
- Annual planning
- Medium-term planning
- Strategic planning
- Rolling forecasts
- Monthly and quarterly reports
- Capital expenditure planning
- Production planning
- Capacity planning
- Project controlling
- Accounts receivable management
- Exchange rate hedges
- Insurance policies

## Risk management organisation

At KRONES, risk management is part of Controlling. The risk management system is reviewed by our Internal Audit.

In our Controlling department, 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 management organisation at KRONES



*KRONES' risk management system is continually monitored and reviewed. Competences and areas of responsibility are clearly assigned.*

## 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 in accounting performs programmed plausibility checks.
- We use dual verification for all accounting-related processes.

*The internal control and risk management system ensures that all business transactions are correctly recorded, processed, accounted for, and recognised in the financial reporting.*



Risk categories	Likelihood of event	Financial impact
<b>General business environment and industry-specific risks</b>		
■ General economic risks	low	low
■ Industry-specific risks	low	medium
<b>Financial risks</b>		
■ Default risks	low	medium
■ Liquidity risk	low	low
■ Interest rate risk	high	low
■ Currency risk	low	low
<b>Operational risks</b>		
■ Price risk	medium	medium
■ Procurement risks	low	low
■ Cost risk	medium	medium
■ Personnel risk	low	low
<b>Legal risks</b>	medium	medium
<b>Environmental and safety risks</b>	low	low
<b>IT risks</b>	low	low

*KRONES divides the likelihood and financial impacts of material risks into three categories: low, medium, and high.*

## General business environment and industry-specific risks

### General economic risks

As a provider of products and services for the food and beverage industries, KRONES is less dependent on economic cycles than other machinery manufacturers. However, the company cannot escape the influence of the general economic situation entirely. If global economic growth were to be considerably weaker than expected, it would have a negative impact on KRONES' revenue and earnings. A crisis in the emerging markets that is not merely temporary could make our customers there less inclined to invest in capital goods. A renewed escalation of the financial crisis could likewise have a negative impact on investment in machines and lines from KRONES because financing options would worsen in general. The company's broad international base puts KRONES in a position to at least attenuate any declines in business in individual regions.

*Impact of general economic risks: We rate both the likelihood of an event and the financial impact as low.*

### Industry-specific risks

KRONES is exposed to industry-specific risks primarily through the development of the global packaging market and the actions of its competitors. The competitive environment could intensify if KRONES' competitors resort to price dumping in an effort to win orders and thus more fully utilise their production capacities. We are addressing the risk of loss of market share by further expanding our technology leadership. Moreover, KRONES' strong focus on service sets the company apart from the competition.

*Impact of industry-specific risks: We rate the likelihood of an event as low and the financial impact as medium.*

## Financial risks

The financial risks to which KRONES is exposed are default risks, liquidity risks, interest rate risks, and currency risks. Because of regional and customer-related diversification, there is no material concentration of risk.

### 1. Default risk

Default risk is the maximum risk potential arising from each individual position 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. The very low volume of actual defaults, as measured against the total volume of receivables, attests to the effectiveness of the measures taken.

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

#### 1.2 Derivative financial instruments

KRONES uses derivative financial instruments on the basis of individual contracts solely for risk management purposes. Not using derivative financial instruments would expose 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.

### 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 exposed to any material default risk arising from its other assets, all of which are current assets.

*Impact of default risks: We rate the likelihood of an event as low and the financial impact as medium.*

## 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.

*Impact of liquidity risk: We rate both the likelihood of an event and the financial impact as low.*

## 3. Interest rate risk

KRONES is exposed to risks arising from possible fluctuations in market interest rates. KRONES AG currently has no bank debt. Interest rate hedges are available as an option if needed.

*Impact of interest rate risk: We rate the likelihood of an event as high and the financial impact as low.*

## 4. Currency risk

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.

*Impact of currency risk: We rate both the likelihood of an event and the financial impact as low.*

## Operational risks

### 1. Price risk

KRONES operates in a highly competitive market in which some orders are generated by way of prices that do not cover costs. We cannot rule out the possibility that the prices we are able to attain for our products and services will worsen further. Fixed-price contracts with customers also entail price risks as KRONES 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 pre-defined size is assessed on the basis of financial, technical/technological, tax, legal, and regional risks.

*Impact of price risk: We rate both the likelihood of an event and the financial impact as medium.*

### 2. Procurement risks

KRONES is exposed to market price risk relating to its procurement of parts and raw materials for operations. Geopolitical and macroeconomic developments are the primary factors influencing raw materials prices. Essentially, the risk is that raw material prices will develop to our disadvantage. The company mitigates this risk through targeted procurement management and long-term supply contracts to reduce material commodity price risks. With respect to suppliers, we also face risks relating to products, deadlines, and quality. A specially designed process for supplier selection, monitoring, and management helps minimise these risks.

*Impact of procurement risks: We rate both the likelihood of an event and the financial impact as low.*

### 3. Cost risk

Apart from increasing revenue, our earnings forecast is based on the fact that we expect to reduce costs. As part of the Value strategy programme, we are optimising cost structures along our entire value chain for the long term. Our primary focus is on making our traditional fixed costs as flexible as possible in order to cope with sharp upward and downward changes in the markets. KRONES is exposed to the risk that these cost savings will be less than expected. We are mitigating this risk by continually monitoring the company-wide projects.

*Impact of cost risk: We rate both the likelihood of an event and the financial impact as medium.*

#### 4. Personnel risk

KRONES is planning to continue to increase its business volume. For that, we need highly qualified employees. There is a risk that the company will not find enough suitable employees. We aim to 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.

*Impact of personnel risk: We rate both the likelihood of an event and the financial impact as low.*

#### Legal risks

KRONES is exposed to the risks arising from operating activities in connection with possible legal disputes. KRONES addresses legal risks with its rules of conduct, codes, and an internal compliance structure. In addition, the company has taken out insurance policies that are customary for our sector.

*Impact of legal risks: We rate both the likelihood of an event and the financial impact as medium.*

#### Environmental and safety risks

As a manufacturing company, KRONES is exposed to risks relating to the environment and safety that could lead to possible harm to persons, goods, or the company's reputation. Any harm caused by technical or human error in production can have a direct impact on our financial position. Such an event and any resulting fines, claims for damages, or damage to our reputation can have an indirect financial impact. KRONES mitigates environmental and safety risks with high technical standards in production, training, rules of conduct, and insurance policies customary in our industry.

*Impact of environmental and safety risks: We rate both the likelihood of an event and the financial impact as low.*

#### IT risks

All of KRONES' material business processes are based on functioning IT systems. The risks here are a failure or malfunction of or unauthorised access to critical systems. Such events could result in the loss of important confidential data. KRONES uses internationally recognised IT security measures to protect against these risks. We have redundant (i.e. "high available") IT systems in place for critical business processes.

