Expanding our expertise worldwide

Annual Report
for KRONES AG 2016

KRONES

2016 highlights 2016

- KRONES achieved its targets for 2016
- Revenue rose 8.3% to €2.72 billion
- Dividend for 2016 to increase from €1.45 per share in the previous year to €1.55

		2016	2015	Change %
Revenue	€ million	2,721.2	2,513.2	+8.3
Order intake	€ million	2,639.7	2,658.2	–0.7
Orders on hand at 31 December	€ million	1,457.5	1,539.0	–5.3
EBITDA	€ million	191.5	137.4	+39.4
EBIT	€ million	138.9	86.8	+60.0
EBT	€ million	146.3	79.1	+85.0
Net income for the year	€ million	111.1	59.0	+88.3
Earnings per share (KRONES Group, IFRS)	€	5.40	4.98	+8.4
Dividend per share	€	1.55*	1.45	+6.9
Capital expenditure for PP&E and intangible assets	€ million	53.2	53.0	+0.4
Cash flow**	€ million	163.7	109.6	+49.4
Net cash and cash equivalents*** at 31 December	€ million	188.2	125.7	+49.7
Employees at 31 December		9,453	9,283	+1.8

*As per proposal for the appropriation of retained earnings
** Net income or loss for the year plus depreciation and amortisation
*** Cash and cash equivalents less debt

The entire KRONES team has worked hard over the past several years to prepare the company well for market challenges. Our accomplishments in 2016 show that our efforts are paying off. But we cannot stop there. We must all continue to pull together to safeguard our strong position in an increasingly competitive market.

Customer satisfaction and responsiveness are crucial factors for our success. We endeavour to continually improve the products and services we offer our customers in order to provide clear added value. We are also strengthening KRONES' international presence. Local employees are best able to understand and meet customers' individual needs. In short, we are *expanding our expertise worldwide*.

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Dear shareholders and friends of KRONES,

We certainly faced no lack of challenges in 2016. Political unrest in the Middle East, low commodity and energy prices, and the Brexit vote in the UK are just some of the factors that continually created a sense of uncertainty worldwide. All of that didn't make business any easier for KRONES. Competition was stiff on our markets and customers were highly sensitive to prices.

"We are expanding our expertise worldwide to further increase customer satisfaction."

Christoph Klenk
CEO

KRONES did well despite the difficult environment

With the Value strategy programme we launched in 2011, we took early action to prepare for difficult markets. It is thanks primarily to Value that we were able to achieve our growth and earnings targets in 2016. Consolidated revenue rose 6.9% to €3.39 billion. Earnings before taxes (EBT) for the group improved 6.4% to €237.6 million. And at 7.0%, our EBT margin was as forecast. We will do everything we can to continue to provide our customers with added value and thus ensure our own continued success.

For example, KRONES is strengthening its process technology operations. At €1.5 million, earnings before taxes in the company's second-largest segment were in slightly positive territory for 2016, as expected. To increase profitability for the long term, KRONES began implementing a range of structural measures in late 2015. For example, we are doing more engineering and procurement locally, in our customers' regions. KRONES' internationalisation efforts have already advanced even further in our machines and lines for product filling and decoration segment. In 2016, we strengthened our international service network and now offer local products that are technologically aligned with the regionally-specific needs of our customers. Our smallest segment, machines and lines for the compact class, which bundles the activities of KOSME and GERNEP, made good progress. With an EBT margin of 5.2%, the segment exceeded its forecast profit for 2016 by a small margin. (All figures above relate to the group.)

Continuity provides a solid foundation

The election of Volker Kronseder as Chairman of the Supervisory Board in June 2016 ensures continuity at KRONES. That is an essential factor for the company's long-term development. Our long-time Executive Board Chairman possesses valuable expertise and decades of experience in our markets. As Chairman of the Supervisory Board, Volker Kronseder also has the ability to make important suggestions to the Executive Board while maintaining the necessary distance from business operations. His predecessor, Ernst Baumann, also possessed the same skill. On behalf of the entire Executive Board, I would like to once again express my deep gratitude to Mr. Baumann for his excellent, very effective collaboration over the years.

Expanding our expertise worldwide

KRONES wants to continually improve the products and services we offer to customers in order to provide clear added value. To accomplish this, we are expanding our expertise worldwide. Some examples of this can be found on pages 36 to 67 of this Annual Report. All of our innovative efforts are guided by a commitment to sustainability. Our enviro sustainability programme has become a benchmark for the entire industry.

We are buying in some of our new expertise. For example, last year we acquired a 60% stake in SYSTEM LOGISTICS by way of our Italian subsidiary. The Northern Italian company is a leading supplier of innovative solutions for intralogistics, material flows, and warehousing for the food and beverage industry. By acquiring this stake in SYSTEM LOGISTICS, we have taken a great step towards capturing and analysing the critical flows of materials and data along customers' entire value chains. That gives KRONES a strong basis from which to lead the way in the digitalisation of beverage plants. We will expand our software expertise and develop new digital business models. These various paths converge in our subsidiary SYSKRON, which is focused on giving our customers optimum solutions for intelligent factories.

Our acquisition of 80% of the business operations of the US company TRANSMARKET has significantly strengthened KRONES' process technology business in the USA. This acquisition, made by our US subsidiary, has enabled us to expand our local engineering and procurement capacities.

We also invested heavily in existing structures in 2016. For example, we approved funding to significantly expand our production site at Raubling near Rosenheim, Germany, in 2017. Our German sites remain important for KRONES. However, the lion's share of planned new hiring will take place at our sites around the world as we strive to be closer to our customers. Recruiting and winning the loyalty of qualified people is a major challenge in this respect. That is why we are investing heavily in our workforce, not only in Germany but also at our sites worldwide. Our employees are the keystone of KRONES' success. On behalf of the entire Executive Board, I would like to thank every member of the KRONES team for their dedication and accomplishments.

Ambitious growth targets

We will continue to work together to safeguard our strong market position. From today's perspective, market conditions appear unlikely to improve in the near future. Nevertheless, we have set ourselves ambitious goals for 2017 and beyond. We aim to further increase KRONES' revenue and earnings. For 2017, we are forecasting revenue growth of 4%. We intend to keep our EBT margin steady at 7%. For revenue, our medium-term target is to grow 7% on average each year through 2020. We aim to increase our EBT margin to 8% in the same period (all figures above refer to the group). We invite you to read more about our medium-term targets on pages 30 to 35. Given the competitive environment, it will not be easy to achieve these goals. However, I firmly believe that, by working together, we can continue to write KRONES' success story.

Christoph Klenk
CEO

The Executive Board

Thomas Ricker
Bottling and Packaging Equipment

Michael Andersen
CFO
Finance, Controlling, Strategic Purchasing

Christoph Klenk
CEO
Human Resources, Communication, Quality, Information Management

Markus Tischer
International Operations
and Services

Ralf Goldbrunner
Plants and Components

Rainulf Diepold
Sales and Marketing

Ladies and Gentlemen,

I retired from KRONES' Executive Board at the end of 2015 after two decades as its chairman. It was very important to me that I continue to take responsibility for KRONES and I am pleased that shareholders at the annual general meeting on 15 June 2016 elected me to serve on the Supervisory Board. I would like once again to thank Ernst Baumann, my predecessor as Chairman of the Supervisory Board, for his outstanding, highly effective work over all these years.

Volker Kronseder
Chairman of the Supervisory Board

In Prof. Dr. Susanne Nonnast, the Supervisory Board has another new member besides me since the last annual general meeting. Dr. Nonnast succeeds Dr. Alexander Nerz, who, I am sad to report, passed away on 30 May 2016. In keeping with Item 5.4.7 of the German Corporate Governance Code, I am compelled to report that, due to illness, Dr. Alexander Nerz was able to attend fewer than half of the Supervisory Board meetings that took place while he was in office in 2016.

Although there are new faces on the board, nothing has changed with respect to the fundamental way the Supervisory Board conducts its business. The entire board is a team to which each individual member contributes his or her skills to promote the company's welfare. The Supervisory Board works closely with the Executive Board in a relationship that is based on trust.

Advising and oversight

In 2016, 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. One area on which the Supervisory Board focused in 2016 was supporting the company's strategic planning. In collaboration with the Executive Board, the Supervisory Board examined potential acquisitions and KRONES' new medium-term targets. The board regularly obtained information from the Executive Board about the progress of business, the company's financial position, and risk management in the form of written and oral reports, both in and outside the Supervisory Board meetings.

Five regular Supervisory Board meetings were held in 2016. One Supervisory Board resolution was made in a procedure in which the relevant documents are circulated to each member. This decision related to approving the acquisition of 80% of the business operations of the US company TRANS-MARKET in August of 2016.

The first meeting of the Supervisory Board of 2016 was held on 16 March. Under the agenda item "Supervisory Board and Executive Board matters", Supervisory Board Chairman Ernst Baumann presented the current tenures of the Supervisory Board members and pointed out that several members' terms were set to expire in June 2016. He explained to the board the legal conditions under which Volker Kronseder could be elected to the Supervisory Board at the 2016 annual general meeting despite the mandated cooling-off period. Mr. Baumann confirmed that he had received a nomination from shareholders whose combined holdings represented more than 25% of voting rights in KRONES AG, as required under Section 100 (2) Sentence 1 Number 4 of the German Stock Corporation Act (Aktiengesetz). Additional topics covered in the meeting were adjustments to Executive Board remuneration and a formal decision that the gender quota for Supervisory Board participation would be met separately by employee and shareholder representatives. The Executive Board then presented the preliminary consolidated financial statements for 2015 to the Supervisory Board along with the group's key financial performance indicators.

The Supervisory Board convened its second meeting of 2016 on 27 April. Representatives from KRONES' auditing firm were present for a portion of the meeting. The auditors explained to the Supervisory Board their audit mandate and the areas on which their review of the 2015 annual financial statements focused and provided a detailed overview of the audit. The Supervisory Board then ratified the annual financial statements for KRONES AG and the consolidated financial statements. Shareholder representatives also resolved unanimously to nominate Volker Kronseder, Philipp Graf von und zu Lerchenfeld, Norman Kronseder, Hans-Jürgen Thaus, and Prof. Dr. Susanne Nonnast for election to the Supervisory Board at the annual general meeting on 15 June 2016. The Supervisory Board and Executive Board then set the agenda for the annual general meeting of KRONES AG, which would be held on 15 June 2016. In its report on economic position, the Executive Board presented to the Supervisory Board the figures for the first quarter of 2016, the outlook for the year as a whole, and reports from the individual segments.

The Supervisory Board convened its third meeting, which was also its constitutive meeting, on 15 June 2016 following the annual general meeting. Deputy Chairman of the Supervisory Board Werner Schrödl presided over the meeting, congratulating re-elected members Philipp Graf von und zu Lerchenfeld, Norman Kronseder, and Hans-Jürgen Thaus and newly elected members Prof. Dr. Susanne Nonnast and Volker Kronseder. Ernst Baumann participated in the meeting as a guest. Werner Schrödl thanked him for his many years of service and collaboration. The Supervisory Board then unanimously elected Volker Kronseder as its new Chairman. Executive Board Chairman Christoph Klenk congratulated Volker Kronseder on behalf of the entire Executive Board on his election and expressed that he looks forward to working with him.

The Supervisory Board convened its fourth meeting of 2016 on 28 September. As the first order of business, the Chairman of the Supervisory Board presented to the Supervisory Board the results of an efficiency review of the Supervisory Board's work. The board received a very positive efficiency rating. The Executive Board's report on economic position followed, in which the Executive Board explained the financial statements for the period ended 30 June 2016 and the current market and competitive environment. In addition, the respective Executive Board members provided current reports on the segments for which they are responsible. The Executive Board then reported to the Supervisory Board on strategic measures and on the company's medium-term targets.

The fifth and final meeting of the Supervisory Board of 2016 was held on 30 November. The meeting opened with a discussion of general matters relating to the Executive Board and the Supervisory Board. The Supervisory Board followed the Standing Committee's recommendation that Executive Board member Ralf Goldbrunner's contract be renewed through 31 December 2021. The board then discussed risk management. The Chairman of the Supervisory Board explained that, overall, the group's risk profile had not changed from the previous year. Forecasting for the year 2017 was another focus of the fifth Supervisory Board meeting.

The work of the Audit and Risk Management Committee

The Audit and Risk Management Committee consists of Supervisory Board Chairman Volker Kronseder and Deputy Chairman Werner Schrödl as well as the following Supervisory Board members: Norman Kronseder, Philipp Graf 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 Supervisory Board resolutions. The Committee also prepares the Supervisory Board's review of the annual financial statements, the management report, and the auditor's report for the single-entity and consolidated financial statements and makes recommendations. In addition, the Audit and Risk Management Committee monitors the effectiveness of the internal control system, the risk management system, and the compliance system.

The Audit and Risk Management Committee met three times in 2016. On 26 April, ahead of the Supervisory Board meeting held to ratify the financial statements, the Committee prepared the Supervisory Board's review of the annual financial statements, the management report, and the auditor's report on the single-entity and consolidated financial statements for 2015.

At its second meeting of 2016, on 8 August, the planned acquisition of 80% of the business operations of the US company TRANS-MARKET was on the agenda. The company and the structure of the intended transaction were explained in detail to the committee. The Audit and Risk Management Committee then unanimously resolved to recommend to the Supervisory Board that the Executive Board be granted approval for the acquisition.

The committee convened for its third meeting of 2016 on 29 November, to prepare for the 30 November meeting of the entire Supervisory Board. In this meeting, the Audit and Risk Management Committee examined the company's current risk profile and received status reports from the "Internal Audit" and "Compliance Management departments".

The work of the Standing Committee

The Standing Committee consists of Werner Schrödl, Norman Kronseder, Josef Weitzer, and Volker Kronseder. Chairman of the Standing Committee is Volker Kronseder. The committee deals with all other topics that fall outside the scope of the Audit and Risk Management Committee. These include, for example, human resources strategy and Executive Board and Supervisory Board remuneration. The Standing Committee met twice in 2016.

On 15 March, the committee prepared the matters relating to the Supervisory Board and Executive Board for discussion at the 16 March Supervisory Board meeting. Another topic of the meeting was the planned acquisition of a 60% stake in the Italian intralogistics solutions provider SYSTEM LOGISTICS. After thoroughly reviewing the transaction, the members of the Standing Committee unanimously agreed to recommend to the Supervisory Board that the planned acquisition be approved.

At its 29 November meeting, the Standing Committee discussed the tenures of the members of the Executive Board. Ralf Goldbrunner's original contract was set to expire on 31 August 2017. Because the Standing Committee takes a very positive view of Mr. Goldbrunner's work, it resolved to recommend to the Supervisory Board that Mr. Goldbrunner's contract be renewed through 31 December 2021.

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 2016 were examined by the auditors elected by the annual general 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 2016 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 22 March 2017. 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 2016 annual financial statements for KRONES AG are thereby ratified.

The members of the Supervisory Board would like to thank the Executive Board and all of the company's employees for their dedication and accomplishments in 2016.

Neutraubling, March 2017

The Supervisory Board

Volker Kronseder
Chairman of the Supervisory Board

Composition of the Supervisory Board

Pursuant to Section 8 (1) of the articles of association, six members of the Supervisory Board are elected by the shareholders in accordance with the German Stock Corporation Act (Sections 96 (1) and 101). Six members are elected by the employees pursuant to Section 1 (1) and Section 7 (1) Sentence 1 Number 1 of the Codetermination Act.

Ernst Baumann
Chairman of the Supervisory Board
Until 15 June 2016
* ZF FRIEDRICHSHAFEN AG

Volker Kronseder
Chairman of the Supervisory Board
Since 15 June 2016
* UNIVERSITY CLINIC REGENSBURG
* BAYERNLB ECONOMIC ADVISORY COUNCIL

Werner Schrödl**
Chairman of the Group Works Council
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

Norman Kronseder
Farmer and forester
* BAYERISCHE FUTTERSAATBAU GMBH

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

Dr. Alexander Nerz
Attorney
Until 30 May 2016

Professor Dr. jur. Susanne Nonnast
Professor at Regensburg University of Applied Sciences
Since 15 June 2016

Dr. Verena Di Pasquale**
Deputy Chairperson of DGB Bayern (the German Trade Union Confederation in Bavaria)

Johann Robold**
Member of the Works Council

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

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

Hans-Jürgen Thaus
* HAWE HYDRAULIK SE
* MASCHINENFABRIK REINHAUSEN GMBH
* KURTZ HOLDING GMBH & BETEILIGUNGS KG
* SCHULER AG

Josef Weitzer**
Deputy Chairman of the Group Works Council
Deputy Chairman of the Central Works Council
Chairman of the Works Council in Neutraubling
* SPARKASSE REGENSBURG

* Other Supervisory Board seats held, pursuant to Section 125 (1) Sentence 5 of the German Stock Corporation Act
** Elected by the employees

- Global stock exchanges close a turbulent 2016 with slight gains
- KRONES share closes with a loss for the first time in years
- Dividend of €1.55 per share planned for 2016

KRONES shareholders had a rough year in 2016 after several years of strong gains. Our share price fell 21.2% over the course of the year, to €86.90, underperforming the MDAX (+6.8%). That was perhaps the price the KRONES share had to pay after faring better than average in previous years. Our business development provided no grounds for the underperformance.

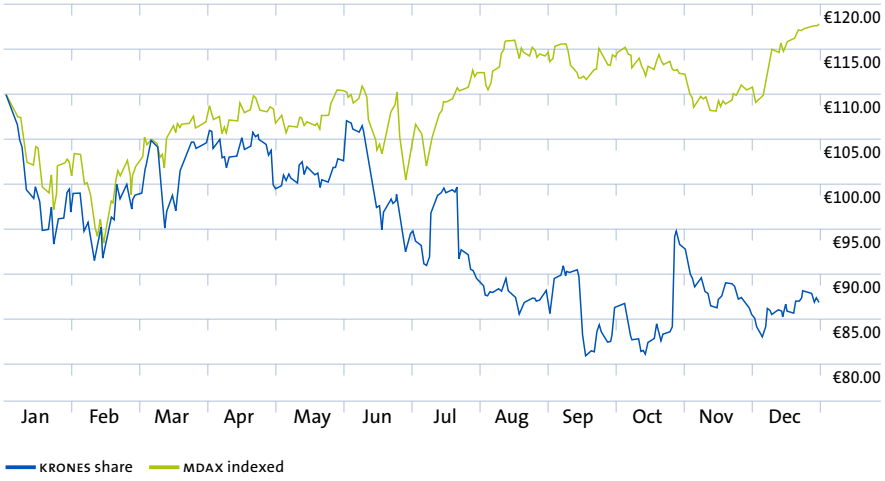
2016 trading year ended well overall

After getting the year off to a weak start, most of the world's stock markets closed it in positive territory. Stocks kicked off 2016 with considerable losses. The negative trend, which lasted through mid-February, was triggered by weak economic activity in China and a falling oil price. But then central banks' – particularly the European Central Bank's – extremely loose monetary policy, brought about a turnaround. Prices picked up again until the Brexit vote at the end of June. The day after Brexit passed, Germany's DAX blue-chip index temporarily dropped 10%. But investors quickly recovered from the shock and the markets began a small summer rally. They trended sideways throughout the autumn. The presidential elections in the USA once again caused significant movement. Losses incurred the day after the election were quickly recouped and the positive market mood continued through the end of the year, allowing most of the world's stock markets to close the year with slight gains.

"After several years of very strong performance, the KRONES share was weaker in 2016."

Olaf Scholz
Head of Investor Relations

KRONES share price performance compared with the MDAX 2016



Our share's performance more or less matched the MDAX through the end of May. Then our share began to steadily lose ground, with the exception of a brief rally at the end of October.

The DAX closed 2016 up 6.9%, at 11,481 points after having hit its low for the year of 8,700 points in mid-February. The Euro Stoxx 50, which covers the euro area's blue-chip shares, and Japan's Nikkei index both closed 2016 virtually unchanged. Stock markets in the USA performed better than the global average. Particularly after the election of Donald Trump as the nation's next president, the markets were driven by the candidate's proposed economic programmes. The leading US index, the Dow Jones, gained 13.4% to close at 19,763 points.

KRONES share underperforms MDAX

Germany's MDAX mid-cap index, which also includes KRONES, gained 6.8% in 2016, performing similarly to its "big sister" the DAX and closing the trading year at 22,189 points. The KRONES share also significantly underperformed the MDAX, losing 21.2%. Taking into account the dividend of €1.45 per share, the share's performance for 2016 comes to –19.9%.

The KRONES share underperformed despite confirmation of the year's targets and publication of positive medium-term targets.

After getting the year off to a slow start, the KRONES share hit its stride in mid-February and then reached its high for the year, €108.60, on 31 May. Up to this point, the share more or less followed the same trend as the MDAX. But after that, our share price took a downward turn. When our figures for the first half did not meet analysts' high expectations, the share really began to lose ground. On 16 September it hit its low for the year at €80.54. The share got a second wind at the end of October, jumping to €95, when we confirmed our targets for the year and published our new medium-term targets. But it faltered again and closed 2016 at €86.90.

Key figures for the KRONES share (some figures are for the KRONES Group)

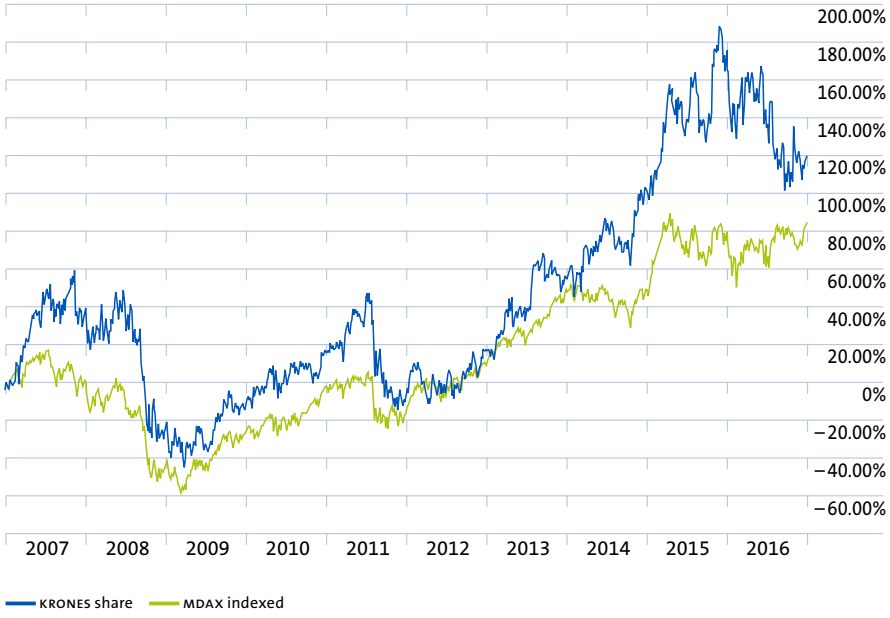
At 31 December		2016	2015	2014
Number of shares	million	31.59	31.59	31.59
Free cash flow per share	€	1.56	2.04	4.82
Equity per share	€	38.79	35.19	31.29
Earnings per share	€	5.40	4.98	4.30
Price/earnings (P/E) ratio based on closing price for the year		16.1	22.1	18.8
Dividend per share	€	1.55*	1.45	1.25
High	€	108.60	117.10	81.99
Low	€	80.54	78.44	56.43
Year's closing price	€	86.90	110.30	80.76

* As per proposal for the appropriation of retained earnings

KRONES share continues to offer high long-term returns

Despite a weak 2016, our share continues to offer above-average returns for the long term. KRONES' share price has increased 125% over the past ten years. KRONES' average annual price gain in this period was 8.5%. That is more than the MDAX price index (6.4%), that is, the MDAX excluding dividends. Including dividends, and assuming that the dividends were reinvested in KRONES shares, the average annual return for the last ten years comes to 9.9%. The comparable MDAX performance index gained only 8.8% annually.

KRONES share price performance compared with the MDAX, 2007 – 2016



Trading volume of KRONES shares increased in 2016

The KRONES share has been listed and available for trading on all German stock exchanges since 29 October 1984. Our shares are no par value ordinary bearer shares. Each share carries one vote in the annual general meeting. The total number of KRONES shares is 31,593,072. The share has been included in the MDAX, the German shock exchanges' mid-cap index, since its inception.

The main criteria for inclusion in Deutsche Börse's indices are free-float market capitalisation and volumes traded through the XETRA trading platform and floor trading on the Frankfurt stock exchange. In the rankings used to determine the composition of the 50-share MDAX, KRONES slipped to 44th for market capitalisation at the end of 2016 (previous year: 31st). That was due to the sharp decline in the share price in the reporting period. In terms of trading volume, our ranking improved to 41st (previous year: 44th). Daily trading volume in XETRA trading and on the Frankfurt stock exchange averaged around 60,000 shares in all in 2016 (previous year: 53,000 shares).

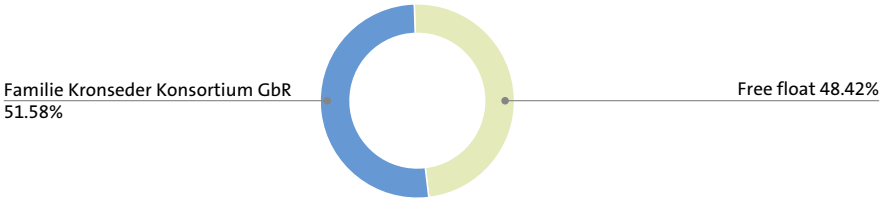
Institutional investors execute much of their trading on off-exchange platforms. In 2016, some 90,000 KRONES shares changed hands each day on average on such platforms (previous year: around 77,000).

Key data for the KRONES share	
Number of shares	31,593,072
German securities identification number	633500
ISIN	DE 0006335003
XETRA ticker symbol	KRN

Shareholder structure

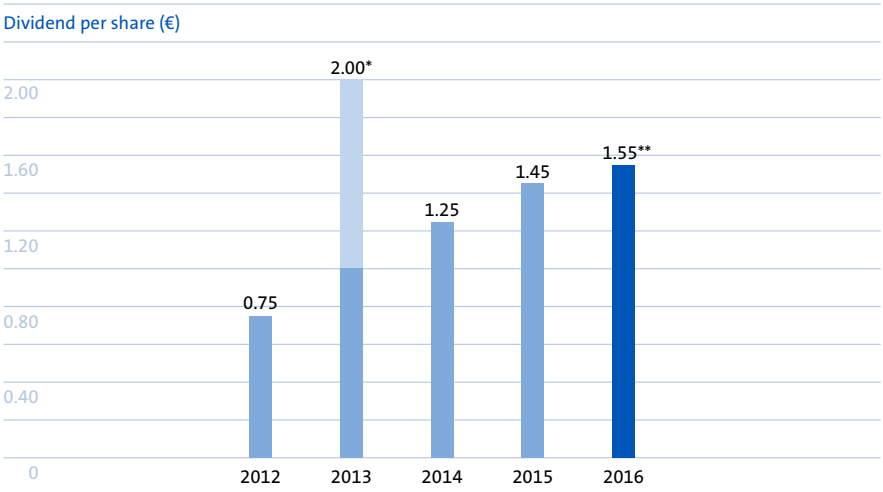
There were no significant changes to KRONES' shareholder base in the reporting period. At 31 December 2016, Kronseder Family Konsortium GbR was the majority shareholder of KRONES AG with a 51.58% stake. The family intends to remain a stable majority shareholder in the future. That allows the company to operate sustainably and for the long term. The free float (those shares not held by the family) came to 48.42% at the end of 2016.

Shareholder structure as of December 2016



KRONES plans dividend of €1.55 per share for 2016

Thanks to the company's strong earnings performance in the reporting period, the Executive Board and the Supervisory Board will propose to the annual general meeting on 20 June 2017 that a dividend of €1.55 per share be paid out for the financial year 2016. That is 6.9% more than the previous year's dividend (€1.45 per share). The company's long-term dividend policy is to pay out 25% to 30% of consolidated profit to shareholders. The dividend for 2016 corresponds to 29.0% of consolidated net income.