*Impact of IT risks: We rate both the likelihood of an event and the financial impact as low.*



## Material opportunities

KRONES does not record business opportunities within the risk management system. For this reason, we will not report on likelihood of an event or possible financial impact here. We describe the opportunities in general below.

### General economic opportunities

General economic opportunities arise for KRONES as a result of the company's good international positioning. In particular, KRONES has strengthened considerably its market position in the emerging markets in the Asia-Pacific region and in Africa and the Middle East in recent years. We would benefit more than proportionately from accelerated growth in the emerging markets. A swift, strong economic recovery in the euro area could also result in higher earnings than we have forecast.

### Industry-specific opportunities

Beverages and food producers are increasingly focused on conserving energy and other resources. This trend could intensify. That would open additional sales opportunities for KRONES due to the company's competitive advantages in this area. With the certified management system enviro, we have established the basis for ensuring that KRONES machines and lines feature especially low energy and media consumption. With that, the company has also developed a competitive advantage.

### Opportunities arising from acquisitions

The company's sound financial position and capital structure enables KRONES to seize opportunities for external growth. Within the scope of our strategy program, we are keeping a purposeful eye out for suitable acquisitions. Our earnings planning does not contain any acquisitions. External growth can open up opportunities for KRONES.

## Operational opportunities

### 1. Selling prices

KRONES aims to achieve its target for earnings improvement by way of a better cost base. We do not expect positive momentum here to come from prices. If market prices should develop better than expected, this would yield opportunities for the company.

### 2. Procurement prices

The company is increasingly buying same parts and complete assemblies from our vendors. In addition, KRONES is increasingly procuring materials locally at the company's locations worldwide. The opportunity exists that we might save more in this way than planned. Additional opportunities arise if commodity prices are generally lower than expected.

### 3. Costs

The company is optimising its cost structures as part of the Value strategy programme. If individual machines sell better or more quickly than planned opportunities arise for KRONES.

## Summary of risks and opportunities

Viewed from today's perspective, KRONES is not exposed to any risks that threaten the company's continued existence. Compared with the previous year, our assessment of the risks and opportunities has not changed materially. The main risks remain in the general business environment and industry-specific risks and financial risks.

### **KRONES boosts its process technology capabilities**

KRONES acquired a 100% stake in the company HST Maschinenbau GmbH. The transaction was closed at the end of March 2014. The company, which is based in the German state of Mecklenburg-West Pomerania, develops and manufactures homogenisers and reciprocating pumps for the food and beverage industry. KRONES intends to use the acquisition to strengthen its position in the non-alcoholic beverages segment of process technology, for the production of juices and dairy, and to expand its global service offerings in this area.

HST Maschinenbau GmbH is a profitable company. With around 25 employees, the company posted revenue of just under €5 million in 2012. The price for the acquisition is in the mid-single-digit millions of euros.

- Good prospects for the world economy
- German machinery sector expects increase in output
- KRONES expects revenue and earnings to grow

## Global economic growth to pick up speed in 2014

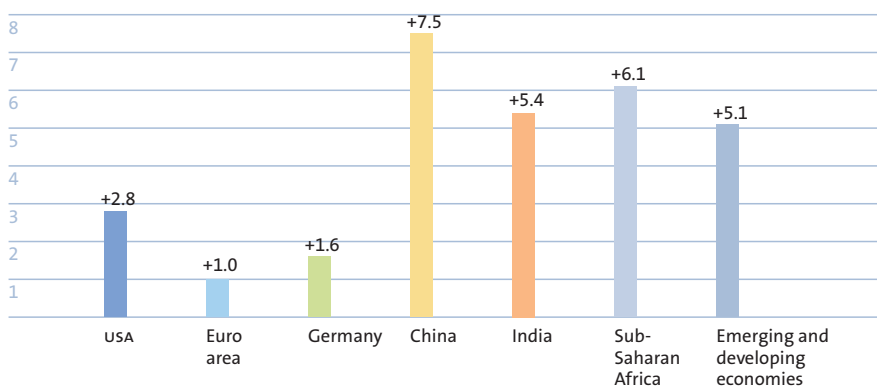
Economists with the International Monetary Fund (IMF) are optimistic overall for 2014. They expect the world economy to gain considerable momentum over 2013 and are projecting global economic growth of 3.7% for 2014 (previous year: 3.0%). However, the IMF also warns of threats to the global economy. The economists cite as the biggest risk the possibility that central banks will end their expansive monetary policy prematurely. Such a move would hit the emerging and developing economies especially hard. The IMF figures that rising interest rates in other regions may prompt international investors to increasingly pull their money out of emerging and developing markets. Deflation poses another risk.

According to the IMF, the advanced economies will increasingly drive the world economy in 2014. The IMF expects gross domestic product (GDP) in the USA to gain 2.8% year-on-year. Following a long lean period, the IMF is also saying the euro zone economy could improve considerably and come out of recession. Euro area GDP is projected to grow 1.0% in 2014. The economists are forecasting better-than-average GDP growth of 1.6% for Germany.

After slackening a bit last year, the emerging and developing economies are expected to gain momentum again in 2014. The strongest growth engines within the emerging markets are projected to be China, with GDP expected to grow by +7.5%, India (+5.4%), and sub-Saharan Africa (+6.1%). In all, the IMF is forecasting 5.1% economic growth for the emerging and developing economies for 2014.

*Mature industrialised countries like the USA and Europe will contribute an increasing share of global economic growth in 2014.*

GDP growth in 2014 (% , forecast)



Source: IMF

## Labour market and inflation rates

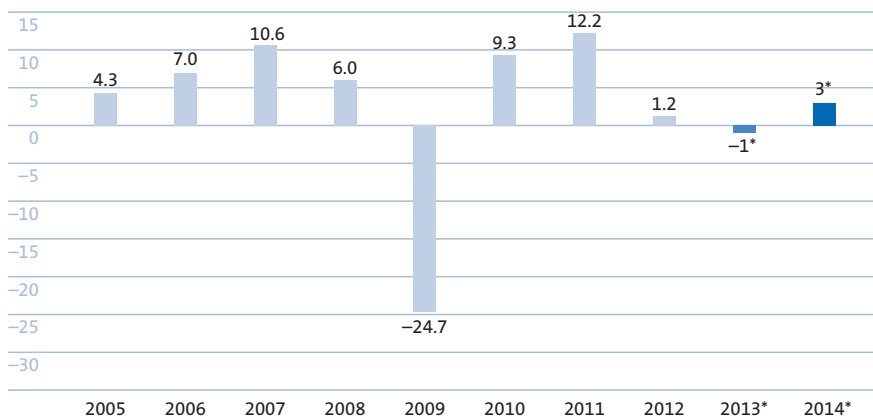
KRONES' business is affected not only by economic growth but also by unemployment rates and inflation in the individual sales regions. Low unemployment drives higher private consumption and thus also demand for packaged beverages and foods. Low inflation supports consumer's purchasing power. We expect unemployment and inflation rates to have no material negative impact on business at KRONES in 2014.

## Rising demand for food and packaging machinery

The economic environment for the entire German machinery sector is expected to improve in 2014. The German Engineering Federation (VDMA) is predicting that new orders will increase and output for the year as a whole will rise 3% as compared with 2013.

The food and packaging machinery subsector is likely to develop better than the industry as a whole. These growth rates will be bolstered by the growing volume of packaged beverages. Market researchers with Euromonitor estimate that worldwide consumption of packaged beverages will grow by around 3.4% on average each year through 2016.

Real change in output in the German machinery sector year-on-year (%)



\* Forecast

Source: Germany's Federal Statistical Office, VDMA



## **KRONES targeting profitable growth in 2014**

KRONES is cautiously optimistic about the outlook for the global economy in 2014 despite many uncertainties. 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. Thus, the business environment for KRONES remains good overall in 2014.

The markets in which KRONES operates continue to offer good prospects for growth. This is particularly true of regions like Asia, Africa, and the Middle East. China is likely to stabilise in 2014. KRONES intends to use its strong market position in the emerging markets and grow its profitable after-sales business. To do this, KRONES will further expand its workforce in the relevant regions in 2014. We expect business to hold steady in the established markets of North America and Europe in 2014.

If the political situation in Ukraine does not escalate further, we do not expect the crisis in the region to have a significant impact on our business. KRONES generates only a small amount of revenue in Ukraine.

## **KRONES to further improve earnings**

In order to achieve its Value target of 7/7/20 for the group in the medium term, KRONES will once again focus on growth and profitability in 2014. The new group structure that was introduced in 2014 gives Value an added boost since it makes KRONES even more efficient and flexible and puts us even closer to customers.

In filling and packaging technology, we intend to further improve cost structures and make them more flexible in 2014. This effort involves increasing our purchasing at the local level and making our assemblies and machines more modular. Expanding our international service structures and LCS Centres is important for profitable growth. From there, we intend to provide our customers with the best services and products fast. KRONES also laid the foundation for future growth with the successful innovations presented at the drinktec trade fair.

In process technology, we will further expand our services business to include components and software upgrades and grow our product portfolio this year. KRONES also intends to take on more small, profitable orders and increasingly fill them within favourable local structures. These measures, combined with higher capacity utilisation, should result in positive earnings.

Overall, based on the development of the markets relevant to KRONES and the continuing uncertain economic outlook, we expect revenue to grow by 3% to 4% in 2014. KRONES expects only little support from price levels.

Earnings performance should increase further. KRONES expects earnings before taxes to increase slightly in 2014.

	Forecast for 2014	Actual value 2013
Revenue	+3% to 4%	€2,251.2 million
EBT	up slightly	€70.1 million

## Disclosures required under § 289 (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 of shareholder	Total share of voting rights	Of which attributable indirect voting rights pursuant to § 22 (2) of the Securities Trading Act
Familie Kronseder Konsortium GbR, Germany	51.85%	51.85%

Partners to this civil law partnership (GbR) are as follows: Beteiligungsgesellschaft Kronseder mbH, Harald Kronseder Holding GmbH, vMAX Familienstiftung, Harald Kronseder, Gunter Kronseder, Nora Kronseder, Leopold Kronseder

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the date given above (31 March 2014). 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 remuneration

The structure of the remuneration 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 remuneration 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 remuneration 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 position, performance, and outlook of the enterprise, taking into account its peer companies.

- For the financial year 2013, the direct fixed remuneration of the five active members of the Executive Board was €2,591 thousand (previous year: €2,593 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 €75 thousand (previous year: €74 thousand).
- The variable remuneration 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 remuneration contains risk elements and is thus not guaranteed remuneration. In 2013, the variable remuneration amounted to €1,346 thousand (previous year: €1,605 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 2013, €651 thousand (previous year: €0 thousand) in such remuneration 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. After this period, the term of the performance incentive is another 10 years. If a member of the Executive Board should leave the company during this period, the remuneration is due on a pro-rated basis.
- 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 €942 thousand at the end of the year (previous year: €1,074 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 €2,357 thousand (previous year: €2,709 thousand) were recognised for active members of the Executive Board.
- Disclosure of the total remuneration paid 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 remuneration 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 remuneration are essential for assessing whether the breakdown of remuneration is appropriate 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 €797 thousand (previous year: €768 thousand) were made and pension provisions of €456 thousand (previous year: €613 thousand) were recognised.

The remuneration system for the Executive Board has been revised due to regulatory changes and benchmarking. The Supervisory Board approved the new remuneration structure in its meeting on 25 September 2013. The new system will be brought before the annual shareholders' meeting for approval on 25 June 2014.

The main points of the new system are that the fixed remuneration accounts for a smaller share of total remuneration, the duration of the long-term performance incentive component has been shortened from ten years to five years, and a medium-term performance incentive has been introduced to partially replace the short-term performance target.

The Supervisory Board has reviewed and continues to review the appropriateness of the system on a regular basis using external benchmarks and comparisons with senior management and the entire workforce.

The incentive package for the Executive Board will be composed as follows beginning in 2014:

- Short-term incentive (STI, measurement period: 1 year)
  - Awarded annually
  - Target bonus: 3 months' salary per annum (=100% of STI performance target attained)
  - Reference figures: EBT margin (primary), new orders, consolidated revenue, ROCE
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative
- Mid-term incentive (MTI, measurement period: 3 years)
  - Awarded annually (on a revolving basis)
  - Target bonus: 3 months' salary per annum (=100% of MTI performance target attained)
  - Reference figures: ROCE (primary), revenue, EBIT, and quality costs
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative on average
- Long-term incentive (LTI, measurement period: 5 years)
  - Awarded every 5 years (sequentially)
  - Theoretical bonus = 1/5 of fixed remuneration per annum if 100% of performance target is attained; however, payment only after 110% attainment (Development of enterprise value between start and end of measurement period)
  - Reference figures: Increase in enterprise value, based on the average of the following multiples: EBT x9, EBITDA x7, revenue x1 (each based on 5-year average)
  - Capped at 250% of fixed remuneration
  - Payment occurs only if enterprise value has increased by at least 10%

In all, the new remuneration structure breaks down as follows: 59% fixed remuneration (previously: 63%) and 41% variable remuneration (previously: 37%).