* Including a €1.00 special dividend ** As per proposal for profit appropriation

Executive Board presents new medium-term targets to investors

As a member of the MDAX share index, KRONES is watched by many international capital market experts. We see our dialogue with investors and analysts as a top priority. In the past year, Chief Financial Officer Michael Andersen and KRONES' Head of Investor Relations Olaf Scholz held numerous individual talks with investors and analysts on roadshows to international financial centres. KRONES also participated in many investor conferences at home and abroad.

Conference calls on our annual and quarterly financial results are another essential element of our investor relations work. KRONES used the opportunity of the Q3 2016 conference call on 26 October to unveil our new medium-term targets. All presentations relating to our conference calls can be found in the Investor Relations section of our website. All other important information about the KRONES share is also available there.

KRONES' annual analyst conference took place on 28 April 2016 in Munich, Germany. CEO Christoph Klenk and CFO Michael Andersen presented our final results for 2015 as well as figures for the first quarter of 2016. They also explained important strategic measures being taken in the company's individual segments and responded to analysts' questions.

KRONES maintains a high level of communication with analysts and investors, utilising individual meetings as well as investor conferences and conference calls.

Annual general meeting elects Volker Kronseder to Supervisory Board

KRONES held its 36th annual general meeting in Neutraubling on 15 June 2016. As in the previous year, representation of the company's share capital at the meeting was strong, 83%. Ernst Baumann presided for the last time as he retired from KRONES' Supervisory Board as of the annual general meeting's close. KRONES' Executive Board Chairman Christoph Klenk took the opportunity of the annual general meeting to recall Mr. Baumann's successful service and to thank him on behalf of the entire Executive Board for his many years of excellent collaboration. The shareholders in attendance affirmed these words of gratitude with thunderous applause.

In the annual general meeting, the shareholders elected Prof. Dr. Susanne Nonnast and KRONES' long-time Executive Board Chairman Volker Kronseder as new members to the Supervisory Board. In its constitutive meeting following the annual general meeting, the Supervisory Board unanimously elected Volker Kronseder as its chairman.

Shareholders approved the dividend proposal by a large majority. KRONES paid its shareholders a dividend of €1.45 per share for the financial year 2015 (previous year: €1.25). The dividend corresponds to 29% of consolidated net income for 2015 and lies at the upper end of the target corridor of 25% to 30% under KRONES' long-term dividend policy.

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Management report for KRONES AG

Fundamental information about KRONES AG

KRONES at a glance

Major markets and competitive position

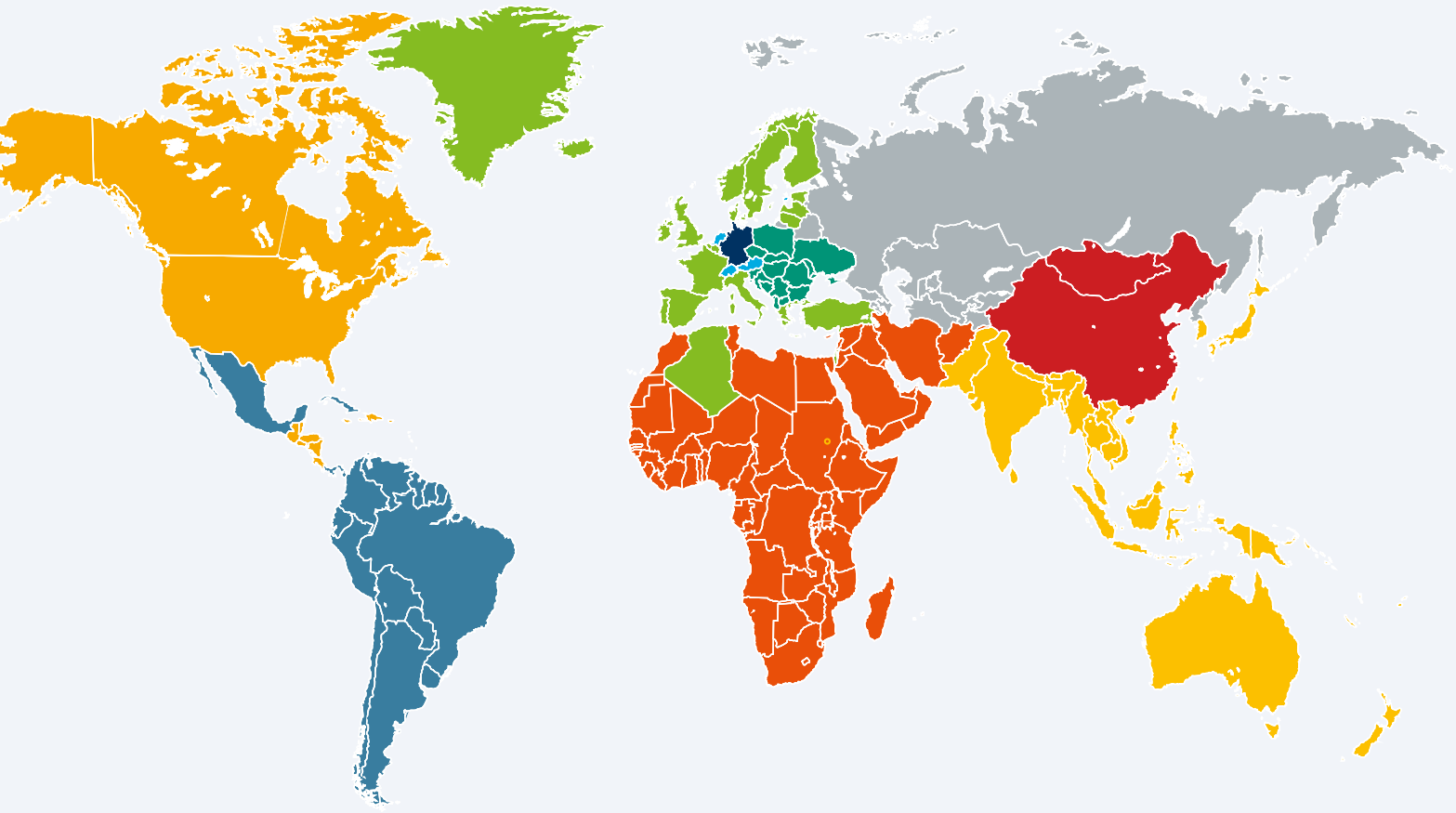
Customers in the beverage industry account for around 90% of KRONES' revenue. The remaining revenue comes from business with companies in non-beverage sectors (food, dairy, chemicals, pharmaceuticals, and cosmetics).

KRONES is heavily export-oriented, generating around 87% of consolidated revenue outside Germany. The regional breakdown of revenue is well balanced overall. KRONES generates around 50% of its revenue in mature industrialised countries and around 50% in the rapidly growing emerging markets.

Besides a few large companies that are part of a corporate group, KRONES competes with a number of smaller companies that offer only individual filling and packaging products. Most of our main competitors are based in the euro area. Chinese manufactures have primarily competed against KRONES for orders on their home market but are increasingly expanding into international markets.

As a full-service provider, KRONES is able to distinguish itself from most of its competitors. Our global service portfolio, which enables us to provide fast service to customers on-site, is a crucial advantage. Overall, KRONES is the world's leading manufacturer of filling and packaging technology.

KRONES Group sales regions



- Germany
- Central Europe
- Western Europe
- Eastern Europe
- Russia/Central Asia (GIS)
- Middle East/Africa
- Asia-Pacific
- China
- North America/Central America
- South America/Mexico

KRONES is headquartered in Neutraubling, Germany, and produces the lion's share of its machines and lines in Germany. The subsidiary KOSME produces in Austria and Italy. KRONES manufactures spare parts at its Lifecycle Services (LCS) Centres in Franklin (USA), Taicang (China), and São Paulo (Brazil). In addition to the 7 strategically located LCS Centres, the company also has a global network of service and sales offices.

KRONES has whole-plant expertise

KRONES delivers complete plants from a single source to customers in the beverage industry. We use our unique mix of expertise to keep our customers' investment and operating costs low. Of equal importance, we enable our customers produce their products reliably and at the highest level of quality.

We deliver not only all of the machines and lines necessary for producing, filling, and packaging beverages. We also provide complete logistics systems, supply and disposal systems, and state-of-the-art IT solutions that manage and document all production processes. We always strive to ensure that all buildings are designed to optimally meet our customers' specific production criteria.

The model of a complete beverage plant below provides a brief overview of our offerings.

KRONES offers everything that is needed for beverage production. The brewhouse 1 is the heart of a brewery. Here, beer is brewed in several stages from the basic ingredients water, hops, and malt. The brewhouse consists of various systems such as the malt silo, mash tun, lauter tun, wort kettle, whirlpool, and wort chiller. Beer also passes through KRONES-built fermentation and conditioning tanks 2 and filters to finalize the brewing process.

For soft drink producers, KRONES offers systems ranging from water treatment to the syrup room to mixers and carbonators.

All KRONES conditioning and production tanks 3 are precision manufactured and fit perfectly into the production line.

In a comprehensive project planning phase, KRONES not only designs the ideal layout of the production halls but also tailors buildings such as administration 4 and laboratories 5 to the customer's specific needs.

The bottling hall 6 contains many powerful machines and lines from KRONES. Examples include stretch blow-moulders, which form PET preforms into bottles, fillers that handle glass and plastic bottles as well as cans, and labellers, inspectors, and bottle washers.

The filled containers are collated into packs on KRONES packaging and palletizing machines 7 and packaged according to the customer's specifications. KRONES offers products ranging from stand-alone palletising robots to complete packaging lines.

KRONES' wholly-owned subsidiary SYSKRON and the Italian company SYSTEM LOGISTICS, in which KRONES holds a 60% stake, deliver fully automated high-bay warehouses 8 that ensure highly efficient material flows – because every unnecessary logistics step costs time and money.

However, a semi-automated or even a manual warehousing system 9 may be the best solution in some cases. SYSKRON is the perfect partner for these needs as well.

In the beverage industry, the diversity of products is growing and volumes per item are shrinking. Order-picking and distribution 10 have to accommodate. KRONES offers solutions that are precisely tailored to these needs. KRONES' subsidiary SYSTEM LOGISTICS makes a major contribution here with its automated order-picking systems.

We create a best-fit concept for the supply of heating, cooling, compressed air, and power and calculate optimum capacities for each individual factory 11.

KRONES configures all disposal systems 12 – for instance, for waste and waste water – to suit and helps ensure that all environment standards are met.

Strategy and management system

KRONES operates in the market of machinery and equipment for producing, filling, and packaging beverages and other liquid food. This market is growing at a relatively stable rate of around 4% to 5% each year, driven by megatrends such as steady population growth, rising standards of living in the emerging markets, and urbanisation. Another factor driving growth is the rapidly increasing number and variety of packaging forms and beverage types.

KRONES serves this market as a one-stop shop. We offer customers in the liquid food industry everything they need from a single source, from beverage production to filling to packaging. Intralogistics and global after-sales service round out our portfolio. We offer products and services to cover everything from "simple" to "highly sophisticated".

Besides our big European competitors, a number of smaller providers are also active in our market. A growing number of those are in China. Most of our competitors only offer specific parts of a beverage plant or operate only in certain regions. KRONES' turnkey approach puts the company in an excellent position and we intend to defend our strong market position in our core segment and considerably strengthen our position in our two smaller segments.

Just as the market offers opportunities, it also presents many challenges. Volatility in the global economy and at times acute crises in individual countries and regions are becoming almost standard. As a result, we must become more flexible, faster, and more regionally focused. The Value strategy programme we launched in 2011 helped us to offset fluctuations in demand and meet our forecasts for revenue and earnings once again in 2016. All three segments contributed.

"KRONES has set ambitious goals through 2020. If we are to achieve them, the entire KRONES team must work hard for it every day."

Christoph Klenk
CEO

7/8/22 is our new medium-target through 2020 for the group

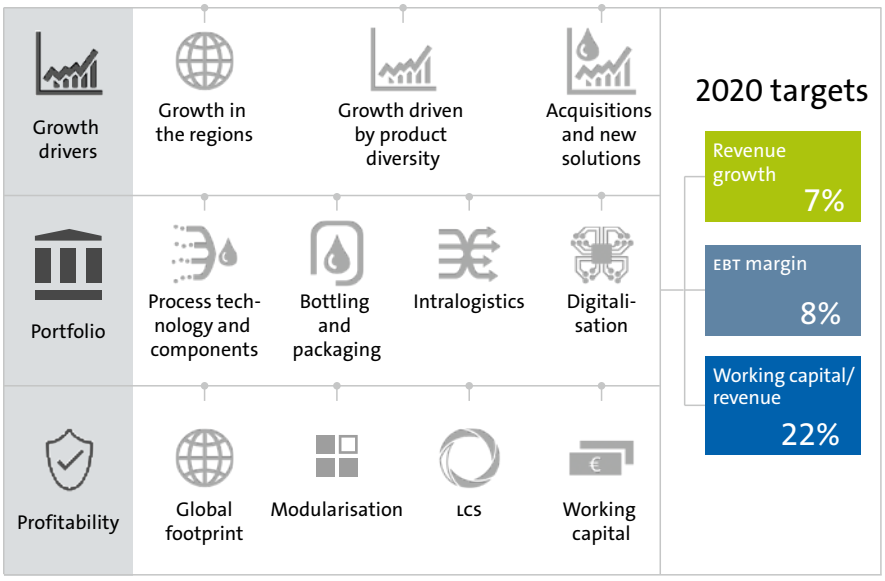
To keep moving the company forward for the long term, the KRONES team has set new medium-term targets. 7/8/22 stands for:

- 7% revenue growth per year on average
- 8% EBT margin
- 22% working capital to revenue ratio

As of 2017, working capital to revenue is KRONES' new third target, replacing ROCE. The main reason for the change is that the new target provides greater transparency. In addition, the individual components that are used to calculate this performance indicator can be mapped well and directly.

Please be advised that, unless otherwise noted, the figures cited in this section relate to the KRONES Group.

KRONES has a new target: working capital to revenue will replace ROCE as one of our main performance indicators.



We are implementing a number of measures to reach our targets for 2020.

These targets are certainly ambitious given the existing market challenges. The fight for orders remains intense. On the customers' side of things, mergers and acquisitions are delaying capital investments and increasing customers' buying power. Therefore, we do not expect prices to improve in the short or medium term. Moreover, increasing digitalisation and integration of production will forever change our market and its business models and require capital investment.

Seizing opportunities for growth

In addition to the 3% of market growth relevant to KRONES, the company intends to grow through acquisitions and new solutions. Moreover, new types of beverages and packaging are driving increased demand for KRONES' sophisticated products. In all, KRONES is aiming for annual revenue growth of 7%.

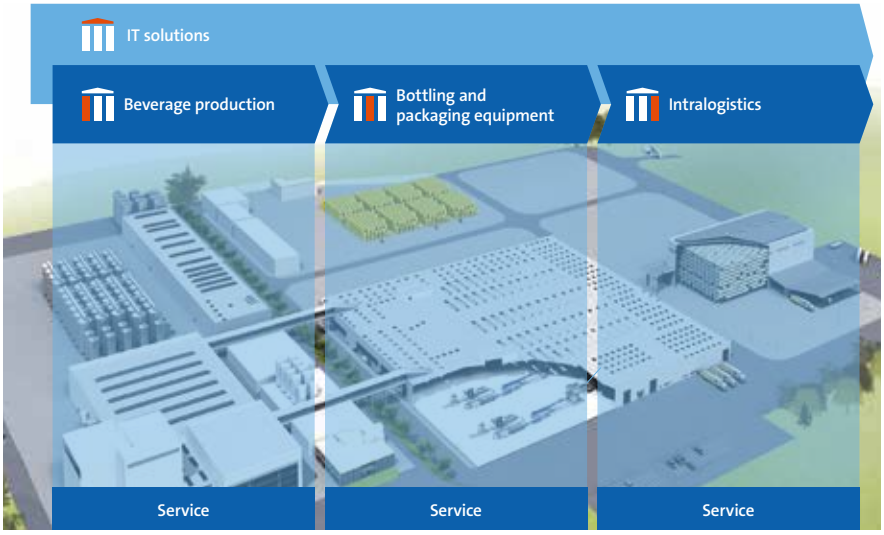
The market for KRONES' products is growing by 3%. To achieve our target of 7% annual revenue growth, we must systematically seize the opportunities the market presents. That is why KRONES intends to achieve its strongest growth in markets where beverage consumption is growing the fastest. For this reason, we will continue to significantly expand our business in the Africa/Middle East, Asia-Pacific, and China sales regions.

The rapidly increasing diversity of products and packaging is another growth driver as it requires extremely versatile machines and lines. KRONES intends to leverage this trend by offering the most advanced technology and products like the Varioline packaging line and the Contiform AseptBloc.

Acquisitions will be another major part of our future growth. In 2016, KRONES acquired majority ownership of the Italian company SYSTEM LOGISTICS, which operates worldwide. In so doing, we significantly grew our product portfolio in the strategically important field of intralogistics. Acquiring the majority of the business operations of TRANS-MARKET has strengthened our presence and engineering expertise in process technology in North America. KRONES intends to continue to look at profitable companies with revenue in the €20 million to €70 million range. We expect acquisitions to account for around 2% of our annual revenue growth through 2020.

Expanding our own product range

Our business model is precisely tailored to our customers' needs.



KRONES has aligned its core business areas to the needs of its customers. The company delivers all of the products and services needed for successful operation of a beverage plant.

To further increase customer satisfaction, KRONES will strengthen its core business areas (beverage production, filling and packaging, intralogistics, IT solutions, and lifecycle service) with new products and solutions. These innovations will also contribute to our forecast growth. In beverage production/process technology, we will continue to implement the measures initiated at the end of 2015 to promote growth. Our focus will be on establishing and growing international hubs so that we can respond to customers' wishes even more quickly and cost-effectively. From these well-connected international hubs, KRONES will expand its local supplier structure and after-sales business and complete more smaller-scale projects.

In bottling and packaging equipment, we see strong potential for growth in mid-range business, that is, less complex lines operating at high outputs. KRONES currently covers customers' complex needs perfectly in both the high and low output ranges. In order to achieve further growth in our core segment, we will now develop more simple, cost-optimised products and solutions. The ErgoBloc LC, which we developed and successfully launched specifically for the needs of customers in the emerging markets, is an excellent example. It is a highly simplified, compact variant of our successful all-in-one ErgoBloc L system.

Intralogistics is extremely important to customers and, therefore, to KRONES. Our expertise across the entire value chain makes KRONES the best partner for intralogistics solutions. Our acquisition of SYSTEM LOGISTICS and the expansion of SYSKRON put KRONES in an excellent position to seize the markets' great potential for growth. We intend to further strengthen KRONES' position in intralogistics in the years ahead, in terms of both regional presence and product technology.

The digitalisation of production in beverage plants opens up considerable potential for growth in the medium and long terms. KRONES is able to capture and analyse all flows of materials and data along customers' entire production process. That in turn serves as the base from which to develop new business models. KRONES is working on a number of different products and solutions that give customers added value. For example, our SitePilot software enables customers to plan, monitor, analyse, and document all of their production processes. In 2015 we purchased TRIACOS, an experienced SAP integrator whose expertise in SAP significantly enhances our own IT capabilities and offers a suitable platform for new products.

Increasing profitability

To further increase profitability, KRONES is growing its global footprint. Continued modularisation and the expansion of our service business should also strengthen earnings.

In order to further increase profitability in all business areas, KRONES will expand its global footprint. To this end, we plan to expand procurement, engineering, and some parts of production in the regions in which our customers operate their plants. That will enable us to quickly and capably offer regionally-specific products at competitive prices in the emerging markets. A cost-optimised supplier structure in the respective regions will play an important role.

The price of materials is a major cost factor for KRONES. In the next phase of modularisation, we will streamline our modules to make them simpler and easier for more suppliers – including those in low-cost countries – to meet our specifications. The increased competition will yield better purchasing prices.

Further expanding our lifecycle service business will strengthen KRONES' profitability for the longer term. Recruiting enough qualified employees locally will be key to this effort. To reduce employee turnover rates, which are comparatively high in the emerging markets, we are investing heavily in on-site training and continuing education. Other HR policy measures are also aimed at increasing loyalty among our service employees in the regions. Such measures are essential to KRONES' ability to seize the opportunities that the highly profitable after-sales segment presents.

Optimising working capital

Growing our global footprint, purchasing locally, and modularising our products will all help to improve our working capital. Lower inventories and shorter lead times across the board help reduce working capital, as do better receivables management and faster installation and commissioning on site. Only by working at it every day will we reduce working capital relative to revenue and achieve our target of 22% for this indicator.

Healthy financial and capital structure gives us leeway to invest

Net cash and equivalents of nearly €370 million at the group level and an equity ratio of around 40% put us on a sound financial footing. That gives us the freedom we need to make investment decisions quickly without complication and without becoming dependent on borrowing. After a weak 2016, we intend to significantly increase our free cash flow in the years ahead in order to generate sufficient funds for investments in growth, for acquisitions, and for dividends. KRONES' cash management strategy includes distributing 25% to 30% of profits to shareholders in the form of dividends.

We will continue to invest a large part of our cash in internal growth. Besides expanding our German sites, this also includes establishing and expanding our sites abroad. We will also invest in new products and technologies, particularly in digitalisation. We will also direct funds into building our workforce in growth regions.

Our employees are the bedrock of our long-term success

Behind every euro of revenue that KRONES generates lies the hard work of KRONES' employees. They are the reason our customers are satisfied with our products and services. To accomplish our growth targets, we intend to recruit new employees and kindle enthusiasm for KRONES among potential new employees. We must have a strong reputation as a great employer if we are to win over and retain the best people. Therefore, KRONES will continue to invest heavily in our workforce and provide our people with ongoing training and continuing education. We will place special emphasis on our international sites, stepping up our efforts there and further expanding our training centres in Africa, China, South America, and the USA.

Christoph Klenk
CEO

KRONES' management system

Although KRONES AG is by far the most important individual company within the KRONES Group, the Executive Board bases its management primarily on consolidated figures under IFRSs. The performance indicators used are described in the KRONES Group Annual Report. In addition, KRONES' management primarily uses the following financial performance indicators to steer the company:

- Revenue growth
- Earnings before taxes (EBT)

Growth-oriented development is key to long-term success in business. In order to strengthen our market position and utilise economies of scale, we are striving to achieve **revenue growth** above the market average.

Earnings before taxes (EBT) are an important earnings indicator. It is from EBT that KRONES AG pays out taxes and dividends and makes investments and capital expenditures.

ASIA-PACIFIC

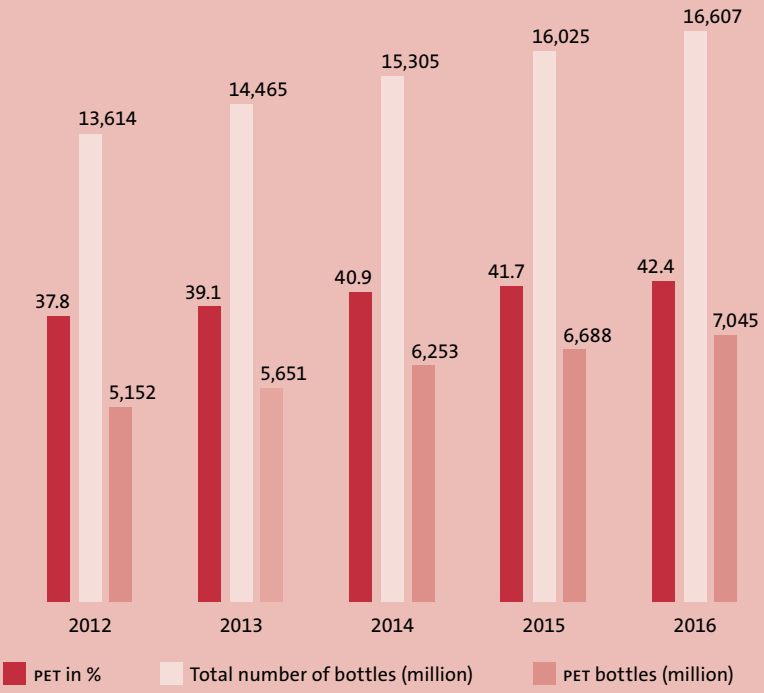
Economic growth in the Asia-Pacific region has been stronger than global economic growth for many years. That has benefited the region's inhabitants. As more and more people rise into the middle class, purchasing power and consumer spending are increasing. Indonesia, the world's fourth-most populous country with around 240 million people, is an excellent example of this. Steadily rising demand has prompted national and international food and beverage companies in Asia to invest heavily in high performance filling and packaging equipment.

Our LCS Centre in Bangkok bundles all service activities for Southeast Asia, Australia, and the Pacific region in between. The Centre employs a team of qualified service technicians and technical support specialists for our customers in the area.

Taking the fast track into the age of PET

In the Philippines, carbonated soft drinks (CSDs), are often sold in returnable glass bottles. That makes for some disadvantages considering the challenges that the country's 1,000 or so inhabited islands pose to distribution – round trip for returnables. That is why Coca-Cola FEMSA Philippines has decided to switch to single-use PET bottles. And they've chosen to take the fast track.

Philippine soft drink producers are moving to lightweight PET bottles

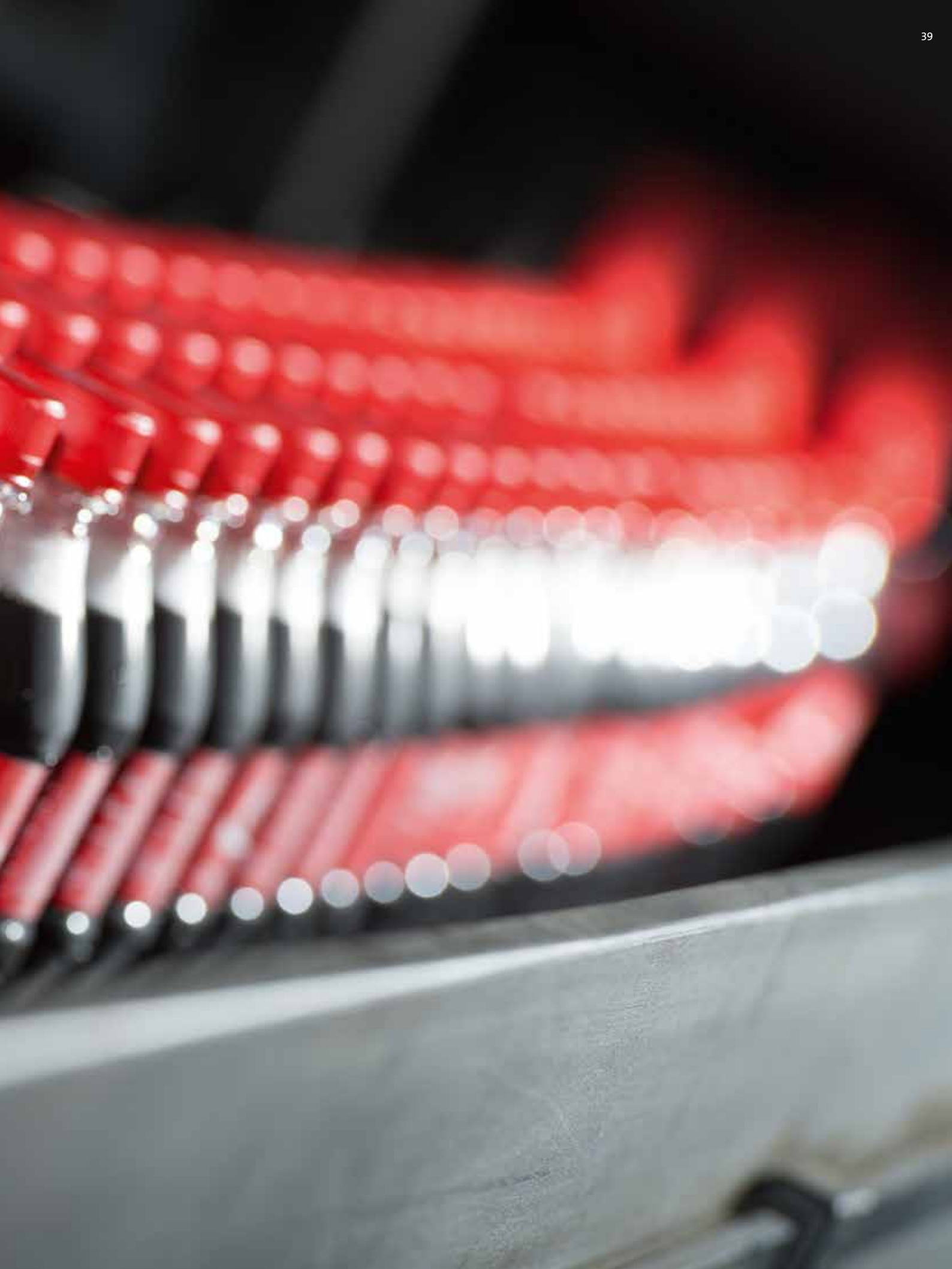


Source: Euromonitor

Coca-Cola FEMSA Philippines wanted a line that could fill at least 72,000 containers per hour while maintaining a low total cost of ownership. It comes as no wonder, then, that they choose KRONES and the ErgoBloc L over four of our competitors.