In addition, the Supervisory Board can, at its discretion, pay out a special bonus if extraordinary performance warrants it.

In sum, the remuneration system is designed to create an incentive for successful long-term management. The variable remuneration is subject to caps and to a floor below which it will not be paid.

### Supervisory Board remuneration

Remuneration 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 2013, the articles of association as amended by the annual shareholders' meeting on 19 June 2013 apply.

The Supervisory Board's remuneration consists of two components, an annual fixed remuneration of €20,000 and a variable remuneration. 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 remuneration 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 remuneration of each member of the Supervisory Board is limited to a maximum of €14,000 per financial year.

On this basis, the variable remuneration for each member of the Supervisory Board is €14,000 for the financial year 2013.

Members of the Supervisory Board who belong to special committees within the Supervisory Board receive additional remuneration 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 €500 thousand (previous year: €428 thousand) including variable portions totalling €168 thousand (previous year: €96 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 remuneration.

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 on corporate governance

“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 13 May 2013 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 and variable components, is not listed individually by each member’s name. (Item 4.2.4 of the Code).

*KRONES discloses the structure of Executive Board remuneration. Details relating to fixed and variable, performance-related components of remuneration are essential for assessing the appropriateness of the remuneration 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 remuneration 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-based remuneration of the members of the Supervisory Board is currently not based on the company's development over multiple years. The remuneration of members of the Supervisory Board is currently not itemised. Other remuneration 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-based remuneration 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 remuneration paid out to members of the Supervisory Board is given in the remuneration report, broken down into its fixed and variable portions. We do not believe an individual listing of remuneration 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 6.3 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 2014

For the Executive Board

Volker Kronseder  
Chairman

For the Supervisory Board

Ernst Baumann  
Chairman



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

“To the best of our knowledge, and in accordance with the applicable reporting principles, the 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, 31 March 2014

KRONES AG

The Executive Board



Volker Kronseder  
Chairman of the  
Executive Board



Christoph Klenk



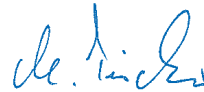
Rainulf Diepold



Werner Frischholz



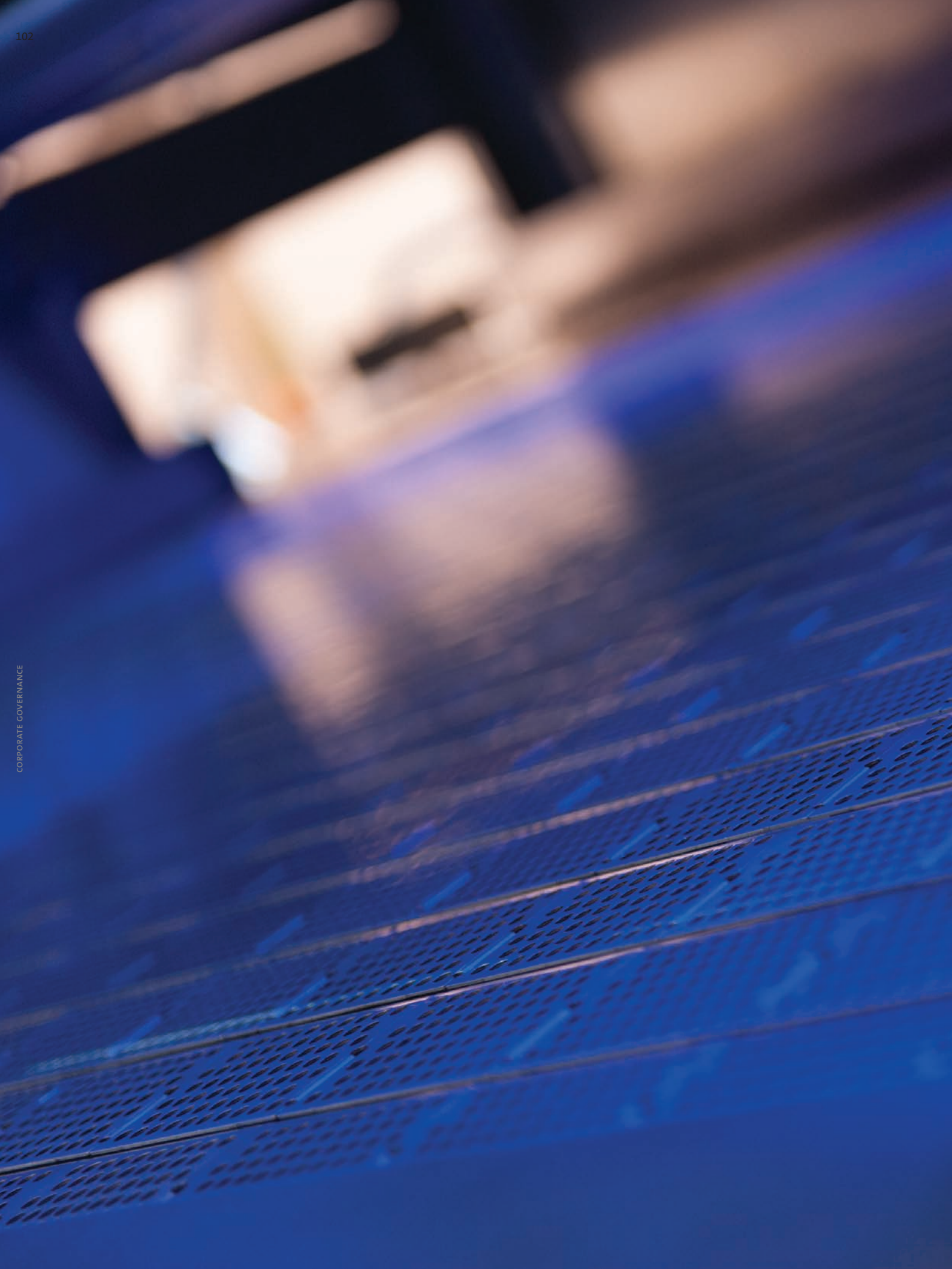
Thomas Ricker



Markus Tischer







## Corporate Governance

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*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.

#### **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 Chairman of the Supervisory Board 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 for the Supervisory Board.

The Supervisory Board of KRONES implemented all of the objectives a) through e) in the financial year 2013.

## 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, labour standards, and preventing and fighting corruption.

## Duties and activities of the Executive Board and the Supervisory Board

The Executive Board of KRONES AG consisted of five members in the financial year 2013. As of 1 January 2014, the Executive Board consists of six members. Each of whom is responsible for specific areas of the company (see pages 8 and page 128). 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.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board (see pages 13 and 128 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.

In order to perform its work in the most efficient manner possible, the Supervisory Board has formed an Audit and Risk Management Committee and a Standing Committee.

### **Composition, duties, and activities of the Audit and Risk Management Committee**

The Audit and Risk Management 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. Chairman of the committee is Philipp Graf von und zu Lerchenfeld.

The Audit and Risk Management Committee meets regularly and 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 Audit and Risk Management Committee monitors the effectiveness of the internal control system, the risk management system, and the compliance system.

### **Composition, duties, and activities of the Standing Committee**

The Standing Committee consists of Werner Schrödl, Norman Kronseder, Josef Weitzer, and Ernst Baumann. Chairman of the Committee is Ernst Baumann. The Standing Committee meets regularly and deals with all other topics that do not fall within the scope of the Audit and Risk Management Committee. These include corporate strategy, human resources strategy, Supervisory Board remuneration, and Executive Board remuneration.

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		2013		2012	
€ thousand	Notes				
1. Sales revenue	15	2,251,165		2,250,814	
2. Increase or decrease in finished goods inventories and work in progress		119,631		-1,399	
3. Other own work capitalised		9,310		13,656	
4. Other operating income	16	62,402		102,464	
		<b>2,442,508</b>			<b>2,365,535</b>
5. Cost of materials					
a) Cost of raw materials, consumables and supplies, and of purchased merchandise		-1,006,714		-979,045	
b) Cost of purchased services		-292,176		-288,294	
			-1,298,890		-1,267,339
6. Personnel expenses	17				
a) Wages and salaries		-545,266		-523,758	
b) Social security, post-employment and other employee benefit costs		-98,117		-94,946	
			-643,383		-618,704
7. Depreciation and amortisation of tangible and intangible fixed assets	18		-50,512		-45,456
8. Other operating expenses	19		-378,839		-355,724
9. Income from long-term equity investments	20		13,332		12,120
10. Income from other securities and long-term loans	20		191		467
11. Other interest and similar income	20		1,758		3,242
12. Write-downs of long-term financial assets	20		-5,036		-7,000
13. Interest and similar expenses	20		-11,007		-9,051
			-2,372,386		-2,287,445
<b>14. Result from ordinary activities</b>			<b>70,123</b>		<b>78,090</b>
15. Taxes on income	21		-9,715		-7,740
16. Other taxes	21		-4,476		-1,414
<b>17. Net income for the year</b>			<b>55,931</b>		<b>68,936</b>
<b>18. Retained profits brought forward</b>			<b>50,345</b>		<b>5,104</b>
<b>19. Retained earnings</b>			<b>106,276</b>		<b>74,040</b>



## Balance sheet

Assets		31 Dec 2013	31 Dec 2012
€ thousand	Notes		
<b>A. Fixed assets</b>			
I. Intangible fixed assets	1		
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets		25,145	21,576
II. Tangible fixed assets	2		
1. Land, including buildings on third-party land		237,012	221,107
2. Technical equipment and machinery		70,999	55,482
3. Other equipment, operating and office equipment		46,175	49,104
4. Prepayments and assets under construction		8,141	30,112
		362,327	355,805
III. Long-term financial assets	3		
1. Shares in affiliated companies		91,065	87,483
2. Loans to affiliated companies		8,252	9,969
3. Other long-term equity investments		0	0
4. Long-term securities		41	38
5. Other loans		756	1,364
		100,114	98,854
		<b>487,586</b>	<b>476,235</b>
<b>B. Current assets</b>			
I. Inventories	4		
1. Raw materials, consumables and supplies		154,955	146,995
2. Work in progress		208,268	199,535
3. Finished goods and merchandise		379,947	270,262
4. Prepayments		7,490	13,539
5. Payments received on account of orders		-499,764	-486,153
		250,896	144,178
II. Receivables and other assets	5		
1. Trade receivables		368,449	360,045
2. Receivables from affiliated companies		104,603	114,172
3. Receivables from other long-term investees and investors		5,869	0
4. Other assets		56,172	52,552
		535,093	526,769
III. Cash-in-hand, bank balances, and cheques	6	113,097	38,458
		<b>899,086</b>	<b>709,405</b>
<b>C. Prepaid expenses</b>			
		<b>1,943</b>	<b>2,225</b>
<b>Total assets</b>		<b>1,388,615</b>	<b>1,187,865</b>

Equity and liabilities		31 Dec 2013		31 Dec 2012	
€ thousand	Notes				
<b>A. Equity</b>					
I. Subscribed capital	7				
1. Ordinary shares		40,000		40,000	
2. Treasury shares, notional value		0		-1,805	
			40,000		38,195
II. Capital reserves	8		141,551		103,703
III. Revenue reserves					
1. Legal reserve		51		51	
2. Other revenue reserves	9	349,888		314,635	
			349,939		314,686
IV. Retained earnings	10				
1. Retained profits brought forward		50,345		5,104	
2. Net income for the year		55,931		68,936	
			106,276		74,040
			<b>637,766</b>		<b>530,624</b>
<b>B. Provisions</b>					
1. Provisions for pensions and similar obligations		103,013		95,763	
2. Provisions for taxes		4,739		9,203	
3. Other provisions		344,419		296,996	
			<b>452,171</b>		<b>401,962</b>
<b>C. Liabilities</b>					
1. Trade payables		147,787		152,275	
2. Liabilities to affiliated companies		112,066		63,829	
3. Liabilities to other long-term investees and investors		772		0	
4. Other liabilities		38,053		39,175	
			<b>298,678</b>		<b>255,279</b>
<b>Total equity and liabilities</b>			<b>1,388,615</b>		<b>1.187,865</b>

## Statement of changes in fixed assets

	Cost			At 31 Dec 2013	Depreciation, amortisation, and write- downs At 31 Dec 2013	Carrying amounts	
	At 1 Jan 2013	(T) Transfers Additions	(T) Transfers Disposals			At 31 Dec 2013	At 31 Dec 2012
<b>Intangible fixed assets</b>							
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	99,150	11.465	900	109,715	84,570	25,145	21,576
<b>Tangible fixed assets</b>							
1. Land, including building on third-party land	346,782	(T) 16.546 10.086	1,797	371,617	134,605	237,012	221,107
2. Technical equipment and machinery	223.642	(T) 8.575 21.638	7,268	246,587	175,588	70,999	55,482
3. Other equipment, operating and office equipment	158,987	(T) 807 15.382	13,422	161,754	115,579	46,175	49,104
4. Prepayments and assets under construction	30,112	(T) 25,928 3.957	0	8,141	0	8,141	30,112
	<b>759,523</b>	<b>(T) 25.928</b> <b>51.063</b>	<b>(T) 25,928</b> <b>22,487</b>	<b>788,099</b>	<b>425,772</b>	<b>362,327</b>	<b>355,805</b>
<b>Long-term financial assets</b>							
1. Shares in affiliated companies	172,191	3.583	0	175,774	84,709	91,065	87,483
2. Loans to affiliated companies	9,969	2.200	3,917	8,252	0	8,252	9,969
3. Other long-term equity investments	0	5.036	0	5,036	5,036	0	0
4. Long-term securities	41	0	0	41	0	41	38
5. Other loans	1,364	702	1,310	756	0	756	1,364
	<b>183,565</b>	<b>11.521</b>	<b>5,227</b>	<b>189,859</b>	<b>89,745</b>	<b>100,114</b>	<b>98,854</b>
		(T) 25.928	(T) 25,928				
	<b>1,042,238</b>	<b>74.049</b>	<b>28,614</b>	<b>1,087,673</b>	<b>600,087</b>	<b>487,586</b>	<b>476,235</b>

## General disclosures

### ■ Legal basis

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

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

### ■ Currency translation

Receivables and liabilities in foreign currencies with a remaining maturity of one year or less are translated using the middle spot rate at the end of the reporting period.