The system combines a stretch blow-moulder, a labeller, and a filler in a single "bloc" construction. Coca-Cola FEMSA Philippines first ordered two ErgoBloc Ls, each rated for 81,000 containers per hour. These are the fastest CSD lines for PET worldwide. A few months later, Coca-Cola FEMSA Philippines purchased two more lines, each rated for 63,000 containers per hour. "We needed extremely reliable technology to significantly reduce production costs. For this, KRONES was the best and right choice," says Coca-Cola FEMSA Philippines' head of production Juan Ramon Felix.


Coca-Cola
Nutrition Facts



GERMANY AND CENTRAL EUROPE

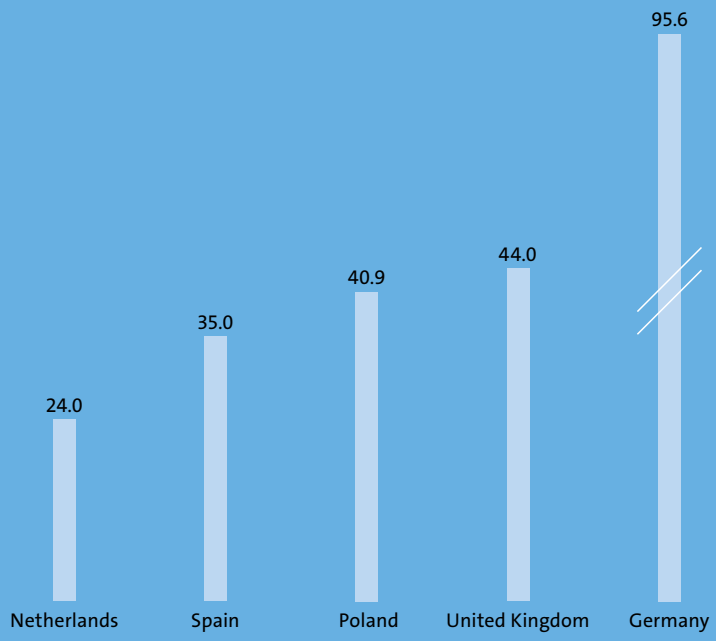
Germany is KRONES' home country. We manufacture most of our machines and lines at seven plants there. As a result, most of our workforce is employed in Germany. Domestic business accounts for around 10% of consolidated revenue. The Central Europe sales region consists of Austria, Switzerland, and the Netherlands. Most projects coming from customers in Germany and Central Europe are technologically sophisticated. Efficiency and resource conservation are often high priorities for customers here.

Our LCS Centre for Europe is located in Neutraubling, which is also the heart of our sales and service network. From here, we support all German and European customers and coordinate the 2,400 members of our global field service team. Neutraubling is also the headquarters of the KRONES Academy, which offers our customers a diverse range of practical training opportunities.

Traditional brewing craftsmanship – innovative systems

For more than 380 years, Paulaner Brewery produced its world-famous beer at its Nockherberg site in central Munich. Then, the brewery moved operations to a new greenfield location in Langwied, on the city's western edge. KRONES subsidiary STEINECKER delivered two turnkey brewing lines and other major components to cover the entire brewing process for the new large-scale brewery.

Germany is Europe's champion when it comes to beer production



Beer production in 2015 (million hectolitres) (Source: The Brewers of Europe)

Paulaner has always sought to maintain the traditional craft of brewing while using state-of-the-art technology. "STEINECKER's technology made the choice easy", says Paulaner's Chief Supply Chain Officer Dr. Stefan Lustig of the decision to place the order with KRONES. The new brewery is designed for an annual output of around 3.5 million hectolitres. The brewhouse is the heart of the project. STEINECKER delivered two brewing lines, each of which can produce ten brews of 900 to 980 hectolitres of hot wort per day.

From the brewhouse, the beer flows into the fermentation and cold conditioning cellar, where it matures and is filtered. Paulaner's cellar houses 63 tanks and a filtration system, all from STEINECKER. For the piping systems, Paulaner chose valves from KRONES' subsidiary EVOGUARD. "Working with KRONES was great right from the beginning", enthused Dr. Lustig after the massive project was complete.


STEINECKER

MIDDLE EAST/AFRICA

Customer site LCS Centre Sales and service network

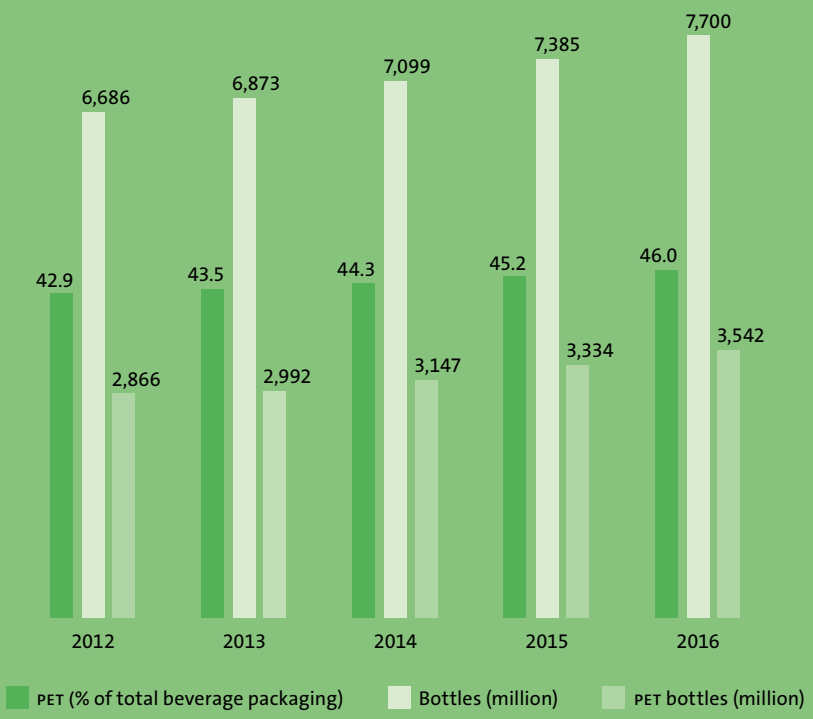
Population growth in the Middle East/Africa region exceeds global population growth. At the same time, more and more people are moving from the countryside to the cities. With average annual growth rates of more than 7%, demand for packaged beverages in this region is expected to grow faster in the coming years than anywhere else in the world.

The Middle East/Africa sales region is vast. Our subsidiary in Lagos, Nigeria, is responsible for western Africa while our Nairobi, Kenya, subsidiary takes care of eastern Africa. Both sites are closely linked with the LCS Centre in Johannesburg, South Africa. The LCS Centre has a large logistics centre from which we deliver high-quality original spare parts to our customers quickly and directly.

Africa is growing – and recycling

International beverage companies are investing heavily in the Middle East/Africa region in response to rapidly growing demand there. KRONES serves as a reliable partner, delivering powerful, state-of-the-art equipment for producing and packaging beverages. But we take our role a step further. With the MetaPure PET recycling system, we are making an important contribution to turning the large quantities of used PET bottles into "raw" material that can be reused to produce new plastic bottles in a process known as bottle-to-bottle recycling.

Soft drinks in PET are a growing trend in South Africa



Source: Euromonitor

Mpact, one of South Africa's leading manufacturers of paper and packaging, put the largest bottle-to-bottle recycling system KRONES has ever built into operation at the end of 2015. The system can process 29,000 metric tonnes of used PET bottles into 21,000 metric tonnes of raw material for new bottles yearly. That means Mpact is able to recycle almost one-quarter of all of the PET containers produced by South Africa's beverage industry.

KRONES MetaPure is highly efficient, with low energy and water consumption. The system is also certified by the US Food & Drug Administration (FDA), ensuring that it delivers food-grade PET.


Sprite
2 Litre
Sprite

NORTH AND CENTRAL AMERICA

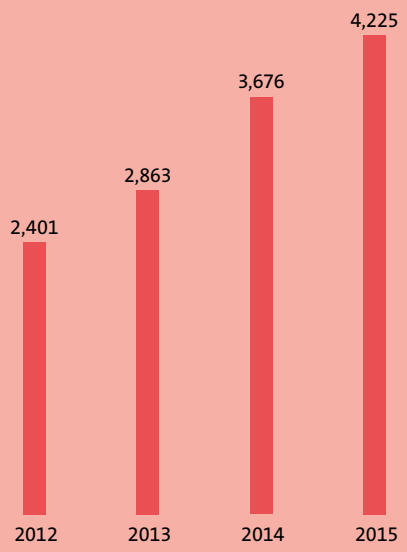
The North and Central America sales region is an established market for KRONES. Growth here is driven less by population growth or urbanisation and more by investments in replacement equipment and by beverage innovations. Craft beer has grown immensely in the region in recent years.

The LCS Centre in Franklin, Wisconsin (USA) is our biggest and oldest after our Neutraubling LCS Centre and serves the entire North and Central America region. A team of several hundred qualified specialists offers customers in the region the service, support, and training they have come to expect and appreciate. KRONES also manufactures replacement parts, handling parts, and blowing stations in Franklin.

Craft brewing continues to gain popularity

In the otherwise saturated US beer market, craft beer has been growing in the double-digits for several years. Beers produced by small, independent breweries accounted for more than 20 percent of total beer sales in the US in 2015.

Number of craft brewers in the USA is growing

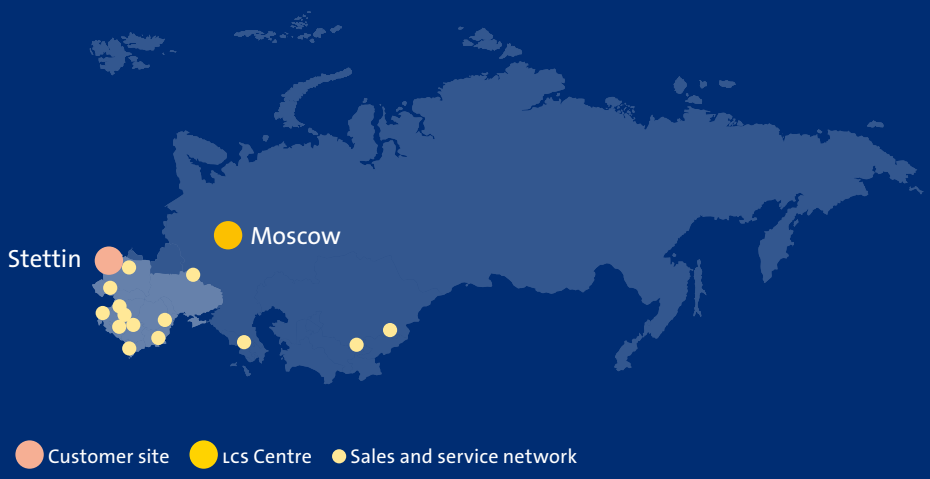


Source: Brewers Association

KRONES responded quickly to this trend, which is also strong in Europe. We deliver right-sized machines and lines that are optimised for smaller-scale breweries. Craft brewers produce many different beers in smaller batches. They need brewing technology that can easily support frequent product changes and varying production volumes. To accommodate this need, KRONES has expanded its CombiCube family of products.

Avery Brewing in Boulder, Colorado, one of the pioneers of the US craft beer scene, uses the compact CombiCube B brewhouse to produce no fewer than 52 different beers. We developed the versatile Craftmate can filler specifically with the needs of craft brewers in mind. In all, KRONES has successfully positioned itself in a rapidly growing niche market.

EASTERN EUROPE AND RUSSIA/ CENTRAL ASIA (CIS)

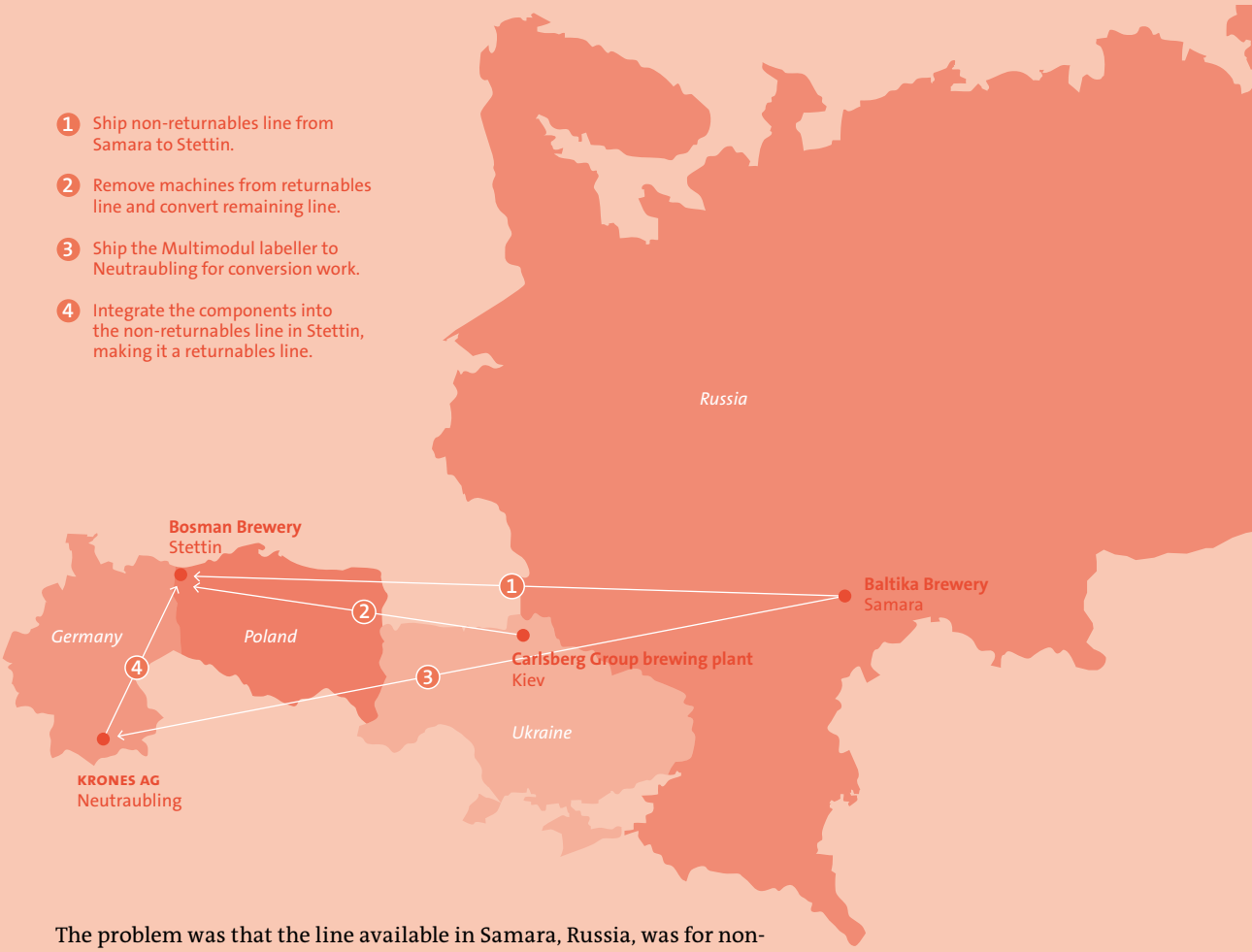


As emerging markets, the countries of Eastern Europe and Central Asia offer strong long-term prospects for growth. Some countries are currently experiencing economic difficulties as a result of economic recession in Russia, their main trading partner. That slowed KRONES' business in the region temporarily. We have long-standing relationships with customers in Eastern Europe and Central Asia.

Our comprehensive range of Lifecycle Service offerings are another benefit. The LCS Centre for Eastern Europe and Russia/Central Asia (CIS) is attached to KRONES' Moscow office. This Centre serves as a hub for all LCS activities in the region.

Puzzle solved

Bosman Brewery, a Polish brewery that belongs to the Carlsberg Group, wanted to add a second line for returnable glass bottles at its plant in Stettin. At the same time, a Russian Carlsberg subsidiary had some excess capacity. And so, the idea was born to move that line to Stettin. It was no simple undertaking but Carlsberg put its trust in KRONES LCS.



The problem was that the line available in Samara, Russia, was for non-returnable bottles while the Stettin plant needed a returnables line. And so, a third Carlsberg plant came into play. The very machines that were needed to make the Samara line work for returnable bottles were available at another plant, in Kiev, Ukraine. KRONES Lifecycle Services (LCS) teams examined the equipment in Samara and Kiev and determined which replacement parts, conversion work, and upgrades were needed. The LCS team also adapted the bottling hall in Stettin to accommodate the new line.

The next challenge was to move the machines from Russia and Ukraine, install them in the Stettin plant, and put the “new” returnables line into operation within the contracted time frame. KRONES did it and even exceeded the performance guaranteed under the contract.


BOSMAN
BOSMAN
BOSMAN


BOSMAN
BOSMAN
BOSMAN

SOUTH AMERICA/MEXICO

Customer site · LCS Centre · Sales and service network

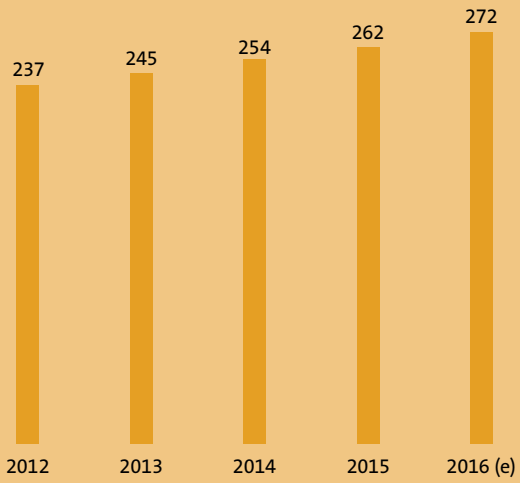
The medium and long-term prospects for South America are good thanks to population growth. However, many countries in South America are currently grappling with economic problems. As a result, KRONES' revenue in the South America/Mexico sales region has been down in recent years. By contrast, KRONES has recently been very successful in Mexico, which we include in a single sales region along with South America.

The LCS Centre in São Paulo, Brazil, coordinates the service work done for customers in South America. The Centre has its own facility for manufacturing spare parts and handling parts. LCS customers in Mexico are served by our LCS Centre in Fanklin, USA.

Tequila – Best enjoyed in all shapes and sizes

Mexican tequila maker Jose Cuervo placed a high-octane order with KRONES. The company was looking for a filling line that was both powerful and versatile. Cuervo chose KRONES for its technology and expert service. The project was not only the first complete line KRONES has ever installed for the historic tequila maker. With an output of 26,000 bottles per hour, it is also the fastest filling line for spirits installed at Jose Cuervo.

Spirits consumption rising steadily in Mexico



Demand for spirits (million litres); e=expected *Source: Euromonitor*

To ensure that not a single drop is wasted, the high-quality tequila must be processed in a system that ensures absolute microbiological safety and precision filling. KRONES' Isofill filler, the heart of the line, is perfectly suited for the job.

The real challenge, though, was that the beverage had to be filled into a multitude of differently shaped and sized bottles. That was one of the reasons Jose Cuervo put its trust in KRONES – a decision that proved to be a good one. The system handles 15 different bottles ranging in volume from 375 millilitres to 1.75 litres and in shape from square to round to pyramid.


DIQUE 5
CAP. 66 M³


Jose Cuervo

CHINA

Customer site · LCS Centre · Sales and service network

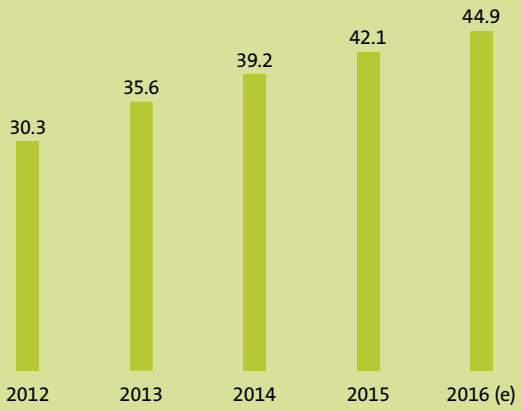
China's market for beverage filling and packaging lines is growing faster than the global market overall. Demand for packaged beverages is driven by population growth and the burgeoning middle class. In China, KRONES faces not only international but also, increasingly, local competitors. To defend our strong market position, we are continually expanding our presence in China and increasing local value creation.

At our LCS Centre in Taicang, we manufacture spare parts, handling parts, and blowing stations as well as packing and palletising systems. More than three hundred team members deliver fast, high-quality service. A KRONES Academy training centre rounds out the Chinese LCS Centre's offerings.

Impressive performance

In 2015, China accounted for around 15 percent of global consumption of packaged water. That makes the country number one in the world for water consumption. However, at around 30 litres, per capita consumption of packaged water in China is actually below the international average of 37 litres. In other words, there is still considerable potential for growth.

Consumption of bottled water is booming in China



(billion litres), e=expected

Source: Euromonitor

Shenzhen Ganten, China's fifth-largest water bottler, intends to benefit from this potential and is therefore investing heavily in high-performance bottling and packaging technology. The company installed a total of nine turnkey lines from KRONES in 2014 and 2015 and then put another six new KRONES bottling lines into operation in 2016. Ganten chooses KRONES lines primarily because of the high performance they deliver.

"Six years ago, our Chinese lines maxed out at just 60,000 retail packs per day. Now, with the KRONES lines, we are making 320,000 packs per day", says Ganten general manager Dongfang Wan about one of Ganten's plants. Another important selling point is the level of service that our LCS Centre in Taicang delivers. "They respond quickly and they speak our language. The KRONES service technicians are right here to quickly resolve any problems that arise", says Dongfang Wan.


KRONES
Autocol

WESTERN EUROPE

Western Europe is one of KRONES' established sales regions and among the largest in terms of revenue. Overall, revenue growth in the region has been strong in recent years despite the fact that beverage consumption there has not kept pace with worldwide consumption. It is the steadily increasing variety of products and packaging that is prompting our Western European customers to invest in highly versatile bottling and packaging lines.

The sheer volume of equipment already installed in Western Europe makes our lifecycle service business in the region quite complex. The LCS Centre in Neutraubling, Germany, coordinates all service activities in the region. The Centre also quickly supplies our customers with spare parts that are not immediately on hand at our branch offices in the individual countries.

Fruit juice – safe, reliable, delicious

In the past, fruit juices were primarily filled into non-rigid cartons in an aseptic (germ-free) process. But PET plastic is gaining popularity as a packaging material for juice. Jus de Fruits d'Alsace (JFA), a French producer of fruit and vegetable juices, has therefore opted for the Contiform AseptBloc with its cutting-edge aseptic bottling technology. JFA uses the fully aseptic bottling line to fill store brand fruit juices for large French retail chains as well as name-brand fruit juices on license. JFA operates the aseptic PET line in Sarre-Union in Frances' Alsace region, processing up to 15 different products each week.

KRONES Aseptic			
Systems	Container sterilisation		Preform sterilisation
	PET Asept L2	PET Asept D	Contiform AseptBloc
	PES	H_2O_2	H_2O_2
	144 hours of continuous production time		
	Filling systems: Modulfill Asept VFJ (flow meter) Modulfill Asept NWJ (load cells) Modulfill Asept VFJ-D (flow meter, particle dosing)		
Products	Still beverages		
	Juices, tea and coffee, milk and dairy drinks, beverages containing particles		

Sensitive beverages must be handled with care. KRONES offers products with leading technology to do just that.

"Dry sterilisation of the preforms using hydrogen peroxide combined with the aseptic blow-moulder is simply brilliant" says Jérôme Buhler, plant manager for JFA. Besides ensuring microbiological safety, the system is also highly efficient. It saves water, energy, and chemicals. "Dry aseptic is the way of the future for us", says Buhler.


Contiform AseptBloc


KRONES

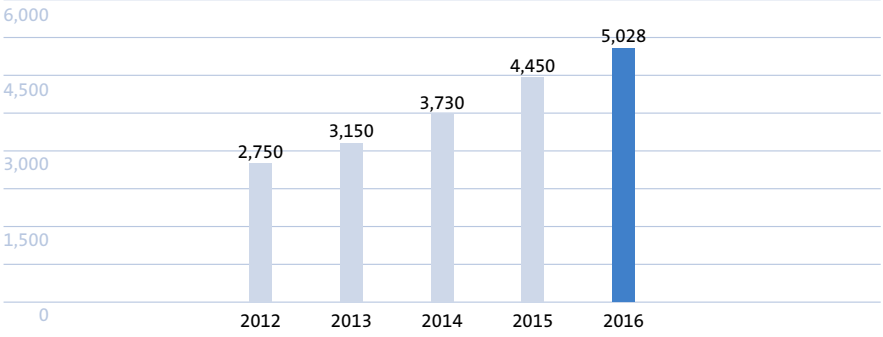
Research and development (R&D)

- All R&D work is focused on customer benefit
- Megatrends drive new developments
- New products demonstrate KRONES' innovative power

Investing in innovation is securing the future. The demands of the market and specific customer groups are constantly evolving. And we are responding with targeted new and continuing developments. The range of our innovations spans our entire machinery catalogue as well as services and software. Our activities also focus on addressing megatrends and identifying the beverage industry's future needs. We are developing innovative solutions for the future that incorporate the use of new technologies such as increasing digitalisation of production, 3D printing, and digital direct printing of beverage packaging. The number of KRONES' registered patents and utility models worldwide rose from 4,450 to 5,028 at the end of 2016, bearing witness to our innovative capacity.

To accomplish this, we invested €171 million (previous year: €164 million) – or (5.0% of consolidated revenue) – in research and development.

Registered patents and utility models – KRONES Group



KRONES invested approximately 5.0% of consolidated revenue in research and development.

Innovations increase benefits to our customers

Some 2,100 people work continuously to develop new machines, systems, and services that meet the demands of customers and the market. Because we maintain strong dialogue with our customers, we know their needs and use that knowledge to develop criteria that guide our product innovations. These include

- Reducing the cost of operating our machines and systems
- Robust, highly available solutions
- Fast commissioning
- High versatility combined with fast changeovers
- Easy, safe operation
- High production reliability

Megatrends drive developments

Customer needs are significantly influenced by various megatrends. One powerful trend in the industry is the rapidly growing diversity of products and packaging forms. It requires highly versatile machines and lines, which KRONES has made a focus of its development work.

Rising standards of living in the developing and emerging markets make these markets very important for KRONES. But customers in these regions have different needs and expectations than those in the more established markets. For this reason, we are adapting the technology of our successful models to the regional needs of our customers. The ErgoBloc LC is an excellent example.

KRONES responded early to the demand for **sustainability**, establishing the enviro sustainability programme. All innovation at KRONES aims to reduce our machines' and lines' energy and media consumption. As a result, our customers save precious resources. With enviro 2.0, we are now able to evaluate entire systems as opposed to only individual machines.

The **digitalisation** of production processes offers strong potential for growth over the long term. KRONES is already offering customers products based on deep data integration and is stepping up efforts to develop new digital business models. SYSKRON plays an important role here. For example, our subsidiary developed a new app, Share2Act, in 2016, which brings the advantages of social media communication into day-to-day production. The mobile app is a shared platform on which production employees can share experiences and machine knowledge with each other intuitively and in real time.