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

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

### Assets

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

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

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

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

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



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

Shares in affiliated companies and associates are recognised at amortised cost.

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

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

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

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

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

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

## Equity and liabilities

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

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

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

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

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

## Assets

## ■ Fixed assets

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

## 1 Intangible fixed assets

The addition relates primarily to software licenses (€10,743 thousand).

## 2 Tangible fixed assets

The addition to land and buildings results primarily from the expansion of the Nittenau (€4,951 thousand), Neutraubling (€2,792 thousand), and Rosenheim (€2,105 thousand) sites. Capital expenditure for the remaining tangible fixed assets amounting to €40,977 thousand relates primarily to capacity expansion and updating at the production sites.

## 3 Long-term financial assets

The additions to long-term financial assets relate primarily to the acquisition of shares in KLUG GmbH integrierte Systeme, Teunz, Germany, an increase in the carrying amount of the investment in KOSME S.r.l, Roverbella, Italy, and loans to KRONES LCS Center East Africa Ltd., Nairobi, Kenya, and TOO Elke Company, Almaty, Kazakhstan. A complete presentation of shareholdings is made public through the electronic Federal Gazette (elektronischer Bundesanzeiger).

## 4 Inventories

The carrying amount of inventories is up 19.1% compared with the previous year. Around 66.6% of inventories were prefinanced through prepayments from customers.

## 5 Receivables and other assets

€ thousand	Amounts due in 1 year or later		Amounts due in 1 year or later	
	31 Dec 2013	31 Dec 2013	31 Dec 2012	31 Dec 2012
Trade receivables	368,449	8,410	360,045	5,139
Receivables from affiliated companies	104,603		114,172	
Receivables from other long-term investees and investors	5,869			
Other assets	56,172	5,509	52,552	6,549
	<b>535,093</b>	<b>13,919</b>	<b>526,769</b>	<b>11,688</b>

Of the trade receivables, 11.2% are due from customers in Germany and 88.8% are due from customers outside Germany. The general credit risk is sufficiently accounted for by way of a global valuation allowance of 1% of the risky receivables. Delinquent accounts and non-interest-bearing items with longer terms are discounted at a rate of 3.43%.

The receivables from affiliated companies result from deliveries effected or services rendered between group companies (€134,047 thousand) and from other settlements (–€29,444 thousand).

## 6 Cash-in-hand, bank balances

€ thousand	31 Dec 2013	31 Dec 2012
Cash-in-hand	12	8
Bank balances	113,085	38,450
	<b>113,097</b>	<b>38,458</b>

## 7 Subscribed capital

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

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

KRONES AG held no treasury shares at the reporting date. The 1,425,421 treasury shares that were held by the company at 1 January 2013 were sold on 29 April 2013. The difference between the notional value and the purchase cost of the treasury shares, which had been recognised under other revenue reserves, was released and the proceeds from the sale (€37,847,891.62) prior to deduction of the transaction costs was allocated to capital reserves.

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

The annual shareholders' meeting on 16 June 2010 passed a resolution authorising the company to buy treasury shares totalling up to 10% of the current share capital on its behalf up to and including 15 June 2015. The holdings of shares acquired for this purpose, combined with other treasury shares previously acquired and still held by the company, shall not exceed 10% of the share capital of KRONES AG. The acquisition may be carried out, at the discretion of the Executive Board, through a stock exchange, through a public tender offer, or through a public call for tenders.

If the shares are purchased through a stock exchange, the consideration paid per share shall not exceed by more than 10% and not fall short of by more than 10% the opening price in the XETRA trading system on the Frankfurt Stock Exchange on the trading day.

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

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

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

## 8 Capital reserves

€ thousand	2013	2012
At 1 January	103,703	103,703
Sale of treasury shares	37,848	0
	<b>141,551</b>	<b>103,703</b>

## 9 Other revenue reserves

€ thousand	2013	2012
At 1 January	314,635	314,635
Difference between the notional value and the purchase cost of the treasury shares	35,253	0
	<b>349,888</b>	<b>314,635</b>

## 10 Retained earnings

€ thousand	2013	2012
Retained profits brought forward	50,345	5,104
Net income	55,931	68,936
	<b>106,276</b>	<b>74,040</b>

## 11 Provisions

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

	2013	2012
Standard of measurement	Projected unit credit method	Projected unit credit method
Basis of calculation	»2005G actuarial tables« from Klaus Heubeck	»2005G actuarial tables« from Klaus Heubeck
Discount rate	4.88 %	5.04 %
Projected increases		
in wages and salaries	0.00 %	0.00 %
Projected increase		
in state pensions	2.00 %	2.00 %
Employee turnover rate	2.00 % p. a.	2.00 % p. a.

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

The settlement amount of the pension liabilities that was offset against the plan assets was €121,105 thousand. The fair value of the plan assets, which serve exclusively to cover post-em-



ployment benefit obligations and are exempt from attachment by all other creditors, was €18,092 thousand; the cost of the plan assets was €17,779 thousand. The net of these expenses and income was €5,197 thousand.

Direct pension obligations that are not covered by the assets of KRONES Unterstützungsfonds e.V. amount to €7,555 thousand.

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

The other provisions cover all identifiable risks and other uncertain obligations. The long-term provisions were discounted at rates between 3.34% and 4.88% corresponding to their remaining maturity.

The provisions for anniversary bonuses were discounted at a rate of 4.88%.

The other provisions are essentially provisions for personnel obligations, including partial retirement (€89,853 thousand), and order-specific provisions (€229,563 thousand) that include, in particular, installation work not yet performed, warranties, claims for damages, anticipated losses, and outstanding supplier invoices.

## 12 Liabilities

€ thousand	Amounts due in 1 year or earlier		Amounts due in 1 year or earlier	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Trade payables	147,787	147,787	152,275	152,275
Liabilities to affiliated companies	112,066	112,066	63,829	63,829
Liabilities to other long-term investees and investors	772	772	0	0
Other liabilities	38,053	37,357	39,175	38,084
	<b>298,678</b>	<b>297,982</b>	<b>255,279</b>	<b>254,188</b>

The liabilities to affiliated companies, totalling €65,274 thousand, result from deliveries effected or services rendered between group companies.

The other liabilities contain tax liabilities amounting to €10,536 thousand (previous year: €10,489 thousand) and social security liabilities totalling €3,724 thousand (previous year: €3,958 thousand).

## 13 Contingent liabilities

€ thousand	31 Dec 2013	31 Dec 2012
Contingent liabilities from bill guarantees	10,942	17,100
Contingent liabilities from guarantees and warranties	10,350	10,260
	<b>21,292</b>	<b>27,360</b>

The contingent liabilities from bill guarantees result from the issuance and transfer of trade bills. The risks relating to guarantees and warranties, of which €10,350 thousand relate to affiliated companies, stem from binding letters of comfort (Patronatserklärungen) in the amount of €2,000 thousand and guarantees in the amount of €8,350 thousand.

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

#### 14 Other financial liabilities

€ thousand	31 Dec 2013	Amounts due in years 2 – 5	Amounts due after year 5	31 Dec 2012	Amounts due in years 2 – 5	Amounts due after year 5
Rental and lease agreements	26,127	13,327	0	26,112	12,411	0
Maintenance contracts	11,815	714	0	16,509	5,716	0
	<b>37,942</b>	<b>14,041</b>	<b>0</b>	<b>42,621</b>	<b>18,127</b>	<b>0</b>

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

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

#### 15 Sales revenue

Breakdown by sales region	2013	2012
Germany	10.2%	10.1%
Rest of Central Europe	2.5%	3.2%
Western Europe	17.7%	14.5%
Eastern Europe/cis	7.3%	8.6%
Asia-Pacific	14.7%	12.8%
South America	10.9%	11.6%
North and Central America	9.6%	9.3%
China	8.1%	14.3%
Middle East/Africa	19.0%	15.6%

#### 16 Other operating income

€ thousand	2013	2012
Income from currency translation	21,493	14,346
Prior-period income	16,623	61,832
Income from disposal of fixed assets	804	319
Income from reversal of provisions	12,999	58,191
Income from reduction in specific and global valuation allowances on receivables	2,370	1,585
Income from reduction in the discounting of receivables	0	247
Income from derecognition of liabilities	263	832
Income from reversals of write-downs and costs subsequently added to the carrying amounts of assets	0	548
Other prior-period income	187	110

## 17 Personnel expenses

€ thousand	2013	2012
Wages and salaries	545,266	523,758
Social security, post-employment and other employee benefit costs	98,117	94,946
of which for post-employment benefits	6,961	6,009
	<b>643,383</b>	<b>618,704</b>

Average number of employees for the year (excluding trainees)	2013	2012
Employees covered by collective agreements	6,285	6,292
White-collar employees exempt from collective agreements	2,130	2,096
<b>Total</b>	<b>8,415</b>	<b>8,388</b>

The company employed 490 trainees on average in 2013 (previous year: 462 trainees).

## 18 Depreciation, amortisation, and write-downs

Scheduled amortisation of intangible fixed assets and tangible fixed assets totalling €6,589 thousand were taken on purchased concessions, industrial and similar rights and assets, and licenses in such assets.

Scheduled depreciation of tangible fixed assets totalling €42,669 thousand were taken on land and buildings (€9,382 thousand), technical equipment and machinery (€14,449 thousand), and other equipment, operating and office equipment (€18,838 thousand). Unscheduled write-downs totalled €406 thousand on intangible fixed assets and €848 thousand on tangible fixed assets.

## 19 Other operating expenses

€ thousand	2013	2012
Operating costs	115,288	98,792
Administrative expenses	43,717	49,344
of which losses from currency translation	10,592	21,001
Selling expenses	219,226	206,773
Prior-period expenses	608	815
of which losses on disposal of fixed assets	505	33
of which losses on receivables	46	447

## 20 Financial income (expense), net

€ thousand	2013	2012
Income from long-term equity investments		
Income from long-term equity investments in affiliated companies	13,332	12,120
Interest income (expense)		
Income from other securities and long-term loans	191	467
Other interest and similar income		
from affiliated companies	10	10
from other companies	1,013	558
from discounting	735	2,674
Interest and similar expenses		
to affiliated companies	-709	-725
to other companies	-3,322	-2,210
from discounting	-6,976	-6,116
Net interest income (expense)	-9,058	-5,342
Write-downs of long-term financial assets	-5,036	-7,000
<b>Net financial income (expense)</b>	<b>-762</b>	<b>-222</b>

Write-downs of long-term financial assets totalling €5,036 thousand were taken on shares in long-term investees.

The interest income arising from the discounting of long-term provisions results primarily from the discounting of pledged pension liability reinsurance policies (€388 thousand) and the discounting of provisions for work that has not yet been performed (€342 thousand).

The interest expense arising from the discounting of long-term provisions results primarily from the discounting of provisions for pensions and similar obligations (€5,585 thousand), the discounting of provisions for partial retirement (€653 thousand), and the discounting of provisions for warranties (€303 thousand).

## 21 Income taxes and other taxes

The item “taxes on income” includes tax charges for the financial year. The income tax expense includes prior-period tax expenses of €100 thousand and prior-period tax income of €459 thousand.

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

## 22 Deferred taxes

The annual financial statements of KRONES AG would show deferred tax assets totalling €23,943 thousand at 31 December 2013.

Temporary measurement differences on assets, liabilities, and items of prepaid expenses and deferred income resulted in deferred tax assets of €22,564 thousand. These relate to differences in “raw materials, consumables and supplies”, “trade receivables”, “provisions for pensions and similar obligations”, and “other provisions”.

Moreover, at 31 December 2013, deferred tax assets of €1,379 thousand result from tax loss carryforwards for local business (trade) tax purposes.

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

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



### 23 Corporate Governance Code

Shareholders can view the declaration of the Executive Board and the Supervisory Board pursuant to § 161 of the German Stock Corporation Act [AktG] concerning the Corporate Governance Code as amended on 28 March 2014 at KRONES AG's website. The exceptions are also listed there.