Overall, we have many promising development projects underway. KRONES will unveil some of these at drinktec 2017. In the following, we present in more detail a small selection of innovations that have already proven successful in practice.

Selected innovations

ErgoBloc LC

KRONES has synchronised the entire wet section of the line in the ErgoBloc L. The bloc converts PET preforms into PET bottles and then fills and labels them. To meet the specific needs of our customers in China, we have expanded the successful ErgoBloc model series to include an entry-level model, the ErgoBloc LC. This monobloc can fill still water into PET bottles sized between 0.25 and 2.0 litres. The entire system, from its speed to its simplified operation, is geared towards the needs of our customers in China. It also offers a variety of other advantages including a small footprint. Additional elements such as conveyors and bottle dryers are unnecessary. Like its bigger brother, the ErgoBloc LC is very energy and resource efficient. The system can process up to 48,000 containers per hour depending on bottle size.

Proportional flow regulator

Conventional filling valves can only operate at two speeds: slow and fast. With the proportional flow regulator (PFR), KRONES has developed a new filling valve component that enables infinitely variable flow rates. That provides maximum flexibility for products with different characteristics and a wide variety of container geometries. Compared with conventional filling systems, handling time is shortened, which in turn increases both machine output and the robustness of the filling process. The filling system can then achieve the same output with fewer valves, which translates to lower costs and a smaller footprint. Savings of up to 20% can be achieved on filling valve maintenance alone. The proportional flow regulator has already been successfully tested in practice, filling carbonated soft drinks, vinegar, iced tea, milk, juice, soy sauce, and wine.

Contiroll gluing station

The Contiroll labeller applies reel-fed labels to bottles and other containers. The gluing station is an important part of the Contiroll. It must always precisely transfer the right amount of glue to the labels. After a complete redesign, the gluing module now operates on the same principle as intaglio printing. The glue roller serves as the gravure cylinder. The roller is engraved with a grid matrix consisting of "cells", or depressions, and the walls that separate them. That ensures that a precisely defined amount of glue is taken up and applied to the label. The geometry and depth of the cells and the width of the walls on the glue roller determine how much glue is transferred to the label. Excess glue is scraped off the roller by a new, user-friendly doctor blade system. A vacuum cylinder presses the cut-to-length label against the glue roller. On contact with the label, the surface tension of the hot melt glue in the glue roller's cells pulls the glue out of the cell, transferring it to the label. This new technology saves customers glue and significantly reduces the amount of machine cleaning needed since the grid structure prevents significant build-up of glue strings.

Poseidon – dynamic fermentation

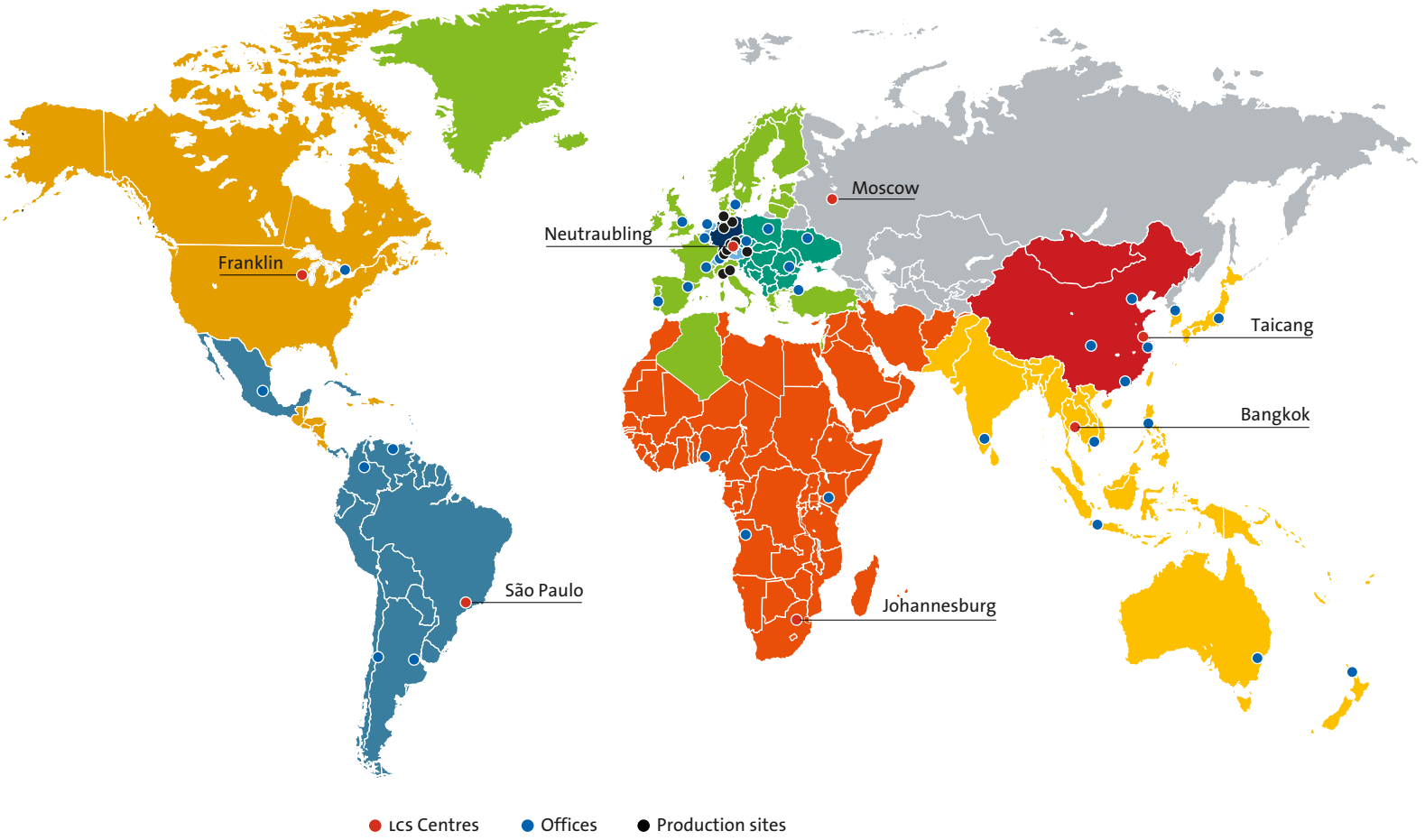
Breweries gain real added value when fermentation and lagering (cold conditioning) times are shortened, increasing cellar capacities. That is what our Poseidon dynamic fermentation development project is all about. It features a pipe-within-a-pipe mixing system that generates or supports different flow profiles in the tank to match the process at hand. Traditional methods circulate the tank's entire contents. Poseidon circulates only the upper portion of the tank for sedimentation of residual yeast and other clouding factors, thus allowing for better, faster sediment removal. The cooling rate is also significantly higher. In all, dynamic fermentation makes the entire fermentation and conditioning process more economical for the brewer. The design can be quickly retrofitted inside existing tanks with no difficulty. The unit is also easy to clean.

Lifecycle Service (LCS)

- Continued expansion of international sites puts us closer to customers
- KRONES is the ideal "Partner for Performance"
- LCS products generate added value for customers

Our customers want production systems that operate reliably and economically throughout their entire useful lives. Not only the machines but also service has to be flawless in order for the system to run as smoothly as possible. KRONES has bundled all of its after-sales activities under the name Lifecycle Service (LCS). KRONES LCS offers customers a comprehensive range of products and services and employs highly qualified technicians worldwide. In all, our service team includes 2,400 field staff.

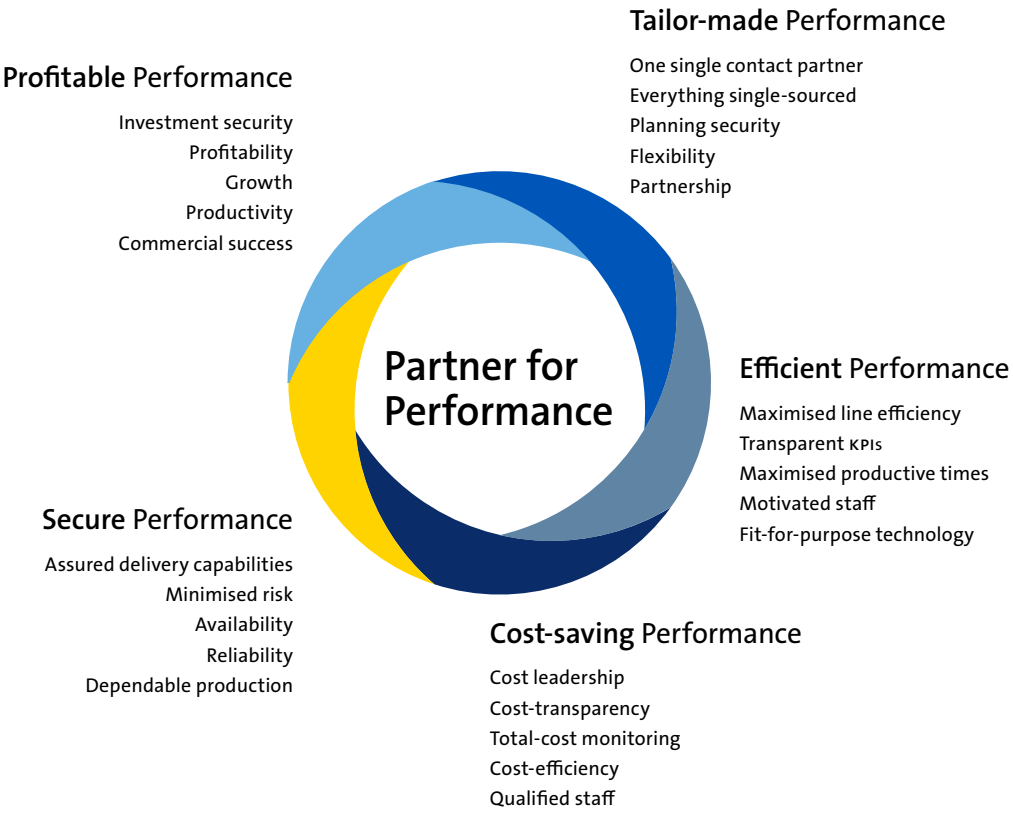
Short response times are essential to the success of any service business. That is why we are continually moving closer to our customers and increasingly deploying local staff to carry out LCS projects. Key spare parts are kept on hand at regional warehouses. Seven LCS Centres at strategically important locations serve as bases for our international service activities. Each of these service hubs is responsible for a set of countries and branch offices.



KRONES LCS is the ideal "Partner for Performance"

KRONES developed the "Partner for Performance" service concept to best support our customers. We unveiled it for the first time at the Brau Beviale trade fair in late 2015. Whether the focus is on cost efficiency, operational reliability, or sustainable production, we implement customers' specifications and expectations with precisely tailored solutions under "Partner for Performance".

The concept comprises five LCS product groups with which we address our customers' different needs: **Profitable** Performance, **Tailor-made** Performance, **Efficient** Performance, **Cost-saving** Performance, and **Secure** Performance



LCS is working on even better products

KRONES is pushing ahead a series of measures, all of which share the same goal: to offer our customers the right LCS products even faster and with greater precision in the future. Upgrades are an important part of these efforts. With them, we can bring older machines up to the latest state of the art, allowing customers to use the most recent generation of technology in older-model machines.

KRONES is developing a tool that will make it possible to record and continually update the current status of a customer's machines and lines on site. One use for that information would be to offer potential upgrades. All relevant machine information would be available not only to KRONES but also to our customers.

KRONES LCS solutions generate added value for customers

KRONES LCS products are meant to help our customers optimise operation of their production lines. Here are some examples:

KRONES.shop

KRONES.shop offers all the functionality of a modern shopping platform. That includes personalised product offerings that are aligned with the customer's existing machinery. The shop also has a "reorder" feature, which allows customers to purchase the same set of items from a previous order with a simple click of the mouse. The platform also includes a used machinery portal as well as training and service offerings.

In 2016, we also launched a feature that allows KRONES customers to submit a non-binding service inquiry along with any KRONES.shop order. Customers are immediately given the earliest possible appointment. The electronic parts catalogue KRONES eCat is also connected to KRONES.shop. The catalogue contains technical drawings, circuit diagrams, parts lists, and documentation. Our customers can place items from KRONES eCat directly into their shopping carts through the e-shop interface. That makes the entire ordering process quick and convenient for customers.

KRONES is working to make country-specific online shops available to customers worldwide. The platform was launched in Europe in 2015. The shop is already fully operational and available to customers there. In 2016, a version went live for most Asia-Pacific countries and China. KRONES.shop is currently available in more than 60 countries. The USA and other countries are to be added in 2017.

KRONES.shop offers our customers the convenience of a modern online shopping platform.

Support

KRONES offers customers who purchase a support contract a central point of contact for all questions relating to their machines and systems. Itis available around the clock, seven days a week. Support quickly puts customers in touch with the right people to help with their specific issue. That is one way we help minimise costly downtimes.

KRONES Support includes the following services: phone support, e-mail support, and remote service. With remote service, we use a data link to directly access the defective machine for troubleshooting. Of course, we do so only with the customer's prior agreement. KRONES service technicians can then view the machine data and resolve problems through a highly secure Internet connection.

To date, KRONES has operated all global remote service from our headquarters in Neutraubling. In the future we intend to move this service into our LCS Centres in the regions. The LCS Centre in North America will be the first, picking up remote service in 2017.

KRONES Support provides customers with competent assistance around the clock.

Production line relocation

Production line relocation is a special service offered by KRONES LCS. It offers great potential because more and more of our customers wish to use existing machines and lines at new sites. We make sure the entire move goes off without a hitch. KRONES creates a customised project plan and provides comprehensive services throughout all stages of the relocation project, from start to finish. We analyse in advance whether the systems to be relocated are a good fit for the new operation and whether adaptations are needed. We offer 3D visualization for laying out the new production plant.

It is essential that disassembly, packaging, and reassembly are done properly to ensure that the equipment survives the move undamaged. Depending on the customer's wishes, we can bring the equipment up to the latest state of the art with upgrades from KRONES' LCS portfolio before putting it back into operation. We can also expand the line with new or used KRONES machines as needed. A concrete example of such a move can be found on page 55 of this Annual Report.

We make sure the entire line is transported to the new site quickly and securely.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Management report for KRONES AG

Economic environment

- World economy grows 3.1% in 2016
- Rate of expansion is slowing in the advanced economies
- Packaging machinery market is growing steadily

It's slow going for the global economy

Global economic growth slowed a bit in 2016.

According to data released by the International Monetary Fund (IMF) in January 2017, the world economy grew 3.1% in 2016 (previous year: +3.2%). The IMF's original forecast was 3.4% but had to be revised downward twice over the course of the year. The main reasons behind the weaker-than-expected growth were increasing uncertainty resulting from the "Brexit", moments of turbulence on the financial markets, and problems in some emerging and developing economies.

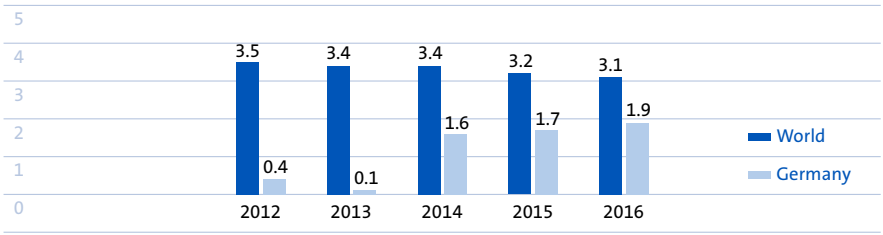
In all, gross domestic product (GDP) in the emerging markets increased 4.1% year-on-year in 2016. While China's economy expanded a bit more than expected (+6.7%) thanks to government stimulus measures, India's GDP growth slowed to 6.6% (previous year: +7.6%). Economic activity in the Middle East/Northern Africa region picked up considerably in 2016. GDP there grew by 3.8% (previous year: +2.5%). Latin America's economy fared poorly in 2016 (GDP: –0.7%), due primarily to the deep recession in Brazil, where GDP collapsed by 3.5% in 2016.

In the advanced economies, GDP rose 1.6% overall in 2016, considerably less than in the previous year (+2.1%). The US economy fell short of expectations, with GDP growth at just 1.6%. That was because companies there were spending less on capital goods. Japan's GDP, on the other hand, fared better than expected and grew 0.9%. Economic growth in the euro area came to 1.7% in 2016 (previous year: +2.0%).

German economic growth accelerates

According to preliminary figures from Germany's Federal Statistical Office, German GDP was up 1.9% year-on-year in 2016. That is more than 2015 growth, which had been 1.7%. Government and consumer spending were the strongest growth drivers in 2016. Capital spending also provided some positive momentum.

GDP growth (%)



Sources: IMF, Germany's Federal Statistical Office

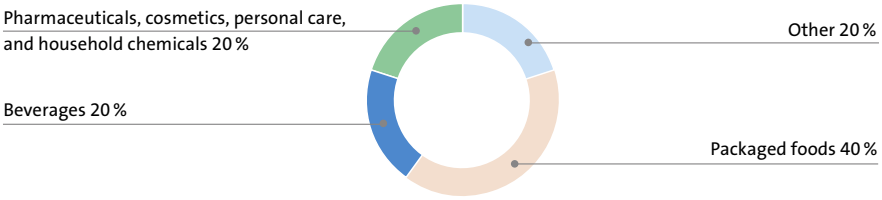
Output in German machinery sector stagnates

As expected, Germany's machinery sector made no headway in 2016. In January 2017, the German Engineering Federation (VDMA) confirmed its forecast that output in the country's machinery industry was likely stagnant in 2016. Concrete figures were not yet available when this annual report went to press. The industry was hit hard by general economic uncertainties and a decline in orders from China in 2016.

The food and packaging machinery subsector, which is relevant for KRONES, is generally less affected by political and economic crises than the machinery sector overall. According to VDMA estimates, the segment likely fared better than the industry as a whole in 2016.

Demand for packaging machinery is on the rise

Global market for packaging machinery by application



Source: VDMA estimate for 2015

According to the VDMA, the global market for packaging machinery had a volume of €34.0 billion in 2015 (2014: €31.3 billion). Figures for 2016 were not yet available when this annual report went to press, but VDMA forecasts suggest that demand for packaging machinery likely continued to grow worldwide. In terms of total products packaged, the food industry is the largest single market for packaging machinery, with a share of 40%. The beverage industry accounts for 20% of total packaging machinery sales and KRONES generated around 92% of its revenue in business with the beverage industry in 2016.

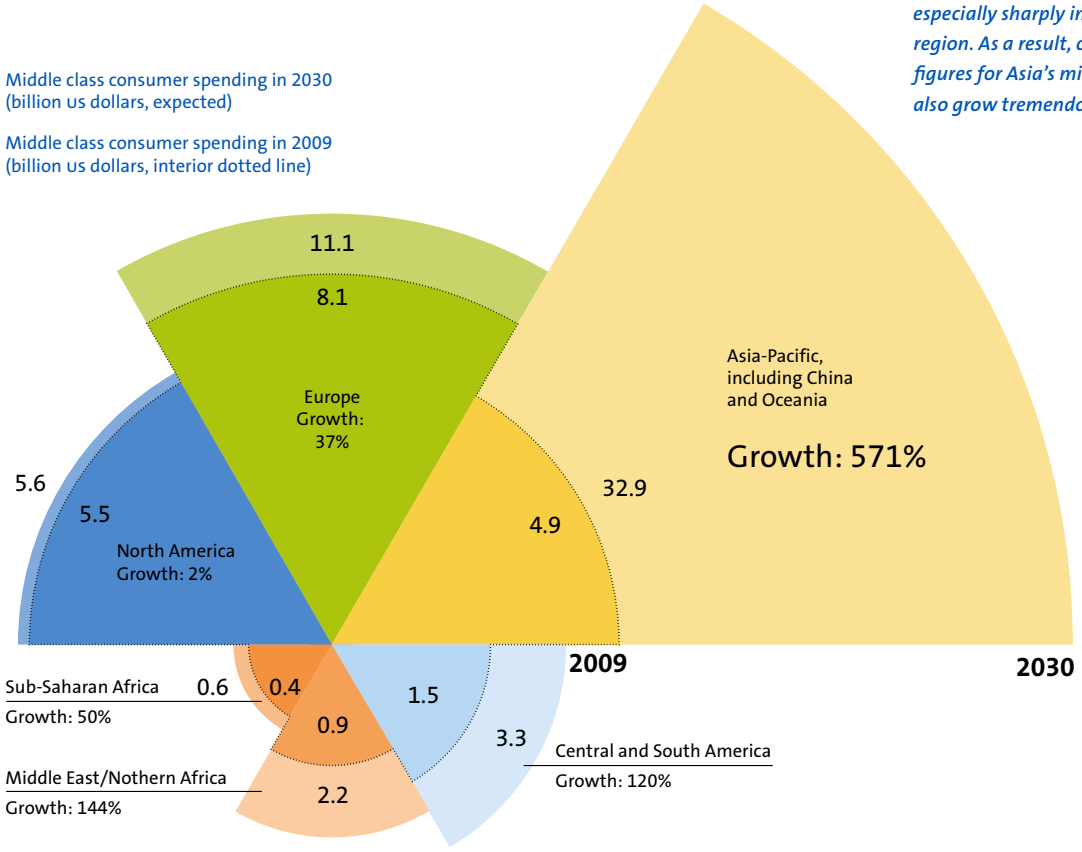
The global market for packaging machinery has grown steadily in recent years. That is unlikely to change in the future.

Megatrends benefit KRONES

KRONES operates in a market that exhibits stable long-term growth. The average annual growth rate is higher than that of the world economy. Several megatrends ensure that demand for food and beverage packaging machinery is rising faster than overall demand for machinery.

The main megatrend is global population growth, which will continue across the coming years and decades. Around 7.4 billion people inhabited the earth at the end of 2016. That figure is increasing by more than 80 million each year. The populations of Africa and Asia in particular are expanding at a strong rate. By 2030, the world's population is likely to total around 8.5 billion. All those people will need to eat and drink. And more and more of them will choose packaged beverages and foods as a result of two further megatrends.

Middle class consumer spending in 2009 and 2030 (billion US dollars)



Source: East Asia Bureau of Economic Research and own calculations

The number of people rising into the middle class is increasing especially sharply in the Asia-Pacific region. As a result, consumption figures for Asia's middle class will also grow tremendously by 2030.

The growing middle class is spending more

More and more people are escaping poverty and rising into the middle class in emerging and developing countries. According to United Nations forecasts, the middle class will grow in size by 1.4 billion to 3.2 billion people between 2009 and 2020. In the Asia-Pacific region alone, the middle class is likely to grow by around 1.2 billion persons in that time.

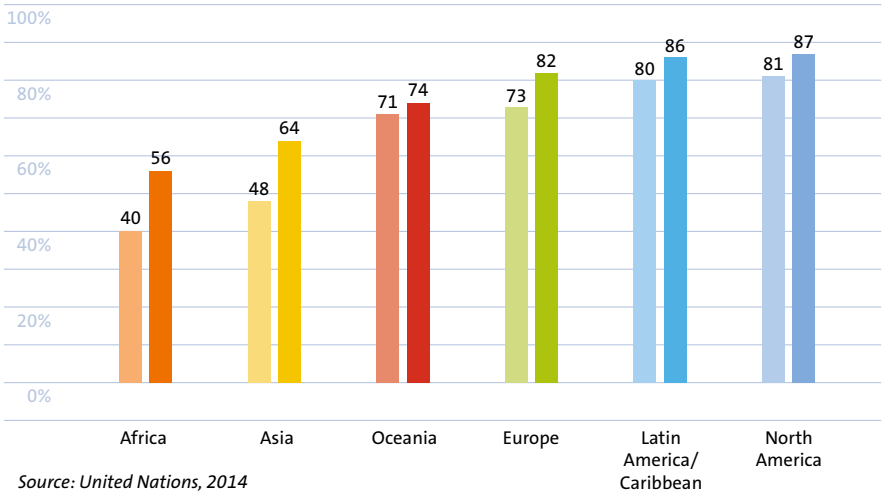
As people's incomes rise, so too does their consumer spending – and that includes spending on packaged foods and beverages. According to forecasts by the East Asia Bureau of Economic Research, middle class consumer spending will increase sharply overall worldwide between 2009 and 2030. Growth in consumer spending is expected to be particularly high in China, India, and Indonesia. In the entire Asia-Pacific region, people in the middle class will spend almost USD33 trillion on consumer goods in 2030. In 2009, middle class consumer spending totalled only USD4.9 trillion.

People are moving to cities

Increasing urbanisation, the migration of people from rural areas to cities, also promotes demand for packaged food and beverages. That is because city-dwellers generally consume more packaged products than people who live in the countryside.

According to a United Nations forecast, two out of three of the earth's inhabitants will live in cities by the year 2050. At present, about half the world's population is in urban areas. The UN expects that the strongest influx into cities will take place in the developing and newly industrialised countries of Africa and Asia.

Urban population in 2014 and 2050 (% of total)



Source: United Nations, 2014

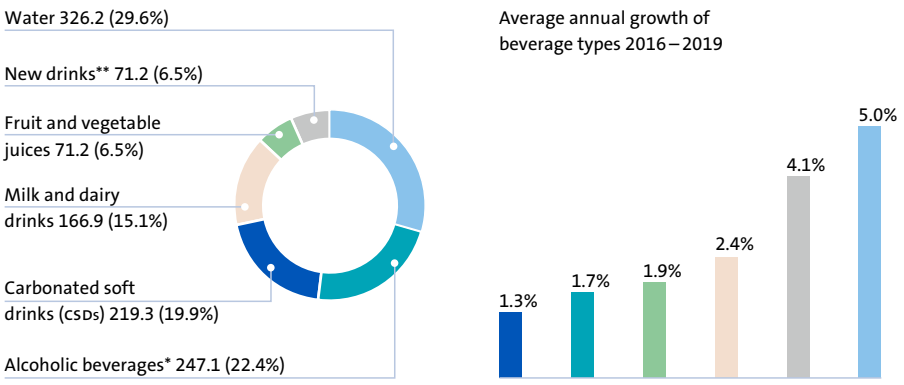
In Africa and Asia, most people still live in rural areas. However, more and more people will move to cities in the years and decades ahead.

While many people already live in cities in Europe and the Americas, urbanisation is advancing on a large scale in Africa and Asia.

Global consumption of packaged beverages is rising steadily

According to preliminary data from the market research institute Euromonitor, people consumed 1,102 billion litres of packaged beverages worldwide in 2016. That means demand increased nearly 3% over the previous year. Growth has been stable for many years and is likely to continue in the future. Euromonitor expects global consumption of bottled beverages to increase by 2.9% per year on average in the period from 2016 to 2019 to around 1,200 billion litres.

Global consumption of packaged beverages in 2016 (billion litres)



2016: 1,101.9 billion litres

*Beer, wine, and spirits
** Energy drinks, sports drinks, and ready-to-drink tea and coffee

Sources: Euromonitor, own estimates

Bottled water is the fastest-growing segment. Market researchers expect it to grow by 5% annually on average in the years ahead.

Bottled water is the largest and fastest-growing market segment. The world's population drank over 326 billion litres of it in 2016. Water accounted for 29.6% of total consumption of packaged beverages. According to Euromonitor, consumption of bottled water is expected to rise by 5.0% each year on average through 2019. Thus, water consumption is increasing far more rapidly than the overall beverage market. This growth is driven by a rising need for clean, packaged drinking water in the emerging markets and the trend toward healthy eating in the industrialised countries.

People around the world consumed 247 billion litres of bottled **alcoholic beverages** in 2016. Beer accounted for the largest share (around 80%), followed by wine and spirits. While beer consumption is growing in China, the beer market in most industrialised countries is saturated. That is why alcoholic beverages, which make up the world's second-largest segment in terms of volume with a 22.4% share of total beverage consumption, are not growing as fast as the overall market for packaged beverages. Market researchers expect growth rates averaging 1.7% for the years from 2016 to 2019.