### 24 Notifications of shareholdings in KRONES AG

The company has been notified of the following shareholdings pursuant to §§ 21 et seq of the German Securities Trading Act (WpHG) in the financial year 2013:

Name of shareholder	Total share of voting rights	Of which attributable indirect voting rights pursuant to § 22 (2) of the Securities Trading Act
Familie Kronseder Konsortium GbR, Deutschland	51.85%	51.85%

Partners to this civil law partnership (GbR) are as follows: Beteiligungsgesellschaft Kronseder mbH, Harald Kronseder Holding GmbH, vMAX Familienstiftung, Harald Kronseder, Gunter Kronseder, Nora Kronseder, and Leopold Kronseder

#### Related parties

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

### 25 Audit fees

This disclosure is made in the consolidated financial statements of KRONES AG

### 26 Derivative financial instruments

KRONES AG uses derivative financial instruments solely for the purpose of hedging currency risks in operations and therefore practices micro-hedging. Changes in the value of the hedged items and the hedging instrument largely offset each other over the term of the hedge since material details of the contract, such as term and amount, are largely identical for the hedged item and the hedging instrument. KRONES AG does not use derivative financial instruments for speculative purposes. The derivative financial instruments, with a fair value of €2,759 thousand (previous year: –€816 thousand), essentially cover the currency risks relating to the British pound, the Canadian dollar, the Japanese yen, the Australian dollar, and the us dollar. The fair value includes the difference between the forward rate received from the relevant commercial bank and the rate at the end of the reporting period as well as appropriate premiums or discounts for the expected price development through maturity. The financial instruments are essentially composed of forward exchange contracts at a secured volume of €90,149 thousand (previous year: €115,764 thousand).

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

For the financial year 2013, the direct fixed remuneration of the five active members of the Executive Board was €2,591 thousand (previous year: €2,593 thousand). This fixed amount is the base pay stipulated in the members' contracts and is paid out in equal monthly amounts as a salary. In addition, the members of the Executive Board received fringe benefits in the form of non-cash benefits (company car) amounting to €75 thousand (previous year: €74 thousand). In 2013, the variable remuneration amounted to €1,346 thousand (previous year: €1,605 thousand).

In keeping with the recommendations of the Corporate Governance Code, the Supervisory Board adopted a long-term "performance incentive plan" containing risk elements at its meeting on 17 March 2005. In 2013, €651 thousand (previous year: €0 thousand) in such remuneration came due for payment as scheduled following the 10-year waiting period. Provisions of €942 thousand (previous year: €1,074 thousand) were recognised for the performance incentive.

Pension provisions of €2,357 thousand (previous year: €2,709 thousand) were recognised for active members of the Executive Board.

For former members of the Executive Board and their surviving dependents, payments amounting to €797 thousand (previous year: €768 thousand) were made and a €456 thousand excess of plan assets over pension liability was recognised (previous year: €613 thousand).

The total remuneration paid to members of the Supervisory Board amounted to €500 thousand (previous year: €428 thousand) including variable portions totalling €168 thousand (previous year: €96 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 remuneration.

KRONES AG had retained earnings of €106,276,074.58 at 31 December 2013.

We propose to the annual shareholders' meeting on 25 June 2014 that this amount be used as follows:

Proposal for the appropriation of retained earnings	€
Dividend of €2.00 per share	63,186,144
Special dividend of € 1.00 for 31,593,072 shares	31,593,072.00
Amount brought forward to new account	43,089,930.58

Neutraubling, 31 March 2014

KRONES AG

The Executive Board



Volker Kronseder  
(Chairman)



Christoph Klenk



Rainulf Diepold



Werner Frischholz



Thomas Ricker



Markus Tischer

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 Number 1 of the Codetermination Act.

### Supervisory Board

#### Ernst Baumann

Chairman of the Supervisory Board  
\* ZF FRIEDRICHSHAFEN AG

#### Werner Schrödl\*\*

Chairman of the Central Works Council  
Deputy Chairman of the Supervisory Board  
\* ADVISORY BOARD OF BAYERISCHE BETRIEBSKRANKENKASSEN

#### Klaus Gerlach\*\*

Head of Central International Operations and Services

#### 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  
\* CONSORTIUM GASTRONOMIE GMBH

#### Norman Kronseder

Farmer and forester  
\* BAYERISCHE FUTTERSAAATBAU GMBH

#### Philipp Graf

**von und zu Lerchenfeld**  
Member of the German Bundestag, Dipl.-Ing. agr., auditor and tax consultant

#### Dr. Alexander Nerz

Attorney

#### Johann Robold\*\*

Member of the Works Council

#### Petra Schadeberg-Herrmann

Managing partner at KROMBACHER FINANCE GMBH, SCHAWEI GMBH, DIVERSUM HOLDING GMBH & CO. KG  
\* since 19 April 2013  
COMMERZBANK AG

#### 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 Central Works Council  
\* SPARKASSE REGENSBURG

### Executive Board

#### Volker Kronseder

Chairman  
Human Resources, Communications and Quality

#### Christoph Klenk

Finance, Controlling and Information Management

#### Rainulf Diepold

Sales and Marketing

#### Werner Frischholz

Plants and Components

#### Thomas Ricker

Bottling and Packaging Equipment

#### Markus Tischer

International Operations and Services  
(since 1 January 2014)

\* 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.



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We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the accounting records and the management report of KRONES Aktiengesellschaft, Neutraubling, for the financial year from 1 January to 31 December 2013. The accounting records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements together with the accounting records and on the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the requirements of the law and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German generally accepted accounting principles. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Regensburg, 31 March 2014

KPMG Bayerische Treuhandgesellschaft  
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft



Braun  
(German Public Auditor)



Herr  
(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).
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	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 Cost of Ownership (TCO)	The total cost associated with an investment over its entire useful life.
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>Digital printing</b>	Printing process in which data are transferred directly from a computer onto the object, without a print template first being generated. Digital printing is far more flexible and significantly more cost-effective on smaller print runs (batches) than conventional printing and labelling processes.
<b>Energy drink</b>	A beverage that acts as a stimulant. The main ingredients used for this are sugar and caffeine.
<b>enviro</b>	KRONES' sustainability programme. enviro was certified by TÜV SÜD in 2009. This independent certification enables KRONES to award the enviro seal for efficient use of energy and media (gas, water) and environmental friendliness for its machines and lines. All new developments at KRONES are aligned with the criteria of our enviro sustainability programme.
<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>Filler</b>	Machines and systems with which a finished product is dosed into a container.
<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>Line</b>	A complete system consisting of multiple individual machines and modules. A complete KRONES line can mix finished beverages and produce, fill, label, convey, and pack bottles.
<b>Multireel</b>	Machine that can hold multiple label reels and automatically feeds them into a labeller.
<b>Pasteurisation</b>	Brief heating of liquid foods to temperatures up to 100 degrees Celsius. In this way, micro-organisms are killed off, giving beverages such as milk and fruit and vegetable juices a longer shelf life.
<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>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.

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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).







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