With a share of 19.9% of total beverage consumption, **carbonated soft drinks (CSDs)** make up the third-largest market segment. These include carbonated beverages like cola and sodas. Demand for these beverages is growing more slowly than the market

as a whole. Consumers' increasing health consciousness and resulting preference for water over sugary CSDs is curbing CSD consumption. Thus, consumption of soft drinks is likely to increase only 1.3% per year on average from 2016 to 2019.

Development was very mixed in the **milk and dairy drinks** segment. Overall, nearly 167 billion litres were consumed in 2016 (share of total beverage consumption: 15.1%). Plain milk accounts for the largest part of the segment by far, about 80%. But the various mixed dairy drinks have the highest growth rates. While demand for milk is likely to increase 1.8% per year on average from 2016 to 2019, the expected growth rates for fruit-flavoured dairy drinks and yoghurt smoothies are 4.2% and 6.6%, respectively. Euromonitor expects an average annual growth rate of 2.4% for the milk and dairy drinks segment as a whole from 2016 to 2019.

Fruit and vegetable juices (6.5% of total beverage consumption in 2016) and **"new drinks"** (6.5%) are the global beverage market's smaller segments. The new drinks category includes ready-to-drink tea and coffee as well as sports and energy drinks. While demand for fruit and vegetable juices is expected to grow by 1.9% on average each year through 2019, Euromonitor is predicting far higher growth rates for the "new drinks" segment, averaging 4.1% yearly. The steady rise in demand for packaged, ready-to-drink tea in Asia is contributing strongly to that growth.

Worldwide consumption of packaged beverages

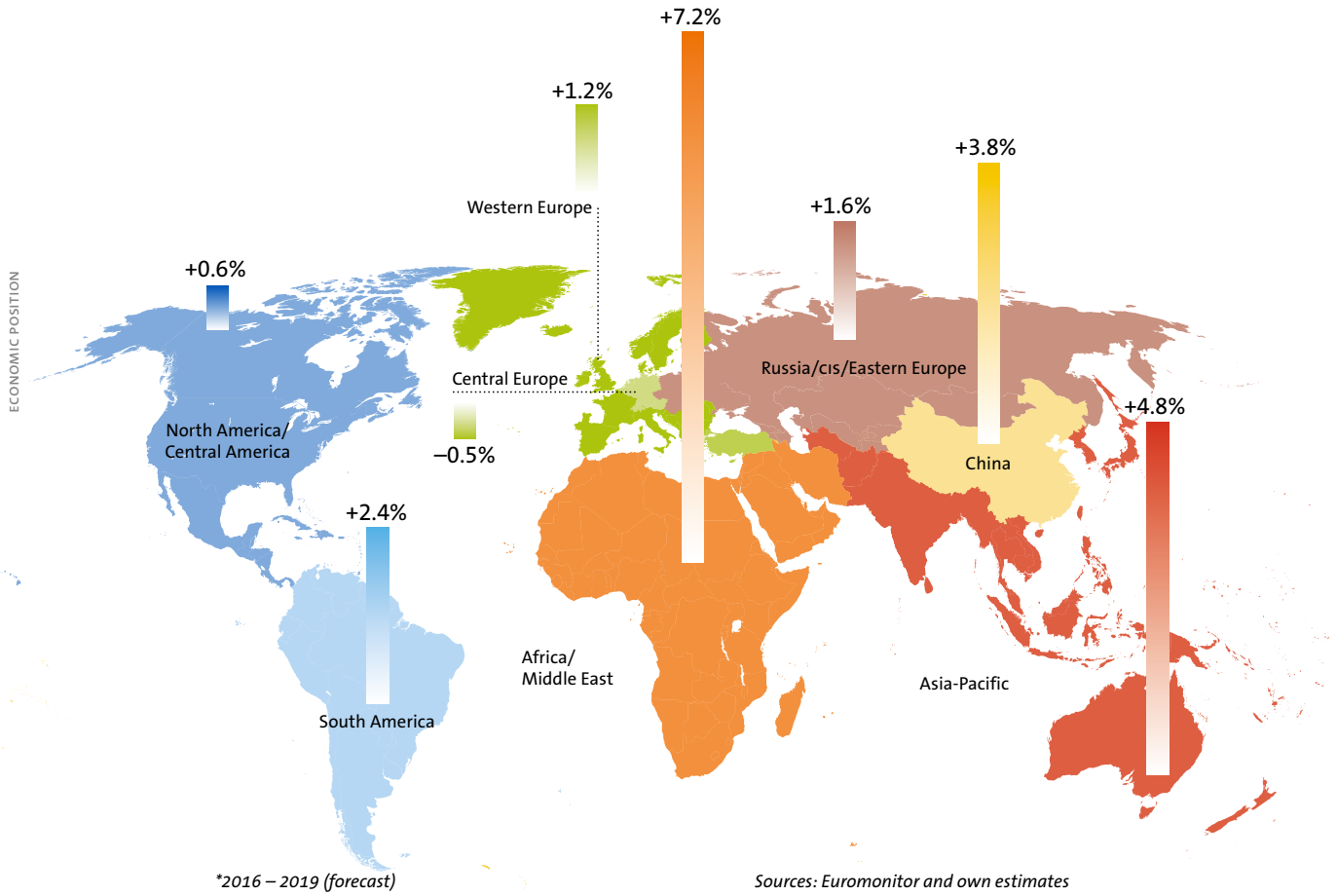
	2016 (e)		2019 (e)		Average annual growth (%) 2016–2019
	Billion litres	%*	Billion litres	%*	
North America/Central America	193.7	17.6	197.3	16.4	0.6
China	178.6	16.2	199.9	16.7	3.8
Asia-Pacific	173.3	15.8	199.3	16.6	4.8
South America	161.2	14.7	172.9	14.4	2.4
Western Europe	142.3	12.9	147.7	12.3	1.2
Africa/Middle East	120,3	10.9	148.4	12.4	7.2
Russia/CIS/Eastern Europe	78.5	7.1	82.3	6.9	1.6
Central Europe	52.6	4.8	51.8	4.3	–0.5
Worldwide	**1,100.5**	**100.0**	**1,199.6**	**100.0**	**2.9**

*Share of global consumption

Sources: Euromonitor and own estimates

The Africa/Middle East region is likely to exhibit the highest growth. Demand there is expected to increase by 7.2% on average each year from 2016 to 2019. Demand for packaged beverages is also increasing faster in the Asia-Pacific region and in China than in the overall market. In mature markets such as Europe and North and Central America, population growth and, therefore growth in demand, are only slight. However, in these markets, KRONES benefits from the growing diversity of beverages and the increasing variety of packaging.

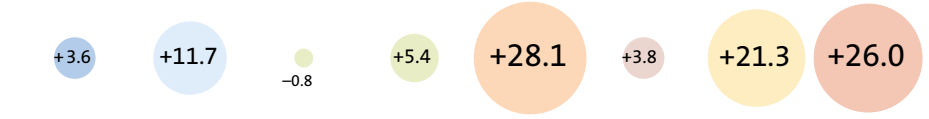
Global consumption of packaged beverages by region – annual growth (%)*

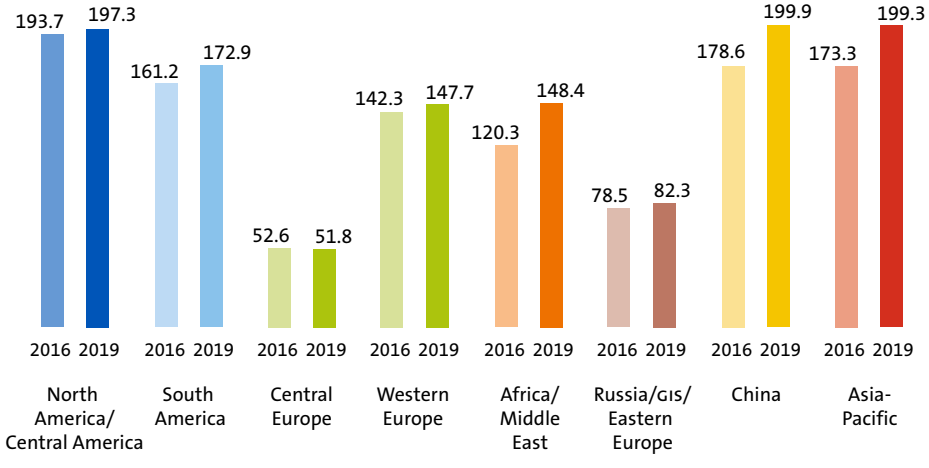


2016 – 2019 (forecast)

Sources: Euromonitor and own estimates

Global consumption of packaged beverages by region (billion litres)*





The Africa/Middle East region is expected to grow by an average of 7.2% annually in the period from 2016 to 2019. In absolute figures, that corresponds to an increase of 28.1 billion litres.

*Forecast

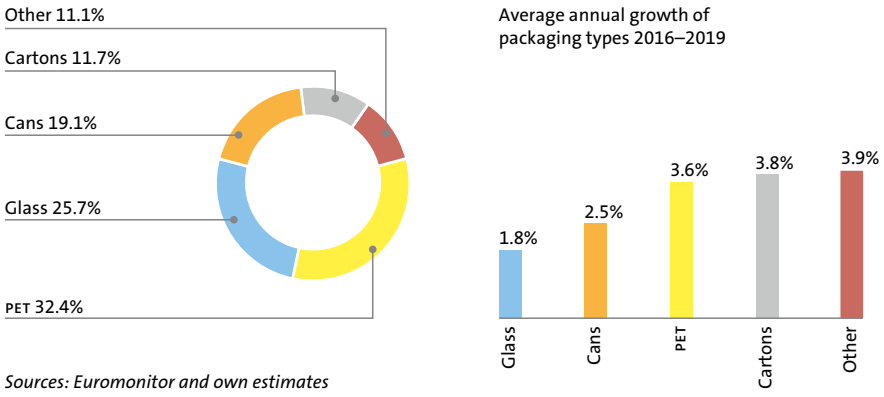
= Growth between 2016 and 2019 (billion litres)

Sources: Euromonitor and own estimates

PET is the most popular beverage packaging

According to preliminary figures from Euromonitor, 1,612 billion containers were filled with beverages worldwide in 2016. That number is expected to increase by 3.0% per year on average to 1,761 billion by 2019, in line with beverage consumption growth. The main container materials on the market are plastic, glass, metal, and cartons.

Global beverage market by packaging material in 2016 (based on units filled)



Sources: Euromonitor and own estimates

Around one-third of all beverage packages used worldwide are made of PET. The gap between PET and its nearest competitors, glass and cans, will continue to widen in the years ahead.

By far the most beverage packages are made of the plastic polyethylene terephthalate (PET). In 2016, 32.4% of all beverage containers were made of PET. PET is expected to continue to grow faster than other beverage packaging materials in the future. Rising consumption of bottled water is an important factor driving the growth of PET since most of the world's packaged water is filled into PET containers. The number of beverage containers made of PET is likely to increase 3.6% per year on average through 2019. As the leading supplier of machines and lines for producing, filling, and packaging PET containers, KRONES benefits from this trend.

Glass, the second most often-used packaging material, is expected to grow only half as much as PET. Glass bottles made up 25.7% of beverage packages worldwide in 2016. Glass bottles are primarily used for beer and other alcoholic beverages, in other words, beverages for which demand is growing more slowly than the beverage market as a whole.

Metal cans are the third most commonly used packaging material (2016 share: 19.1%). Beer and carbonated soft drinks (CSDs) are the main applications for cans. The number of cans filled is expected to grow by 2.5% on average each year through 2019. As a result, the beverage can's share of the packaging materials market is likely to shrink somewhat in the years ahead.

Cartons make up the fourth major packaging material for beverages (share of total beverage packaging in 2016: 11.7%). They are mainly used for packaging milk and dairy drinks and fruit and vegetable juices. The number of cartons filled is expected to grow by 3.8% on average each year through 2019.

KRONES AG in figures

- KRONES AG revenue increased 8.3%
- Profitability improved
- Shareholders to receive a dividend of €1.55 per share for 2016 (previous year: €1.45)

A comparison of the forecasts we made in our 2015 annual report (page 117) with the figures actually attained in 2016 reveals the following:

Revenue growth exceeded our forecast (forecast: 4%, actual growth: 8.3%).

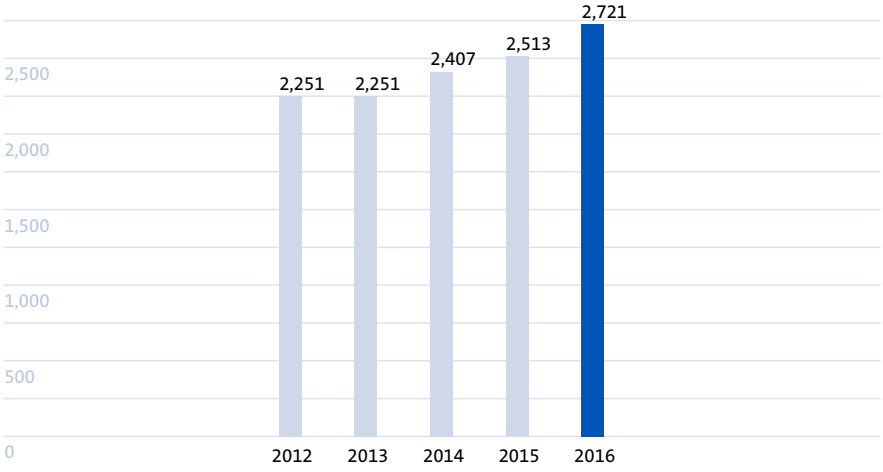
With EBT at €146.3 million, we far exceeded the forecast range (€90 to €100 million).

KRONES AG significantly increased revenue and earnings

Revenue increased 8.3% to €2,721.2 million in 2016 (previous year: €2,513.2 million).

Once again in 2016, KRONES benefited from its global approach and presence, its broadly diversified and further expanded range of products and services, and its strong customer orientation. Despite many regional trouble spots, our business environment remained predictable overall as "food and drink" are less cyclical in nature than other sectors.

KRONES AG revenue (€ million)

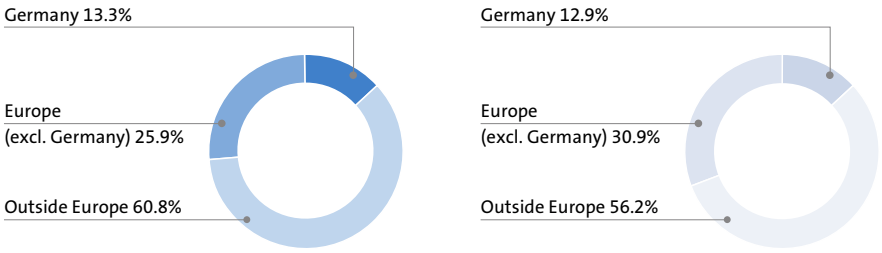


KRONES continued its stable growth in 2016.

Revenue by region

A good 60% of our revenue comes from countries outside Europe.

KRONES AG revenue by region



Revenue in 2016: €2,721.2 million

Revenue in 2015: €2,513.2 million

As in the two previous years, we posted strong revenue growth in Germany in 2016. Revenue grew 11.9%, from €324.3 million in the previous year to €362.9 million. Thus, the share of revenue generated in Germany rose from 12.9% to 13.3%.

At €108.6 million, revenue in the rest of Central Europe held steady right around the year-earlier level of €111.9 million. The region accounted for 4.0% of total revenue.

After a strong year in 2015 (€517.0 million), revenue in Western Europe returned to 2014 levels in 2016, totalling €425.6 million. The revenue share contracted by 17.7% compared with 2015, from 20.6% to 15.7%.

Activity in the Eastern Europe/CIS region picked up a bit. Revenue there increased from €148.2 million to €169.0 million (share of total revenue: 6.2%).

In all, the European sales regions (excluding Germany) accounted for around one-quarter (25.9%) of total revenue (previous year: 30.9%).

Because of its products, KRONES benefits from global population growth and from increasing urbanisation in the emerging markets. We delivered 60.8% of our goods and services to markets outside Europe last year (previous year: 56.2%).

The development of the various markets varied.

In China, one of our most important sales regions, revenue increased 10.9% from €182.3 million to €202.2 million. By contrast, revenue in the rest of the Asia-Pacific region was down 11.4% year-on-year from €427.9 million to €379.1 million. We will be establishing a number of sales and service companies in order to better penetrate this large market and be closer to customers.

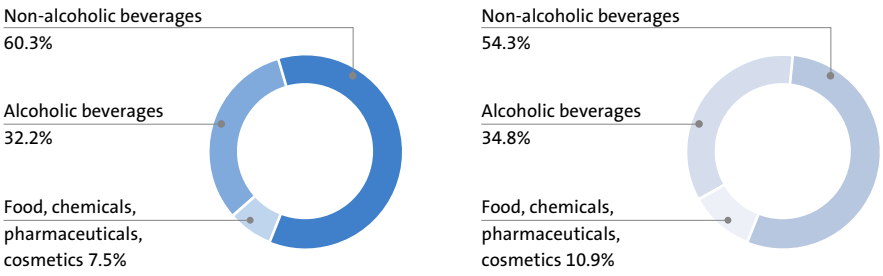
Despite economic and political crises in South America, we were able to increase revenue in the region by 42.2% to €249.9 million (previous year: €175.7 million). With that, we further increased our market share in the region.

KRONES significantly improved its position in the mature North American market in 2016. Customers' investments in necessary equipment replacements, the continued growth of the craft beer scene, and a strong US dollar helped us increase revenue in the region by 42.9% year-on-year from €228.5 million to €326.5 million. As a result, the region accounted for 12.0% of our revenue.

For several years now, we have been very successful in the Middle East/Africa region, thanks in part to our strong local presence. Customers there include a number of well-known key accounts as well as many local companies. Despite the continued difficulties faced by countries that depend heavily on oil prices and whose currencies have lost value recently, our sales of goods and services in the region nevertheless grew by 25.2%. In absolute figures, that was an increase from €397.3 million to €497.4 million. Thus, the region accounted for 18.3% of total revenue.

Revenue by industry

KRONES AG revenue by industry



Over 90% of our revenue is generated with customers in the beverage industry.

Revenue from sales of equipment for processing alcoholic beverages decreased 1.3%, from €874.3 million in the previous year to €863.2 million in 2016. The revenue share thus came to 32.2% (previous year: 34.8%).

Revenue from business with producers of non-alcoholic beverages such as soft drinks, water, and juices, increased considerably, from €1,365.0 million to €1,619.1 million (+18.6%). Thus, this sector's share of revenue increased to 60.3% (previous year: 54.3%).

Revenue with dairy, food, pharmaceuticals, and cosmetics producers was down 26.0% from €273.9 million in 2015 to €202.8 million in the reporting period. Thus, this sector's share of revenue decreased to 7.5% (previous year: 10.9%).

Revenue from sales to subsidiaries or third parties, which under Germany's Accounting Directive Implementation Act (BilRUG) must be transferred from other operating income to revenue, are not attributed to an industry group (€36.1 million).

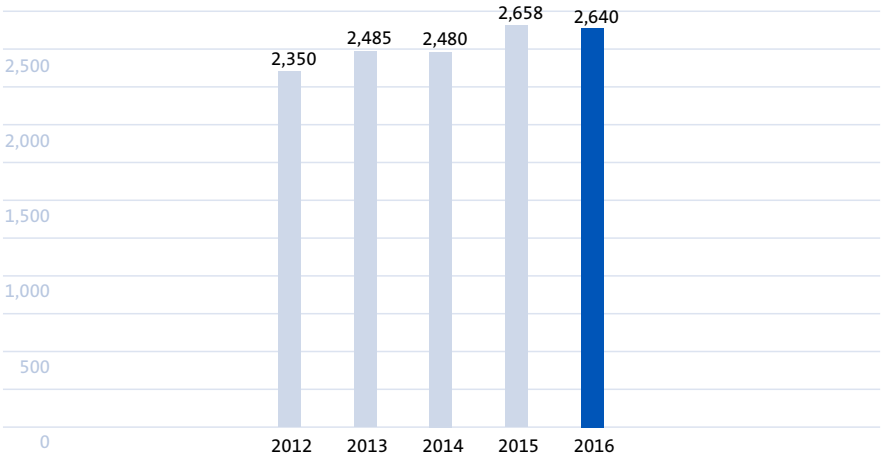
Contract value of orders at KRONES AG decreased slightly

Order intake was well distributed across the individual regions. That gives us a high level of stability.

In a highly competitive, price sensitive market, orders at KRONES AG declined 0.7% from €2,658.2 million to €2,639.7 million. However, it should be borne in mind that an increasing share of orders went to subsidiaries. In all, order intake for the group as a whole was up significantly.

A look at the sales regions shows growth in Western and Eastern Europe and in Latin America and North America. We did not match the year-earlier figures in Asia, including China, and in the Middle East/Africa region. Currency problems resulting from the low oil price played a role in important sales markets in Africa.

KRONES AG order intake (€ million)

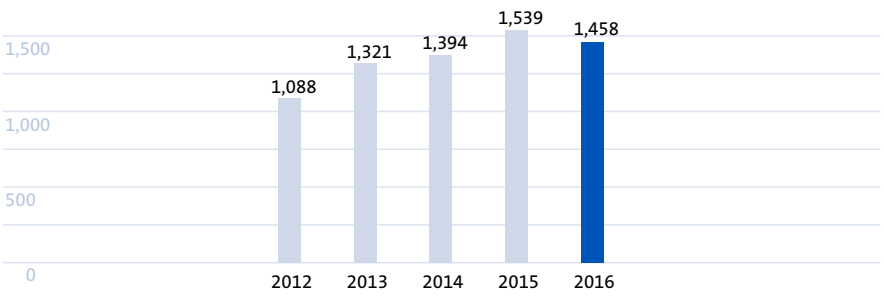


Orders on hand down year-on-year at the reporting date

At the end of 2016, KRONES AG had an orders backlog of €1,457.5 million on the books. At 31 December 2015, orders on hand had totalled €1,539.0 million. The decrease at the reporting date is partly due to high revenue at the end of 2016.

As in the previous years, the orders cushion serves as a good basis for achieving our volume targets for 2017.

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



KRONES AG improved earnings considerably in 2016.

KRONES AG improved earnings considerably even as the markets remained highly competitive. This was accomplished by way of economies of scale as a result of significantly higher revenue and by way of cost savings achieved through a variety of performance programmes.

One positive item also came from the €15.0 million reversal of a write-down on the carrying amount of our long-term equity investment in KOSME SRL. in Roverbella, Italy. The company's earnings have improved significantly, thus allowing us to reverse some of the write-downs taken in previous years. Another positive effect at the KRONES AG level came from the expansion of intragroup recharges. An accounting rules change, which now requires that the discount rate for pension obligations be calculated using the 10-year average instead of the previously used 7-year average had a positive impact on our financial income (expense) result.

In all, KRONES AG generated earnings before taxes of €146.3 million, which is up 85.0% over the previous year (€79.1 million).

The Executive Board and the Supervisory Board will propose to the annual general meeting that a dividend of €1.55 per share be paid for the financial year 2016 (previous year: €1.45 per share). If the annual general meeting approves this proposal, the dividend payout ratio for 2016 will be 29.0% based on consolidated net income.

KRONES AG earnings structure

€ million	2016	2015	Change
Revenue	2,721.2	2,513.2	+8.3%
Changes in inventories of finished goods and work in progress	–1.9	+103.8	–
Total operating performance	2,719.3	2,617.0	+3.9%
Goods and services purchased	–1,537.4	–1,484.9	+3.5%
Personnel expenses	–718.9	–695.9	+3.3%
Other operating income (expenses) and own work capitalised	–271.5	–298.8	–9.1%
EBITDA	191.5	137.4	+39.4%
Depreciation and amortisation on fixed assets	–52.6	–50.6	+4.0%
EBIT	138.9	86.8	+60.0%
Financial income (expense)	7.4	–7.7	–
EBT	146.3	79.1	+85.0%
Income tax	–34.0	–19.0	+78.9%
Other taxes	–1.2	–1.1	+9.1%
Net income for the year	111.1	59.0	+88.3%

KRONES AG expanded its business volume considerably in 2016. Revenue exceeded the previous year's by 8.3% due to invoice timing. This was more than forecast (+4%). Total operating performance (revenue + changes in inventories) matched our forecast almost exactly (+3.9%).

Goods and services purchased (€1,537.4 million) increased 3.5%, somewhat less than total operating performance. The ratio of expenses for goods and services purchased to total operating performance improved slightly, from 56.7% to 56.5%. Although we got no support from the sales side, negotiations with suppliers and internal performance programmes enabled us to reduce this ratio slightly.

Personnel expenses grew 3.3%, less than total operating performance.

Personnel expenses (+3.3%) also grew less than our total operating performance. The increase in this expense item came from workforce growth and an increase in pay rates as a result of collective bargaining. Bonuses paid to employees were lower than in the previous year. In all, personnel expenses came to €718.9 million (previous year: €695.9 million). The ratio of personnel expenses to total operating performance declined slightly, from 26.6% to 26.4%,

Depreciation and amortisation of fixed assets increased 4.0% from €50.6 million to €52.6 million.

Thus, the ratio of depreciation and amortisation on fixed assets to total operating performance was unchanged at 1.9%.

The net of other operating income and expenses and own work capitalised decreased from –€298.8 million in the previous year to –€271.5 million in 2016. That puts the ratio of this figure to total operating performance at 10.0%. The improvement over the previous year's ratio (11.4%) resulted from savings in other operating expenses and the €15.0 million reversal of a write-down on the carrying amount of our long-term equity investment in KOSME SRL., Roverbella, Italy.

The financial result (financial income of €7.4 million) consists primarily of earnings from investees (€14.2 million) and earnings from discounting. The net of income and expenses from discounting (–€3.4 million) changed significantly compared with 2015 (–€23.4 million). That is due to the different discount rates used in keeping with changed accounting rules, which now require that the discount rate for pension obligations be calculated using the 10-year average instead of the previously used 7-year average. In the previous year, the financial result was a financial expense of €7.7 million.

After income taxes (€34.0 million, previous year: €19.0 million) and other taxes (€1.2 million), KRONES AG had net income of €111.1 million (previous year: €59.0 million). That is an increase of 88.3%. The tax rate came to 23.2% (previous year: 24.1%).

As in the previous years, KRONES AG had no bank debt at 31 December 2016. Cash and cash equivalents at the end of the reporting period came to €188.2 million (31 December 2015: €125.7 million).

Working capital increased further on higher business volume. Improving this important performance indicator will be a key task for 2017. Besides concrete programmes, measures will also include increasing employee awareness.

Existing lines of credit totalling €262.7 million may be used as cash credit or surety credit. In addition, the company also has at its disposal extensive pure surety lines.

Moreover, a syndicated loan agreement with our core banks for €250 million through 22 October 2021, which was signed in October 2014, is available as a back-up facility for financing working capital, including the financing of equity investments.

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

Cash flow (net income or loss for the year plus depreciation, amortisation, and write-downs) improved to €163.7 million in 2016 (2015: €109.6 million).

KRONES AG's cash flow is as follows:

€ million	2016	2015
Cash and cash equivalents at 1 January	125.7	165.5
Cash flow from operating activities	138.4	45.0
Cash flow from investing activities	–66.1	–48.4
Cash flow from financing activities	–9.8	–36.4
Cash and cash equivalents at 31 December	188.2	125.7

Asset and capital structure of KRONES AG

(€ million at 31 December)	2016	2015	2014
Fixed assets	561.8	514.1	501.7
Current assets and prepaid expenses	1,053.1	1,006.6	919.2
of which cash and cash equivalents	188.2	125.7	165.5
Equity	702.2	636.9	617.5
Total debt	912.7	883.8	803.4
Provisions	483.1	488.4	477.0
Liabilities	429.6	395.4	326.4
Total	**1,614.9**	**1,520.7**	**1,420.9**

For more information, please refer to the detailed balance sheet on pages 138 and 139.

At 31 December 2016, KRONES AG's total assets were up €94.2 million to €1,614.9 million. The 6.2% increase was smaller than the increase in revenue (+8.3%).

Fixed assets increased 9.3% to €561.8 million. Of that, €341.8 million were property, plant and equipment (previous year: €348.4 million). Of the €88.6 million in additions, the biggest share of capital expenditure went towards the purchase of standard software and machinery and equipment.

Long-term financial assets were up by €47.5 million from €136.1 million to €183.6 million. Of that, a larger part relates to the increase in our equity investment in KOSME SRL., Roverbella, Italy, for the purchase of a 60% stake in SYSTEM LOGISTICS and from the reversal of a write-down. A smaller part went towards loans to affiliated companies and the establishment of new companies.

At €1,053.1 million, current assets, including prepaid expenses, were up 4.6% on the previous year. Trade receivables increased 6.9% from €335.6 million to €358.6 million. That is due to an 8.3% increase in revenue. Receivables from affiliated companies, on the other hand, decreased from €174.9 million to €150.9 million. Other assets changed only slightly (from €68.3 million to €66.8 million). Netted against prepayments received, inventories decreased from €299.9 million to €286.1 million.

Cash and cash equivalents at the end of the reporting period increased to €188.2 million (31 December 2015: €125.7 million).

A comfortable liquidity cushion and a sound equity position ensure that KRONES AG has a high level of financial flexibility and independence.

On the liabilities side, provisions decreased slightly, from €488.4 million to €483.1 million. At €126.2 million, pension provisions changed very little (previous year: €128.2 million). Personnel provisions, including bonuses, decreased from the previous year while provisions for customer projects increased somewhat.

Liabilities increased 8.6% from €395.4 million to €429.6 million in the reporting period. The increase related to both trade payables and liabilities to affiliated companies. KRONES AG had no bank debt at 31 December 2016, as at the reporting dates for previous years. Thus, the company's net cash and cash equivalents (cash and cash equivalents less bank debt) amounted to €188.2 million at the end of the reporting period (31 December 2015: €125.7 million).

KRONES AG's equity at 31 December 2016 came to €702.2 million (31 December 2015: €636.9 million). That is an increase of €65.3 million or 10.3%. The dividend payout to our shareholders in June 2016 reduced equity by €45.8 million. Net income for 2016 increased equity by €111.1 million. The result is an improved equity ratio of 43.5% (31 December 2015: 41.9%).

Overall, KRONES AG has an extremely robust financial and capital structure.

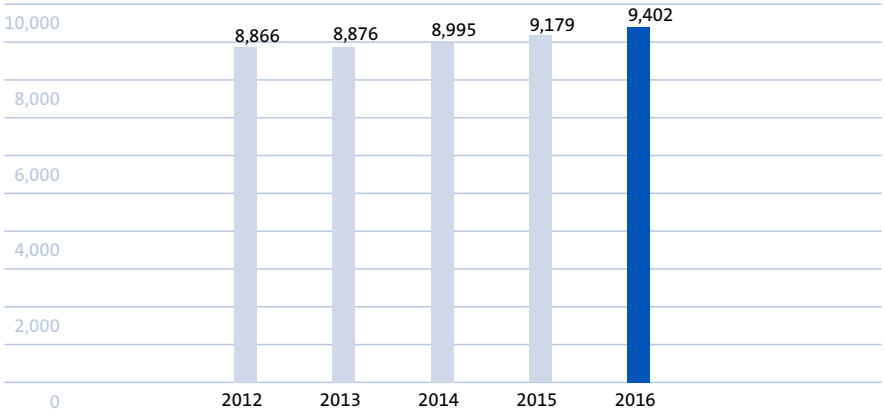
Employees

German workforce grows 2.4% in 2016

In order to continue to leverage our markets' potential for growth, we are expanding our workforce internationally, especially in our customers' locales. But we also grew the workforce at KRONES AG last year. The number of employees at KRONES AG in Germany increased from 9,179 to 9,402. That is an increase of 223 people or 2.4%. We also added another 51 employees at our representative offices abroad.

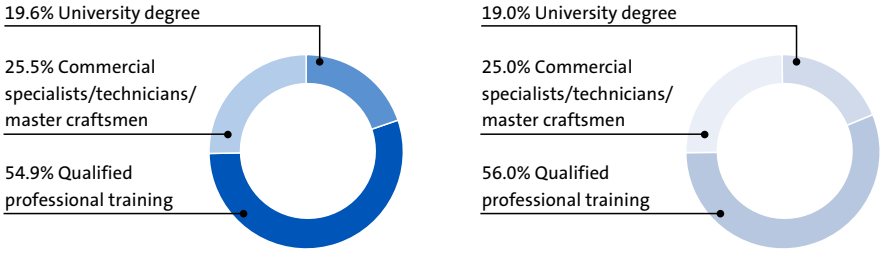
KRONES also further grew its workforce in Germany.

KRONES AG employees at 31 December in Germany



To meet its ambitious growth targets, our company needs qualified, highly motivated people. For this reason, KRONES invests heavily in training and continuing education for personnel, strengthening not only their subject-matter expertise but also more general skills.

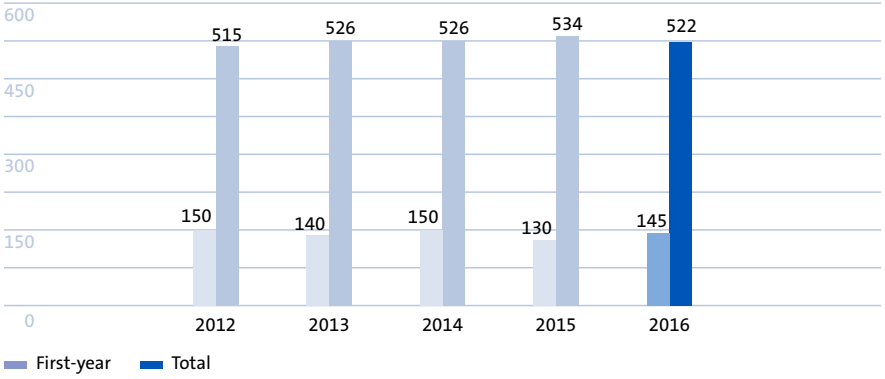
Employee qualifications in Germany



Recruiting qualified young people is an important objective of KRONES' human resources policy, to counter the effects of demographic change (population ageing). KRONES strives to replace retiring employees in Germany with our own home-grown talent. For this, KRONES relies on a strong in-house training programme. In the fall of 2016, 145 young people began training with KRONES, 15 more than last year. In all, KRONES was training 522 young people in more than 20 different fields in Germany at the end of 2016.

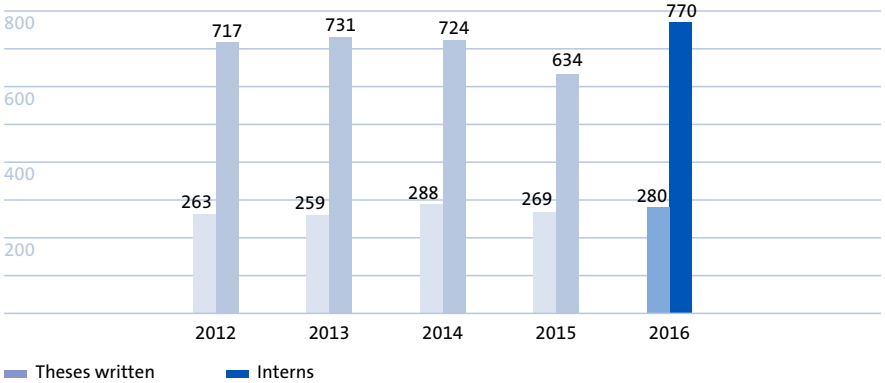
In Germany, KRONES intends to replace retiring employees with our own home-grown talent.

Apprentices at KRONES AG (total and first-year)



Of these, 76 were completing a dual course of vocational training and university study. Under the programme known as "Profil 21", 105 employees are earning both a trade proficiency certificate ("Facharbeiterbrief") and the title of state-certified service technician. We permanently hired 124 trainees and apprentices upon completion of their vocational training in 2016 (previous year: 127). KRONES works closely with universities in order to recruit graduates as employees. The company offers internships and thesis-writing opportunities to students in a wide range of disciplines. That gives both parties a chance to get to know each other and is often the first step towards permanent employment at KRONES. In the reporting period, 770 students completed internships and 280 wrote their Bachelor's or Master's theses at KRONES.

Interns and theses at KRONES



KRONES provided 770 students with internships in 2016. Another 280 university graduates wrote their Bachelor's or Master's theses in our company.

More information on our labour practices is in our Sustainability Report, which is available online at www.krones.com.

Doing business sustainably and social responsibility are deeply embedded in KRONES' DNA. The fundamental principles that guide our company are laid out in our mission statement, code of conduct, and numerous other codes and policies.

KRONES AG is member of the UN Global Compact and is committed to the Compact's ten internationally recognised principles of sustainability relating to human rights, labour standards, the environment, and anti-corruption. To fulfil our responsibilities to society, we engage in active dialogue with our customers, employees, shareholders, suppliers, and other stakeholder groups.

Many actions taken to promote sustainability in 2016

KRONES implemented a number of measures in 2016 aimed at reducing CO_2 emissions for the long term.

We once again made great progress with our enviro sustainability programme in the reporting period. System assessments under enviro 2.0 enable KRONES to evaluate the energy and media efficiency not only of individual machines but of entire systems.

In 2015, we set a target for CO_2 emissions through 2020. KRONES implemented a number of measures in the reporting period to reduce CO_2 emissions. We have optimised buildings in terms of energy use. We also established a rail connection within our Neutraubling plant, making it possible to now ship products directly from the platform in Neutraubling plant to our logistics hub in Hamburg. According to our calculations, it eliminated 1,600 truckloads of road freight in 2016.

Details about KRONES' sustainability performance can be found in our Sustainability Report. The Report also contains our concrete goals and actions for the years ahead with respect to economy, environment, labour practices and decent work, and society. The Sustainability Report is available online at www.krones.com.

KRONES retains "Prime" status

Each year, KRONES is reviewed by oekom Research, one of the world's leading sustainability rating agencies. In 2016, KRONES earned a "Prime" rating for the fourth year in a row. That means KRONES continues to outperform the average of its industry peers when it comes to corporate social responsibility (CSR).

- Risks 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.

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

In essence, risks are defined as possible negative deviation from our earnings forecast for the 2017 financial year. Opportunities are possible positive deviations from our earnings forecast for the 2017 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 any mitigating actions 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

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. We conduct a profitability analysis of all 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 tax risks as well as 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 annually for KRONES AG and all significant group companies. The results of the risk inventory and mitigating actions are used in our annual planning and forecasting. 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 may have a significant negative impact on earnings.

Risk monitoring

We use a variety of interlinked controlling processes to monitor risks for KRONES. Regular comprehensive reports from the individual business units keep the Executive Board and other decision-makers apprised of all possible risks and deviations from company planning 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:

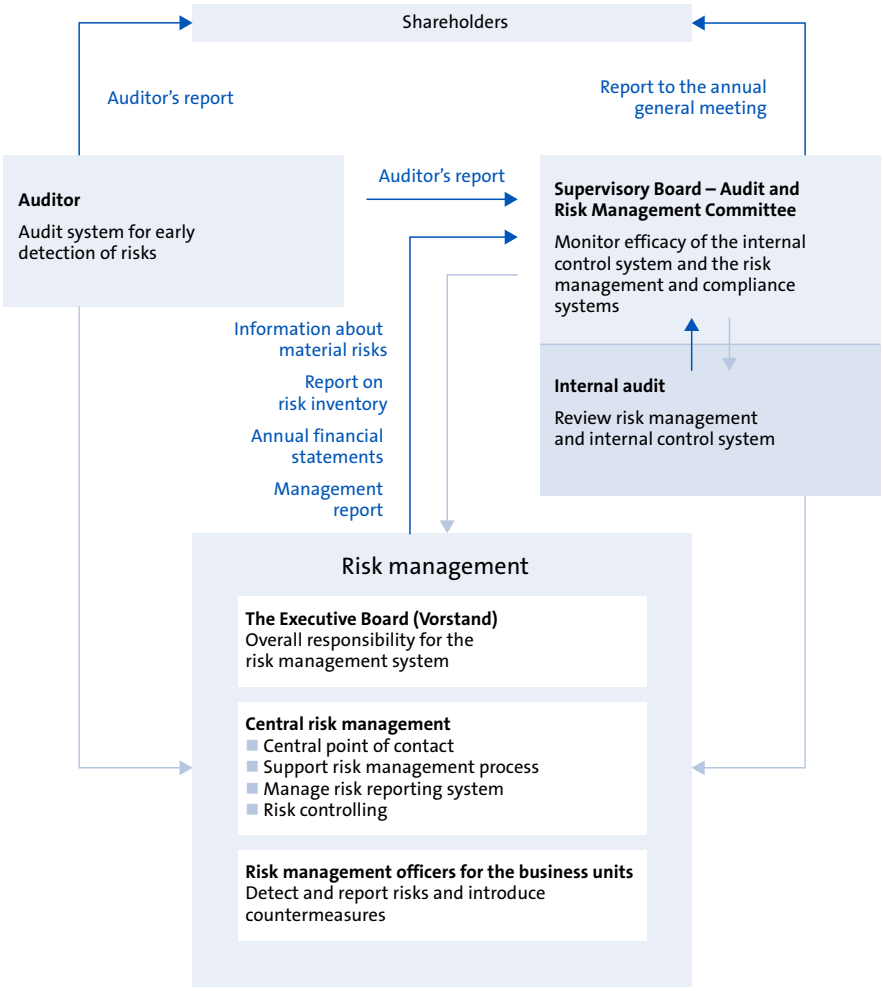
- Annual planning
- Medium-term planning
- Strategic planning
- Rolling forecasts
- Monthly and quarterly reports
- Capital expenditure planning
- Production planning
- Capacity planning
- Project controlling
- Accounts receivable management
- Exchange rate hedges
- Insurance policies

Risk management organisation

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

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 accounting and financial reporting can be described as follows:

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

KRONES AG 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.

Risk categories	Likelihood of event	Potential financial impact
General business environment and industry-specific risks		
General economic risks	low	low
Industry-specific risks	low	medium
Financial risks		
Default risks	low	medium
Liquidity risk	low	low
Interest rate risk	low	low
Currency risk	low	low
Operational risks		
Price risk	medium	medium
Procurement risks	low	low
Cost risk	low	medium
Personnel risk	low	low
Legal risks	medium	medium
Environmental and safety risks	low	low
IT risks	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 global 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 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. Write-downs on bad debt (non-recoverable trade receivables) are taken on an individual basis. 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 that 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.

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 had no bank debt at the end of the 2016 reporting period.

Impact of interest rate risk: We rate both the likelihood of an event 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.

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 predefined 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 the likelihood of an event as low and the financial impact as medium.

4. Personnel risk

KRONES plans to continue to increase its business volume and intends to step up the growth of its services business. For that, we need highly qualified employees in Germany and abroad. 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 students pursuing their bachelor's and master's degrees. We also use professional HR 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 also 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 risiks

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 availability") 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 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 strong economic recovery in the euro area and additional growth in the USA could also result in higher-than-forecast earnings.

Industry-specific opportunities

Beverage 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 enable KRONES to seize opportunities for external growth. Within the scope of our strategy program, we are keeping a purposeful eye out for suitable acquisitions. Acquisitions are not included in our earnings forecasts. External growth could 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 significant support 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 forecast. 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

- Global economic growth to accelerate in 2017
- General economic environment is good for KRONES overall
- KRONES is forecasting revenue growth and intends to keep its strong earnings stable

IMF expects global growth of 3.4% in 2017

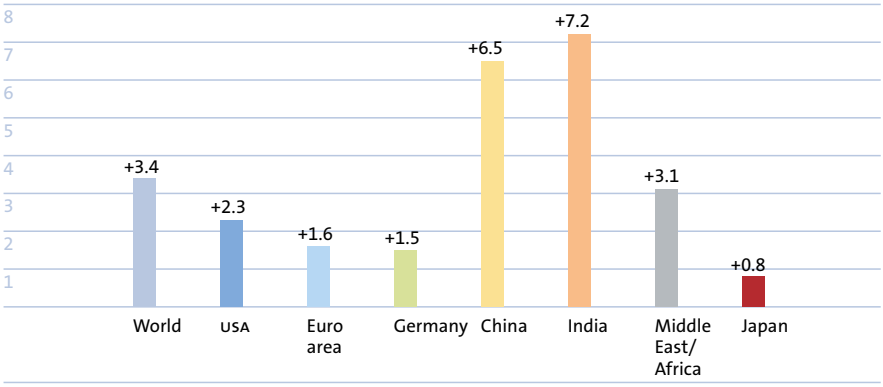
The International Monetary Fund (IMF) updated its forecasts for world economic growth in January 2017. It now expects growth in both the advanced economies and the emerging markets and developing economies to be stronger this year than it was in 2016. In all, the IMF is forecasting global growth of 3.4% for 2017 (2016: 3.1%). However, IMF economists have pointed out that there are risks to the global growth outlook. For instance, the Trump administration's new economic policy could lead to protectionism.

The International Monetary Fund expects growth in the emerging and developing economies to pick up considerably in 2017.

Economic activity in the emerging markets and developing economies is expected to accelerate considerably in 2017. In all, the IMF is forecasting 4.5% economic growth for the emerging markets (previous year: 4.1%). The large economies of Russia and Brazil are expected to emerge from recession in 2017. In the IMF's view, the economic situation in China has stabilised. Government policy measures are providing additional support there. China's gross domestic product (GDP) is expected to grow by 6.5% in 2017 (previous year: 6.7%). The IMF is projecting 7.2% economic growth for India in 2017 (previous year: 6.6%). The economists revised their expectations for the Middle East/Africa region downward slightly in January. The main reason is the cut-back in oil production, which is likely to have a negative impact on Saudi Arabia's economy. The IMF expects GDP in the Middle East/Africa region to increase 3.1% in 2017 (previous year: 3.8%).

In January 2017, the IMF was seeing the growth outlook for the advanced economies somewhat more optimistically than before and revised its overall forecast upward from 1.8% to 1.9% (2016: 1.6%). US GDP is expected to increase by 2.3% in 2017 (previous year: 1.6%). The IMF expects that the US economy will benefit from the new administration's government stimulus programmes. The IMF is forecasting euro area GDP growth of 1.6% (previous year: 1.7%). Germany's economy will likely expand slightly less than the advanced economies overall, by 1.5% (previous year: 1.7%). For Japan, the IMF is forecasting 0.8% economic growth in 2017 (previous year: 0.9%).

GDP growth in 2017 (%, forecast)



Source: IMF

Low unemployment and inflation rates strengthen purchasing power and consumer spending

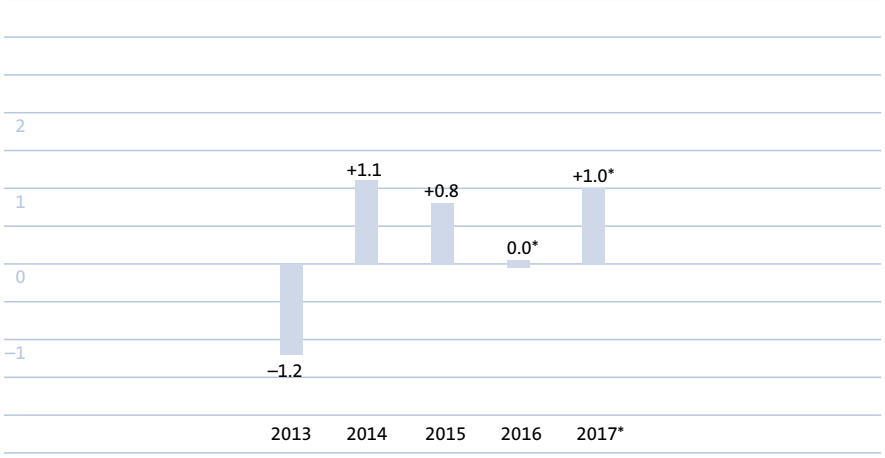
Consumer spending is a key factor determining the propensity of KRONES customers to invest and, consequently, the level of demand for beverage filling and packaging equipment. Low unemployment and low inflation rates have a positive effect on consumer's buying power and therefore support demand for packaged food and beverages. Thus, unemployment and inflation rates indirectly impact demand for KRONES' products. We do not expect either of these factors to have any negative effects on KRONES' business overall in 2017.

German machinery sector is cautiously optimistic about 2017

The German Engineering Federation (VDMA) is predicting that the industry will grow somewhat in 2017 despite several unresolved geopolitical crises. The VDMA expects that the crises in Russia and Brazil have both bottomed out and that demand from China will pick up. After posting zero growth in 2016, the value of machinery and equipment produced in 2017 is expected to rise by 1% in real terms year-on-year.

The outlook is better for the food and packaging machinery subsector, to which KRONES belongs. The VDMA expects this segment to grow by 3% to 4% in 2017.

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



* Forecast

Source: Germany's Federal Statistical Office, VDMA

KRONES confident going into 2017

KRONES is optimistic about the 2017 financial year despite many political and economic uncertainties. The packaging machinery market is growing at a relatively stable pace. Driving this growth are megatrends such as the steady growth of the middle class and increasing urbanisation in the emerging economies. Both of these trends are resulting in rising demand for industrially packaged food and beverages. Moreover, food and beverage producers increasingly must rely on innovative packaging solutions to distinguish themselves from the competition. With that, the prospects are good overall for stable growth in demand for KRONES' products and services in 2017.

KRONES aims to further grow revenue and keep its strong earnings stable in 2017

Besides the opportunities, the market also presents a number of challenges. Our customers' buying power is increasing as a result of mergers and acquisitions. Our competitors are ensuring that the fight for orders remains intense. For that reason, KRONES expects no improvement in selling prices in 2017.

Launching new products and services and further reducing costs remain important factors in our effort to grow further in all of our business areas in 2017. Moreover, Krones intends to considerably increase its presence worldwide and move even closer to customers. In the future, more procurement, engineering, and parts of production will take place in the regions in which our customers operate their plants. That will enable us to deliver regionally-adapted products faster and at competitive prices.

In our core business area, machines and lines for product filling and decoration, KRONES will also press ahead with the modularisation of our products in 2017. In the next project phase, we will simplify the design of modules in order to improve our own procurement terms. We will expand our international service structures and LCS Centres in the interest of further growth. We are also strengthening our mid-range business – that is, less complex lines with high performance. There is especially high demand for these lines in the emerging markets.

In process technology, we will continue to implement the raft of measures developed in 2015 and complete implementation of several parts in 2017. The measures are aimed at strengthening profitability and growth for the long term.

We intend to seize upon the considerable growth opportunities in intralogistics this year. Our acquisition of majority ownership of SYSTEM LOGISTICS and the expansion of SYSKRON make us the ideal partner for intralogistics solutions. We will continue to strengthen this position in terms of both regional presence and product technology in the medium term.

Based on the current macroeconomic prospects and expected development of the markets relevant to KRONES, we are targeting revenue growth of 4% in 2017. The regional distribution of revenue in 2017 is likely to be little changed from the previous year.

Adjusted for the reversal of write-downs on our equity investment in KOSME Italy in 2016 and the interest expense that is expected to result from a change in the discount rate on pensions, our aim is to keep earnings stable in 2017. We are forecasting that EBT will be between €110 million and €120 million.

	Forecast for 2017*	Actual value 2016
Revenue growth	+4%	+8.3%
EBT margin	€110–120 million	€ 146.3 million

KRONES AG intends to increase revenue and keep its strong earnings stable in 2017.

Disclosures required under Sections 289 (4) and 289 a (1) of the German Commercial Code (HGB)

Pursuant to Section 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 Section 20 (1) of the articles of association, each share entitles its holder to one vote in the annual general meeting. Unless mandatory provisions of the law stipulate otherwise, resolutions of the annual general meeting are made by 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, by a simple majority of the share capital represented in the vote.

Pursuant to Section 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 general meeting are entitled to participate and vote in the annual general meeting. Special verification of the shareholding in text form, issued in German or English by the institution with which the account is held, shall constitute sufficient evidence of the shareholding. The evidence of shareholding must refer to the start of the twenty-first day prior to the annual general meeting.

Pursuant to Section 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 general meeting may specify a relaxation of this requirement. Section 135 of the German Stock Corporation Act (AktG) remains unaffected.

In the annual general meeting, the chair of the meeting can set appropriate time limits for shareholders' questions and comments (Section 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 voting rights:

Name of shareholder	Total share of voting rights	Of which attributable indirect voting rights pursuant to Section 22 (2) of the Securities Trading Act
Familie Kronseder Konsortium GbR, Neutraubling, Germany	51.58%	51.58%

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

Changes to the shareholdings listed above that are not required to be reported to the company may have occurred since the date given above (February 2017). 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 Sections 84 and 85 of the German Stock Corporation Act (AktG). Pursuant to Section 6 (1) of the articles or association, the Executive Board consists of at least two members. Pursuant to Section 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 Sections 179 et seq. of the German Stock Corporation Act. Such amendments are to be resolved by the annual general meeting (Section 119 (1) No. 5 and Section 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 (Section 13 of the articles of association).

Pursuant to Section 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 2021.

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

By resolution of the annual general meeting of 25 June 2014, the company is authorised up to and including 24 June 2019 to buy treasury shares totalling up to 10% of the share capital at the time that the resolution took effect or – if smaller – at the time that the authorisation is exercised, in compliance with the provisions of the law and of the resolution by the annual general meeting.

By resolution of the annual general meeting of 25 June 2014, the Executive Board is authorised 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 general 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.

Remuneration report

The remuneration report presents the basic features, structure, and amounts of Executive Board and Supervisory Board remuneration at KRONES AG. In the interest of clarity and transparency, the disclosures on individual remuneration and the description of the basic features of the remuneration system have been combined in the following remuneration report, which forms part of the management report. As such, it covers the disclosures required under Sections 314 (1) No. 6a and 315 (2) No. 4 of the German Commercial Code (HGB).

Executive Board remuneration

Basic features of Executive Board remuneration

Determining the total remuneration of the individual Executive Board members is the purview of the Supervisory Board's plenary meetings. The Standing Committee prepares the Supervisory Board resolutions relating to remuneration and makes recommendations.

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

The Supervisory Board reviews the appropriateness of the system on a regular basis using external benchmarks and comparisons with senior management and the entire workforce.

The current remuneration system for the Executive Board was last revised in 2013. The new system was approved by the annual general meeting on 25 June 2014.

Remuneration components

The system for Executive Board remuneration consists of the following components:

- Fixed components (base salary and fringe benefits)
- Variable components that are payable annually and based on business performance (short-term incentives) and thus contain risk factors
- Variable components that serve as medium-term incentives containing risk factors, with a measurement period of 3 years
- Variable components that serve as long-term incentives containing risk factors, with a measurement period of 5 years
- Post-employment benefits

In all, the remuneration structure breaks down as follows: 59% fixed remuneration and 41% variable remuneration. In sum, the remuneration system is designed to create an incentive for successful long-term management. Thus, the medium and long-term components of variable remuneration account for 64% of the total variable remuneration. Moreover, the variable remuneration is subject to caps and requirements that must be met for payment to occur.

Fixed components (base salary and fringe benefits)

The fixed amount is the base salary stipulated in the members' contracts and is paid out in equal monthly amounts. It is reviewed on a regular basis. For the financial year 2016, the base salaries of the six members of the Executive Board who were active in 2016 totalled €2,990 thousand (previous year: €2,890 thousand).

In addition, the members received fringe benefits which are essentially the cost or non-cash benefit of customary insurance premiums, housing costs, school tuition, and the use of a company car. These benefits are taxed in accordance with the applicable tax rules. For the 2016 financial year, the members of the Executive Board received fringe benefits totalling €319 thousand (previous year: €125 thousand).

Variable components

The variable remuneration contains risk elements and is thus not guaranteed remuneration. The incentive package for the Executive Board consists of the following since 2014:

- Short-term incentive (STI, measurement period: 1 year)
  - Awarded annually
  - Target bonus: 3 months' salary per annum (= 100% of performance target attained)
  - Reference figures: EBT margin (primary), order intake, consolidated revenue, ROCE
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative

STI payment for the financial year 2016 amounts to €673 thousand in 2017 (previous year: €1,085 thousand). In addition, the Supervisory Board can, at its equitable discretion, pay out a special bonus if extraordinary events or special performance warrant it. No special bonuses were paid out for the 2016 financial year.

- Medium-term incentive (MTI, measurement period: 3 years)
  - Awarded annually (on a revolving basis)
  - Target bonus: 3 months' salary per annum (= 100% of performance target attained)
  - Reference figures: ROCE (primary), revenue, EBT margin, and quality costs
  - Capped at 200% (max. 6 months' salary)
  - No payment if EBT is negative on average

The provision for the medium-term incentive amounted to €1,169 thousand at the end of the financial year (previous year: €1,246 thousand). Of that, €576 thousand apply to the year 2016 as remuneration.

- Long-term incentive (LTI, measurement period: 5 years)
  - Awarded every 5 years (sequentially)
  - Theoretical bonus = 1/5 of base salary per annum if 100% of performance target is attained
  - 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%

The provision for the long-term incentive amounted to €3,157 thousand at the end of the year (previous year: €2,847 thousand). The earliest point at which payment from the LTI can occur is the end of the financial year 2017 – provided that the reference figures have been achieved or exceeded. If an Executive Board member leaves before the end of the measurement period, payment is pro-rated.

Total Executive Board remuneration amounted to €4,558 thousand (previous year: €5,573 thousand).

There are and have been no stock-option plans or comparable share-based long-term incentive components of remuneration for Executive Board members at KRONES AG.

Post-employment benefits

The company has made post-employment benefit commitments to members of the Executive Board.

For Executive Board members who joined the board in 2012 or later, the post-employment benefits are contribution-based. Annual contributions in the amount of 40% of the respective member's annual base salary are paid into an external pension liability reinsurance policy in which the benefits are pledged to the beneficiary. There, they accrue annual interest until the benefits fall due, at the rate guaranteed when the policy was established plus any annual investment returns. Post-employment pension benefits are granted when the member reaches the age of 62 and only after the member leaves the Executive Board. Executive Board members can choose to receive a lump-sum payout of the post-employment benefits instead of annuity-based payments. Executive Board members' entitlements to post-employment benefits based on contributions from KRONES AG become vested immediately. Executive Board members may elect to receive supplemental monthly benefits for permanent disability and/or a monthly widow(er)'s pension.

Members of the Executive Board who entered the board before 2012 received benefit commitments under a defined benefit plan. The benefit commitment equals 30% of the last base salary received (average of the last 12 months of employment). The commitments include post-employment, permanent disability, and surviving dependent benefits. Here, too, post-employment benefits are granted after the member reaches the age of 62 and leaves the Executive Board. If a member of the Executive Board leaves the company before reaching the age of 62 for reasons of permanent disability or because the employment contract is terminated or not renewed, the amount of the pension entitlement in relation to the company is reduced by a certain percentage for each calendar year up to age 62; the percentage is determined in the individual's contract. If an Executive Board member dies, the member's spouse receives the full amount of the annuity that would have been owed to the Executive Board member for the first 6 months following the member's death. Thereafter, the widow(er)'s annuity is reduced to 70% of that benefit amount. Vesting of benefits is determined based on the provisions of the laws applicable at the time each contract was entered into.

In the case of both contribution-based plans and defined benefit plans, the individual employment contracts contain provisions that govern discontinuation, reduction, or cancellation of benefits (including widow(er)'s benefits if provided for) in the event of particularly substantial changes in accordance with the provisions of the German Stock Corporation Act.

Pension provisions of €284 thousand (previous year: €1,352 thousand) were recognised for active members of the Executive Board. In addition, €956 thousand (previous year: €652 thousand) was paid into contribution-based plans in 2016. At the end of 2016, the corresponding net present values amounted to the following: for Mr. Klenk €1,437 thousand, for Mr. Diepold €4,225 thousand, for Mr. Ricker €23 thousand, for Mr. Tischer €25 thousand, and for Mr. Goldbrunner €16 thousand. In 2016, pension-related expenditure, including contributions into the post-employment benefits plan (bAV) amounted to the following: for Mr. Klenk €320 thousand, for Mr Anderson €204 thousand, Mr. Diepold €2 thousand, for Mr. Ricker €160 thousand, for Mr. Tischer €136 thousand, and for Mr. Goldbrunner €136 thousand.

Additional benefits in the event of termination of employment

The members' employment contracts contain a non-compete clause that includes a suitable compensation to be paid for the non-compete period. Further benefits for the event of termination have not been agreed.

Advances and loans

No loans or advances were provided to members of the Executive Board in 2016.

Benefits paid to former members of the Executive Board

For former members of the Executive Board and their surviving dependents, payments were made amounting to €1,451 thousand (previous year: €988 thousand) and pension provisions of €989 thousand (previous year: €238 thousand) were recognised.

Total remuneration paid to members of the Executive Board in 2016

2016 remuneration in accordance with GAS 17 (German accounting standard 17)

Remuneration pursuant to GAS 17 (€ thousand)									
Name	Position		Base salary	Fringe benefits	Total	Short-term incentive	Medium-term incentive	Long-term incentive	**Total remuneration**
Christoph Klenk	CEO Human Resources, Communication, Quality, Information Management	since 2003	800	27	827	180	147	0	**1,154**
Michael Andersen	CFO Finance, Controlling, Strategic Purchasing	since 2016	510	199	709	115	0	0	**824**
Rainulf Diepold	Sales and Marketing	since 1996	600	28	628	135	160	0	**923**
Thomas Ricker	Bottling and Packaging Equipment	since 2012	400	20	420	90	107	0	**617**
Markus Tischer	International Operations and Services	since 2014	340	16	356	77	91	0	**524**
Ralf Goldbrunner	Plants and Components	since 2014	340	29	369	77	71	0	**517**

Supervisory Board remuneration

Remuneration of the members of the Supervisory Board is governed by Section 15 of the articles of association and resolved by the annual general meeting. For the financial year 2016, the articles of association as amended by the annual general meeting of 25 June 2014 apply.

The members of the Supervisory Board receive remuneration that reasonably reflects their responsibilities and the company's position. In keeping with the recommendations of the German Corporate Governance Code, the Chairman and Deputy Chairman of the Supervisory Board as well as the Chairman and members of the Committees receive additional compensation.

The Supervisory Board's remuneration consists of an annual fixed remuneration of €35,000. The Chairman of the Supervisory Board receives two and one-half 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. Moreover, the members of the Supervisory Board receive a flat €1,500 fee per meeting as reimbursement for their expenses unless they submit proof of having incurred higher expenses.

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 €1,500 flat-rate reimbursement for expenses per meeting.

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

The total remuneration paid to members of the Supervisory Board for the financial year 2016 amounted to €633 thousand (previous year: €642 thousand) and is shown in the table below with individualised disclosure.

Name	Position	Base compensation €	Additional compensation for committee work	Meeting attendance fee	**Total remuneration in 2016**
Volker Kronseder	Chairman of the Supervisory Board	43,750	3,500	7,500	**54,750**
Ernst Baumann	Former Chairman of the Supervisory Board	43,750	3,500	6.000	**53,250**
Werner Schrödl*,**	Deputy Chairman of the Supervisory Board	52,500	7,000	13,500	**73,000**
Klaus Gerlach*	Regular member	35,000		6,000	**41,000**
Norman Kronseder	Regular member	35,000	7,000	13,500	**55,500**
Philipp Graf von und zu Lerchenfeld	Regular member	35,000	7,000	7,500	**49,500**
Dr. Alexander Nerz	Former regular member	17,500		0	**17,500**
Prof. Dr. jur. Susanne Nonnast	Regular member	17,500		3,000	**20,500**
Dr. phil. Verena Di Pasquale*,**	Regular member	35,000		6,000	**41,000**
Johann Robold*,**	Regular member	35,000	7,000	6,000	**48,000**
Petra Schadeberg-Herrmann	Regular member	35,000		6,000	**41,000**
Jürgen Scholz*,**	Regular member	35,000		6,000	**41,000**
Hans-Jürgen Thaus	Regular member	35,000		6,000	**41,000**
Josef Weitzer*,**	Regular member	35,000	7,000	13,500	**55,500**

* Employee representative

** A share of remuneration is donated in accordance with the current rules of the Hans-Böckler-Stiftung

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

"The Executive Board and the Supervisory Board of KRONES AG declare that the recommendations of the Government Commission German Corporate Governance Code established by the German federal government regarding the management and supervision of German listed companies as amended on 5 May 2015 have been and are being complied with in accordance with the German Corporate Governance Code (hereinafter the 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

- The remuneration report shall present certain information about Executive Board remuneration in prescribed model tables. (Item 4.2.5 Sentences 5 and 6 of the Code)

  Some aspects of the layout are unclear and, moreover, it is doubtful that the additional use of the model tables would serve to make the remuneration report clearer or generally more understandable, as the company aims to do in its compliance with financial reporting requirements. (Item 4.2.5 Sentence 3 of the 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 relevant tasks are undertaken by the Standing Committee.

- In its election recommendations to the annual general meeting, the Supervisory Board currently does not disclose the personal and business relations of each individual candidate with the enterprise, the company's executive bodies, or a shareholder with a material interest in the company.
  (Item 5.4.1 paragraphs 5 and 6 of the Code)

  The Supervisory Board deems the requirements of paragraphs 5 and 6 to be unclear and vague in the details and potentially violating the privacy of those affected.

- No special consideration is given to chairmanship of Supervisory Board committees in terms of remuneration. (Item 5.4.6 of the Code)

  The Supervisory Board is of the opinion that, given the size of the committees, the current additional remuneration paid to members of committees is also appropriate for the committee chairs.

- The shareholdings of members of the Executive Board and the Supervisory Board of KRONES AG are not disclosed. (Item 6.2 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."

Neutraubling, 17 February 2017

For the Executive Board:

Christoph Klenk
CEO

For the Supervisory Board:

Responsibility statement

Statement required by Section 264 (2) Sentence 3 and Section 289 (1) Sentence 5 of the German Commercial Code (HGB)

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

Neutraubling, 10 March 2017
KRONES AG
The Executive Board

Christoph Klenk
CEO

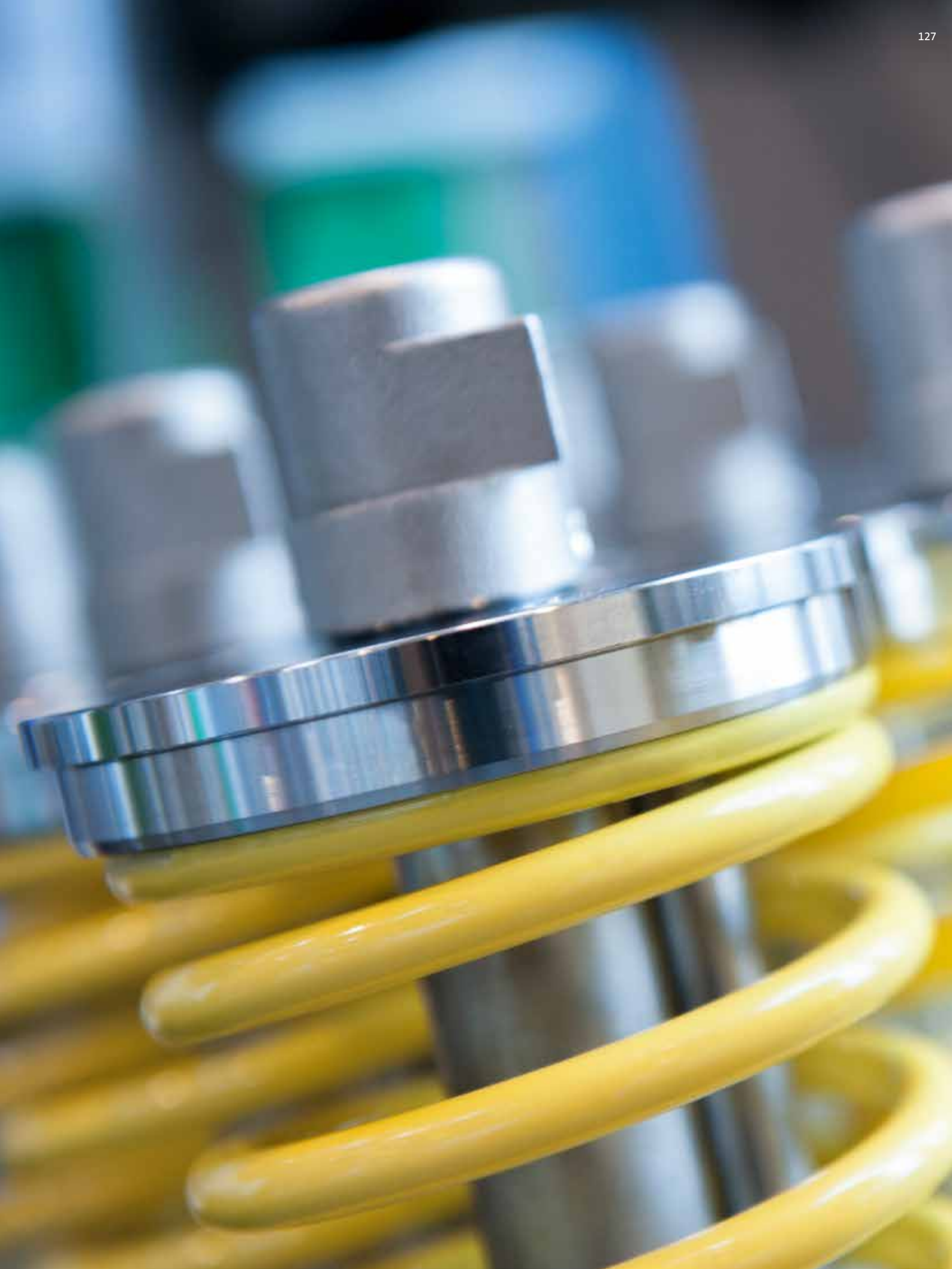
Michael Andersen
CFO

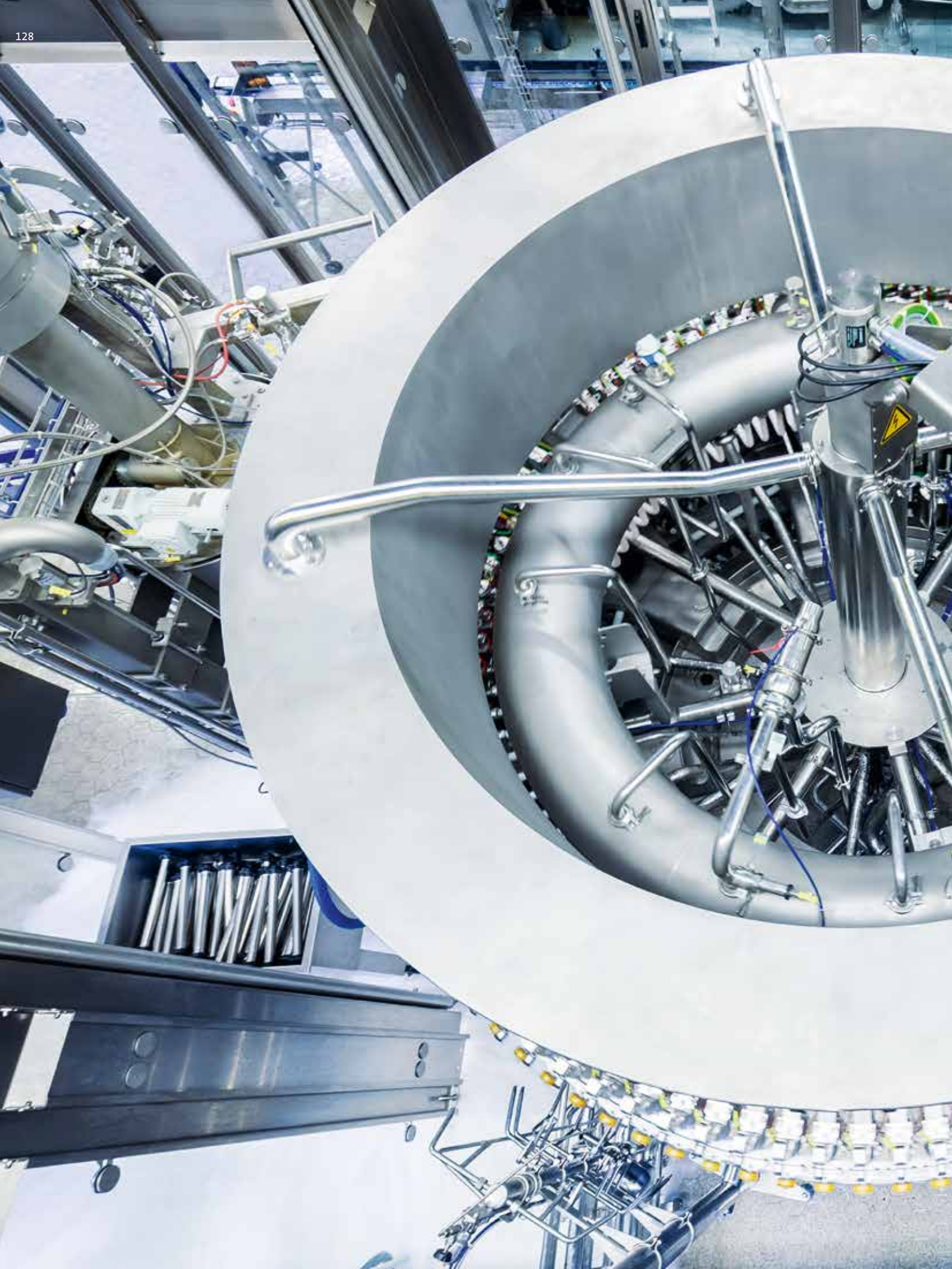
Rainulf Diepold

Thomas Ricker

Markus Tischer

Ralf Goldbrunner





4

Corporate Governance

Statement on corporate governance

Statement on corporate governance

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

KRONES recognises its responsibilities

For KRONES, the German Corporate Governance Code is an integral part of governance. The following is the report from the Executive Board and the Supervisory Board on corporate governance in accordance with Item 3.10 of the German Corporate Governance Code.

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, the number of independent Supervisory Board members within the meaning of Item 5.4.2, an age limit to be specified for Supervisory Board members, a regular limit on the length of membership to be specified for the members of the Supervisory Board, and diversity.

In keeping with the items referenced above, 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 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 or board members 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 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 general meeting that follows his or her 70th birthday. Reasons must be given for any deviation from this rule.

d) Limit on duration of membership

The Supervisory Board has not set a limit (cap) on the duration of Supervisory Board membership. We believe that such a cap does not make sense because the expertise of experienced Supervisory Board members should be available to the company. The Supervisory Board of KRONES will continue to examine the suitability of Supervisory Board members on an individual basis, regardless of how long members have already been on the board. Because we have not set a term limit, we also have nothing to report on the status of implementation.

e) 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 with respect to the Supervisory Board's composition.

International experience relates not only to foreign language skill but also to work experience in other international companies.

f) Diversity

The Supervisory Board of KRONES AG shall take diversity into account. Under Germany's Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector, which entered into force on 1 May 2015, women and men must each hold at least 30 percent of Supervisory Board seats at KRONES. The law applies to Supervisory Board elections starting in 2016. Employee and shareholder representatives on the Supervisory Board of KRONES AG have both decided to each meet the gender quota separately. In accordance with the law and the articles of association, the Supervisory Board of KRONES AG comprises six shareholder

representatives and six employee representatives. Thus, the Supervisory Board should have two female employee representatives and two female shareholder representatives. The Supervisory Board already has two female shareholder representatives in Petra Schadeberg-Herrmann and Prof. Dr. Susanne Nonnast. The mandatory quota is not yet met on the employee representative side. Dr. Verena Di Pasquale is the only female representing employees on the Supervisory Board. The next election for employee representatives to the Supervisory Board is slated for 2017, in which a second female employee should be elected to the Supervisory Board.

The Supervisory Board of KRONES implemented all of the objectives a) through f) in the financial year 2016.

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 consequences involved in the manufacture and use of our products. KRONES' production operations are eco-friendly and KRONES not only complies with statutory regulations but makes every effort to remain as far below any 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, KRONES creates 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 work areas are ergonomic.

When choosing our suppliers, we look at their performance with respect to sustainability and social responsibility. KRONES has developed a suppliers' code for this purpose. The code covers safety and health, the environment, working conditions, and compliance.

Duties and activities of the Executive Board and the Supervisory Board

The Executive Board of KRONES AG consisted of six members in the financial year 2016. Each member is responsible for specific areas of the company (see pages 10 to 11 and 161). 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, business forecasting, 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 17 and 161 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 general 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 consist of Supervisory Board Chairman Volker Kronseder and Deputy Chairman Werner Schrödl as well as the following Supervisory Board members: Norman Kronseder, Graf Philipp von und zu Lerchenfeld, Josef Weitzer, and Johann Robold. Chairman of the committee is Graf Philipp 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 single-entity 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 Volker Kronseder. Chairman of the committee is Volker Kronseder. 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.

Determinations pursuant to Sections 76 (4) and 111 (5) of the German Stock Corporation Act

Under Section 76 (4) of the German Stock Corporation Act, the Executive Board is required to determine targets for the participation of women in the two levels of management below the Executive Board. It must also set deadlines for compliance with the targets. The Executive Board of KRONES AG has established a target of 10% participation of women in the first two levels of management below the Executive Board by the end of the day 30 June 2017. At the end of the financial year 2016, the percentage of women in each of these two levels of management came to 9.8%.

Under Section 111 (5) of the German Stock Corporation Act, the Supervisory Board must set a target for the participation of women on the Executive Board. It must also set a deadline for compliance with the target. To date, the Supervisory Board has been unable to find a suitable female candidate for the Executive Board. The Supervisory Board expects this to remain difficult in the near future. For this reason, the Supervisory Board has established a target of 0% participation of women on the Executive Board. Therefore, there is no need to set a deadline for implementation.

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Annual financial statements

Notes to the annual financial statements

Separate income statement

€ thousand	Notes	2016		2015	
1. Revenue	13		2,721,153		2,513,223
2. Changes in finished goods inventories and work in progress			–1,897		103,813
3. Other own work capitalised			8,041		5,814
4. Other operating income	14		101,897		93,246
5. Goods and services purchased					
a) Cost of raw materials, consumables and supplies, and of purchased merchandise		–1,176,580		–1,166,802	
b) Cost of purchased services		–360,852		–318,141	
			–1.537,432		–1,484,943
6. Personnel expenses	15				
a) Wages and salaries		–608,520		–592,094	
b) Social security, post-employment and other employee benefit costs		–110,341		–103,863	
			–718,861		–695,957
7. Depreciation and amortisation of tangible and intangible fixed assets	16		–52,633		–50,597
8. Other operating expenses	17		–381,419		–397,833
9. Income from long-term equity investments	18		14,229		14,181
10. Income from other securities and long-term loans	18		709		581
11. Other interest and similar income	18		2,247		3,247
12. Interest and similar expenses	18		–9,793		–25,706
13. Taxes on income	19		–33,959		–19,028
14. Earnings after taxes			112,282		60,041
15. Other taxes	19		–1,206		–1,069
17. Net income for the year			**111,076**		**58,972**
18. Retained profits brought forward			**59,648**		**46,485**
19. Retained earnings			**170,724**		**105,457**

Balance sheet

Assets		31 Dec 2016		31 Dec 2015	
€ thousand	Notes				
A. Fixed assets					
I. Intangible fixed assets	1				
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets			36,412		29,609
II. Tangible fixed assets	2				
1. Land, including buildings on third-party land		229,101		236,278	
2. Technical equipment and machinery		61,721		57,535	
3. Other equipment, operating and office equipment		48,052		45,512	
4. Prepayments and assets under construction		2,924		9,111	
			341,798		348,436
III. Long-term financial assets	3				
1. Shares in affiliated companies		153,072		111,843	
2. Loans to affiliated companies		29,736		23,689	
3. Other long-term equity investments		348		0	
4. Other loans		473		519	
			183,629		136,051
			561,839		**514,096**
B. Current assets					
I. Inventories	4				
1. Raw materials, consumables and supplies		131,724		135,384	
2. Work in progress		213,368		240,537	
3. Finished goods and merchandise		531,117		487,936	
4. Prepayments		8,613		12,563	
5. Payments received on account of orders		–598,743		–576,535	
			286,079		299,885
II. Receivables and other assets	5				
1. Trade receivables		358,617		335,575	
2. Receivables from affiliated companies		150,882		174,928	
3. Other assets		66,846		68,348	
			576,345		578,851
III. Cash-in-hand, bank balances, and cheques	6		188,233		125.725
			1,050,657		**1,004,461**
C. Prepaid expenses			**2,444**		**2,182**
Total assets			**1,614,940**		**1,520,739**

Equity and liabilities		31 Dec 2016		31 Dec 2015	
€ thousand	Notes				
A. Equity					
I. Subscribed capital	7				
Ordinary shares			40.000		40,000
II. Capital reserves			141,551		141,551
III. Revenue reserves					
1. Legal reserve		51		51	
2. Other revenue reserves		349,888		349,888	
			349,939		349,939
IV. Retained profits brought forward	8		59,648		46,485
V. Net income for the year	8		111,076		58,972
			702,214		**636,947**
B. Provisions	9				
1. Provisions for pensions and similar obligations		126,180		128,229	
2. Provisions for taxes		14,367		4,636	
3. Other provisions		342,571		355,527	
			483,118		**488,392**
C. Liabilities	10				
1. Trade payables		205,246		182,145	
2. Liabilities to affiliated companies		179,487		154,617	
3. Liabilities to other long-term investees and investors		248		810	
4. Other liabilities		44,612		57,803	
			429,593		**395,375**
D. Deferred income			**15**		**25**
Total assets			**1,614,940**		**1,520,739**

Statement of changes in fixed assets

€ thousand	Cost				
	At 1 Jan 2016	Additions from mergers	T Transfers Additions	T Transfers Disposals	At 31 Dec 2016
Intangible fixed assets					
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	**120,708**	**2**	**18,947**	**6,299**	**133,358**
Tangible fixed assets					
1. Land, including building on third-party land	389,923	0	T 1,253 1,501	153	392,524
2. Technical equipment and machinery	250,334	0	T 6,283 11,353	8,772	259,198
3. Other equipment, operating and office equipment	166,953	97	T 1,461 18,628	13,209	173,930
4. Prepayments and assets under construction	9,111	0	2,810	T 8,997 0	2,924
			T 8,997	**T 8,997**	
	816,321	**97**	**34,292**	**22,134**	**828,576**
Long-term financial assets					
1. Shares in affiliated companies	213,152	0	26,252	17	239,387
	23,689	0	8,647	2,600	29,736
2. Loans to affiliated companies	5,036	0	348	0	5,384
3. Other long-term equity investments					
4. Loans to other long-term investees and investors	508	0	0	0	508
	519	0	162	208	473
5. Other loans					
	242,904	**0**	**35,409**	**2,825**	**275,488**
			T 8,997	**T 8,997**	
	1,179,933	**99**	**88,648**	**31,258**	**1,237,422**

	Depreciation, amortisation, and write-downs					Carrying amounts	
	At 31 Dec 2016	Additions from mergers	Depreciation and amortisation in the reporting period	R Reversals Disposals	At 31 Dec 2016	At 31 Dec 2016	At 31 Dec 2015
	91,099	**2**	**12,143**	**6,298**	**96,946**	**36,412**	**29,609**
	153,644	0	9,903	124	163,423	229,101	236,278
	192,799	0	13,440	8,762	197,477	61,721	57,535
	121,441	73	17,147	12,783	125,878	48,052	45,512
	0	0	0	0	0	2,924	9,111
	467,884	**73**	**40,490**	**21,669**	**486,778**	**341,798**	**348,436**
				R 14,994			
	101,309	0	0	0	86,315	153,072	111,843
	0	0	0	0	0	29,736	23,689
	5,036	0	0	0	5,036	348	0
	508	0	0	0	508	0	0
	0	0	0	0	0	473	519
				R 14,994			
	106,853	**0**	**0**	**0**	**91,859**	**183,629**	**136,051**
				R 14,994			
	665,836	**75**	**52,633**	**27.967**	**675,583**	**561,839**	**514,096**

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, headquartered in Neutraubling, Germany, is recorded in the Commercial Register of the Regensburg Local Court under HRB 2344.

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.

Please note that there may be rounding differences between these and the mathematically precise values (currency units, percentages, etc.).

Accounting policies

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 no more than 5 years or, if longer, over the contractually agreed useful life. 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 to 50
Machinery	5 to 20
Technical equipment	5 to 25
Operating and office equipment	3 to 20
Software and other rights	3 to 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 cost less required write-downs and plus available reversals.

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 judgment. 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 ten-year 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 Section 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 7-year average market interest rate corresponding to their remaining maturity, as calculated by the Deutsche Bundesbank.

Provisions for anniversary bonuses are discounted at the 7-year average market interest rate calculated by the Deutsche Bundesbank based on an assumed remaining maturity of 15 years pursuant to Section 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.

Deferred income is recognised to the extent permissible under commercial law.

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 (€18,947 thousand).

2 Property, plant and equipment

The addition to land and buildings results primarily from the expansion of the Neutraubling site (€1,297 thousand). Capital expenditure for the remaining property, plant and equipment amounting to €32,791 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 an increase in the carrying amount of the investments in KOSME S.R.L, Roverbella, Italy, and KONPLAN S.R.O., Pilsen, Czech Republic, the establishment of MILKRON GmbH, Laatzen, Germany, and loans to TILL GmbH, Hofheim, Germany, KONPLAN S.R.O., Pilsen, Czech Republic, SYSKRON Holding GmbH, Wackersdorf, Germany, and HST GmbH, Dassow, Germany.

The disposals among the long-term financial assets result primarily from the partial repayment of loans to KRONES East Africa Ltd., Nairobi, Kenya, and EVOGUARD GmbH, Nittenau, Germany. A complete presentation of shareholdings is made public through the electronic Federal Gazette (elektronischer Bundesanzeiger).

4 Inventories

The carrying amount of inventories is up 1% compared with the previous year. Around 67.7% of inventories were financed up front through prepayments from customers.

5 Receivables and other assets

€ thousand	31 Dec 2016	Amounts due in more than 1 year	31 Dec 2015	Amounts due in more than 1 year
Trade receivables	358,617	31,442	335,575	7,712
Receivables from affiliated companies	150,882		174,928	
Other assets	66,846	250	68,348	2,130
	576,345	**31,692**	**578,851**	**9,842**

Of the trade receivables, 14.8% are due from customers in Germany and 85.2% 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 1.67%.

The receivables from affiliated companies result from deliveries effected or services rendered between group companies (€165,950 thousand) and from other settlements (–€15,068 thousand).

6 Cash-in-hand, bank balances

€ thousand	31 Dec 2016	31 Dec 2015
Cash-in-hand	3	5
Bank balances	188.230	125.720
	188.233	**125.725**

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.

By resolution of the annual general meeting of 15 June 2016, 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 2021. Shareholders must be granted subscription rights to these shares.

Pursuant to Section 71 (1) No. 8 of the German Stock Corporation Act (AktG), the company can be authorised to buy these shares (treasury shares) totalling up to 10% of the current share capital. The annual general meeting on 25 June 2014 authorised the company to purchase and use treasury shares (Agenda item 7). The authorisation applies until the end of the day 24 June 2019.

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 10% 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 annual general meeting on 25 June 2014, 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 Retained earnings

€ thousand	31 Dec 2016	31 Dec 2015
Retained profits brought forward	59,648	46,485
Net income for the year	111,076	58,972
	170,724	**105,457**

Of the €105,457 thousand in retained earnings from 2015, €59,648 thousand was carried forward to new account and €45,809 thousand was paid out in dividends.

Disclosures on amounts barred from distribution under Section 268 (8) of the German Commercial Code (HGB)

Measurement of the fair value of plan assets designated to cover post-employment benefit obligations resulted in €3,011 thousand being restricted from distribution as dividends.

The amount barred from distribution, which is the difference between the amount recognised for the post-employment benefit provision based on the corresponding 10-year average market interest rate and the last seven financial years comes to €21,898 thousand.

9 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:

	2016	2015
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 (10-year average)	4.01%	4.31%
Discount rate (7-year average)	3.24%	3.89%
Projected increase in wages and salaries (individual commitments)	3.00%	3.00%
Projected increase in state pensions	2.00%	2.00%
Employee turnover rate	2.00% p. a.	2.00% p. a.

Since the pension commitments made under the general pension scheme 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 netted against the plan assets was €149,150 thousand. The fair value of the plan assets, which serve exclusively to cover post-employment benefit obligations and are exempt from attachment by all other creditors, was €22,970 thousand; the cost of the plan assets was €19,959 thousand. The difference between the fair value and cost of the plan assets (€3,011 thousand) is not available for distribution to shareholders pursuant to Section 268 (8) HGB. The net of these expenses and income was €2,050 thousand.

Pursuant to an amendment to Section 253 (2) HGB in 2016, the discount rate used for measuring pension provisions is no longer to be based on the moving average of the past seven years but rather on the moving average of the past ten years. If the seven-year average were used, the provisions would have come to €171,048 thousand at 31 December 2016. Thus, the amount restricted from distribution to shareholders comes to €21,898 thousand.

Direct pension obligations that are not covered by the assets of KRONES Unterstützungsfonds e.V. amount to €8,851 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 1.59% and 2.95% corresponding to their remaining maturity.

The provisions for anniversary bonuses were discounted at a rate of 3.24%.

The other provisions are essentially provisions for personnel obligations, including partial retirement (€92,235 thousand), and order-specific provisions (€232,219 thousand) that include, in particular, installation work not yet performed, warranties, claims for damages, anticipated losses, and outstanding supplier invoices.

10 Liabilities

€ thousand	31 Dec 2016	Amounts due in 1 year or earlier	Amounts due in more than 1 year	31 Dec 2015	Amounts due in 1 year or earlier	Amounts due in more than 1 year
Trade payables	205,246	205,246	0	182,145	182,145	0
Liabilities to affiliated companies	179,487	179,487	0	154,617	154,617	0
Liabilities to other long-term investees and investors	248	248	0	810	810	0
Other liabilities	**44,612**	**43,795**	**817**	**57,803**	**57,003**	**800**
Total	**429,593**	**428,776**	**817**	**395,375**	**394,575**	**800**

Of the liabilities to affiliated companies, €2,655 thousand resulted from deliveries effected or services rendered between group companies.

The other liabilities contain tax liabilities amounting to €12,708 thousand (previous year: €20,578 thousand), liabilities arising from debtors with credit balances amounting to €10,381 thousand (previous year: €16,319 thousand), and social security liabilities totalling €3,046 thousand (previous year: €3,519 thousand).

11 Contingent liabilities

€ thousand	31 Dec 2016	31 Dec 2015
Contingent liabilities from bill guarantees	24.309	33.394
Contingent liabilities from guarantees and warranties	57.143	11.775
Reverse repurchase agreement (repo)	38.816	30.290
Total	**120.268**	**75.459**

The contingent liabilities from bill guarantees result from the issuance and transfer of trade bills. The risks relating to guarantees and warranties, of which €57,143 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 €55,143 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.

12 Other financial liabilities

€ thousand	31 Dec 2016	Amounts due in years 2 – 5	Amounts due after year 5	31 Dec 2015	Amounts due in years 2 – 5	Amounts due after year 5
Rental and lease agreements	22,958	9,218	0	26,970	13,244	0
Maintenance contracts	17,133	5,388	0	18,626	7,611	0
Total	**40,091**	**14,606**	**0**	**45,596**	**20,855**	**0**

The lease liabilities result primarily from the leases on our vehicle fleet and on data storage systems.

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

13 Revenue

In keeping with the Accounting Directive Implementation Act (BilRUG), revenue from the sale and rental of products, rendering of services, and granting of licenses is also reported as sales revenue in the financial year 2016. In the financial year 2015, revenue reported included the revenue from the sale and rental or leasing out of products and goods typical of KRONES AG's

ordinary business activities and from services typical of KRONES AG's ordinary business activities. Application of the amended definition of sales revenue under BilRUG to the financial year 2015 would result in €8,184 thousand in higher sales revenue.

Breakdown by sales region	2016	2015
Germany	13.3%	12.9%
Rest of Central Europe	4.0%	4.5%
Western Europe	15.7%	20.6%
Eastern Europe/CIS	6.2%	5.9%
Asia-Pacific	13.9%	17.0%
South America	9.2%	7.0%
North and Central America	12.0%	9.1%
China	7.4%	7.2%
Middle East/Africa	18.3%	15.8%

14 Other operating income

€ thousand	2016	2015
Income from currency translation	23,021	21,459
Prior-period income	49,457	21,790
Income from disposal of fixed assets	418	196
Income from reversal of provisions	31,607	14,153
Income from reduction in specific and global valuation allowances on receivables	1,451	5,394
Income from derecognition of liabilities	266	1,869
Income from reversals of write-downs and costs subsequently added to the carrying amounts of assets	14,994	0
Other prior-period income	721	178

The income from reversals of write-downs and costs subsequently added to the carrying amounts of assets relates to a reversal to the carrying amount of the long-term equity investment in KOSME S.R.L, Roverbella, Italy.

15 Personnel expenses

€ thousand	2016	2015
Wages and salaries	608,520	592,094
Social security, post-employment and other employee benefit costs	110,341	103,863
of which for post-employment benefits	10,523	5,312
Total	**718,861**	**695,957**

Average number of employees for the year (excluding trainees)	2016	2015
Employees covered by collective agreements	6,725	6,536
White-collar employees exempt from collective agreements	2,085	2,086
Total	**8,810**	**8,622**

The company employed 489 trainees on average in 2016 (previous year: 497 trainees).

16 Depreciation, amortisation, and write-downs

Scheduled amortisation of intangible fixed assets amounting to €12,137 thousand was taken on purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets.

Scheduled depreciation of tangible fixed assets totalling €40,427 thousand was taken on land and buildings (€9,903 thousand), technical equipment and machinery (€13,440 thousand), and other equipment, operating and office equipment (€17,084 thousand). Unscheduled write-downs totalled €6 thousand on intangible fixed assets and €63 thousand on other equipment, operating and office equipment.

17 Other operating expenses

€ thousand	2016	2015
Operating costs	119,257	107,184
Administrative expenses	53,556	58,051
of which losses from currency translation	21,898	26,902
Selling expenses	207,960	227,831
Prior-period expenses	646	4,767

18 Financial income

€ thousand	2016	2015
Income from long-term equity investments		
Income from long-term equity investments in affiliated companies	14,229	14,181
Interest income (expense)		
Income from other securities and long-term loans	709	581
Other interest and similar income		
from affiliated companies	78	49
from other companies	1,893	2,536
from discounting	276	662
Interest and similar expenses		
to affiliated companies	–705	–644
to other companies	–5,423	–1,048
from discounting	–3,665	–24,014
Net interest income (expense)	–6,837	–21,878
Net financial income (expense)	**7,392**	**–7,697**

The interest income arising from the discounting of long-term provisions results from the discounting of provisions for warranties (€276 thousand).

The interest expense arising from the discounting of long-term provisions results primarily from the discounting of provisions for pensions and similar obligations (€2,050 thousand), the discounting of provisions for partial retirement (€695 thousand), the discounting of provisions for anniversary bonuses (€508 thousand), and the discounting of long-term receivables (€228 thousand).

19 Income taxes and other taxes

The item "taxes on income" includes tax charges for the financial year. The income tax expense includes prior-period tax income of €1,377 thousand.

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

20 Deferred taxes

The annual financial statements of KRONES AG would show deferred tax assets totalling €31,441 thousand at 31 December 2016 (previous year: €28,201 thousand).

Temporary measurement differences on assets, liabilities, and items of prepaid expenses and deferred income resulted in deferred tax assets of €31,441 thousand (previous year: €28,201 thousand). These relate to differences in "land and buildings", "raw materials, consumables and supplies", "provisions for pensions and similar obligations", and "other provisions".

The taxes are calculated on the basis of the tax rates that apply in Germany – that is, a corporate income tax rate of 15.0% plus the solidarity surcharge of 5.5% and a local business tax rate (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 Section 274 (1) Sentence 2 HGB.

21 Corporate Governance Code

Shareholders can view the declaration of the Executive Board and the Supervisory Board from 17 February 2017 pursuant to Section 161 of the German Stock Corporation Act [AktG] concerning the Corporate Governance Code as amended on 5 May 2015 at KRONES AG's website. The exceptions are also listed there.

22 Notifications of shareholdings in KRONES AG

Name of shareholder	Total share of voting rights	Of which attributable indirect voting rights pursuant to Section 22 (2) of the Securities Trading Act
Familie Kronseder Konsortium GbR, Neutraubling, Germany	51.58%	51.58%

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 Section 21 et seq of the German Securities Trading Act above have a controlling influence over KRONES AG.

23 Audit fees

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

24 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 –€1.601 thousand (previous year: –€113 thousand), essentially cover the currency risks relating to the British pound, the Swiss franc, the Canadian dollar, the Japanese yen, 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 €192,671 thousand (previous year: €178,283 thousand).

25 Events after the reporting period - Acquisition of equity interests

In January 2017, KRONES AG of Neutraubling, Germany, acquired a 40% direct and indirect stake in Integrated Packaging Solutions of Dubai, United Arab Emirates. The company generates approximately €20 million in revenue and employs around 200 people. The transaction is subject to approval by antitrust authorities.

Remuneration of the Executive Board and the Supervisory Board

The remuneration report presents the basic features, structure, and amounts of Executive Board and Supervisory Board remuneration at KRONES AG. In the interest of clarity and transparency, the disclosures on individual remuneration and the description of the basic features of the remuneration system have been combined in the following remuneration report. As such, it covers the disclosures required under Sections 314 (1) No. 6a and 315 (2) No. 4 of the German Commercial Code (HGB).

Executive Board remuneration

Basic features of Executive Board remuneration

Determining the total remuneration of the individual Executive Board members is the purview of the Supervisory Board's plenary meetings. The Standing Committee prepares the Supervisory Board resolutions relating to remuneration and makes recommendations.

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

The Supervisory Board reviews the appropriateness of the system on a regular basis using external benchmarks and comparisons with senior management and the entire workforce.

The current remuneration system for the Executive Board was last revised in 2013. The new system was approved by the annual general meeting on 25 June 2014.

Remuneration components

The system for Executive Board remuneration consists of the following components:

- Fixed components (base salary and fringe benefits)
- Variable components that are payable annually and based on business performance (short-term incentives) and thus contain risk factors
- Variable components that serve as medium-term incentives containing risk factors, with a measurement period of 3 years
- Variable components that serve as long-term incentives containing risk factors, with a measurement period of 5 years
- Post-employment benefits

In all, the remuneration structure breaks down as follows: 59% fixed remuneration and 41% variable remuneration. In sum, the remuneration system is designed to create an incentive for successful long-term management. Thus, the medium and long-term components of variable remuneration account for 64% of the total variable remuneration. Moreover, the variable remuneration is subject to caps and requirements that must be met for payment to occur.

Fixed components (base salary and fringe benefits)

The fixed amount is the base salary stipulated in the members' contracts and is paid out in equal monthly amounts. It is reviewed on a regular basis. For the financial year 2016, the base salaries of the six members of the Executive Board who were active in 2016 totalled €2,990 thousand (previous year: €2,890 thousand).

In addition, the members received fringe benefits which are essentially the cost or non-cash benefit of customary insurance premiums, housing costs, school tuition, and the use of a company car. These benefits are taxed in accordance with the applicable tax rules. For the 2016 financial year, the members of the Executive Board received fringe benefits totalling €319 thousand (previous year: €125 thousand).

Variable components

The variable remuneration contains risk elements and is thus not guaranteed remuneration. The incentive package for the Executive Board consists of the following since 2014:

- Short-term incentive (STI, measurement period: 1 year)
  - Awarded annually
  - Target bonus: 3 months' salary per annum (=100% of 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

STI payment for the financial year 2016 amounts to €673 thousand in 2017 (previous year: €1,085 thousand). In addition, the Supervisory Board can, at its equitable discretion, pay out a special bonus if extraordinary events or special performance warrant it. No special bonuses were paid out for the 2016 financial year.

- Mid Term Incentive (MTI, measurement period: 3 years)
  - Awarded annually (on a revolving basis)
  - Target bonus: 3 months' salary per annum (=100% of 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

The provision for the mid-term incentive amounted to €1,169 thousand at the end of the financial year (previous year: €1,246 thousand). Of that, €576 thousand apply to the year 2016 as remuneration.

- 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
  - 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%

The provision for the long-term incentive amounted to €3,157 thousand at the end of the year (previous year: €2,847 thousand). The earliest point at which payment from the LTI can occur is the end of the financial year 2017 – provided that the reference figures have been achieved or exceeded. If an Executive Board member leaves before the end of the measurement period, payment is pro-rated.

Total Executive Board remuneration amounted to €4,558 thousand (previous year: €5,573 thousand).

There are and have been no stock-option plans or comparable share-based long-term incentive components of remuneration for Executive Board members at KRONES AG.

Post-employment benefits

The company has made post-employment benefit commitments to members of the Executive Board.

For Executive Board members who joined the board in 2012 or later, the post-employment benefits are contribution-based. Annual contributions in the amount of 40% of the respective member's annual base salary are paid into an external pension liability reinsurance policy in which the benefits are pledged to the beneficiary. There, they accrue annual interest until the benefits fall due, at the rate guaranteed when the policy was established plus any annual investment returns.Post-employment pension benefits are granted when the member reaches the age of 62 and only after the member leaves the Executive Board. Executive Board members can choose to receive a lump-sum payout of the post-employment benefits instead of annuity-based payments. Executive Board members' entitlements to post-employment benefits based on contributions from KRONES AG become vested immediately. Executive Board members may elect to receive supplemental monthly benefits for permanent disability and/or a monthly widow(er)'s pension.

Members of the Executive Board who entered the board before 2012 received benefit commitments under a defined benefit plan. The benefit commitment equals 30% of the last base salary received (average of the last 12 months of employment). The commitments include post-employment, permanent disability, and surviving dependent benefits. Here, too, post-employment benefits are granted after the member reaches the age of 62 and leaves the Executive Board. If a member of the Executive Board leaves the company before reaching the age of 62 for reasons of permanent disability or because the employment contract is terminated or not renewed, the amount of the pension entitlement in relation to the company is reduced by a certain percentage for each calendar year up to age 62; the percentage is determined in the individual's contract. If an Executive Board member dies, the member's spouse receives the full amount of the annuity that would have been owed to the Executive Board member for the first 6 months following the member's death. Thereafter, the widow(er)'s annuity is reduced to 70% of that benefit amount. Vesting of benefits is determined based on the provisions of the laws applicable at the time each contract was entered into.

In the case of both contribution-based plans and defined benefit plans, the individual employment contracts contain provisions that govern discontinuation, reduction, or cancellation of benefits (including widow(er)'s benefits if provided for) in the event of particularly substantial changes in accordance with the provisions of the German Stock Corporation Act.

Pension provisions of €284 thousand (previous year: €1,352 thousand) were recognised for active members of the Executive Board. In addition, €956 thousand (previous year: €652 thousand) was paid into contribution-based plans in 2016. At the end of 2016, the corresponding net present values were as follows: for Mr. Klenk €1,437 thousand, for Mr. Diepold €4,225 thousand, for Mr. Ricker €23 thousand, for Mr. Tischer €25 thousand, and for Mr. Goldbrunner €16 thousand. In 2016, pension-related expenditure, including contributions into the post-employment benefits plan (bAV) amounted to the following: for Mr. Klenk €320 thousand, for Mr Anderson €204 thousand, Mr. Diepold €2 thousand, for Mr. Ricker €160 thousand, for Mr. Tischer €136 thousand, and for Mr. Goldbrunner €136 thousand.

Additional benefits in the event of termination of employment

The members' employment contracts contain a non-compete clause that includes a suitable compensation to be paid for the non-compete period. Further benefits for the event of termination have not been agreed.

Advances and loans

No loans or advances were provided to members of the Executive Board in 2016.

Benefits paid to former members of the Executive Board

For former members of the Executive Board and their surviving dependents, payments amounting to €1,451 thousand (previous year: €988 thousand) were made and pension provisions of €989 thousand (previous year: €238 thousand) were recognised.

Total remuneration paid to members of the Executive Board in 2016

2016 remuneration in accordance with GAS 17 (German accounting standard 17)

Remuneration pursuant to GAS 17 (€ thousand)									
Name	Position		Base salary	Fringe benefits	Total	Short-term incentive	Mid-term incentive	Long-term incentive	**Total remuneration**
Christoph Klenk	CEO Human Resources, Communication, Quality, Information Management	since 2003	800	27	827	180	147	0	**1,154**
Michael Andersen	CFO Finance, Controlling, Strategic Purchasing	since 2016	510	199	709	115	0	0	**824**
Rainulf Diepold	Sales and Marketing	since 1996	600	28	628	135	160	0	**923**
Thomas Ricker	Bottling and Packaging Equipment	since 2012	400	20	420	90	107	0	**617**
Markus Tischer	International Operations and Services	since 2014	340	16	356	77	91	0	**524**
Ralf Goldbrunner	Plants and Components	since 2014	340	29	369	77	71	0	**517**

Supervisory Board remuneration

Remuneration of the members of the Supervisory Board is governed by Section 15 of the articles of association and resolved by the annual general meeting. For the financial year 2016, the articles of association as amended by the annual general meeting of 25 June 2014 apply.

The members of the Supervisory Board receive remuneration that reasonably reflects their responsibilities and the company's position. In keeping with the recommendations of the German Corporate Governance Code, the Chairman and Deputy Chairman of the Supervisory Board as well as the Chairman and members of the Committees receive additional compensation.

The Supervisory Board's remuneration consists of an annual fixed remuneration of €35,000. The Chairman of the Supervisory Board receives two and one-half 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. Moreover, the members of the Supervisory Board receive a flat €1,500 fee per meeting as reimbursement for their expenses unless they submit proof of having incurred higher expenses.

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 €1,500 flat-rate reimbursement for expenses per meeting.

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

The total remuneration paid to members of the Supervisory Board for the financial year 2016 amounted to €633 thousand (previous year: €642 thousand) and is shown in the table below with individualised disclosure.

Name	Position	Base compensation €	Additional compensation for committee work	Meeting attendance fee	**Total remuneration in 2016**
Volker Kronseder	Chairman	43,750	3,500	7,500	**54,750**
Ernst Baumann	Chairman	43,750	3,500	6,000	**53,250**
Werner Schrödl*	Deputy Chairman	52,500	7,000	13,500	**73,000**
Klaus Gerlach*	Regular member	35,000		6,000	**41,000**
Norman Kronseder	Regular member	35,000	7,000	13,500	**55,500**
Philipp Graf von und zu Lerchenfeld	Regular member	35,000	7,000	7,500	**49,500**
Dr. Alexander Nerz	Regular member	17,500		0	**17,500**
Prof. Dr. jur. Susanne Nonnast	Regular member	17,500		3,000	**20,500**
Dr. phil. Verena Di Pasquale*	Regular member	35,000		6,000	**41,000**
Johann Robold*	Regular member	35,000	7,000	6,000	**48,000**
Petra Schadeberg-Herrmann	Regular member	35,000		6,000	**41,000**
Jürgen Scholz*	Regular member	35,000		6,000	**41,000**
Hans-Jürgen Thaus	Regular member	35,000		6,000	**41,000**
Josef Weitzer*	Regular member	35,000	7,000	13,500	**55,500**

* Employee representative
** A share of remuneration is donated in accordance with the current rules of the Hans-Böckler-Stiftung

Proposal for the appropriation of retained earnings of KRONES AG

KRONES AG had retained earnings of €170,724,029.96 at 31 December 2016. We propose to the annual general meeting on 20 June 2017 that this amount be used as follows:

Proposal for the appropriation of retained earnings	€
Dividend of €1.55 for 31,593,072 ordinary shares	48,969,261.60
Amount carried forward to new account	121,754,768.36

Neutraubling 10 March 2017
KRONES AG

The Executive Board

Christoph Klenk
CEO

Michael Andersen
CFO

Rainulf Diepold

Thomas Ricker

Markus Tischer

Ralf Goldbrunner

Governing bodies of the company

Pursuant to Section 8 (1) of the articles of association, six members of the Supervisory Board are elected by the shareholders in accordance with the German Stock Corporation Act (Sections 96 (1) and 101). Six members are elected by the employees pursuant to Section 1 (1) and Section 7 (1) Sentence 1 Number 1 of the Codetermination Act.

Supervisory Board

Ernst Baumann
Chairman of the Supervisory Board
until 15 June 2016
* ZF FRIEDRICHSHAFEN AG

Volker Kronseder
Chairman of the Supervisory Board
since 15 June 2016
* UNIVERSITY CLINIC REGENSBURG
* BAYERNLB ECONOMIC ADVISORY COUNCIL

Werner Schrödl**
Chairman of the Group Works Council
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

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
until 30 May 2016

Professor Dr. jur. Susanne Nonnast
Professor at Regensburg University of Applied Sciences
since 15 June 2016

Dr. Verena Di Pasquale**
Deputy Chairperson of DGB Bayern (the German Trade Union Confederation in Bavaria)

Johann Robold**
Member of the Works Council

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

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

Hans-Jürgen Thaus
* HAWE HYDRAULIK SE
* MASCHINENFABRIK REINHAUSEN GMBH
* KURTZ HOLDING GMBH & BETEILIGUNGS KG
* SCHULER AG

Josef Weitzer**
Deputy Chairman of the Group Works Council
Deputy Chairman of the Central Works Council
Chairman of the Works Council in Neutraubling
* SPARKASSE REGENSBURG

Executive Board

Christoph Klenk
CEO
Human Resources, Communication, Quality, Information Management

Michael Andersen
CFO
Finance, Controlling, Strategic Purchasing

Rainulf Diepold
Sales and Marketing

Thomas Ricker
Bottling and Packaging Equipment

Markus Tischer
International Operations and Services

Ralf Goldbrunner
Plants and Components

* Other Supervisory Board seats held, pursuant to Section 125 (1) Sentence 5 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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Other information

Auditor's report

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 2016. 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 Section 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.

AUDITOR'S REPORT

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, 10 March 2017

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Renner
Wirtschaftsprüfer
(German Public Auditor)

Feege
Wirtschaftsprüfer
(German Public Auditor)

AUDITOR'S REPORT

Commercial glossary

AktG	German Stock Corporation Act (Aktiengesetz)
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.
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 revenue. (Return on sales).
Equity	Funds made available to the company by the owners by way of contribution and/or investment plus retained earnings.
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.
HGB	German Commercial Code (Handelsgesetzbuch)
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).
Total debt	Combined term for the provisions, liabilities, and deferred income stated on the liabilities side of the balance sheet.
Total operating performance	The sum of 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).

GLOSSARY

3D printing	Various printing processes that use digital 3D design data to create three-dimensional objects by laying down successive layers of material.
Aseptic beverage filling	Germ-free filling of beverages at ambient temperature.
Bloc	At least two individual machines that are directly linked, without intervening conveyor systems. The ErgoBloc L for the wet section of the line comprises a stretch blow-moulder, a labeller, and a filler.
Brewhouse	In the brewhouse, the raw materials malt, hops, and water are processed in several stages to produce beer.
Craft brewer/craft beer	Smaller, independent breweries (craft brewers) that produce handcrafted specialty beer (craft beer).
Digital printing	Printing process in which data are transferred directly from a computer onto an 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.
Energy drink	A beverage that acts as a stimulant. The main ingredients used for this are sugar and caffeine.
Enviro	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 and environmental friendliness for its machines and lines. All new developments at KRONES are aligned with the criteria of our enviro sustainability programme.
Internal logistics/intralogistics	The internal flow of materials and goods within a company, including warehouse, order-picking, and conveyance systems.
PET preforms	Blanks made of PET plastic, similar in shape and size to test tubes. Preforms are made into PET bottles in a stretch blow-moulder.
PET	Polyethylene terephthalate, a thermoplastic material from the polyester family used for producing beverage bottles.
Soft drinks	Non-alcoholic beverages, usually carbonated.
Stretch blow-moulder	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 inflate and form them into finished containers.

This English language report is a translation of the original German Geschäftsbericht der KRONES AG 2016. In case of discrepancies the German text shall prevail.

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

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KRONES